Product mix expected to tilt towards OPC...

Indian cement industry had witnessed an implausible growth journey during the period of FY06-10. This was mainly on account of the increased cement offtake from the real estate, infrastructure and industrial construction activities during this period. However, in FY11, cement demand grew at moderate 5% on a yoy basis. The multiplier of cement demand growth to the GDP growth declined below one. The dismal performance of the cement industry continued in FY12. The slowdown in the real estate sector and delay in take off of the various infrastructural projects owing to the spiralling cost of capital has hit the cement consumption in FY 12.

In the period FY08-11, the cement industry registered a double-digit growth in capacity as compared to the moderate growth of 3-7% registered during the period FY03-07. The cement production capacity of the country grew at a CAGR of 14.5% from 166.7 mn tonnes at the end of FY07 to 286.4 mn tonnes at the end of FY11. During the same period, the consumption of cement grew at a CAGR of 8.6%. Consequently, the industry's operating rate has shown a declining trend from a level of 93% in FY07 to 73% in FY11.

In FY11, the industry had witnessed a steep fall in the margins. The slowdown in the cement demand coupled with the inability of the cement players to pass on the rising cost led to drop in the margins. The profitability margins of the cement industry have shown some improvement in FY12. Considering the first nine months of FY12, the cement industry has witnessed a marginal improvement in the margins despite of the rise in the cost. Despite of the supply glut situation, the industry was able to pass on the increased cost burden to the consumers on the back of the supply discipline followed by the cement players in this fiscal. The PBDIT margin of the industry improved marginally to 21% in FY12. "Going forward, with the surplus capacities coming on stream, maintaining the supply discipline is expected to become difficult for the industry", said Ms. Revati Kasture, Head - CARE Research, CARE Ltd. "Cement industry will not be able to hike prices equivalent to the increased cost burden in the next fiscal. As a result, PBDIT margin will remain under pressure", she added.

During the period of FY06-09, the product mix was skewed towards the blended cement on the back of the tight demand and supply situation. The proportion of blended cement in the product mix had increased from 61% in FY06 to 75% in FY09. However, post FY09, with substantial capacity addition, a gradual shift was observed in the product mix towards OPC. The proportion of blended cement in the total product mix has declined from 75% in FY09 to 72% in FY11. This shift in product mix by players may be considered as a step towards curtailing excess supply situation prevailing in the industry. This can also be attributable to rising cost of blending raw materials like fly ash.

OPC is used in making concrete for structures that require high compressive strength like infrastructural projects. "This will help the industry to reap the benefits of rising cement demand from infrastructural projects as GoI has been keen on development of infrastructure in the country", said Mr. Chaitanya Raut, Sr. Manager, CARE Research. "Going forward, most of the cement players are expected to switch from blended cement to OPC", he added.

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