

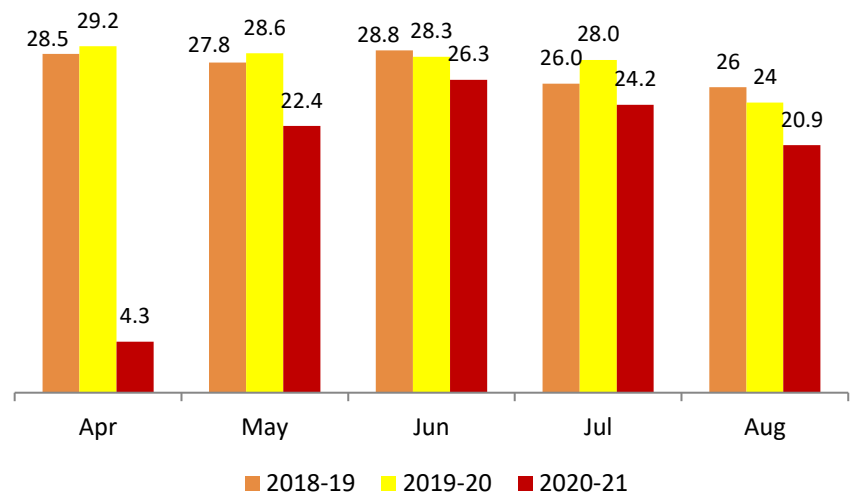
**Cement Industry April-August  
FY21 update**

**Demand-Supply during April-August 2020-21**

*Domestic Production and Capacity Utilisation*

**Table and Chart 1: Domestic Production of Cement (Unit: Million tonnes)**

	Production	Change (y-o-y)
2018-19	136.9	15.0%
2019-20	138.4	1.2%
2020-21	98.2	-29.1%



Source: Office of the economic advisor, CARE Ratings

Domestic cement production has fallen by 29.1% during FY21 (April-August) compared with the 15% and 1.2% growth in production achieved during FY19 (April-August) and FY20 (April-August). Outbreak of the COVID-19 pandemic in the Indian sub-continent which forced the government to announce a nation-wide lockdown, 25<sup>th</sup> March 2020 onwards has affected the cumulative domestic cement production.

Fall in end-user demand coupled with units operating at sub-par capacities along with staggered shifts has led to the fall in production. Heavy rains too have impacted domestic output during FY21 (April-August).

Capacity utilisation of domestic manufacturers has been around 43.2% during FY21 (April-August). Cement manufacturers have at the moment cut down or deferred CAPEX expenditure given the fall in demand and also as companies look to conserve their capital/cash flows given the light of the events and the uncertainty of operations.

The nationwide lockdown had come at the time when construction activities was at its peak and now with the monsoon season where again

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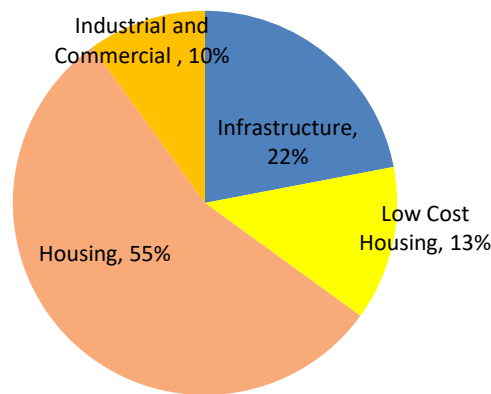
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the construction activity gets stalled usually, the entire cumulative demand-supply dynamics for cement has gotten impacted.

### ***Trend in Demand Drivers for the Cement Industry***

Cement demand is closely linked to the overall economic growth, particularly of the housing and infrastructure sector. Increasing demand from affordable housing and construction work for other government infrastructure projects like roads, metros, airports, irrigation etc. are demand drivers which support cement demand.

**Chart 2: Key growth drivers for the Cement Industry**



Source: CARE Ratings, Company Filings

Construction activities has picked up in regions which do receive much rains. Cement demand was particularly tepid in metros/tier 1 cities as the number of cases kept increasing and the virus showed no signs of abating thus affecting construction work and limiting the need for cement. Even with the centre relaxing rules for unlocking the economy, the industry has faced challenges with regard to state specific lockdowns which has been sporadic in nature.

- Demand has improved compared to the lows faced by the industry during April-May but most of the infrastructure projects are still operating at a much lower capacity.
- Construction of national highways has fallen by 13% during FY21 (April-August) as the Ministry has constructed 3,181 km of roads till August 2020 compared with the 3,656 kms of roads constructed in the corresponding period in previous fiscal year.
- Institutional projects even with permissions in place had to conduct operations on the project site with social distancing norms which means limited labourers have been present.
- In addition to all the above reasons, the monsoon season is usually defined as a weak period for the cement industry due to the temporary halt in construction activities.

Amidst the pandemic cement consumption is growing strong in the rural, semi-urban and retail markets. Cement demand is currently being driven by rural India due to better labour availability. With reverse migration of workers, there has been an increase in construction of rural infrastructure and low cost housing.

### Outlook for FY21

The cement industry was already impacted by the general economic slowdown prevalent in the economy and now with the COVID-19 pandemic prevalent, it has further added on to the weakness present in the industry even though the macros seem strong in the long term.

**Cement production is to fall sharply by 25-30% during FY21 and capacity utilization is to be around 40-45%.** This will be the steepest ever fall in production (and capacity utilisation) that the industry has ever witnessed. Production of cement has grown by 13.3% during FY19 and fallen by 0.8% during FY20. **Cement production is usually closely in-line with demand which is also poised to fall sharply** given the operations have not been able pick up pace even with the economy on an unlock mode as the virus is showing no signs of abating.

### Supply side issues

- Cement manufacturers have resumed work but are plagued with limited manpower and plants too are operating on staggered shifts.
- Logistics and transportation remains a barrier wherein states have gone into localized lockdowns in order to curb the spread of the virus.
- Cement manufactures are not expected to make any additions to the existing CAPEX and given the limited demand present there have also been CAPEX deferral announcements as well.
- Production is not gaining momentum as the reverse migration of workers had led to a standstill in operations, disrupting the entire supply chain operations. Certain groups of labourers have been returning but a major part of the labour workforce will only come back after Diwali or when all the agri-work is over.

### Demand side issues

Going forward the cement industry demand is slowly improving from the disruption created from COVID-19 due to pent up demand and improved rural demand. We believe rural demand will be the major driver for cement considering the monsoons have been favourable in most part of the country and the outlook for Kharif crop too looks promising. This could translate in an inflow of cash in the rural economy which could commensurate in infrastructure creation thus augmenting cement demand. On the flipside demand for the commodity has been subdued in urban India.

- Demand for cement from real estate is muted as the sector is plagued by labour shortages and lack of liquidity.
- Given how fiscally strained the government finances are at the moment, there could be cuts in spending on infrastructure which will put a halt to new investments towards infrastructure creation thus affecting the demand for cement.
- Growth in the housing segment which forms about 68% of cement demand (including low cost housing) is likely to be impacted as commercial & new residential launches will not be able to fully recover during FY21 and realtors will only be focusing on project completing and clearing of existing inventory.

**Table 2: A timeline of recovery for cement firms during 2020-21**

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Cement	Stressed	Stressed	Stressed	Stressed	Stressed	Stressed	Partial Recovery	Partial Recovery	Partial Recovery	Towards Recovery	Towards Recovery	Towards Recovery

Source: CARE Ratings

Towards Recovery Partial Recovery Stressed

Given the weakness in end user demand due to the lack of activity in the housing and infrastructure sector the cement industry is expected to remain in the red zone till September 2020 at least, till the end of the monsoon season. Partial recovery is expected October-November 2020 onwards post Diwali with return of migrant labourers and normalisation of operations is expected January 2021 onwards.

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