# Cement Sees Healthy Demand, but Profitability Hit as Input Costs Rise

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**Synopsis:**

- India's cement production and consumption both grew by 11% in FY23 (April-November) on a y-o-y basis, driven by the government's push for infrastructure development and increased real estate activity.

- EBITDA margins of cement players declined by almost 10% y-o-y in H1FY23 due to an increase in power and fuel cost on the back of a sharp surge in coal prices. Limestone prices also escalated during H1FY23.

- There has been a 7% y-o-y increase on an average in wholesale cement prices in H1FY23. While the prices have remained flattish in Q3, CareEdge expects an increase of about Rs. 15-20/50kg bag in Q4FY23, seasonally strongest quarter, to partially offset the inflationary pressure.

- "The cement industry is expected to see a continued uptrend in volume growth in the near term. In FY23, the volume growth is expected to be around 8-9% owing to renewed demand in the housing and infrastructure segment coupled with the government's continued focus on infrastructure development in light of Centre elections in 2024. Despite the uptrend in consumption, the profitability of the cement players is expected to decline by 400-500bps in FY23 due to elevated power and fuel cost," **Tanvi Shah, Director, CareEdge Advisory & Research, said.**

**Cement Production to Reach 380-390 million tonnes in FY23**

The cement industry has seen an uptrend in volume growth because of the economic recovery, urban housing demand, the government's thrust towards infrastructure and rural development in light of the 2024 elections and fast-tracking of infrastructure projects like metro, roads and highways. With these healthy demand drivers, CareEdge Research estimates India's cement production to range between 380-390 million tonnes in FY23, a growth rate of 8-9% y-o-y.

In FY22, production of cement was at 356 million tonnes, up 20% y-o-y as compared with 296 million tonnes in FY21 due to the low base effect.

**Chart 1: Cement Production**

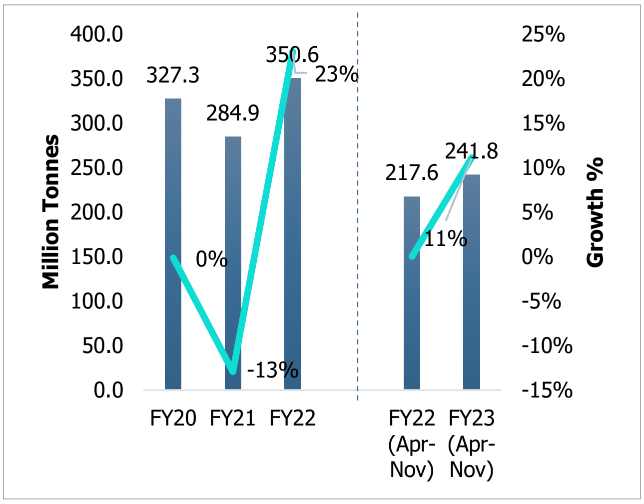
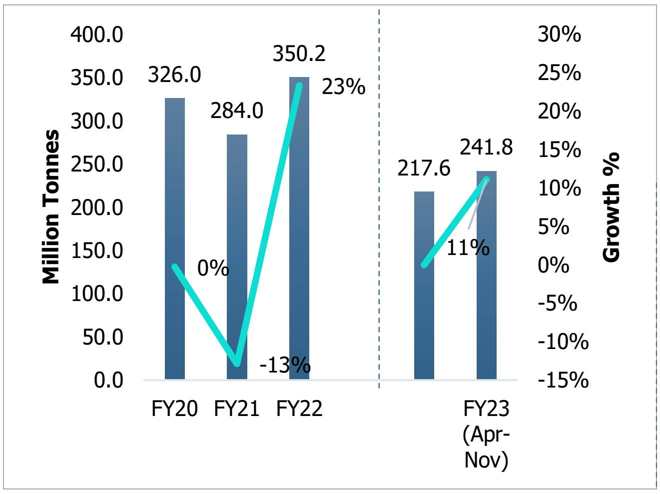



**Chart 2: Cement Consumption**



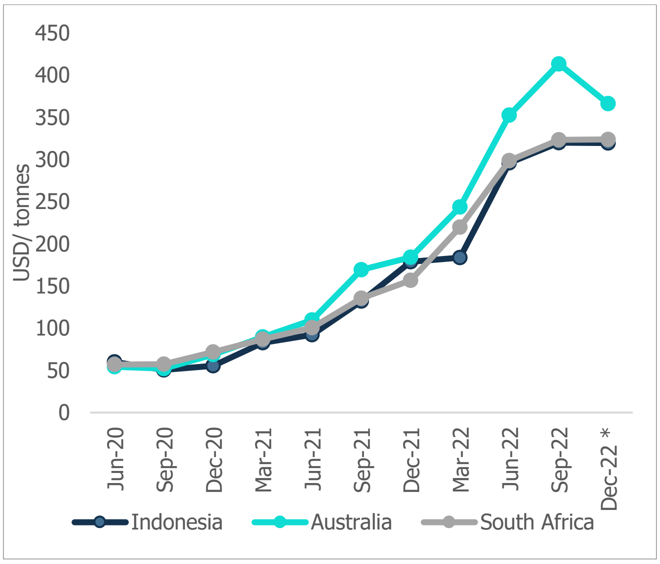

Source- CMIE, CareEdge Research

**Input Costs Peaked during the FY23**

Australian, Indonesian and South African coal prices surged by 144%, 142% and 139% y-o-y, respectively, in Q2FY23 due to the geopolitical tensions, however, there was a marginal correction in Q3FY23 (October-November). The power and fuel prices which include coal, pet coke etc. are estimated to increase by Rs 310- 320 per MT in FY23 i.e. almost double as compared to FY22.

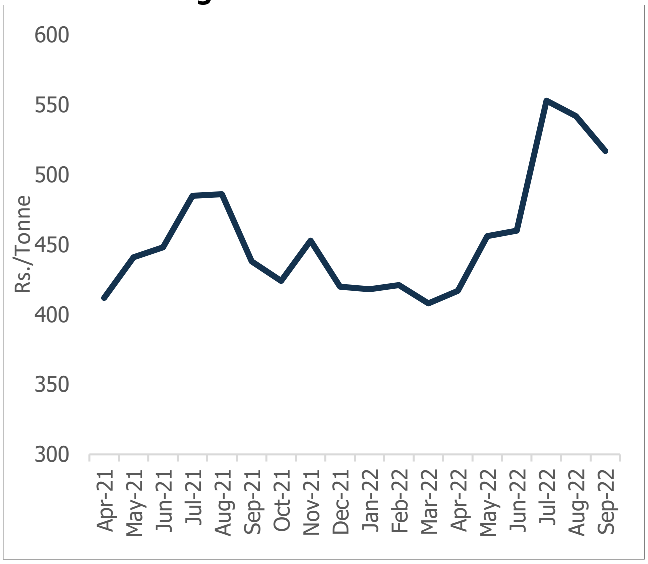
The price of limestone was higher by 21% q-o-q and 14% y-o-y despite the increase in domestic production.

**Chart 3: Prices of coal**




Source: CMIE
*consists of Oct-Nov prices average

**Chart 4: Average Price of Limestone**




Source: CMIE

**Cement Prices to Rise to Offset High Input Costs**

During H1FY23, the power and fuel cost as a percentage of sales increased by 9% compared to H1FY22. The raw material costs have also increased due to inflationary pressures. These factors have resulted in an increase in the cost of cement production. The cement players have taken multiple price hikes in the past few months to partially pass on the increase in production costs. According to industry sources, price hikes have been taken between April to December 2022. There has been a 7% y-o-y increase on average in wholesale cement prices in H1FY23. While the prices have remained flattish in Q3, CareEdge expects an increase of about Rs. 15-20/ 50kg bag in Q4FY23, the seasonally strongest quarter, to partially offset the inflationary pressure.

There has been a 6% rise in the average wholesale cement price and a 5% rise in the average retail cement price in FY22 as compared to FY21 because of increasing input costs. As the peak season approaches, prices are expected to increase by Rs. 15 to 20 /50kg bag further to offset the inflationary pressure, reduce the pressure on operating margins and maintain the profitability of the companies.

**Profitability of Players Decline by 400-500 bps in FY23**

The EBITDA margin of the cement companies decreased by about 10% y-o-y in H1FY23 due to the impact of higher raw material and power & fuel costs (accounting for 45-50% of the net sales of the companies). The cement players were not able to pass the input cost escalation entirely which impacted the EBITDA margins in H1FY23. The power and fuel costs are expected to remain elevated in the near term due to concerns about global supply while the price hikes may not be sufficient to cover the elevated costs, thereby adversely impacting margins. CareEdge Research expects the profit margin of the cement companies to decline by 400-500 bps in FY23.

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**About:**

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