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INDUSTRY OUTLOOK

INDIAN CEMENT INDUSTRY

19 November 2020

INDUSTRY OUTLOOK

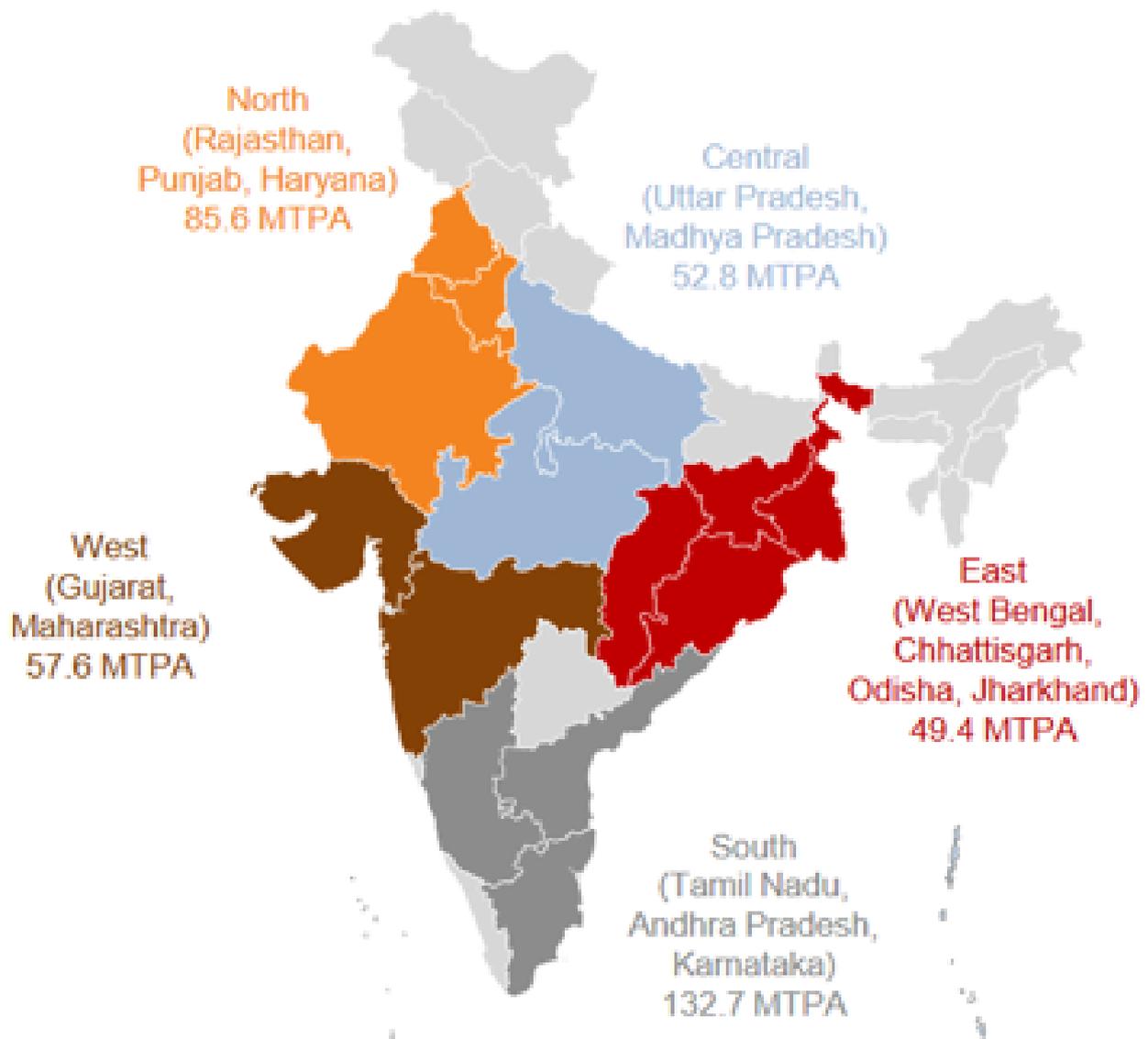
Manufactured from limestone and other materials, cement is often mixed into concrete to provide housing, roads and pipes supplying water to communities. The cement industry has important economic significance due to its long and diversified supply chain contributing 5.4 per cent of global GDP and 7.7 per cent of global employment¹.

India's cement industry is a vital part of its economy, providing employment to more than a million people, directly or indirectly². The Indian cement industry is majorly dominated by regional players, since cement being a bulk commodity, transporting it over long distances is not economical and non-viable. Of late, consolidation happened as big players acquired smaller regional players. India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent initiatives, such as development of smart cities, affordable housing etc; is expected to provide a major boost to the sector.

Since cement is freight intensive industry, the industry is spread broadly into five regions viz. north, south, west, east and the central region, in line with the objective of balanced regional development of India.



Chart 1: Installed Capacity And Key Markets In Each Of The Geographic Regions

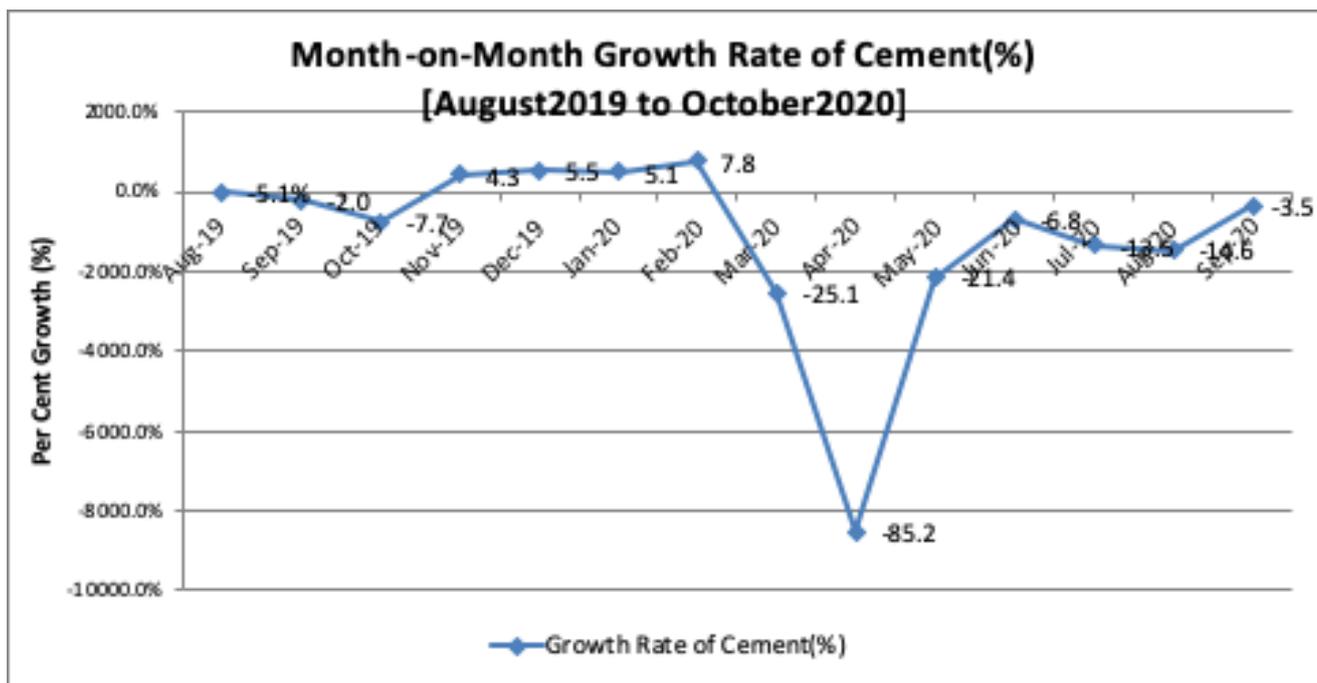


Source: India Brand Equity Foundation Report on Cement Industry (June 2020)<https://www.ibef.org/download/Cement-June-2020.pdf>

PRODUCTION AND GROWTH TRENDS

A month-on-month (M-o-M) comparison from the Office of the Economic Advisor in August 2020 shows that despite a negative growth, the cement industry rebounded to (-3.5%) growth in September 2020 compared to previous month that has witnessed a decline of (-14.6%) in August 2020 (see following Chart 2). For lockdown, the industry has seen its biggest decline in April-May 2020. Steel and cement have been badly affected by the Covid-19 pandemic as the construction remained largely suspended across the country due to labour shortage and social distancing norms.

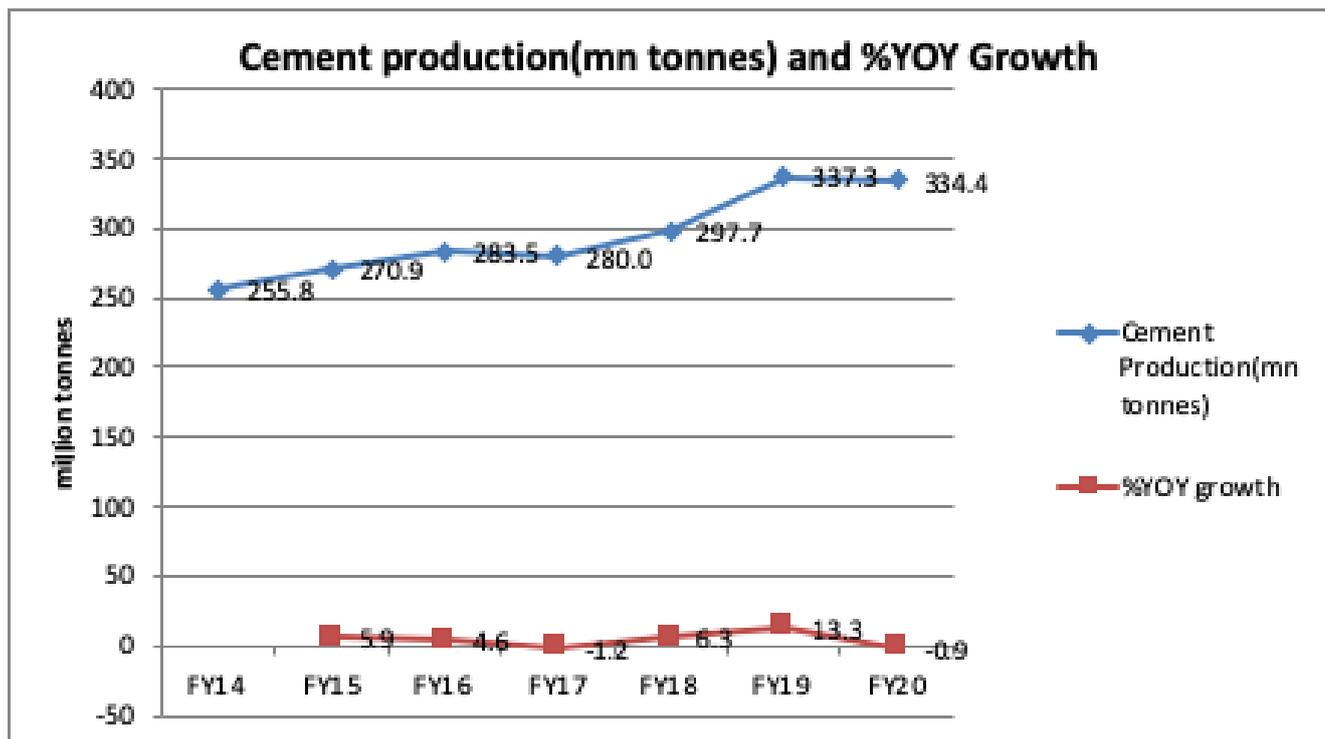
Chart 2: Month-on-Month Growth Rate of Cement (%) in India



Source: Office of the Economic Advisor Press Release on 29th October 2020; URL: https://eaindustry.nic.in/eight_core_infra/Eight_Infra.pdf

On the other hand, the Year-on-Year (YOY), growth shows that despite a positive growth in FY 19 (13.3%) in FY20 the YOY growth rate becomes negative (-0.9%) due to the Covid-19 crisis and subsequent lockdown measures to combat the pandemic due to which economic activity came to a standstill (see following Chart 3).

Chart 3: Year on Year (YOY) growth rate and Cement Production in India



Source: "Market Overview: Cement" (June 2020) India Brand Equity Foundation.

Financial Year (FY)	Cement Production (mn tonnes)	Cement Consumption (mn tonnes)
FY16	283.5	269
FY17	280.0	272
FY18	297.7	296
FY19	337.3	328
FY20	334.4	NA

Source: AMSEC Research (14 October 2020) and "Market Overview: Cement" (June 2020) India Brand Equity Foundation.

DEMAND DRIVERS

- Housing and Infrastructure Sector.
- Potential demand from affordable housing.
- Construction work for other government infrastructure projects like roads, metros, airports, irrigation etc.

In India, cement demand emanates primarily from four key segments Housing, Infrastructure, Commercial and Industrial. The cement industry is, however, likely to face gradual improvement in demand due to enhanced demand from rural sector due to good monsoon and promising kharif crops. The pent up demand in ongoing projects got stuck in urban sector amid lockdown is also likely to give a push to the demand for cement industry thus combating overcapacity to certain extent.

MAJOR PLAYERS IN CEMENT INDUSTRY

The Indian cement industry is dominated by a few companies. The top 20 cement companies account for almost 70 per cent of the total cement production in the country. A total of 210 large cement plants account for a cumulative installed capacity of over 410 MT, with 350 small plants accounting for the rest. Of these 210 large cement plants, 77 are in the states of Andhra Pradesh, Rajasthan and Tamil Nadu³. Foreign players such as Lafarge-Holcim, Heidelberg Cement, and Vicat have invested in the country in the recent past. A significant factor which aids the growth of this sector is the ready availability of raw materials for making cement, such as limestone and coal.

Some major investments in Indian cement industry are as follows:

- In May 2020, the acquisition of Emami Cement Ltd by Nuvoco Vistas Corp Ltd (part of the Nirma group) was approved by the Competition Commission of India (CCI).⁴ In February 2020, Nirma Group announced acquisition of Emami Cement Limited (ECL) for an enterprise value of Rs 5,500 crore (US\$ 786.95 million).⁵
- In October 2019, UltraTech cement announced plans to invest Rs 940 crore⁶ to increase the production of premium products for strengthening its position in eastern markets. Also, UltraTech completed the acquisition of Century Textile's cement business, with the scheme of demerger becoming effective from October 1, 2019.⁷



- JK cement planned to invest Rs 1,700 crore (US\$ 246.7 million) to increase its production capacity to 15 million tonnes by end of 2020.

Major cement manufacturers have adopted various cost rationalization measures as subdued crude oil and pet coke prices have helped to check electricity and fuel cost. Lower railway freight has helped to combat logistics cost and raw materials costs remained also under control due to moderate gypsum and fly ash prices.

Many cement players are eyeing rural demand as a booster; e.g, Ambuja seeing volume growth primarily driven by rural demand. The company's clinker and cement plants in Rajasthan are scheduled to be commissioned in June quarter of calendar year 2021⁸, which was delayed by around six months due to the pandemic. New capacity is likely to augment volumes in the North and West markets.

J K cement has set up a new Greenfield facility of 0.7 million tonne in Gujarat completing the company's grey cement expansion plan of 4.2 million tonne per annum for FY21.⁹ The grey cement grinding plant in Balasinor (in Mahisagar district of Gujarat) is part of the company's expansion plan of grey cement of 4.2 mtpa; which is likely to enhance local employment opportunities as well. It also has expansion plans of grey cement in Madhya Pradesh.

For UltraTech, the Scheme of Demerger for acquisition of the Century Cement Business was made effective from 1st October, 2019.¹⁰ With this acquisition, UltraTech's cement manufacturing capacity stands augmented to 114.8 MTPA, including its overseas capacity. The acquired plants are being integrated and have achieved capacity utilisation of over 80% during the quarter ended March, 2020. Further, a cost reduction plan has been implemented to streamline the operations and bring them in line with the existing standards. The overall integration is likely to be completed by the end of Q3FY21. Bara plant and Dalla Super clinker plant (brownfield expansions) are expected to be commissioned by end of FY22.¹¹



Estimated clinker capacity wise Top-10 companies and their regional breakup in FY-20 (in Million Tonnes)

SI No	Company	Northern Region	Central Region	Western region	Eastern Region	Southern Region	Total
1	UltraTech	18.22	15.07	18.31	8.98	17.50	78.08
2	ACC	3.80	2.94	3.27	4.51	9.10	23.62
3	Shree Cement	15.64	N.A.	N.A.	3.96	3.96	23.56
4	Ambuja	7.84	N.A.	6.44	3.58	N.A.	17.86
5	Dalmia	N.A.	N.A.	N.A.	5.91	8.62	14.52
6	India Cements	1.09	N.A.	N.A.	N.A.	9.80	10.89
7	Chettinad Cement	N.A.	N.A.	N.A.	N.A.	10.49	10.49
8	J K Cement	8.12	N.A.	N.A.	N.A.	2.15	10.27
9	Ramco Cements	N.A.	N.A.	N.A.	N.A.	10.11	10.11
10	Birla Corporation	3.11	6.50	N.A.	N.A.	N.A.	9.61
	Total	57.82	24.51	28.02	26.94	71.73	209.02

Source: AMSEC Research (14 October 2020), Company websites.

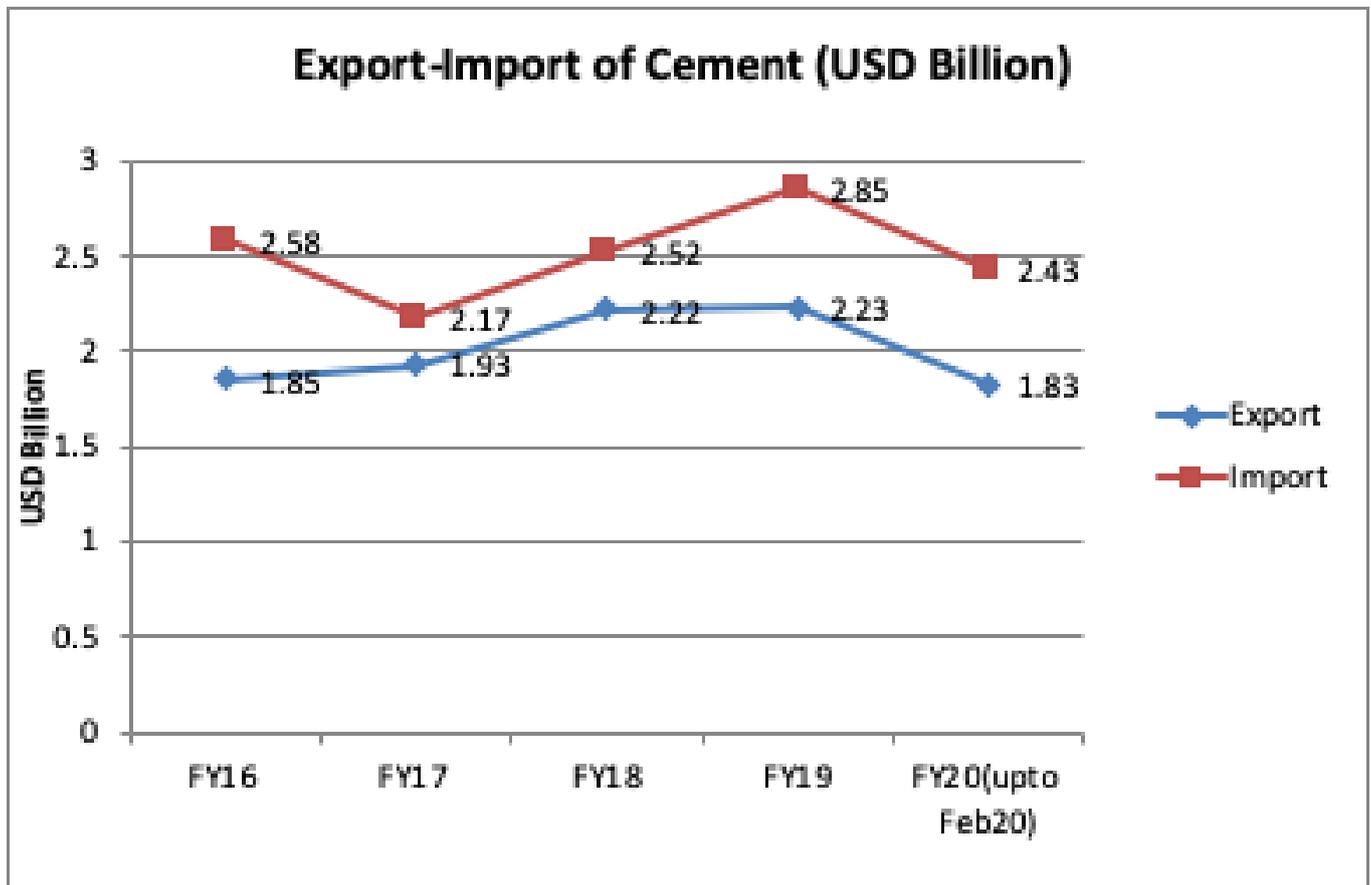
GOVERNMENT INITIATIVES

Initiatives taken by the Government of late are as below:

- In Union Budget 2020-21, the Government of India has extended benefits under Section 80 - IBA of the Income Tax Act till March 31, 2020 to promote affordable housing in India.
- The Union Budget has allocated Rs 139 billion (US\$ 1.93 billion) for Urban Rejuvenation Mission: AMRUT and Smart Cities Mission. Government's infrastructure push combined with housing for all, Smart Cities Mission and Swachh Bharat Abhiyan is expected to enhance cement demand in the country. The move is expected to boost the demand of cement from the housing segment. As per Union Budget 2019-20, Government planned to upgrade 1,25,000 km of road length over the next five years.
- An outlay of Rs 27,500 crore (US\$ 3.93 billion) has been allotted under Pradhan Mantri Awas Yojana in the Union Budget 2020-21.

EXPORT-IMPORT TREND

According to the India Brand Equity Foundation (June 2020)¹³ on cement industry, India's top export destinations for cement, clinker and asbestos in FY19 were Nepal, SriLanka, USA, Maldives and UK. The country's top five import sources for cement, clinker and asbestos in FY19 were Pakistan, Bangladesh, Japan, Vietnam and Thailand. Due to low value to weight ratio, cement is difficult to trade internationally, and India largely exports to countries which are not too distant, to minimise transport costs.



Source: India Brand Equity Foundation report (June 2020)p-9.

INDUSTRY RISK

The nationwide lockdown amid the coronavirus outbreak (Covid-19) has crucial near-term impact on cement industry. While the industry was experiencing reasonable demand prior to lockdown, the post-lockdown phase has seen closure of many cement plants as well as cessation of construction activities at various sites, affecting cement dispatches of many companies.

Southern markets like Andhra Pradesh, Telangana and state like Maharashtra witnessed earlier a steep decline in demand during Covid-19 time, in south it registered a 45% decline during the first quarter of this fiscal¹⁴. India Cements saw a drop in volume of around 48 percent during the first-quarter in the South (excluding Maharashtra). Overall, including Maharashtra and the North, it saw a 52 per cent reduction in volume.¹⁵

One major setback that the construction industry is trying to overcome is the deadlock of any production activity during the lockdown period amid the Covid-19 crisis. From the above Chart, it can be observed that production decline during April by 85 per cent the largest decline of the industry since August 2019. Capacity utilisation of domestic manufacturers was around 40% during the quarter due to the nationwide lockdown.

Other issues include delay in infrastructure projects due to many issues (e.g. labour availability, land acquisition etc.), construction of national highways have also seen a slower pace after the lockdown period etc. Sales also got impacted adversely due to the decline of cement demand, though there are decline of costs as well, for instance, logistics expenses (selling and distribution) has declined due to lower railway freight. Certain other challenges for the cement industry in H1FY20 extended monsoons, low capital expenditure on infrastructure and road activities, along with financial stress in the NBFC and housing sectors.

Besides, certain demand and supply side issues have appeared big hindrances for the industry. On the demand side, major issues are - demand for cement from real estate is likely to be muted given the bleak outlook for the real estate sector(though a silver line is a moderate uptick in residential demand and pending projects upliftment might be conducive factor e.g AMRUT and affordable housing projects), infrastructure spending will crucially depend on fiscal health and foreign investments through specialized institutions (e.g. NIIIF), progress in the housing segment that constitutes major portion of cement demand is likely to be adversely impacted as commercial as well as fresh residential launches are unlikely to entirely recover during FY21; and realtors will try on project completing and clearing of existing inventory. On the supply side, logistics/transportation might pose challenges as many states imposed localized lockdown. Subdued Capex and accumulated inventory could pose challenges in the absence of increased demand.

ROAD AHEAD

According to the United Nations, 3 billion people will need new housing and basic urban infrastructure by 2030. Higher government spending on infrastructure and housing will be a key growth driver for the industry. Rural sector can play a crucial role in demand revival and greater thrust on affordable housing segment is expected to drive strong resurgence of cement demand. Many initiatives have been undertaken e.g. making 100 smart cities, expanding the capacity of Indian railways, upgrading 1,25,000 km of road length over the next five years,etc; however a speedy expedition of such initiatives are the need of the hour. The eastern states of India are likely to be the markets for cement companies and could contribute to their bottom line in future. In future, India could become the main exporter of clinker and grey cement to the Middle East, Africa, and other developing nations of the world.

FOOTNOTES

1. "The Impact of COVID-19 on the Cement Industry(August 2020) International Finance Corporation (IFC) <https://www.ifc.org/wps/wcm/connect/c015acbf-8465-4f8e-95e8-857511f10bbb/202008-COVID-19-impact-on-cement-industry.pdf?MOD=AJPERES&CVID=ngxQLJQ>
2. The origin of Indian cement industry can be traced back to 1914 when the first unit was set-up at Porbandar with a capacity of 1000 tonnes, thus making it a century old industry in the country.
3. India Brand Equity Foundation Report (June 2020).
4. "CCI approves Emami Cement acquisition by Nirma arm"(21 May 2020) Livemint<https://www.livemint.com/companies/news/cci-approves-emami-cement-acquisition-by-nirma-arm-11590070421770.html>
5. <https://www.ibef.org/download/Cement-June-2020.pdf>
6. "UltraTech Cement to invest Rs 940 cr for increasing production capacity"(21 October 2019) Moneycontrol<https://www.moneycontrol.com/news/business/ultratech-cement-to-invest-rs-940-cr-for-increasing-production-capacity-4555301.html>
7. India Brand Equity Foundation Report (June 2020).
8. "Ambuja's capacity constraints set to ease but a new concern arises" (26 October 2020) Livemint <https://www.livemint.com/market/mark-to-market/ambuja-cement-s-capacity-constraint-to-ease-but-cash-flow-may-become-a-concern-11603426062721.html>
9. "J K Cement Ltd completes 4.2 mtpa expansion plan with its new plant in Gujarat"(23 October 2020) Economic Times <https://economictimes.indiatimes.com/industry/indl-goods/svs/cement/jk-cement-ltd-completes-4-2-mtpa-expansion-plan-with-its-new-plant-in-gujarat/articleshow/78829994.cms>.
10. UltraTech Annual Report (2019-20);p-40-41.
11. The HinduBusinessLine (29 October 2020).
12. Finance Bill 2020; <https://www.indiabudget.gov.in/doc/memo.pdf>
13. <https://www.ibef.org/download/Cement-June-2020.pdf>
14. The HinduBusinessLine (28 September 2020) <https://www.thehindubusinessline.com/companies/india-cements-expects-recovery-in-key-southern-markets/article32713867.ece>.
15. Ibid.
16. "The Impact of COVID-19 on the Cement Industry(August 2020) International Finance Corporation (IFC) <https://www.ifc.org/wps/wcm/connect/c015acbf-8465-4f8e-95e8-857511f10bbb/202008-COVID-19-impact-on-cement-industry.pdf?MOD=AJPERES&CVID=ngxQLJQ>

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