Cement Industry - July 2021 Update

July 19 2021 I Industry Research

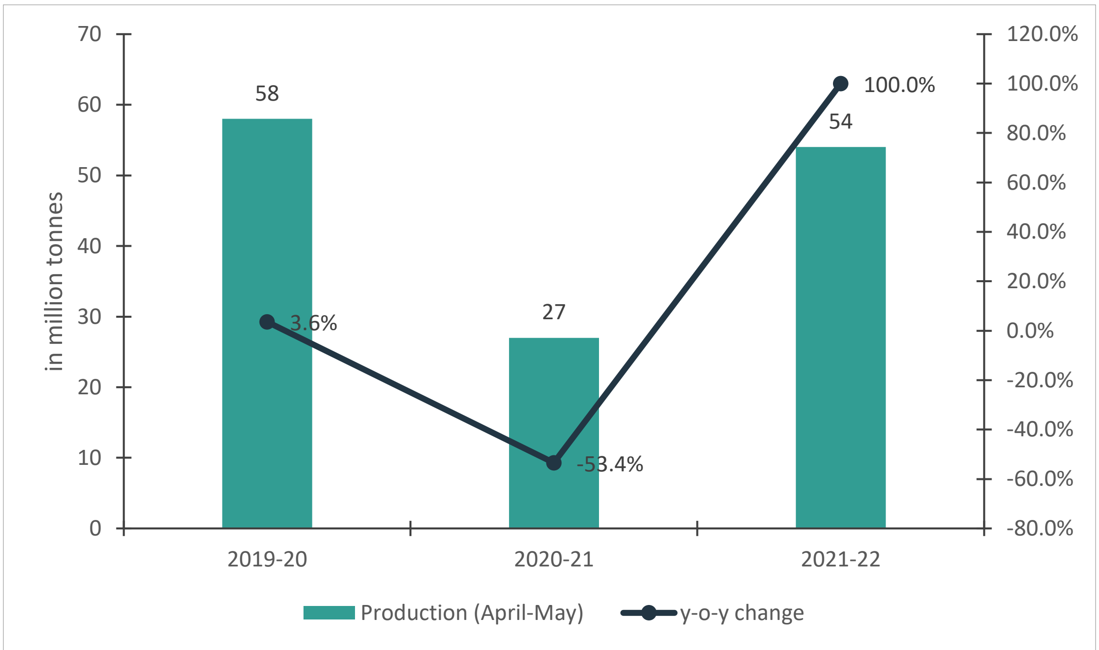
Production

In the first two months of FY22, the domestic production of cement registered a decline of 12% on a monthly basis in April 2021 followed by a de-growth of 17% m-o-m in May 2021. This was primarily due to the spike in Covid-19 cases and the subsequent state-wise restrictions imposed from April 2021 onwards which affected the demand-supply dynamics for the commodity. Further, a seasonally weak period due to onset of monsoon also somewhat contributed to this decline.

However, on a yearly basis, production rose by 100% in FY22 (April-May) compared with 53.4% decline for the same period in FY21 and a growth of 3.6% in FY20 as shown in the table and chart below. The abnormal growth rate was due to the statistical low base effect as the country was under a nationwide lockdown last year.

Table & Chart 1: Domestic production of cement (in million tonnes)

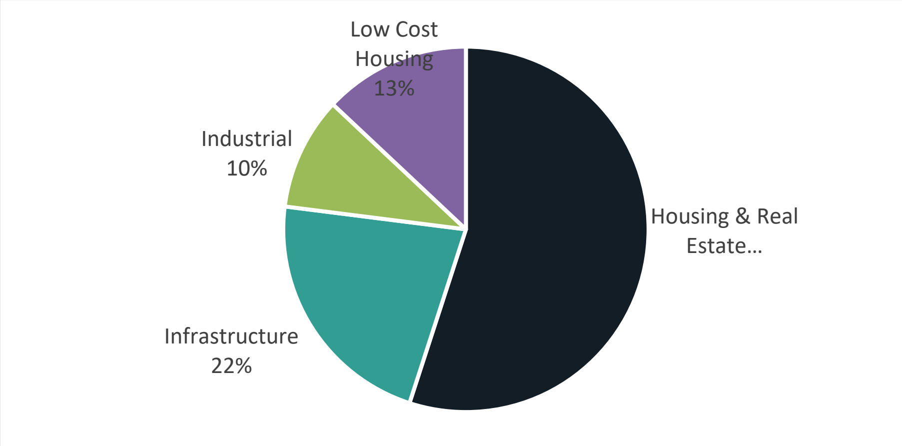
April-May	Production	y-o-y change
2019-20	58	3.6%
2020-21	27	-53.4%
2021-22	54	100.0%



Source: Office of the Economic Adviser

Demand Drivers

Chart 2: Key demand drivers for cement industry in FY20



Source: IBEF

The demand for this industry is primarily driven by the housing sector (about 68% including low cost affordable housing). Industrial and Infrastructure contributes to 10% and 22% of the demand respectively as shown in the chart above. The thrust provided by the government in the form of spending on infrastructure such as construction of roads, railways, highways, rural and low-cost affordable infrastructure augurs well for the industry.

Movement in prices

The all-India average wholesale and retail prices stood at Rs 370 & Rs 380 per 50 kg bag respectively in Q1FY22 compared with the corresponding period in FY20 and grew by ~5% each. This growth in prices can be ascribed to the increase in the cost of inputs: power, fuel and freight expenses account for nearly 50-55% of the total expenditure incurred by the cement players. The rise in cost of coal and pet coke has increased the cost of power and electricity. Similarly, the rise in freight cost on account of increase in diesel prices had also added to the rise in overall input cost for cement manufacturers.

Concluding Remarks

The cement industry players seem to be cautiously optimistic on the impact of second wave of Covid-19 on the cement industry. The demand-supply scenario in Q1-FY22 in particular was affected owing to the recent spike in Covid-19 caseload and consequent imposition of restrictions from April 2021 onwards that slowed down the construction activities and in turn led to fall in demand for the commodity. In addition to this, growth in rural demand had aided the demand for cement in the last fiscal year. However, that may not be the case this year as rural areas too seem to be affected due to the second wave of Covid-19.

CARE Ratings expects the overall cement production to grow in the range of 4% to 7% in FY22. While states have started lifting restrictions in a phased manner from June onwards, demand is expected to gain traction on a gradual basis and will be driven primarily by government spending on infrastructure coupled with pick-up in demand from both rural and urban markets as the situation evolves based on the containment of the virus and the progress in the vaccine inoculation drive. However, it is to be noted that the possibility of a third wave of Covid-19 in the near future might affect the industry dynamics again.

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