

Cement Industry

– Surprisingly fast recovery

India is the second largest cement producer in the world, next only to China. India's share in world cement output is around 6%. Most of the cement produced in the country is used for domestic consumption with very little being exported. Small quantity of cement is exported to neighbouring countries like Bangladesh, Nepal, Sri Lanka, Maldives, Mauritius and UAE.

Indian cement industry is characterised by the co-existence of both large manufacturers (national players) as well as small players (regional players). Presently there are more than 65 cement manufacturers in the country. However, top four players, Big 4 – Ultratech Cement, Shree Cement, ACC and Ambuja Cement – together have 44.2% of the industry capacity. It should be noted that in FY 2008, their share was just 34.3%. However, Big 4 may have to cede some ground by 2021 when their share will see a slight fall to 42.4% due to capacity expansion by others.

In last ten years or so, cement manufacturing capacity has more than doubled which is mainly due to strong demand the industry had experienced till FY 2012 which in turn had helped the cement manufacturers with abundant cash flow and strong balance sheet.

■ Cement Capacity in Million Tonnes

Cement production was affected due to the outbreak of the pandemic as the country witnessed complete lockdown towards the end of FY2020 and the beginning of FY2021. Also, the construction sector, one of the main users of the cement, was initially slow to recover from the lockdown blues due to shortage of labour as the migrant construction workers had gone back to their native villages fearing outbreak of the pandemic. However, the industry saw fast recovery post Monsoon and the momentum was maintained till the end of the Financial Year.

The country went into lockdown mode in 2021 once again but this time economic activities didn't come to standstill but were continued though at a reduced scale. In other words, this time lockdown measures were not harsh (as compared to 2020) and were for much shorter duration. So recovery from lockdown this time was much smoother and faster.

Year	Installed Capacity	Effective Capacity	Production
2013-14	370	370	370
2014-15	392	381	270
2015-16	408	400	283
2016-17	424	416	281
2017-18	449	436	301
2018-19	460	455	340
2019-20	473	467	333
2020-21	498	NA	294

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From the following table it is evident that most of the capacity addition is coming from East and the Central where the abundant availability of limestone is a major factor due to which major capacity additions are coming up in these regions. It should be noted that with 163 kg East has the lowest per capita consumption of cement in the country followed by Central region at 168 kg. These two regions have per capita consumption lower than the national average. On the other hand, North with per capita consumption of 308 kg tops the table.

■ Expected capacity addition

Region	2020-21	2021-22	2022-23
North	103.5	105.9	107.8
East	99.5	109.9	116.1
South	160.2	163.4	163.4
West	67.8	71.7	72.9
Central	66.7	75.8	81.2
Total	497.7	526.7	541.4

The above schedule may go off track due to sudden lockdown imposed in the aftermath of COVID-19. Difficulty in mobilising resources, funds crunch faced by the industry and also uncertainty regarding future demand – all will put the manufacturers in double mind about the future expansion plans at least in the short to medium term. Also, availability of stressed assets and consolidation in the industry may put a break on the pace of new project implementation.

Lot of players showed interest in acquiring stressed assets like JP Associates, Murli, and Binani. Ultratech finally bagged both JPA and Binani. While some have already been finalised, some are taking more time than anticipated. Dalmia is reportedly buying Murli Cements. Nirma has acquired Emami Cement. Though acquisition of these assets by new owners will not add to name plate capacity of the industry, they will add to the operating capacity as these were operating at low capacity utilisation.

Interestingly, lot of expansion was planned not because industry players were expecting demand revival in the near future but because of other reasons. Many leading cement manufacturers were flush with funds with little opportunity to spend elsewhere. Further, reduction in the cost of setting up new plants is also acting as an incentive for the cement players to go for new projects. In recent years, cost of setting up new plants has come down by 5-10%. However, lockdown and subsequent zero revenue phase of two months (with wage bill remaining unchanged) has thrown the cash flow schedule of many players haywire.

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■ Cement Clusters

Limestone is the main raw material for cement manufacturing and cement units tend to concentrate around limestone mines. Therefore, in India we can see integrated cement plants located in and around these clusters in places such as Chhattisgarh (Rajasthan), Solan (Himachal Pradesh), Balodabazaar (Chhattisgarh), Satna (Madhya Pradesh), Nalgonda (Telangana), Yeraguntla (Andhra Pradesh), Kutch (Gujarat) and Gulbarga (Karnataka). However, with the concept of blended cement fast catching up, clusters are getting slowly dispersed as some plants are being located near steel manufacturing units or thermal power generation units.

■ Southern Region

Southern region is the most important region for the cement sector as it accounts for one third of the total cement industry. Apart from this fact, Southern region is also important for the manufacturers as it commands highest realisation among all the five regions in the country (with the exception of North Eastern region). Also, an important fact about Southern region is that it accounts for 33% of the total capacity while it produces only 23% of the total cement production in the country. In other words, supply demand gap can be filled up even without any further capacity addition in the short term. At present the region has one of the highest surplus capacity and part of it is used to meet the demand in Western and Eastern India. Cancellation of several contracts in Andhra and standstill approach on several projects in the state had dramatically changed the demand scenario in the South. Added to it was the low key construction activity in TN and Kerala due to floods which slightly aggravated the demand situation.

■ Regional Highlights

Uttar Pradesh, the largest state in terms of population, has traditionally been a cement deficient state and cement demand in the state was met through imports from neighbouring states like Madhya Pradesh. Though new capacities have been added in recent years most of the new capacities are in in split grinding units. Therefore, even after the new capacities clinker will have to be sourced from outside the state, if not from the central region, then from states such as Chhattisgarh in the eastern (including north eastern) region or Rajasthan and Himachal in the northern region. Setting up a greenfield cement plant in UP is rather unviable considering the fact that the state doesn't have enough limestone reserves.

On the other hand, in Maharashtra, the development of jetty facilities and addition of new capacities in the western region would reduce the region's dependence on cement from other regions.

■ Some interesting facts about Indian Cement Industry

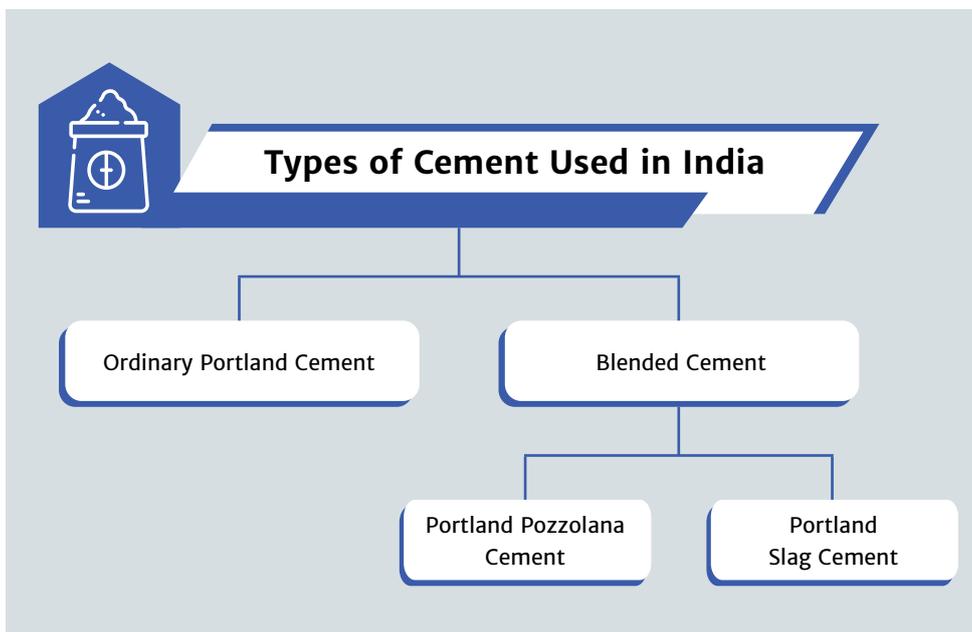
- Though cement is a bulk commodity, branding plays an important role.

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- Realisations vary across regions, states and cities. Also, realisations cement grades. Further, realisations vary from manufacturer to manufacturer.
- For cement manufacturers, retail sales fetch better realisation compared to institutional sales.
- Freight costs are determined by the lead distance and road rail mix.

■ Recent Trends



Cement producers have shifted from manufacturing ordinary portland cement (OPC) to blended cement in the last five to six years. For example, the proportion of blended cement has increased from 60% in FY 2006 to approximately 70% in FY 2018, primarily due to its growing acceptability in the market. Also, it requires less limestone as it is mixed with either flyash or slag. By blending fly ash or slag with OPC, producers can lower power, fuel and raw material costs. Among the blended cements portland pozzolana cement (PPC) has the highest share. While for portland slag cement's (PSC's) proximity to steel plants is an important factor that ensures easy access to slag, PPC manufacturing units are usually located near the thermal power generation units. As a result, the production of PSC is concentrated in the eastern (including north eastern) and southern regions, as slag is available in these regions as there are steel plants in the area.

■ Cost factor in Cement Manufacturing

Variable costs dominate the cement business and therefore, operating leverage is of limited significance in the industry. Freight, power and fuel are the key variable costs that form more than 60% of total costs. Many manufacturers have improved their profitability by bringing in efficiency in energy consumption and innovative logistic modes like bulk supply and

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coastal shipping.

Many cement companies use petcoke in the manufacturing and therefore, their profitability will be affected due to any changes in their prices. Most of the 2018 saw petcoke prices rising though towards year end they started softening. Fortunately for cement manufacturers, power, fuel and freight costs are currently on a downward trend which will partly compensate for loss of product/demand.

■ Leading cement manufacturers

Company	Capacity (MTPA)
Ultra Tech	116.75
ACC	33.05
Shree Cement	43.4
Ambuja Cement	29.7
Dalmia Bharat	30.75
India Cements	15.5
Ramco Cements	19.4
JK Cement	14.67
JK Lakshmi Cement	14
Birla Corporation	15.4

■ COVID-19 affected demand temporarily

Year 2020 started on a good note for the cement industry as there were signs of demand picking up which was happening after a few dull quarters. In fact, January and February sales had given a ray of hope for the industry which was battling stagnant demand and poor realisation in the first nine months. However, COVID-19 and subsequent lockdown poured cold water on all hopes. The dealers and manufacturers were almost in near unanimity in saying that if COVID-19 had not happened, fourth quarter would have been the best quarter for the industry in 2019-20. On the other hand, fourth quarter of 2020-21 turned out to be the best quarter for FY21 and in fact, in the fourth quarter the industry achieved a multi-year high utilisation of 90% and also almost a record per tonne margin.

An analysis of 14 cement manufacturers showed that these companies reported sales volume growth of 3% YoY in FY21, as against 3% YoY decline in FY20. FY20 volumes growth had turned negative, primarily due to sales loss in the last 15 days of the year due to outbreak of the pandemic and subsequent nationwide lockdown.

While 1QFY21 was hit harder by the COVID lockdown, robust demand from retail segments from 2QFY21 onwards and demand recovery in non-trade in the second half of the year pulled up total volume growth for FY21.

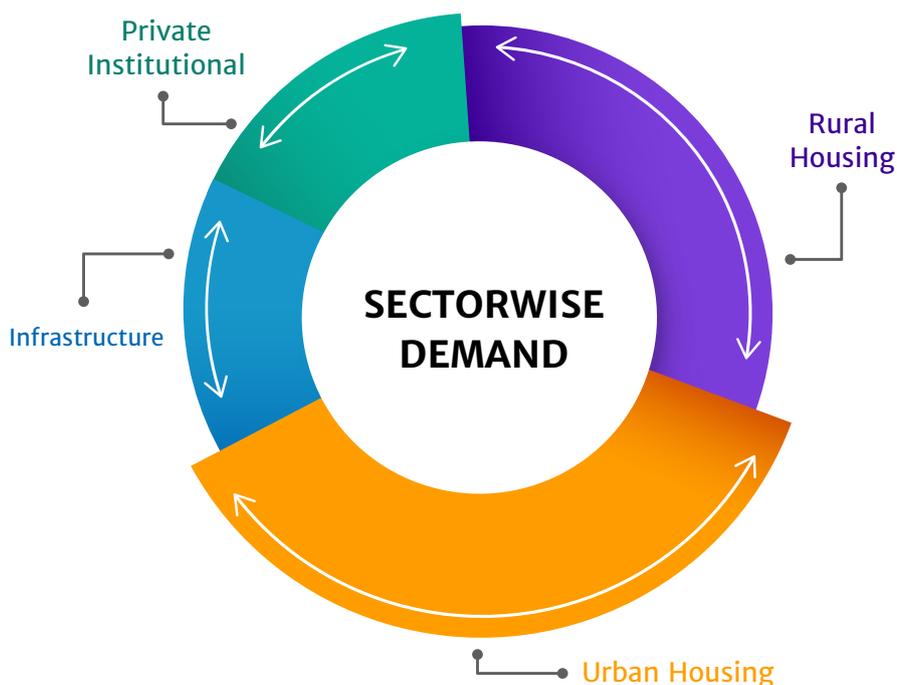
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Demand for cement was impacted in Q1-FY22 on account of localized lockdowns in almost all states owing to the recent spike in Covid-19 caseload. The varied localised restrictions imposed in almost all the states in the country since April 2021 which slowed down the construction activities and in turn affected the demand-supply scenario for cement industry in Q1-FY22.

■ Demand Composition:

Housing sector, both rural and urban, is the main consumer of cement in India. Rural housing contributes 35% to the cement demand while 30% of the cement demand comes from urban housing. Infrastructure segment, which includes roads, railways, bridges, dams, power plants, irrigation projects and others constitutes 15% of the total cement volumes. Rest of the demand comes from commercial segment like offices complexes, malls and others.



■ Problems:

- Limestone is the main raw material required for cement manufacturing and availability of limestone mines is the biggest problem faced by the industry. Increasing competitive intensity in the limestone bidding process which in turn is making it costlier and land costs are adding to the entry barriers in the cement industry.
- With the implementation of the new Land Acquisition Act, cost of land has gone up substantially. According to industry sources, land cost has gone up by 150% between 2009 and 2015 and it has gone further up after the introduction of new law.

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- Both fuel and freight costs have become highly volatile due to fluctuations in petcoke and diesel prices. Though both the prices are now cooling down for most part of the year last year it remained at an elevated level.
- Use of cement largely depends upon availability of sand. For producing concrete, the ratio is four tonnes of sand for every tonne of cement. For other generic usage, for every tonne of cement, nearly eight tonnes of sand are required. Various NGOs and environmentalists have raised regular concerns illegal sand mining. As a result, many states are now depending on M-sand or imported sand to fulfil their requirements. The problem is that all states do not have enough M-sand infrastructure and not all states can import sand which in turn affects sand availability.
- Use of petcoke by cement industry has often become the subject of controversy. Environmentalists have been pointing fingers at petcoke users as one of the reasons responsible for air pollution in the NCR. In 2017, the Supreme Court of India issued an order banning the use of pet coke by cement manufacturers in overall plant operations in NCR. Few other state governments informally asked the cement companies to stop using or avoid using pet coke. While many cement manufacturers voluntarily changed their fuel (to coal from pet coke), the industry filed a petition arguing that as long as emission norms of cement factories are within prescribed environmental norms, the industry should be allowed to use any fuel. This plea was partially successful and cement manufacturers were allowed to use pet coke in kiln operations, subject to the plant fulfilling environmental norms.

Post lockdown, the government has speeded up several infrastructure projects in the country that have helped the revival of cement demand. Housing construction, thanks to fast approaching deadline under PMAY programme, picked up pace too. Revival of real estate industry, partly due to various incentives and low mortgage rates is another factor contributing to the revival of cement demand.

■ CCI Investigation against cement manufacturers

In 2019, Competition Commission of India initiated investigation against some cement manufacturers upon receiving complaints of cartelization by them while fixing the price for the commodity. It may be noted that under the Competition Act, 2002, the CCI has the power to levy a maximum penalty of a) 3 times of PAT for each year of continuance of the cartel or b) 10% of turnover, whichever is higher.

It may be recalled here that in 2012, the CCI had imposed a penalty of Rs 6400 crore on cement companies for alleged cartelization. The order was passed following the investigation of complaints filed by the Builders Association of India (BAI). Then, CCI had levied penalty equal to 0.5 times the PAT of FY10 and FY11 of cement companies. However, the cement manufacturers had appealed before the Supreme Court (SC) in 2018 after the Competition Appellate Tribunal (COMPAT) and National Company Law

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Appellate Tribunal (NCLAT) upheld the CCI order. The SC stayed the order and asked companies to deposit 10% of the penalty amount. The matter is still sub judice.

■ Mounting coal prices

Sudden spurt in the coal prices post July 2021 put cement industry almost into a crisis like situation. However, with coal prices receding in November from their recent highs, a large overhang on costs for the cement manufacturers has been removed.

Chinese thermal coal prices had reached dizzying heights in October 2021 amid energy crisis faced by the country on account of coal shortages following flooding in Henan region in July and heavy rains in the Shanxi province (biggest coal producing region in China) that curtailed coal production. This coincided with heavy demand from industries and households, which forced the Chinese government to announce power cuts for various industries. Thermal coal prices shot up 110% in one & a half months, leading to a sharp uptick in coal prices globally. Australian coal prices touched a high of US\$280 on 5th Oct'21 and South African coal prices touched US\$252 on the same day.

Indian cement manufacturers were under pressure, owing to the huge uptick in input costs. Coal shortages were also seen in India with reports of coal stocks hitting new lows at power plants and Coal India Ltd diverting all supplies to only power companies. With domestic coal unavailable, imported coal expensive beyond limits and petcoke being expensive with limited availability, cement companies were staring at fuel shortages or astronomical increase in costs.

■ Leading Manufacturers

ACC

ACC is one of the oldest cement manufacturers in the country. Though the company has PAN India presence, central and southern markets account for much of its revenue. Out of 6.2 MTPA capacity addition plan, the company has installed 1.4 MTPA in January 2021 and the rest will be added in next 12 months.

Ambuja Cement

Ambuja Cement is a multi-region cement manufacturing company and holds 50% stake in ACC. The company has significant presence in northern, western and eastern regions. The company will add 3mn mt clinker unit and 1.8mn mt grinding unit at Marwar Mundwah (Rajasthan) by 3QCY21. The company has also set the target to increase the current capacity from 29.6mn mt to 50mn mt though timelines have not been announced.

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Dalmia Bharat

Dalmia Bharat Limited (DBL) is the holding company of Dalmia Cement Bharat Limited (DCBL), which together with its subsidiaries has clinker-backed cement capacity of 33mtpa. The company has presence only in eastern and southern markets which are suffering from over capacity. In September 2021, the group has commissioned its new cement grinding plant having capacity of 2.25 MTPA at Dalmia DSP Unit- II near Cuttack, Odisha.

India Cements

Founded in 1946, India Cements is a leading cement manufacturer of South India. However, with the acquisition of 60% stake in Rajasthan based Trinetra Cements, its dependence on southern market has come down from 90% to 75%. The company has followed both organic and inorganic route to add capacity. The company doesn't have any scheduled expansion plans for next 2-3 years. The company's debts are at elevated level and of late the company is facing increased competition from players like Ramco and other regional players.

JK Cement

JK Cement, a Gaur Hari Singhania group company, has its presence all over India except eastern markets. JK Cement is one of the few companies who have presence in both grey cement and white cement markets. In May 2021, the company did a groundbreaking ceremony for its 4mn mt capacity expansion plan (2mn IU mt in Panna and 2mn mt GU in Hamirpur).

JK Lakshmi Cement

JK Lakshmi Cement, a Hari Shankar Singhania group company, has clinker capacity is 6.3mtpa and cement capacity is 11.8 mtpa. The company will set up a 2.5mn mt integrated plant (1.5mn mt clinker) for a total cost of Rs.1400 crore (including WHRS & railway siding). This project will be funded by equity (30%) and debt (70%) and will take three years to complete, i.e., 1QFY25.

Prism Johnson

Prism Johnson is a post liberalisation era cement manufacturing company which also has tile, bath products, kitchen and RMC segments. The company mainly caters to central region markets.

Ramco Cements

Ramco Cements is a South based cement manufacturing company which derives nearly 80% of its revenue from southern markets and rest from Eastern market. Ramco is a low-cost cement producer and has pioneered fly-ash-based cement in south India. Line III of Jayanthipuram Plant with a clinker capacity of 1.5 MTPA was commissioned by Ramco in June 2021.

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Shree Cement

Shree Cement, a Bangur Group company, has the lowest per-tonne cost of production in the industry. More than half of its revenue comes from northern markets with central and eastern markets accounting for the rest. To avoid over dependence on one region for its revenue, the company has recently set up a manufacturing unit in Karnataka.

UltraTech Cement

UltraTech Cement, belonging to Aditya Birla Group, is the largest cement manufacturing company in the country. The company has a presence in all the regions in India. In FY18, UltraTech expanded capacity by 25% by acquiring 21.2mtpa from Jaiprakash Associates. Its successful acquisition of Binani Cements has helped the company to have increased presence in Rajasthan and northern Gujarat. Also, recently, cement facilities of Century Textiles (a BK Birla company) was transferred to Ultratech. The company has announced 19.5 MTPA capacity addition program that will be completed by FY23.