Infrastructure push and low base aid 25% (y-o-y) growth in cement production

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While the cement industry was adversely impacted during FY21 by the global Covid-19 pandemic, cement production volumes have shown a high 25 per cent year-on-year (y-o-y) growth for the first 9 months of FY22 supported by the Government's Infrastructure push through various schemes and allocations towards creation of hard assets and a low base effect.

Cement production during FY22 (April to December)

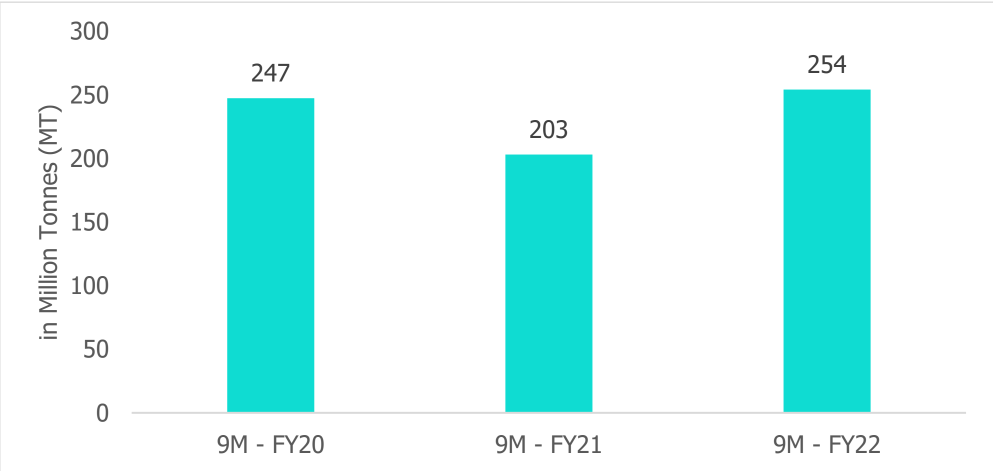
The cement production had declined by around 18 per cent in FY21 (during the nine-month period from April to December) as compared with the corresponding period a year ago due to the outbreak of the global Covid-19 pandemic.

The production of cement registered a year-on-year growth of around 25 per cent in FY22 (during the nine-month period from April to December) aided by a low base of FY21.

While H1 FY22 witnessed sharp recovery in demand and was also supported by low base of pandemic hit H1 FY21, Q3 FY22 was negatively impacted (as compared to Q3 FY21) and demand for cement declined due to unexpected rains in different parts of the country, ban on construction activities in the National Capital Region (NCR), issues around shortage of labour and shortage of sand in the Eastern region. While, demand started recovering from December 2021 onwards, cement production in Q3 FY22 overall was adversely affected as compared to Q3 FY21.

The production in the current financial year (for the nine-month period from April 2021 to December 2021) has surpassed pre-pandemic levels. At 254 million tonnes (MT), it grew around 3 per cent as compared with 247 MT of cement produced during the corresponding months of FY20 (for the nine-month period from April 2019 to December 2019).

Chart 1: Cement production in FY20, FY21 and FY22 (April to December)

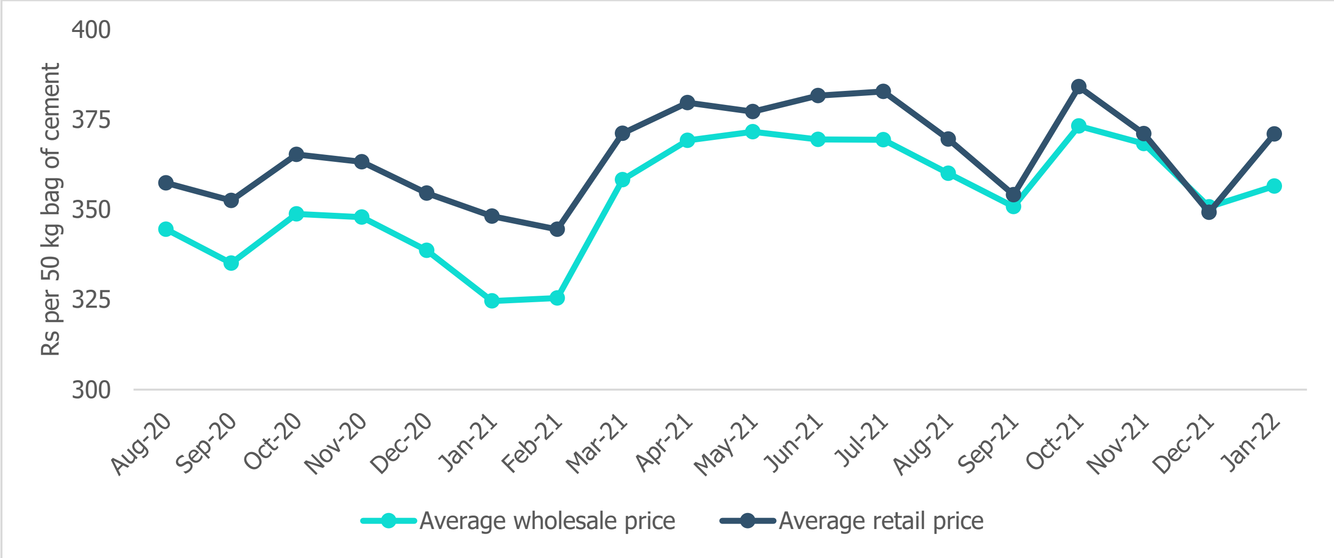


Source: CMIE, Office of Economic Adviser, CareEdge Research

Cement Prices

The prices vary across regions within the country depending on the demand-supply forces at play in the micro market. The All-India wholesale and retail price per 50 kg bag of cement has been depicted in the chart below.

Chart 2 : All-India average cement prices



Source: CMIE

The All-India average wholesale and retail prices stood at Rs 365 & Rs 373 per 50 kg bag respectively during FY22 (April – January). This is a growth of around 5 to 7 per cent as compared with the corresponding period in FY20.

This growth in prices can be attributed to the increase in input costs such as power and fuel as well as increases in freight expenses – together accounting for nearly 50 – 55 per cent of the total expenditure incurred by the cement players.

- The rise in prices of coal and pet coke led to increase in the cost of power and electricity for the players
- The rise in freight cost on account of increase in diesel prices increased the overall input cost for the players

The following table depicts the yearly percentage change in total expenditure incurred by cement manufacturers and changes in other major cost items. The expenses had declined on a yearly basis in FY21 due to decline in demand and various cost rationalisation measures undertaken by major cement players.

Table 1: Year-on-Year percentage change in expenditure

Particulars	9M FY20	9M FY21	9M FY22
Total Expenditure	-1%	-10%	25%
Cost of Services & Raw Materials	-6%	-11%	31%
Electricity, Power & Fuel Cost	-8%	-15%	45%
Selling & Distribution Expenses	-4%	-6%	18%

Note: Based on financials of 36 companies; Source: Ace Equity

Cement players had undertaken price hikes in October 2021 which had to be rolled back due to slump in demand for the commodity- during the early part of Q3 FY22. Consequently, cement prices slightly moderated in November and December 2021.

Going forward, CareEdge Research expects prices to continue to strengthen during the fourth quarter of FY22 (after having already risen by around 5 to 8 per cent on a month-on-month basis in January 2022). This price increase is supported by expected ramp-up in demand leading to strengthened pricing power for the cement players, encouraging pass-through of increased input costs.

Outlook

CareEdge Research expects cement production to register a double-digit growth in FY22 on account of a low-base of FY21 and improvement in demand from across various end-user industries including the demand driven by Government of India's continued focus towards Infrastructure development, housing as well as rural development.

In the Union Budget FY23, the Government has further increased allocation towards capital expenditure by more than 35 per cent from around Rs 5.5 lakh crore as per FY22 RE (Revised Estimates) to around Rs 7.5 lakh crore as per FY23 BE (Budget Estimates) which augurs well for the cement industry. Further, the Government schemes aimed at affordable housing such as Pradhan Mantri Awas Yojana (PMAY) is likely to drive demand for low cost housing. The Government has announced that 80 lakh houses will be completed for both rural and urban and allocated Rs 48,000 crores for this purpose.

In addition, several other schemes aimed at development and improvement of public Infrastructure: roads, highways, metros and railways, airports, ports, logistics Infrastructure etc through schemes such as PM GatiShakti, National Infrastructure Pipeline (NIP), Urban Rejuvenation Mission: AMRUT and Smart Cities Mission to name a few is also expected to lead to creation of demand for cement.

Improving demand from both rural and urban markets and upcoming general elections in 2024 is likely to lead to growth in consumption of cement as the situation continues to evolve based on the containment of the virus and the progress in the mass vaccine inoculation drive.

With regards to movement in prices, the cement players might continue to undertake price hikes in the near to medium term depending on the movement in input costs (such as coal, pet coke etc) and likely growth in volumes. Input cost inflation may affect the profitability margins of players which is likely to be partially offset by the expected recovery in demand for cement.

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