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**Cement Industry**

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## Cement Industry

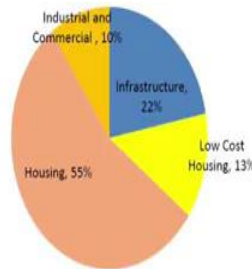


M Suresh Babu: So, having seen some of the firm level performance indicators. Now, it will be interesting to see the industry level performance indicators. Why? Because ultimately industry is nothing but a collection of firms. And each firm would have different technological capabilities, different production functions, different cost functions, and to draw some level of inference at an aggregate level, at the industry level, it will be useful to understand the growth prospects as well as the drivers of growth at the industry level. So, we will start with cement industry first.

G Venkatesh: Sure.

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## Key growth drivers for the cement industry



Reference: CARE Ratings, Company Filings

G Venkatesh: Currently the cement industry is growing in India primarily because there is a lot of stimulus from the government and highways, for example, infrastructure like constructing of highways, housing, especially low cost housing. There is a big question on that, there are a lot of subsidies, incentives on government paying for local housing.

And generally in housing, because we still have a huge headroom from what I understand that many people do not have houses. So, there is still a lot of scope for constructing houses.

M Suresh Babu: Yeah, In the affordable housing segment. But G V, if I have to do an industry level analysis, what are the kinds of data ? , what is the source that I should generally look at?

G Venkatesh: So, there, one is of course, these rating agencies, like you pointed out earlier. Like CARE and Kreizel and all that. But you could also get it from the general agencies and industry associations. For example, KEY.

M Suresh Babu: Automobile industry association, FIKI, SOCHAN.

G Venkatesh: So, there will be industry associations that keep generating reports, for IT, it will be NASSCOM. They keep generating reports. And you also have these world bodies, which keep generating reports on different countries, and different sectors and so on. So, there are many sources for this.

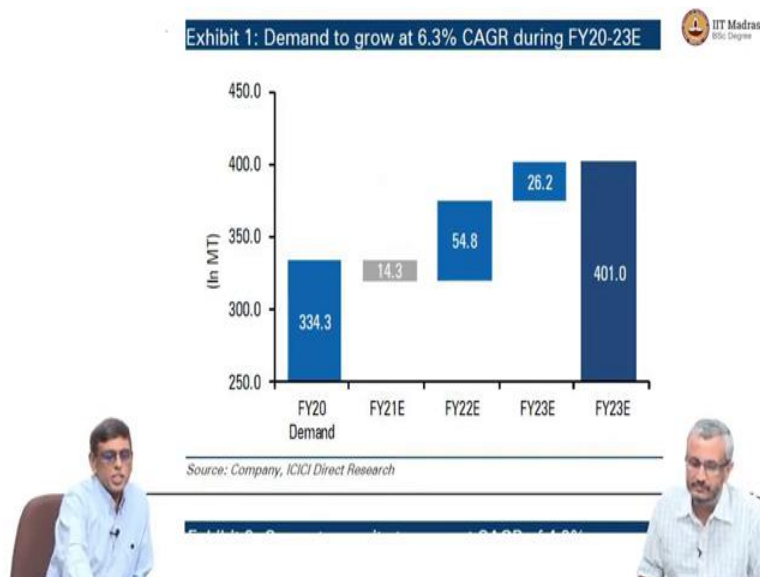
And there are some specialists like if you look at textiles, for example, there could be something, especially we will see in the upcoming slides.

M Suresh Babu: Most of our slides are from Wazir Association.

G Venkatesh: So, basically, there are these specialist companies, which just analyze one sector in great detail. And then in India, of course, we have also this planning agency Niti Aayog which does some very good work in terms of creating charts of what is going on in the industry and its insides...

M Suresh Babu: And of course, the Ministry of Statistics and Programme Implementation. The key growth drivers are basically the affordable housing segment...

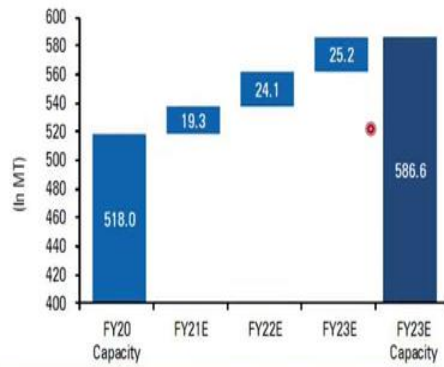
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G Venkatesh: Housing is a big driver. So, the expectation is that the demand in this sector is going to grow by 6.3 percent CAGR. CAGR is Compound Annual Growth Rate between 20 and 23. So, you can see the demand basically is 334. This is in metric tons. 334.3 million tons to 401 million tons. And like this, it keeps adding, 22, 23. And, accordingly, we can see basically that companies have tried to match it in doubles capacity.

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Exhibit 2: Cement capacity to grow at CAGR of 4.2%



Source: Company, ICICI Direct Research

Exhibit 3: All-India utilisation set to improve from FY22E

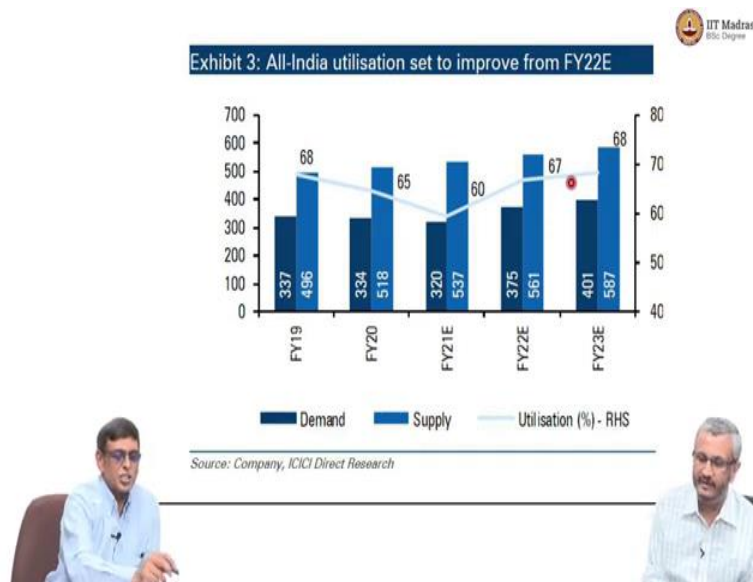
G Venkatesh: So, this is the capacity picture. So, 518 million tonnes going upto 586 tonnes. So capacity is growing at 4.2 percentage. Trying to match that 6.9 percent demand. Of course, you will see later that even this current capacity, there is a utilization issue. It is not fully utilized. So, to some extent, you will try and increase utilization of this, but beyond a point you cannot.

So, you have to add capacity. So, the industry is starting to make investments in new capacity. This is the story actually.

M Suresh Babu: So, the moment from a short run to a long run in terms of our cost curves.

G Venkatesh: Yeah, this is coming here. Still, I mean, 586 metric tonnes and we will see the concentration right now which is mostly all in one company and that is the company that is making all the investments.

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G Venkatesh: So, it is doing it through consolidation, some of it through buying. So, the, utilization picture. Utilization basically is looking at the demand and the capacity Supply. So, we have 68 percent in FY19. And it is come down because of pandemic, but then it is expected to go back to the 68 percent level utilization. So, some improvement utilization, but that number is still a little low.

M Suresh Babu: So, we can interpret like, 70 percent, close to 70 percent of the installed capacity has been utilized.

G Venkatesh: Yeah, of course, if there was a dip in FY20.

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Exhibit 9: East, central region has higher potential to grow followed by north based on per capita consumption

Macro Economic- Potential	North	Central	East*	West	South	India
Rural Population (FY 20E)	67%	75%	77%	53%	54%	67%
PCC (Kg) – FY 20LE	231	173	203	273	263	227
Housing Shortage (FY20E) (Mn) ^	10	8	9	7	12	50
Road Density (kms/ per lac people) #	294	244	307	469	401	358
Power Density (kWh/Capita)	1233	700	870	1758	1461	1181

\* Excl. North-East

Source: Company presentations, ICICI Direct Research



G Venkatesh: I thought that this is an interesting chart primarily because it says there is a potential for cement more than others. So, it looks at it from the perspective of what you had initially talked about, which is this per capita consumption of various things. So, if you look at the per capita consumption of cement.

In north 67 percent is rural, in central it is 75, central is Madhya Pradesh and other, 75 percent. East is also 77 percent. West is more industrialized. So, more urban. And South is also industrialized. So, more urban. And the per capital consumption also, you can see correspondingly wherever the rural is high, the per capita consumption is low wherever urban is high their per capita consumption is higher.

The West and South have 270, 260 kgs per capita consumption of cement per year. Whereas, for the East, Central and all that you see, it is 170, 230, 200. So, these areas can catch up to 270 and that will give you some penetration possibilities. It tells you how to target. And you can look at it also from a housing shortage perspective.

M Suresh Babu: Road density is also very interesting, because in the West road density is quite high.

G Venkatesh: Or look at this power density kilowatt hour per capita. So, these places 1758, 1461, here it is 700, One Half of South and maybe 40 percent of the West.

M Suresh Babu: So, the geographical distribution in terms of the drivers of growth we were able to capture...

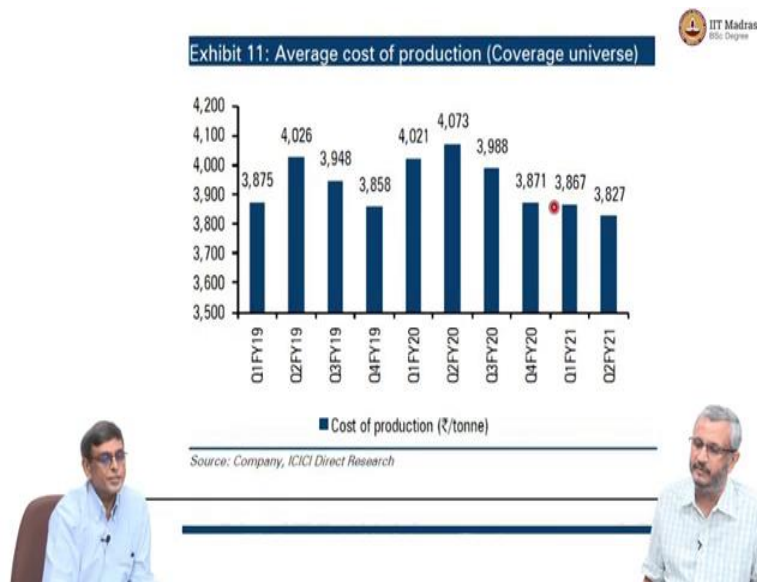
G Venkatesh: Using this per capita consumption kind of a model.

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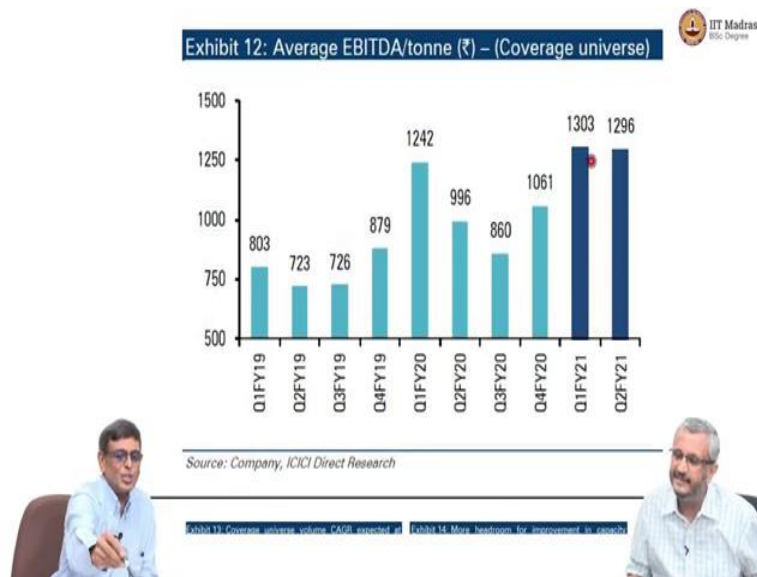
G Venkatesh: Now, the other vector we saw in the Ultratech case, which is the price per bag. So, the industry as a whole has been able to show modest increase in price per bag, 331 per bag going to 356, going to 370. So just kind of going at about 3, 4 percent annually.

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G Venkatesh: And this bag is a 50 kilo bag. At the same time cost of production return in terms of per tonne. How much does it takes to produce one tonne? So, that has been also kind of over the last few quarters has been showing some kind of decline. So, they are managing cost very well, pricing also is increasing, which means obviously EBITDA will increase.

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G Venkatesh: here, you can see obviously the EBITDA will increase, both price as well as costs. They can manage.



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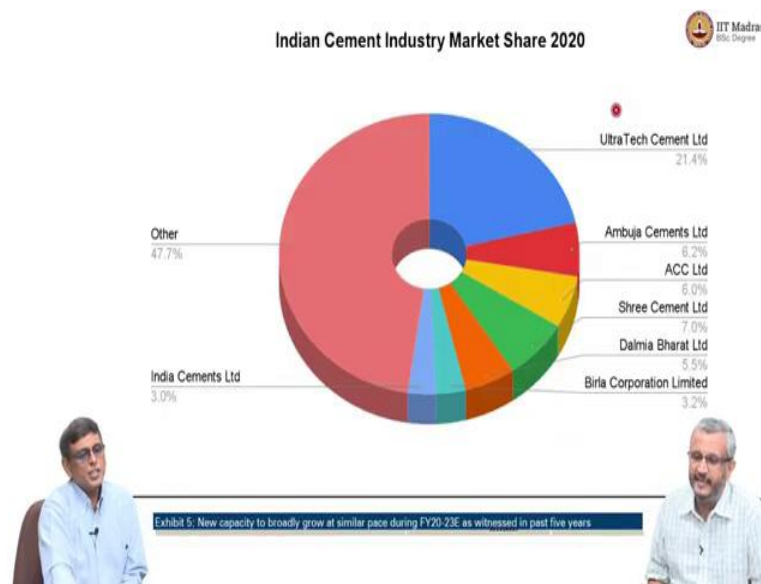


G Venkatesh: Now, if you ask which variables are going to actually give you better ROCE, which are the drivers for ROCE, Return on Capital Employed. It was 11, 12 percent, we saw if you want to make it go upto 15, 16 or 17 percent, then it is all going to come by volume and this is called capacity utilization.

The more you increase volume and get your capacity utilization increase, the more your ROCE will grow, it is clear. Because then, its return on capital employed, where is it being employed, in capacity. So, if you are not utilizing the capacity, then you are not getting the revenues and therefore no progress. So, one has to improve utilization.

That will come by volume growth. So, there is not that much scope for price increases in cement industry because it is highly competitive.

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G Venkatesh: Now, just see the market share picture. Do you want to comment on this concentration picture?


M Suresh Babu: Yeah, I think it is a very highly concentrated industry with 1 to 7 major players and the leader having more than 20 percent of the market.

G Venkatesh: the next player is Shree Cement Ltd having only 7 percent. Now the market leader UltraTech is further growing by acquisition.

M Suresh Babu: So, we find that, this is a very interesting kind of an oligopoly model, where perhaps the industry leader sets the trend, sets the price as well. And industry standards are also set by this leader in terms of cost efficiency.

So, this is a very interesting kind of a market share. We will see more of it when we discuss how to measure concentration and concentration ratios, et cetera. But Ultratech is clearly the leader.

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**Exhibit 5: New capacity to broadly grow at similar pace during FY20-23E as witnessed in past five years**

Sr no	Company	FY15	FY16	FY17	FY18	FY19	CAGR (%)	FY20	FY21E	FY22E	FY23E	CAGR (%)	Yearwise additions		
													FY21E	FY22E	FY23E
1	Ultratech	58.3	63.2	66.3	80.6	109.4	16.6	111.4	113.4	118.1	130.9	5.5	2.0	4.7	12.8
2	Shree	22.1	25.6	29.3	34.9	37.9	14.4	40.4	46.4	46.4	46.4	4.7	6.0	0.0	0.0
3	ACC	31.0	31.0	31.0	33.4	33.4	1.9	33.4	33.4	34.5	39.3	5.6	0.0	1.1	4.8
4	Ambuja	28.8	29.7	29.7	29.7	29.7	0.8	29.7	29.7	31.5	31.5	2.0	0.0	1.8	0.0
5	Birla Corp	9.8	9.8	15.4	15.4	15.4	12.0	15.4	15.4	19.3	20.7	10.4	0.0	3.9	1.4
6	Rancco	15.5	16.5	16.5	16.5	16.7	1.8	18.6	19.5	20.5	20.5	3.3	0.9	1.0	0.0
7	India Cements	15.6	15.6	15.6	15.6	15.6	0.0	15.6	15.6	15.6	15.6	0.0	0.0	0.0	0.0
8	JK Cement	10.5	10.5	10.5	10.5	10.5	0.0	14.0	14.7	14.7	14.7	1.6	0.7	0.0	0.0
9	JK Lakshmi	8.2	8.6	10.9	10.9	12.5	11.1	13.3	13.3	13.9	13.9	1.5	0.0	0.6	0.0
10	Sagar	2.7	2.9	4.0	4.3	5.8	20.8	5.8	5.8	8.3	8.3	12.8	0.0	2.5	0.0
11	Orient	8.0	8.0	8.0	8.0	8.0	0.0	8.0	8.0	8.0	8.0	0.0	0.0	0.0	0.0
12	Heidelberg	5.4	5.4	5.4	5.4	5.4	0.0	5.4	6.3	6.3	6.3	5.3	0.9	0.0	0.0
13	Mangalam	3.3	3.3	4.0	4.0	4.0	5.3	4.0	4.0	4.4	4.4	3.2	0.0	0.4	0.0
14	NCL	2.0	2.0	2.0	2.7	2.7	7.8	2.7	2.7	2.7	3.4	8.0	0.0	0.0	0.7
	Total	222	232	248	272	307	7.4	318	329	344	364	4.6	10.5	16.0	19.7
	Others	195	204	212	202	189	0.5	200	209	217	223	3.6	8.8	8.1	5.5
	All India	417	436	460	474	496	4.4	518	537	561	587	4.2	19.3	24.1	25.2

Source: Company, ICFI Global Research

M Suresh Babu: Yeah. So, I was about to ask you what happened to ACC. ACC was an old player.

G Venkatesh: Yeah, ACC is Tata's.

M Suresh Babu: But the market share is very low.

G Venkatesh: It is it is a serious player in cement. It used to be the market leader one time before Ultratech went into acquisition. So, basically, you can see that a lot of new capacity is coming from Ultratech.

G Venkatesh: He is having 20 percent of the market. And he is doing one third of the capacity addition.

M Suresh Babu: I think this tells the story in terms of what are the growth drivers, as well as what is the industry landscape in terms of growth as well as the players in this.

G Venkatesh: You can see that over here at 80 to 109 a big jump came because they acquired Binani Cements.