

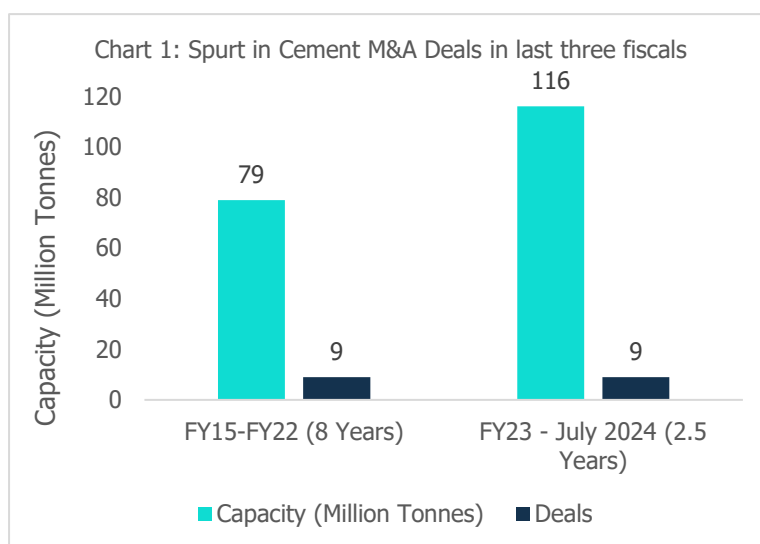
Capacity Share of Top 4 Cement Players to Rise to 60% by FY26-end

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Organic and inorganic additions by large cement players on the rise

The Indian cement industry achieved a decadal high in organic capacity addition during FY24, with nearly 45 million tonnes of new capacity bringing India's total installed capacity to 641 million tonnes as of March 31, 2024. This is against average of 25-30 millions of average annual capacity addition over the last decade. Looking ahead, an additional 90-100 million tonnes are expected over the next two years, with approximately 65% of this increase driven by the top four players. Over the longer term, CareEdge Ratings anticipates a total of 234 million tonnes of capacity to be added across India, again with the top four companies leading the way.

Simultaneously, the industry is also witnessing significant spike in mergers & acquisitions activity leading to significant consolidation. The industry has seen around 18 deals since April 2014 with almost 195 million tonnes of capacity changing hands, out of which close to 116 million tonnes deals have been executed between FY23 till July 2024. This signifies the increasing intensity of consolidation in recent years. Adani group also entered cement industry in FY23 with acquisition of Ambuja Cements Limited and ACC Limited, having combined cement capacity of 67.5 million tonnes, from Holcim Limited.



Regional players, constrained by financial strength are adding limited capacities; being acquired by pan-India large players

Given the demand potential that India holds which emanates from increasing infrastructure projects, urbanisation, and housing demands many leading players in cement industry are gearing up to enhance their production capacities and operational efficiencies to meet the growing requirements. Large Players are aiming at increasing their capacities by 50%-200% by 2030 through a combination of organic and inorganic expansions.

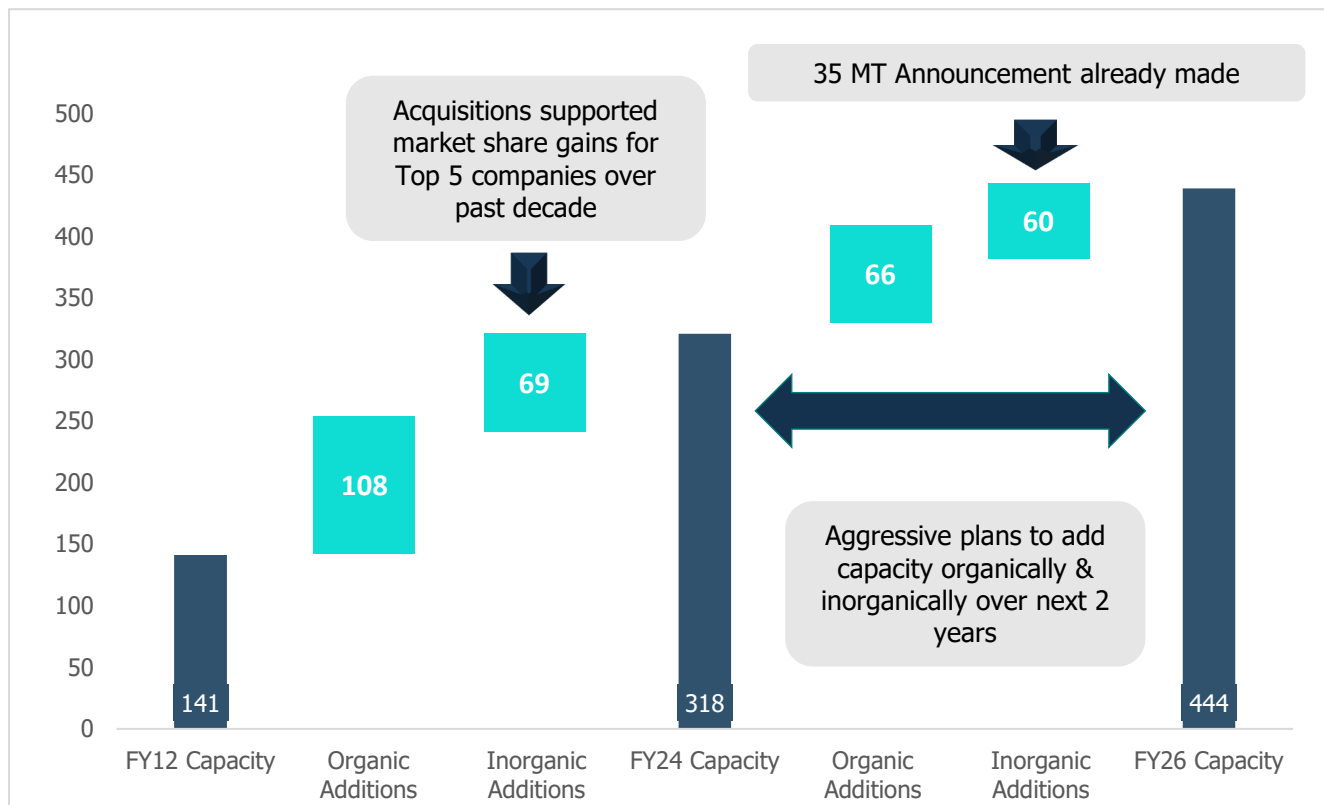
The regional players with modest to moderate sized capacities have been slower in capacity additions. Constrained by relatively smaller balance sheet size, the pace of growth for regional players significantly lags behind market leaders of the industry. Certain regional players as well as indebted cement players are putting up their cement assets on sale. This is partly also driven by lower market valuation enjoyed by these players compared to the relatively better valuation offered by acquirers.

Some regional players' cement capacities trade even lower than the replacement cost. The replacement cost of a cement plant is in the range of Rs.8000-11000 per tonne, varying based on availability of limestone reserves, quality of available limestone; the nature of the plant (whether integrated or a grinding unit), including facilities attached to the main plant and equipment (WHRS, CPP, railway siding, etc.), and plant's location. Hence, the sector

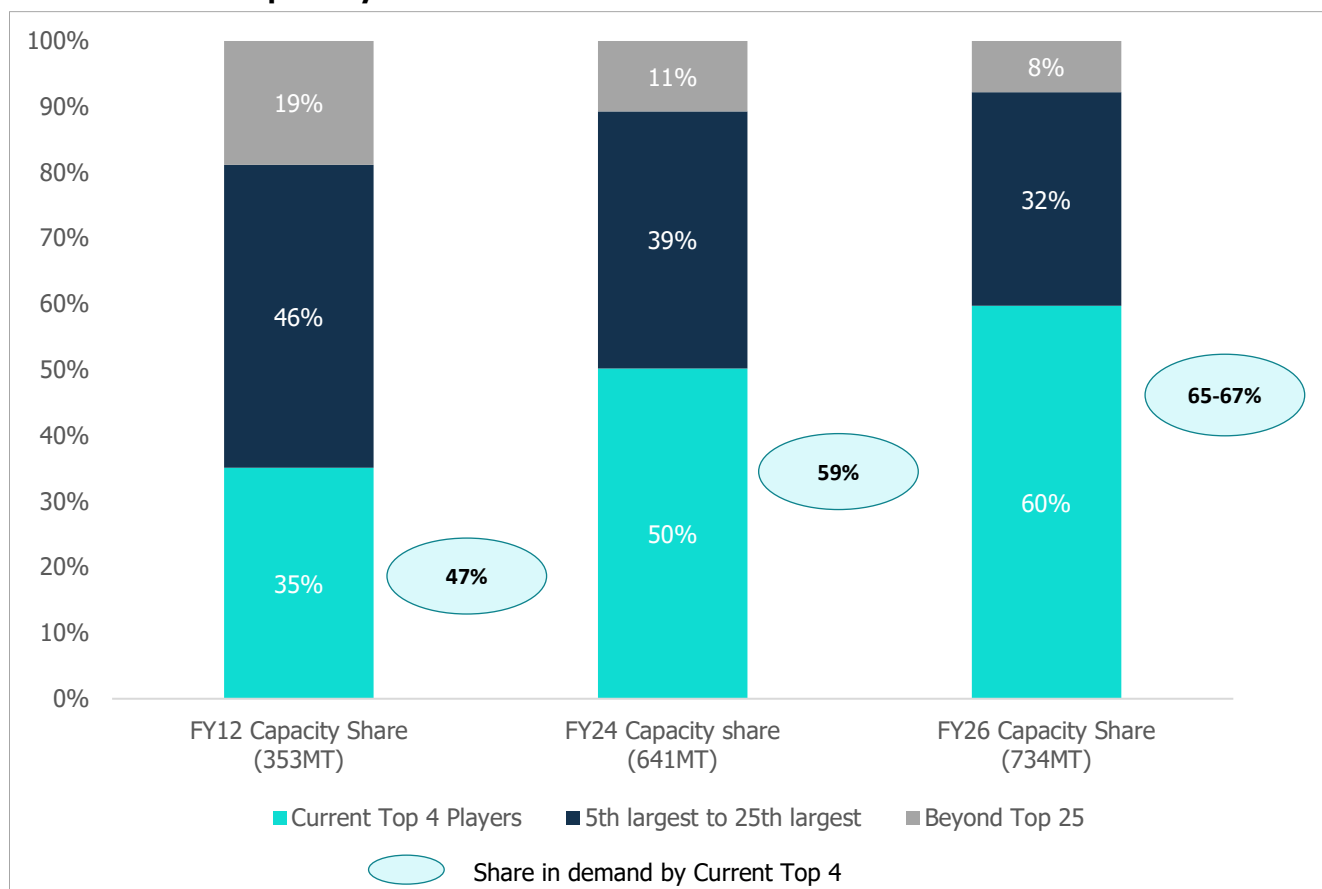
has witnessed consolidation, with large cement makers taking over regional heavyweights as well as struggling companies through competitive bidding under the Insolvency and Bankruptcy Code.

Indeed, while most of the stressed assets have been acquired over the past five years, we anticipate an acceleration in consolidation where other relatively weak mid-size and small assets will be the focus. Out of all the markets, we expect southern market still offers a larger base to get consolidated as it still stands the most fragmented market when compared to other regions despite recent activity seen with Penna, Kesoram, and India Cements announcements.

Chart 2: Player Capacity Share in Indian Cement Sector



Source: Industry, CareEdge Ratings

Chart 3: Current Top 4 Players

Source: Industry, CareEdge Ratings

The largest four cement companies had a consolidated market share of 35% (capacity wise) in FY12 which has strengthened to 50% in FY24 and is likely to be around 60% by FY26 end. 40% of this capacity share gains till FY24 came from M&A and inorganic expansion largely of distressed assets. Inversely, the capacity market share of moderate sized cement players, i.e between 5th largest and 25th largest, reduced from 46% in FY12 to 39% in FY24 while the rest of the cement players' capacity market share dipped from 19% in FY12 to 11% in FY24.

CareEdge Ratings believes M&A activities for nearly 60 million tonnes of cement capacities may happen over the medium term out of which announcements for close to 35 million tonnes are of public knowledge. Thus, continuing the trend of consolidation.

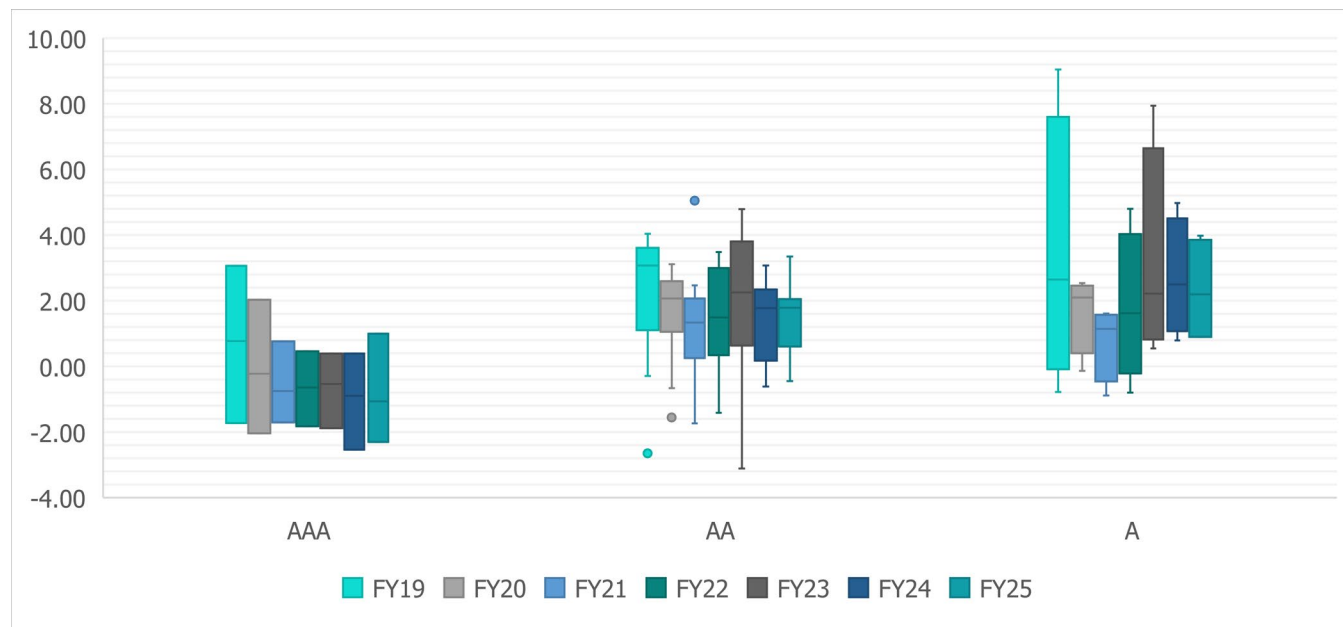
Strong Balance Sheet allowing rapid consolidation

Capacity additions by large players, organic and inorganic, are driven by long term growth story of India, significant competition for retaining/gaining market share. These capacity additions are supported robust balance sheets of large cement players and their strong sustainable cashflow generation protecting balance sheet despite capital expenditure eight organic or inorganic.

The top four players witnessed volume growth of around 9% CAGR over FY14-FY24, higher than the industry CAGR of 6% in last ten years. The higher volumes coupled with better profitability have kept the balance sheets of large players healthy & strong despite their capex plans. Largely, the top 4 players are currently operating with robust

debt coverage metrics. However, increasing consolidation through inorganic or organic expansion is expected to moderate the same, yet will remain robust. Mid-sized players continue to operate at moderate debt coverage metrics.

Chart 4: Net Debt to EBITDA across Rating Bands



In the past there has been stress on few players, particularly in the small-mid-sized space where the capex plans of such companies coincided with weaker pricing and profitability periods, or they were marred by higher cost leading to deteriorated credit profiles and pushing them to exit or selling their respective business to the large players.

CareEdge Ratings view

“The largest four cement companies had a consolidated market share of 35% (capacity wise) in FY12 which has strengthened to 50% in FY24 and is likely to be around 60% by FY26 end. Consequently, their share in demand is also likely to go up from current 59% to over 65% in the said period”, said Ravleen Sethi, Director of CareEdge Ratings.

“The sector is likely to witness an increase in competitive intensity and pricing pressure. The gap between the top players and small-to-mid-sized players could continue to widen due to the larger presence and better cost efficiencies of the bigger players.” added Sethi.

The industry consolidation could enhance pricing power, create synergies in cost reduction and operational efficiency, and improve market reach through cross-branding efforts over the medium to long term.

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