

Cement Industry March 2020 update

March 19th, 2020 | Industry Research

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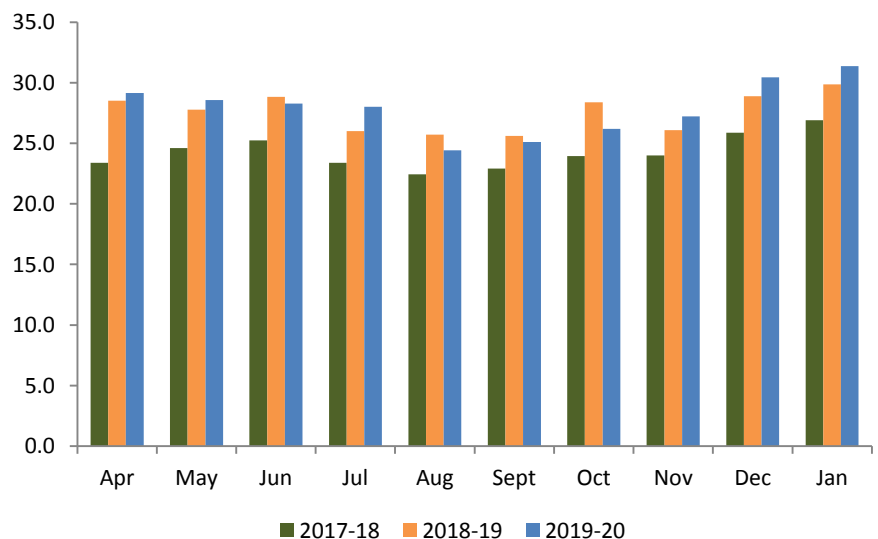
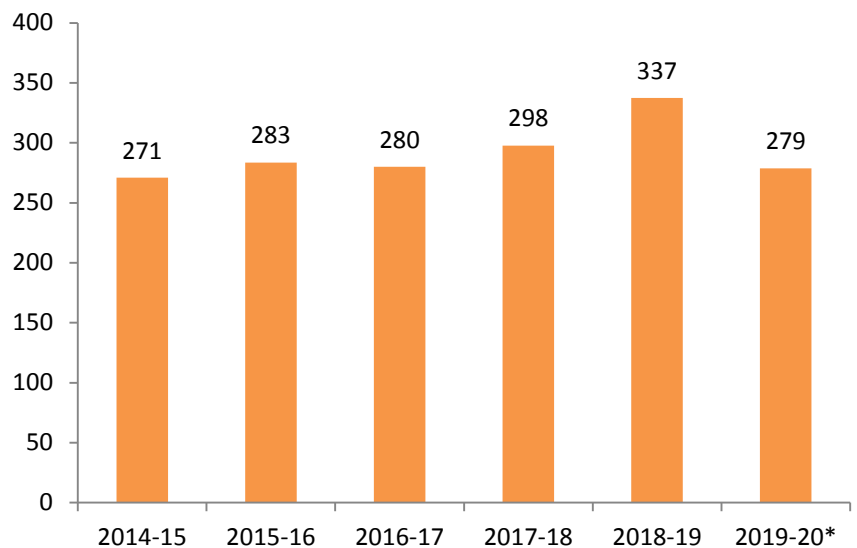
Overview

The Cement industry is part of the core industrial sector and plays a crucial role in building up the nation’s economy. India is the world’s 2nd largest cement market, both in terms of production and consumption.

Demand-Supply

Domestic Production

Chart 1: Domestic Production of Cement (Unit: Million tonnes)



Source: Office of the economic advisor *April-January

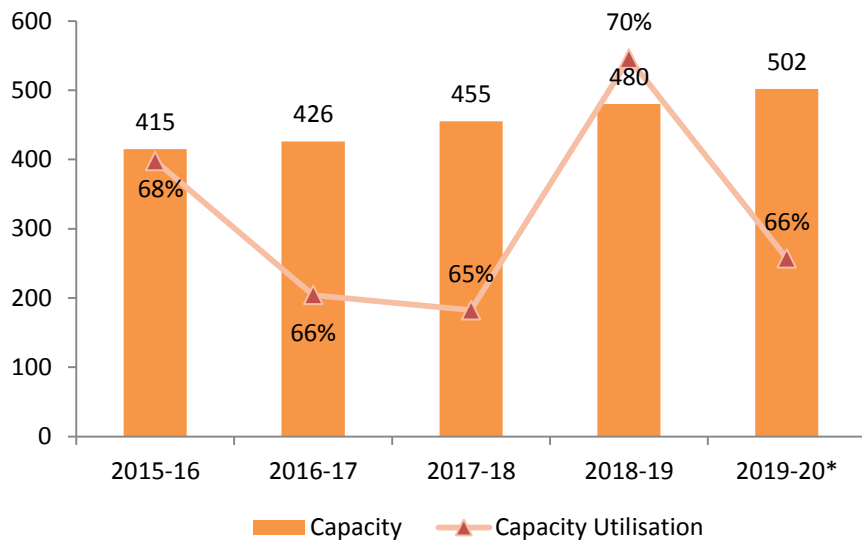
Domestic cement production has grown at a CAGR of 5.6% during FY15-19. The industry has been on a sustained growth path adding capacity, driven largely by the construction sector and the ambitious infrastructural projects announced by the government from time to time.

In the current financial year (April-January) production has moderated and grown by only 1.1% compared with the robust 13.6% growth achieved in the same period in the previous financial year. Weakness in housing demand, prolonged rains in many parts of the country and decline in demand from the infrastructure segment due to lack of funding and halting/temporary stoppage of state projects following change in government post state elections has affected the production of cement in the domestic markets.

Capacity

As per Cement Manufacturers Association, India accounts for over 8% of the overall global installed capacity. Region wise, the Southern region comprises of 35% of the total cement capacity followed by the Northern, Eastern, Western and Central region comprising of 20%, 18%, 14% and 13% of the capacity respectively.

Chart 2: Installed capacity and Capacity Utilization rate of Cement Manufacturers (Unit: Million Tonnes)



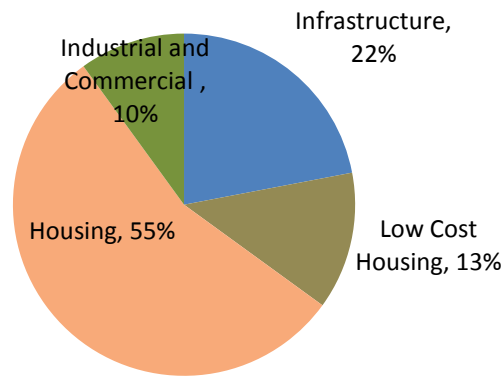
Source: CMA, Exchange Filings, CARE Ratings *April-January

Installed Capacity of domestic cement manufacturers has increased at a CAGR of 4.9% during FY16-20. Manufacturers have been able to maintain a capacity utilization rate above 65% in the last quinquennium. In the current financial year due to the prolonged rains in many parts of the country the capacity utilization rate has fallen from 70% during FY19 to 66% currently (YTD).

Demand Drivers

Cement demand is closely linked to the overall economic growth, particularly the housing and infrastructure sector. The cement sector will be seeing a sharp growth in volumes mainly due to increasing demand from affordable housing and other government infrastructure projects like roads, metros, airports, irrigation etc.

Chart 3: Key growth drivers for the Cement Industry



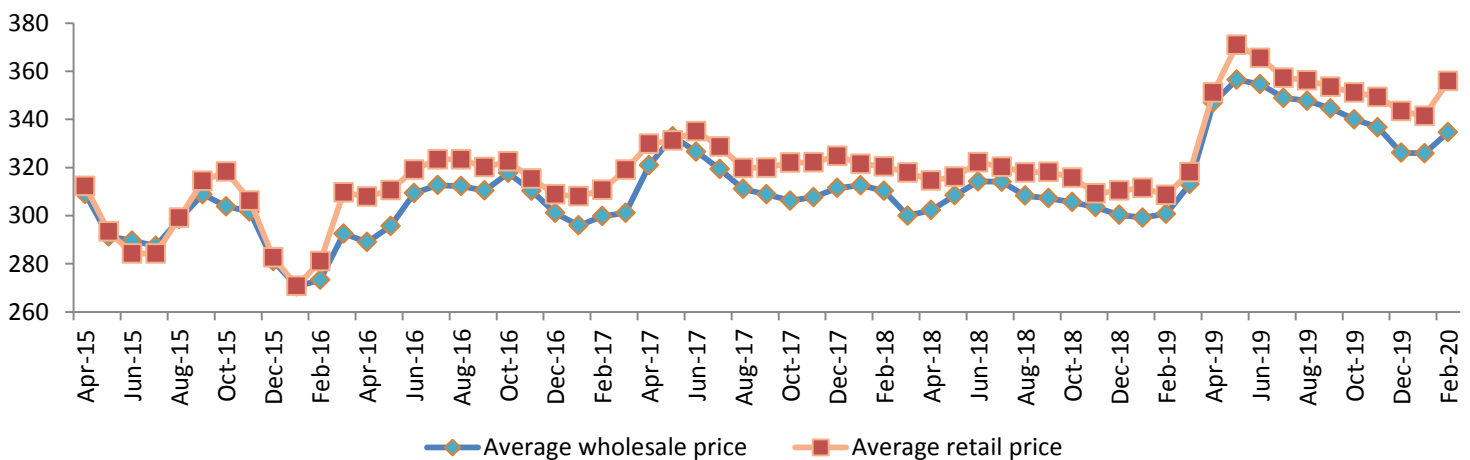
Source: CARE Ratings, Company Filings

National Infrastructure Pipeline: The government’s newly introduced National Infrastructure Pipeline (NIP) which is to enable the country to meet its target of becoming a USD 5 trillion economy by 2025 is a detailed roadmap focused on economic revival through infrastructure development. The NIP covers a gamut of sectors; rural and urban infrastructure and entails investments to the tune of Rs.102 lakh crs to be undertaken by the central government, state governments and the private sector. Of the total projects of the NIP, 42% are under implementation while 19% are under development, 31% are at the conceptual stage and 8% are yet to be classified. The sectors that will be of focus will be roads, railways, power (renewable and conventional), irrigation and urban infrastructure. These sectors together are to account for 79% of the proposed investments in the 6 years period to 2025. Given the government’s thrust on infrastructure creation, it is likely to benefit the cement industry going forward.

Affordable Housing: The Pradhan Mantri Awaas Yojana (PMAY) aimed at providing affordable housing will be a strong driver to drive up cement demand. Under PMAY the government has been consistently increasing budgeted allocation for the constant implementation of this scheme which is aimed in providing around 20 million houses at an affordable price.

Trend in prices

Chart 4: All India Wholesale and Retail Price of Cement (Rs/50kg bag)



Source: CMIE

Prices of cement (wholesale and retail) have increased by 11.9% and 12.4% in the current financial year. As a whole prices have remained elevated in most of the markets in months of FY20 as compared with the corresponding period of the previous year.

Prices have started correcting Q4-FY20 onwards due to revival in demand of the commodity given the restart of major infrastructure projects, new launches, pick-up in the real-estate demand in urban areas and announcement of the NIP.

Financials

The financials of 33 cement manufactures have been analyzed here. The cement industry is dependent on natural resources and is highly energy intensive. Natural resources like limestone, coal and minerals are essential to produce cement. The industry needs to ensure the continuous supply of these materials at an optimum cost and quality. A significant factor which aids the growth of this sector is the ready availability of limestone and coal.

Table1: Financials of Cement 33 companies (Rs/crore)

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19(9M)	2019-20(9M)
Net Sales	58,598	64,805	64,974	68,865	77,718	57,678	58,407
Total Expenditure	49,250	55,588	55,895	57,448	66,313	49,663	48,083
Operating Profit	11,070	10,481	10,529	12,798	12,636	8,793	11330
OPM (%)	18.9	16.2	16.2	18.6	16.3	15.2	19.4
Interest	5,294	5,724	5,544	3,499	3,460	2,691	2,759
ICR (times)	2.1	1.8	1.9	3.7	3.7	3.3	4.1
Net Profit	2,083	795	-300	4,222	3,052	1,767	3,477
NPM (%)	3.6	1.2	-0.5	6.1	3.9	3.1	6

Source: ACE Equity, CARE Ratings

Sales revenue has grown at a CAGR of 7.3% during FY15-19 but has grown by only 1.3% in the current financial year. Tepid demand throughout the country in the first half of the year has led to the contraction of sales revenue. Fall in the total expenditure of cement manufacturers had aided in improving the operating profit and net profit margins of the industry (OPM was 15.2 during 9MFY-19 and NPM was 3.1 during 9MFY-19). Interest coverage ratio too has improved on an overall basis (ICR was 3.3 during 9M-FY19).

Table 2: Perspective on the Sales Revenue growth and Total Expenditure growth of Cement Manufactures in the current financial year (Unit: y-o-y % terms)

	2018-19(9M)	2019-20(9M)
Net Sales	16.0%	1.3%
Total Expenditure	20.2%	-3.2%
Cost of Services & Raw Materials	22.7%	-5.1%
Electricity Power & Fuel Cost	36.2%	-11.9%
Selling & Distribution Expenses	30.3%	-7.7%

Source: ACE Equity, CARE Ratings

The overall sales revenue has increased by only 1.3% as compared with the 16% growth rate achieved during the corresponding period in the previous financial year. Overall expenditure has declined by 3.2% which has benefitted the industry largely given the moderation in sales.

- Electricity and fuel cost have declined by about 11.9% during 9M-FY20 due to drop in crude oil prices.
- Logistics costs which are the biggest cost for cement industry has also dropped by 7.7% (selling and distribution) as the railways extended the benefit of exemption from Busy Season Surcharge.
- Cost of raw materials too declined by 5.1% given the price of limestone of has fallen by 11.3% in the same aforementioned period.

Concluding Remarks

Even though FY20 has been subdued in terms of production and demand, fall in the cost of production has still supported the cement industry by clocking in positive margins. While there are no specific budget announcements pertaining to the industry, demand for the commodity will pick up due to infrastructure, housing and rural development related announcements made but production and capacity utilization is to be subdued in the next few months, till the COVID-19 pandemic has receded from the Indian economy

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