Cement Industry FY 2021

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Key Takeaways

The recent spike in Covid-19 cases and consequent restrictions imposed in almost all states across the country from April 2021 onwards is expected to impact the demand-supply dynamics in the cement industry in Q1-FY22. Further, even the rural demand that had aided the growth in demand last year seems to be impacted by the second wave of Covid-19. CARE Rating's expects the cement production to grow in the range of 4% to 7% in FY22. With ease in restrictions from July onwards, demand is expected to pick up on a gradual basis as the situation evolves based on the containment of the virus and the progress in the vaccine inoculation drive.

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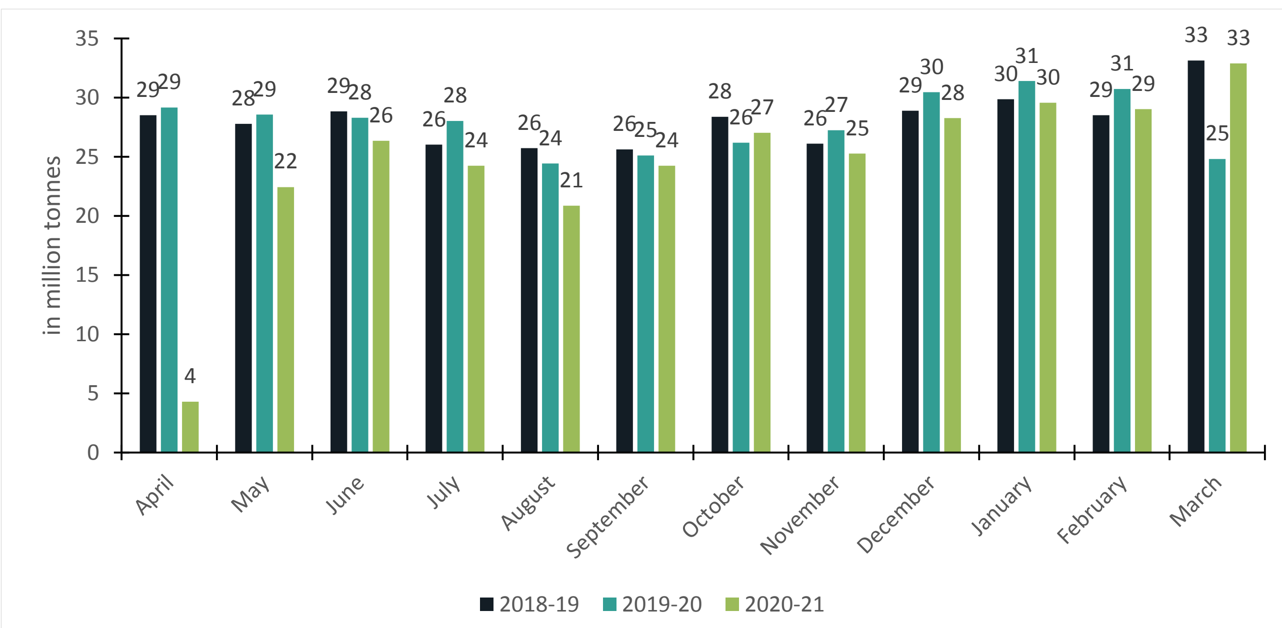
Production

Cement production within the country rose by 13.3% in March 2021 as compared with the month of February 2021 and increased on a yearly basis by 32.5% as compared with March 2020. This growth was primarily on the back of pick-up in infrastructure activities particularly in the residential real estate segment, including affordable housing. Also, the construction activities usually peak in the March end quarter just before the start of the monsoon season.

However, on a cumulative basis, production fell by 12% in FY21 as compared with 0.9% decline for the same period in FY20 and a growth of 13.1% FY19. The nationwide lockdown imposed in the last week of March, 2020 and the consequent challenges witnessed by the industry such as decline in consumer demand, reverse migration, staggered shifts and bottlenecks in logistics in H1-FY21 led to this overall yearly fall in production.

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

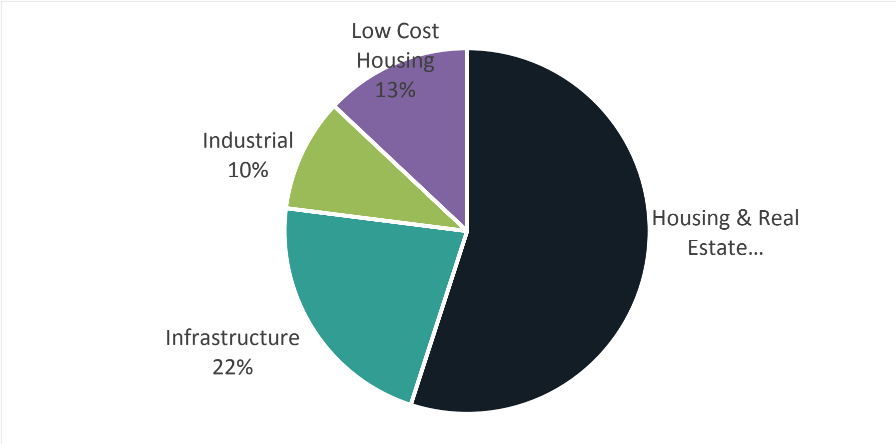
April-March	Production	y-o-y
FY19	337	13.1%
FY20	334	-0.9%
FY21	294	-12.0%



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.

Financials

The financials of 13 cement players is analysed in table 2 and 3 below. The net sales increased by 4% from Rs 78 thousand crores to Rs 82 crores in FY21 backed by the pick-up in infrastructure activities in H2-FY21 once the restrictions were eased. Improvement in demand in H2-FY21 along with various cost optimisation measures and overhead controls undertaken by the industry players led to improvement in Operating Profit Margin (OPM), Net Profit Margin (NPM) and Interest Coverage Ratio (ICR) in FY21.

Table 2: Analysis of financials of 13 cement players (in Rs thousand crores)

Particulars	FY19	FY20	FY21
Net Sales	77	78	82
Total Expenditure	65	64	63
Operating Profit	14	17	20
Net Profit	6	9	10
OPM (%)	18.2%	21.8%	24.4%
NPM (%)	7.8%	11.5%	12.2%
ICR (times)	7.0	8.5	10.0

Source: Industry, CARE Ratings

The total expenditure in Q4-FY21 increased by 11.1% on a quarterly basis and 25% on a yearly basis on account of increase in cost of coal and pet coke which in turn increased the cost of power and electricity. In addition to this, the rise in freight cost on account of increase in diesel prices also added to the rise in overall input cost for cement manufacturers. Meanwhile, overall in FY21, the total expenditure declined by 1.6% due to various cost efficiency measures and utility agreement negotiations undertaken by the cement players.

Table 3: Aggregate growth rates in expenditure heads of 13 cement players

Particulars	Q4-FY21		y-o-y	
	q-o-q	y-o-y	FY20	FY21
Total Expenditure	11.1%	25.0%	-1.5%	-1.6%
Cost of Services & Raw Materials	33.3%	33.3%	-9.1%	0.0%
Electricity, Power & Fuel Cost	25.0%	25.0%	-11.8%	-6.7%
Selling & Distribution Expenses	20.0%	20.0%	-5.3%	0.0%

Source: Industry, CARE Ratings

Outlook for FY22

The cement industry players seem to be cautiously optimistic on the impact of second wave of Covid-19 on the cement industry. The demand is expected to be impacted in Q1-FY22 on account of localized lockdowns in almost all states owing to the recent spike in Covid-19 caseload. The varied localised restrictions imposed in almost all the states in the country since April 2021 could slow down the construction activities and in turn affect the demand-supply scenario for cement industry in Q1-FY22. In addition to the above, 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 on account of the second wave of Covid-19.

CARE Rating’s expects the overall cement production to grow in the range of 4% to 7% in FY22. Assuming that the restrictions will be in place till end of June, 2021, demand from July onwards is expected to pick up on a gradual basis as the situation evolves based on the containment of the virus and the progress in the vaccine inoculation drive. Further, possibility of a third wave of Covid-19 in the near future might affect the industry dynamics again.

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