



The Investment Research Society

# Cement Industry Report



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# The Indian Cement Industry



India is the world's **second-largest** cement producer, accounting for **8%** of the global installed capacity.



India's cement demand is expected to reach **600 MT** by 2025 from **328 MT** in **FY20** at a CAGR of **13%**



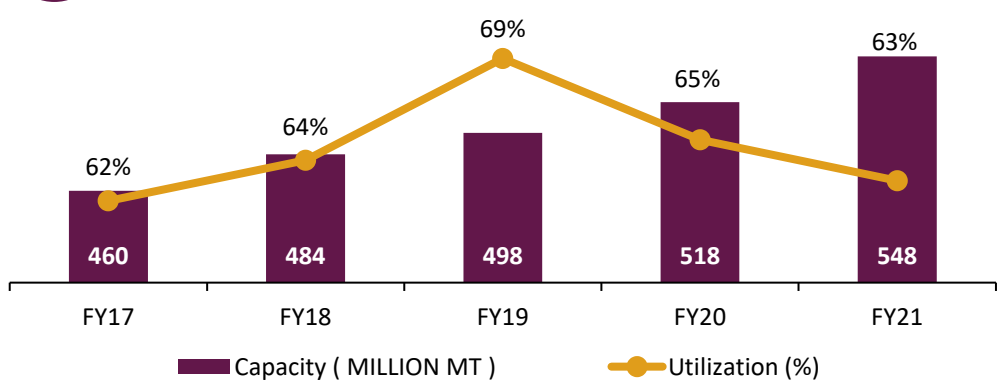
Key **government initiatives** like NIP, Housing for All, Smart City Mission to aid cement demand



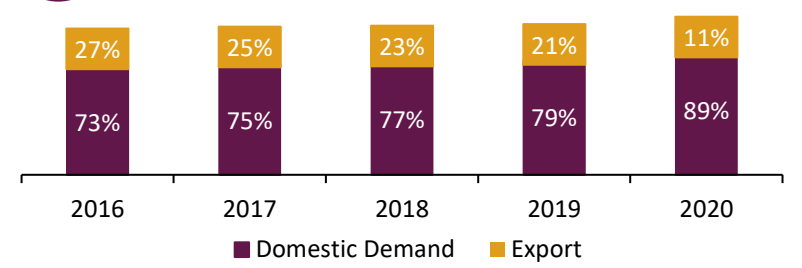
In FY21, the industry also exhibited its capability to **manage fixed costs** and have a **leaner working capital**



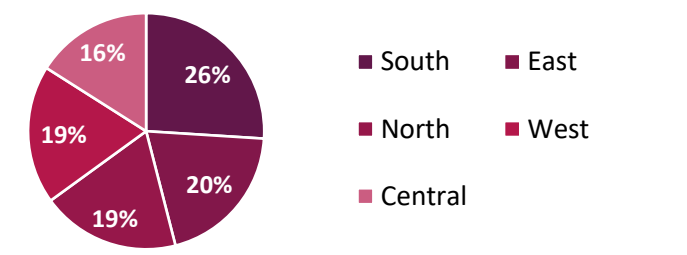
## RISING CEMENT PRODUCTION CAPACITY IN INDIA



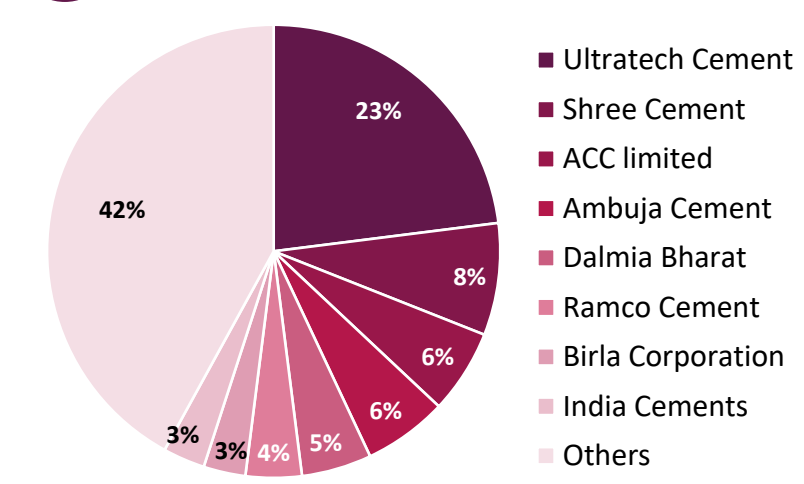
## EXPORT & DOMESTIC DEMAND SPLIT



## AVERAGE 10-YEAR REGIONAL DEMAND



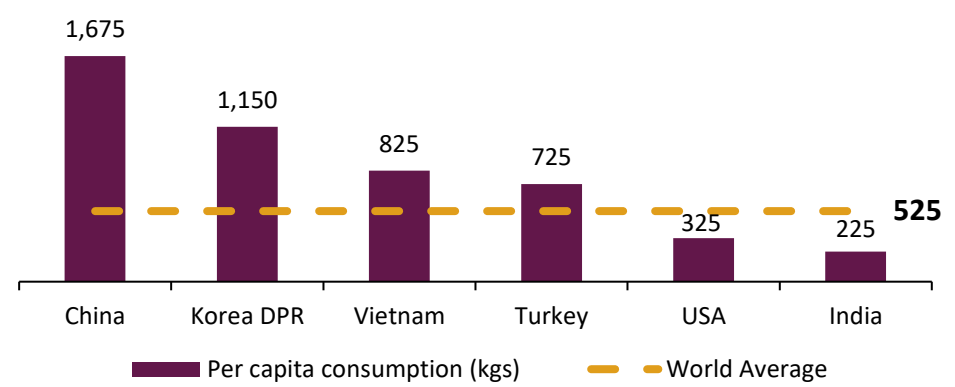
## A HIGHLY FRAGMENTED INDUSTRY



**Top five players** in the industry enjoy a market share of **48%** ; led by **consolidation and higher inorganic growth**



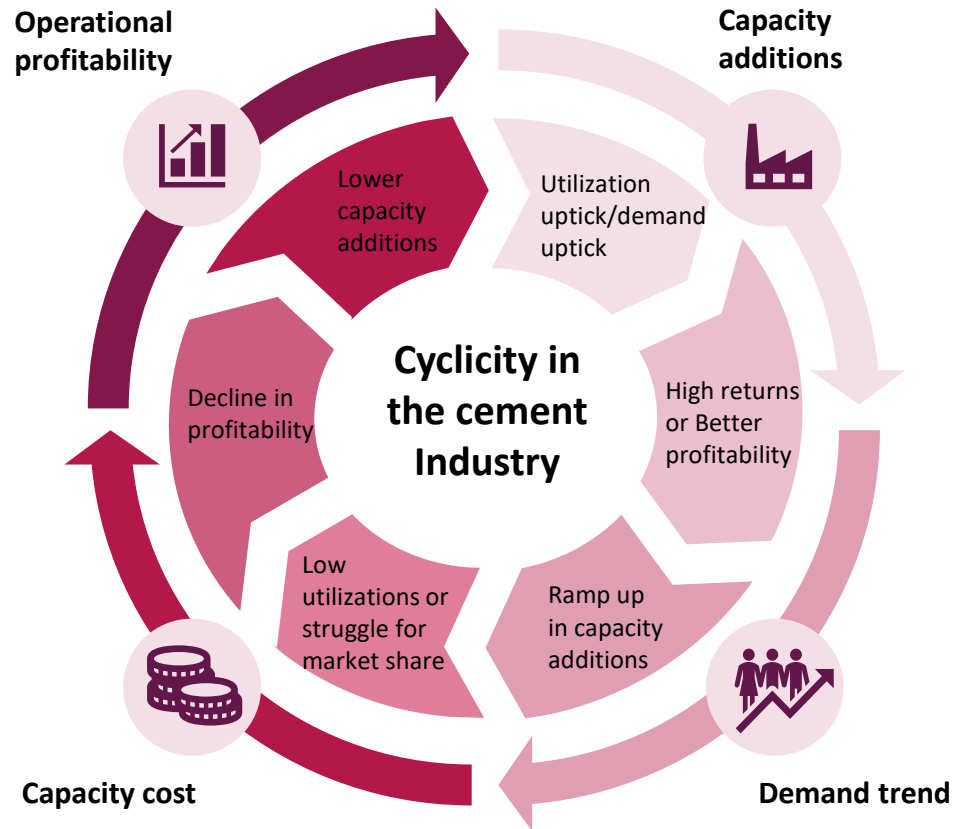
## PER CAPITA CEMENT CONSUMPTION REMAINS LOW



*Low per capita cement consumption implies a significant upside potential, as India's growth story unfolds*

# The cyclical nature and an impending upcycle

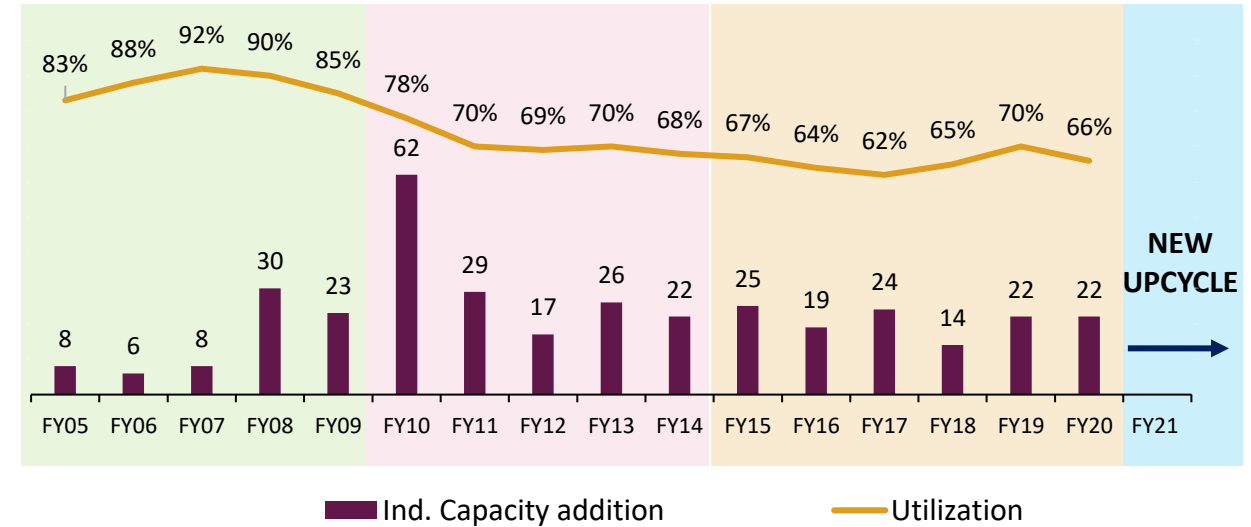
## THE CEMENT CYCLE



- Cyclicity in the industry is mainly due to **demand/utilisation** and capacity addition lag
- **Rising utilization** in parallel with **improving profitability (ROIC)** indicates upcycle which follows capacity addition with 2-4 years of lead time, **initiating cyclicity**
- **Subdued demand** leads to fall in utilization and profitability

Sources : Bloomberg, Industry research

## A LOOK AT THE PAST... AND THE FUTURE

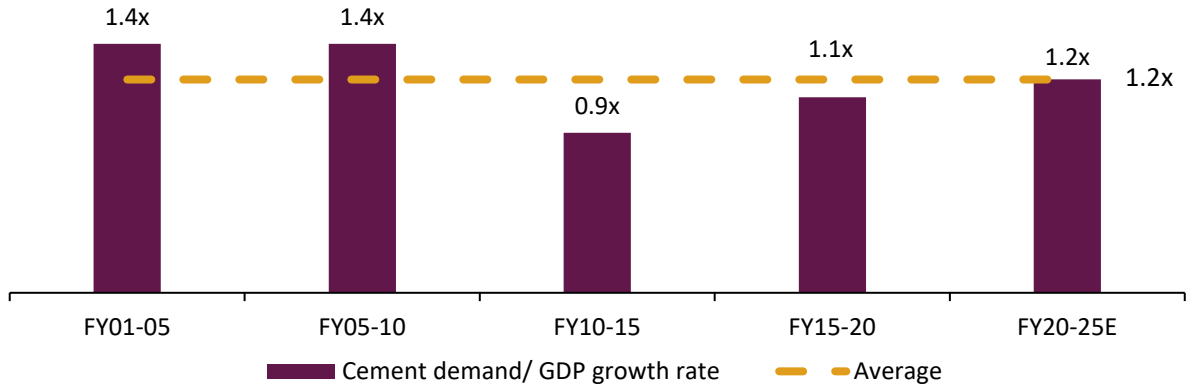


	Previous Super Cycle	Down cycle & fragmentation	Consolidation amidst disruption	An impending upcycle
	FY04-08	FY09-14	FY15-21	FY21-26E
Demand CAGR	9%	7%	4%	8%
Capacity utilization	93% (Peak: 98% in FY07)	76% (Lowest utilization of 67% in FY14)	70% (Broadly stable utilization rate)	Gradual improvement forecasted
ROIC	46%	-9.5%	-2.5%	-
Capacity CAGR	7% (Bulk addition in North and south regions)	13% (Bulk additions in south, new players entered)	4 % (Capacity consolidation led by leaders )	5% (Capacity addition by top 5 players)

# Factors triggering the upcycle



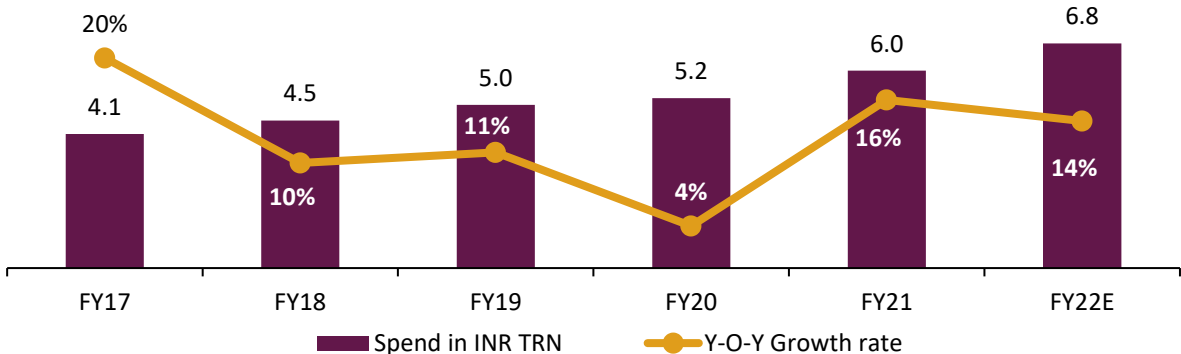
## GDP GROWTH TO AID CEMENT DEMAND



Cement demand has grown at an average of **1.2x GDP** growth over the last 20 years and is expected to do the same in FY20-25 according to **CMIE**



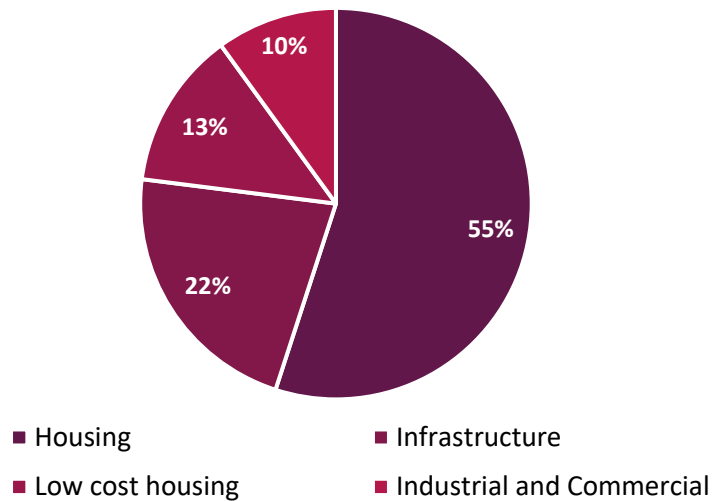
## SPEND ON CORE INFRASTRUCTURE (INR tn)



GOI plans to spend INR **133 tn** on modern infrastructure during FY21-25. Center’s spend on core infrastructure in FY22E is budgeted to **rise 14% Y-O-Y**



## HOUSING CONTINUES TO TOP CEMENT DEMAND



The Housing loan rate is at a **20-year low** at **7.5%** in FY21



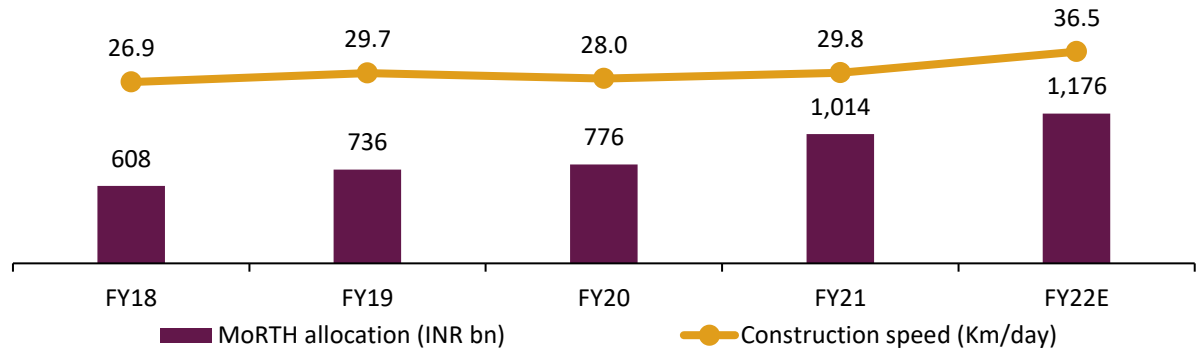
**29.5mn** houses under PMAY-G and **10mn** houses under PMAY-U by FY22E



Under **AMRUT**, INR 13,750 Cr allocated for developing **100 smart cities**



## ROAD CONSTRUCTION : A HIGHWAY TO GROWTH

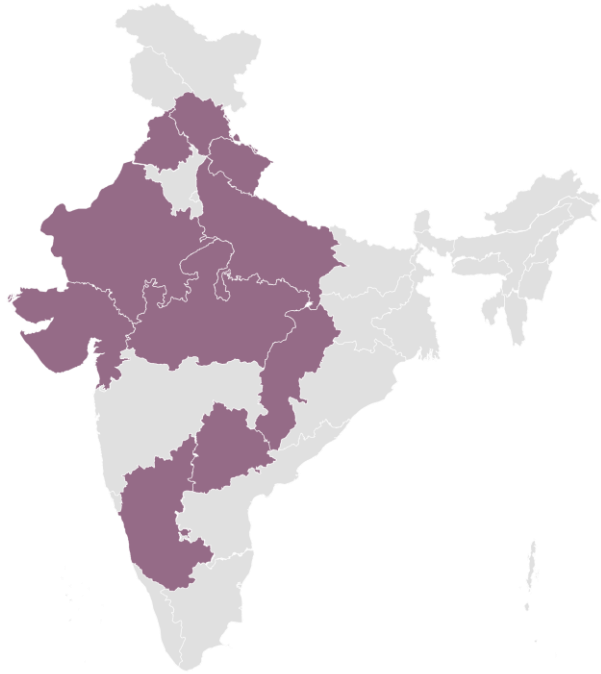


**Increase** in budgetary allocation for **MoRTH** (in INR bn) and the **construction speed** (km/day) of national highways in FY22E

# Election cycle to further bolster demand



## REGIONS WITH UPCOMING ELECTIONS



- **Election** is a major **driver** for infrastructure growth in a state which in turn affects cement market **significantly**
- 7 elections lined up in 2022 with the most important one being in **UP**
- Madhya Pradesh, Karnataka, Telangana, Rajasthan, Chhattisgarh have **elections in 2023**



Election regions



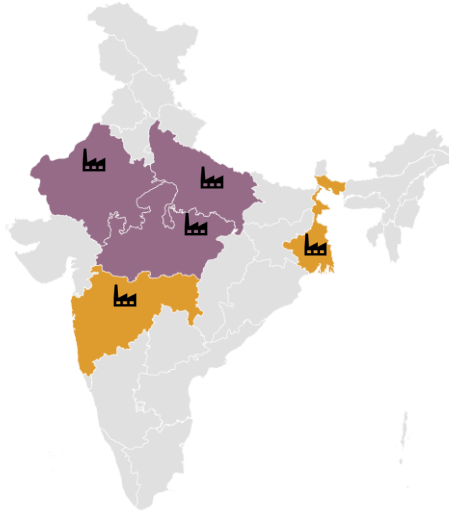
Strong market presence



Cement plants

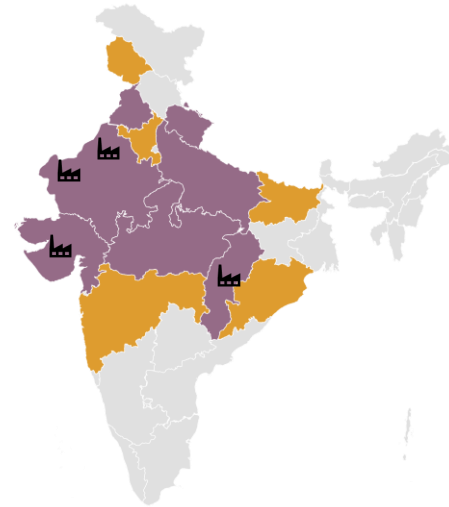


- 10 plants

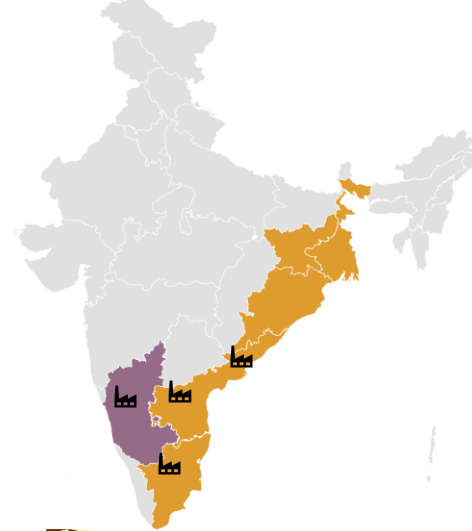


**JK LAKSHMI**  
C E M E N T

- 7 plants

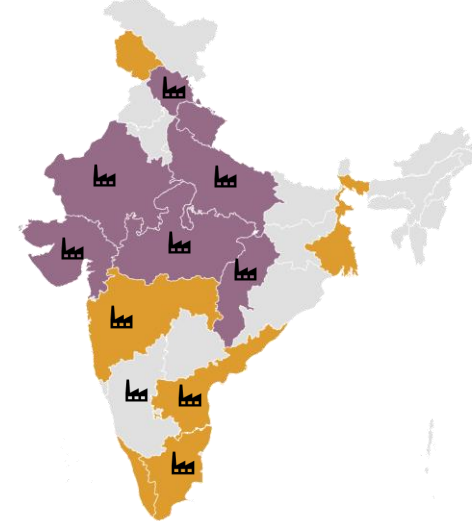


- 5 plants

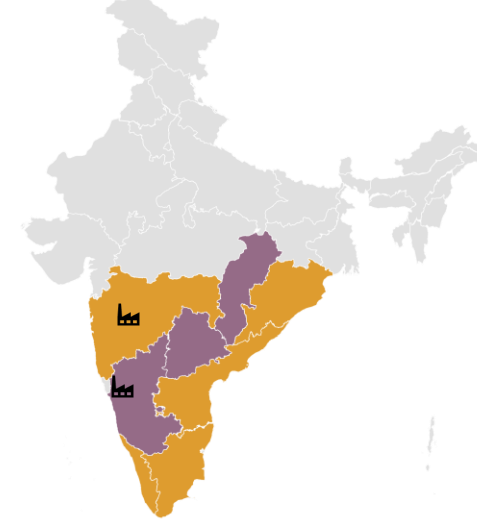


**UltraTech**  
C E M E N T  
The Engineer's Choice

- 23 plants

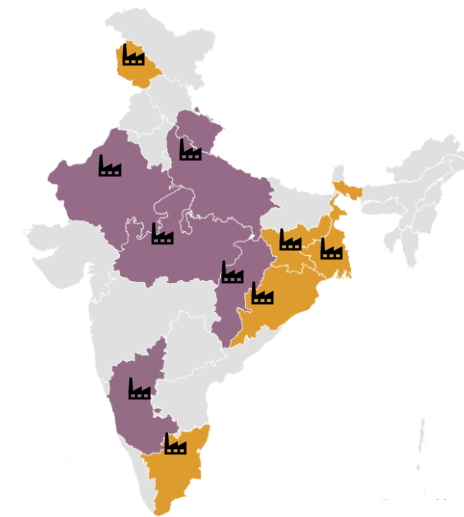


**SAGAR**  
C E M E N T - 3 plants



**ACC**

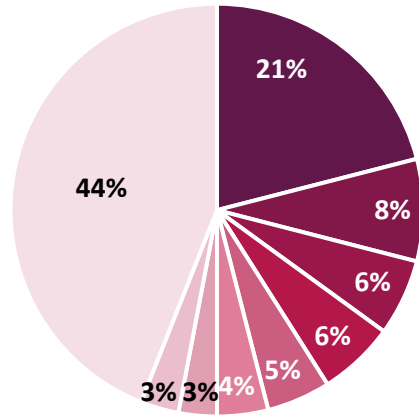
- 17 plants



# Capacity addition to ramp up supply



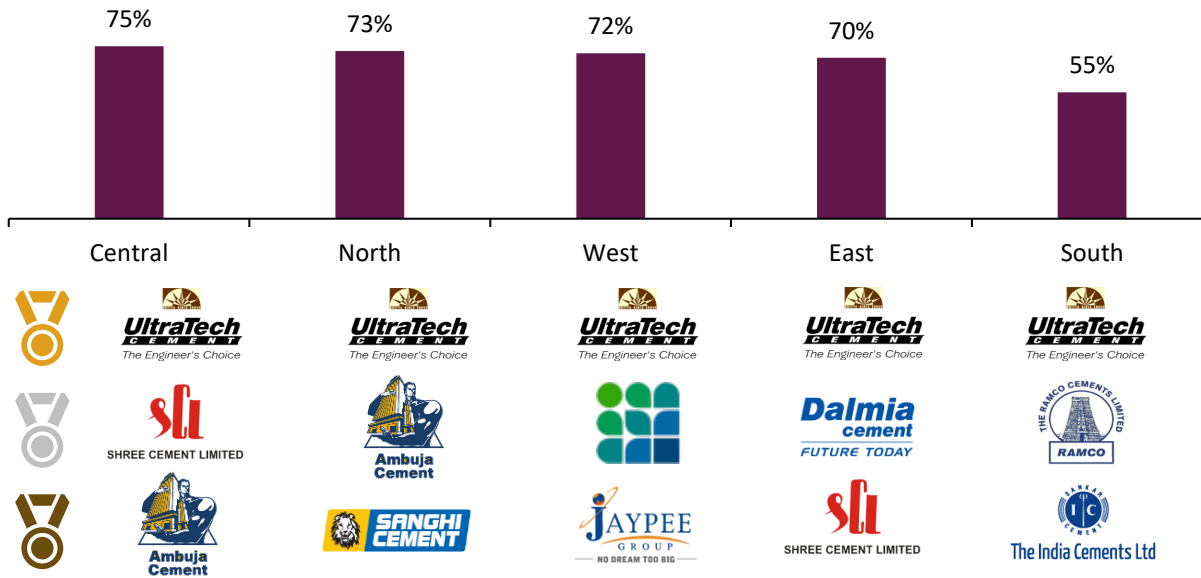
## PLAYER WISE CAPACITY (TOTAL: 548 mn MT) SPLIT



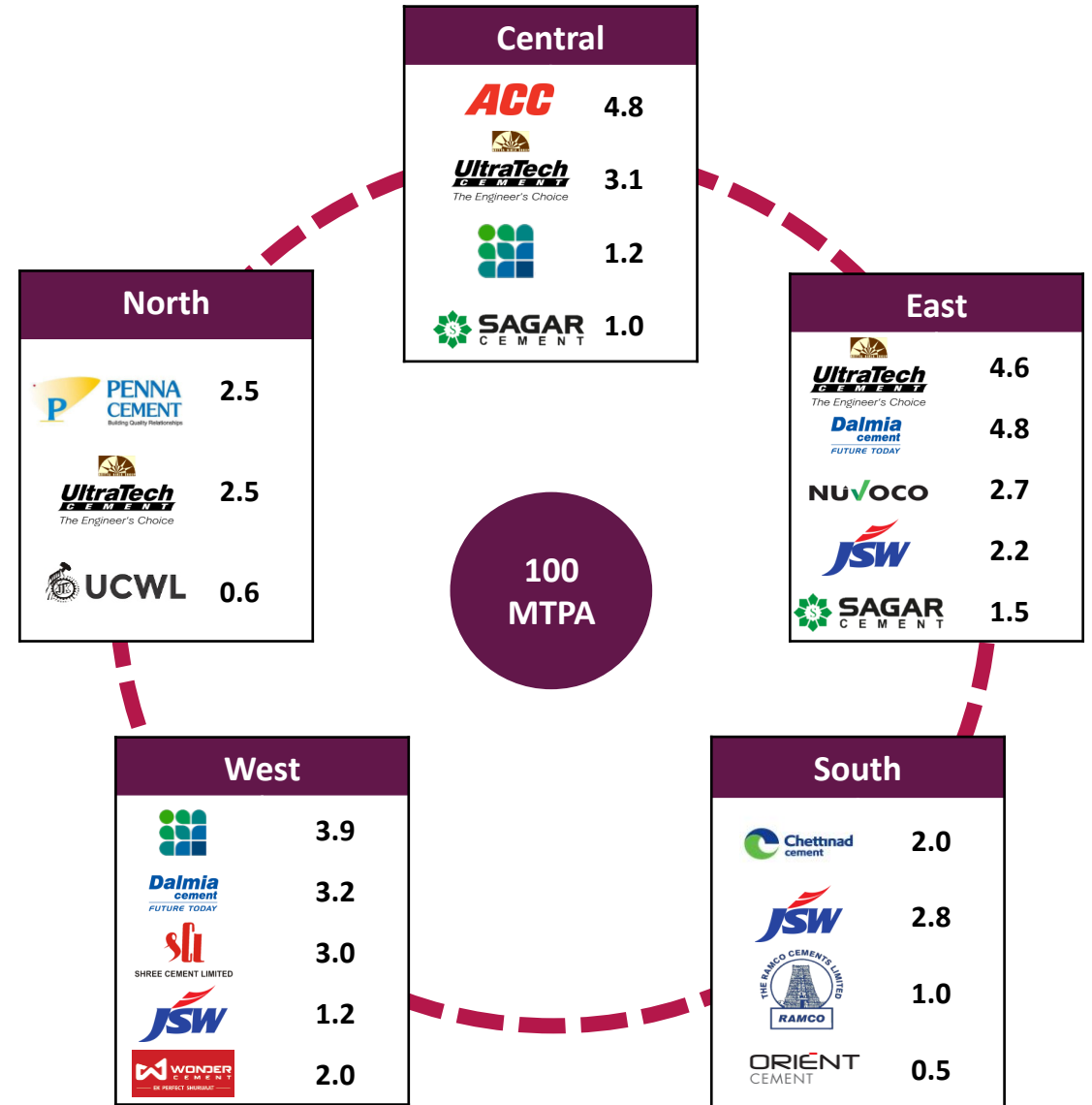
- Ultratech Cement
- Shree Cement
- ACC limited
- Ambuja Cement
- Dalmia Bharat
- Ramco Cement
- Birla Corporation
- India Cements
- Others



## CAPACITY UTILIZATION ACROSS REGIONS IN FY20



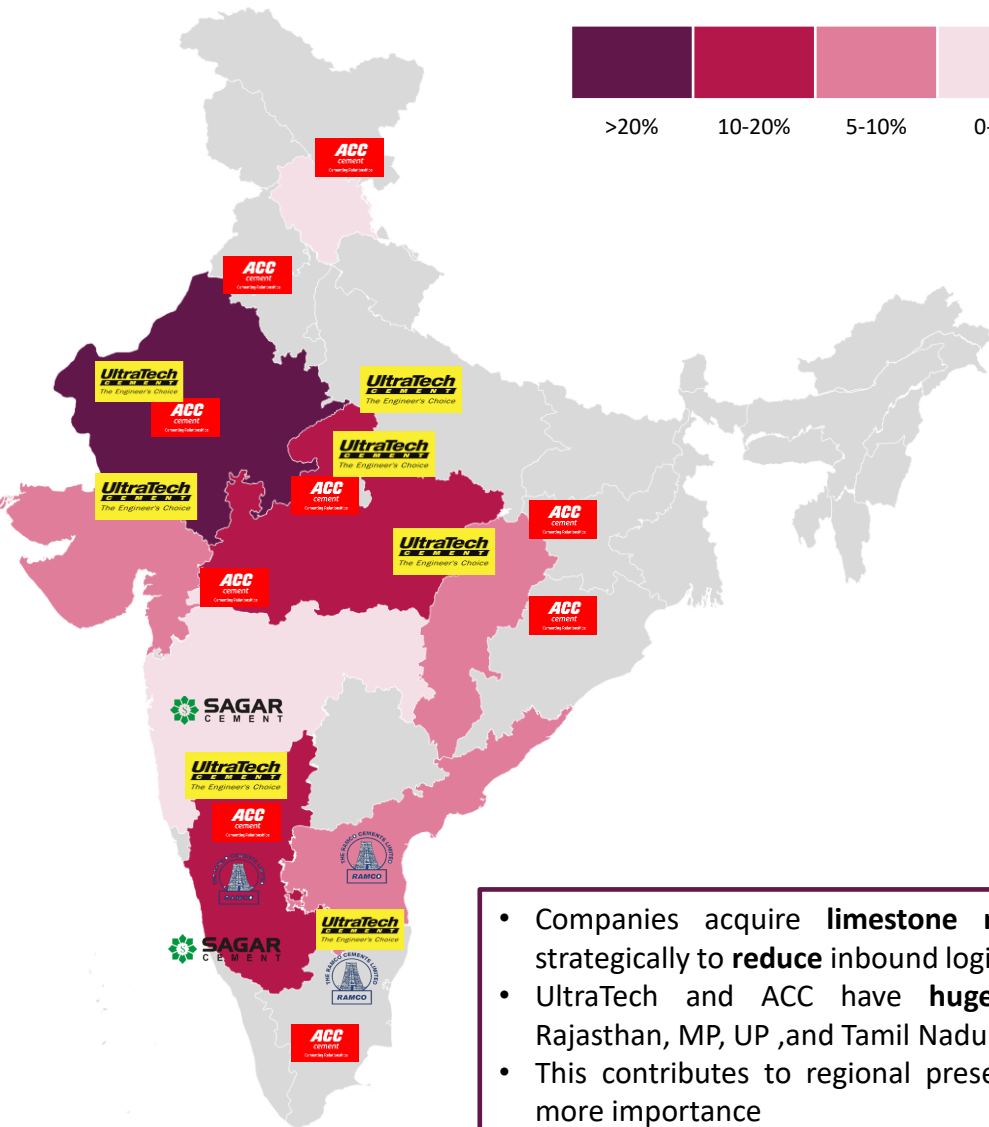
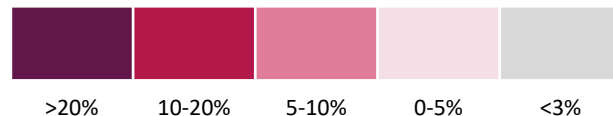
## CAPACITY ADDITION ACROSS REGIONS IN NEXT 3-4 YEARS (MT)



# Input cost pressure to remain intact



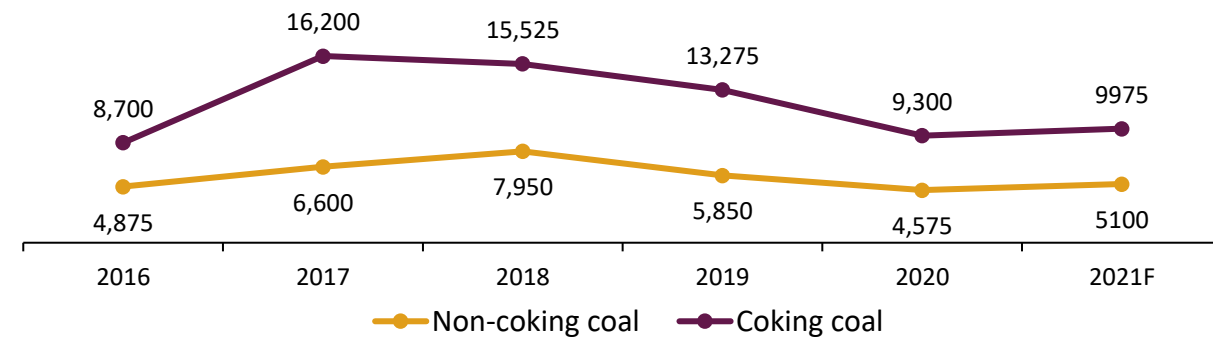
## INDIAN LIMESTONE RESERVES & CEMENT PLANTS



- Companies acquire **limestone reserve** rights strategically to **reduce** inbound logistics cost
- UltraTech and ACC have **huge markets** in Rajasthan, MP, UP, and Tamil Nadu
- This contributes to regional presence assuming more importance



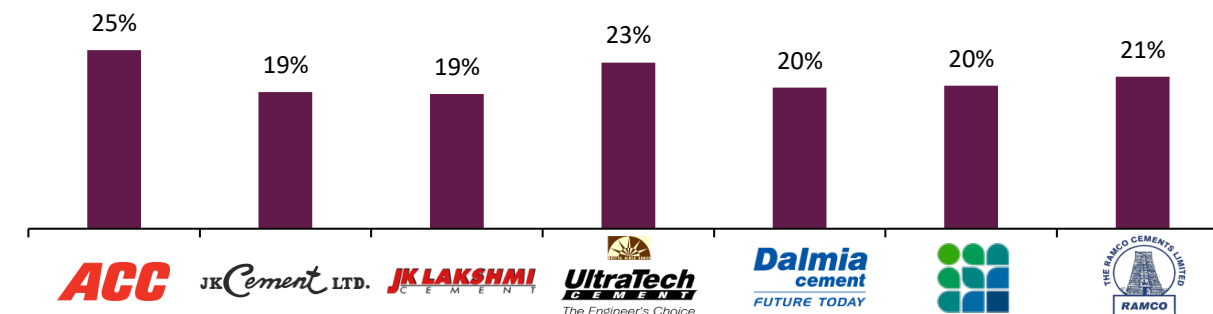
## COAL PRICE TO REMAIN SIDeways (INR/TONNE)



- Global Coking coal prices **declined** by approximately 30% due to weak industrial activity. In 2021, it is expected to **recover** on the back of a gradual economic revival
- Non-coking coal prices are **expected to recover** owing to a pick-up in coal-based generation with a gradual economic recovery



## LOGISTICS COST (% of revenue): A REASON TO WORRY?



- Logistics cost constitute **28-30%** of the total operating cost for cement industry
- 60% of the logistics are carried **through road**. Increasing fuel prices continue to put **downward pressure** on margins

Performance snapshot of major players



EBITDA MARGIN(%)	<div><div></div></div> 25.5	<div><div></div></div> 30.5	<div><div></div></div> 20.8	<div><div></div></div> 11.8	<div><div></div></div> 19.3	<div><div></div></div> 29.3	<div><div></div></div> 29.4
ROA(%)	<div><div></div></div> 6.6	<div><div></div></div> 11	<div><div></div></div> 5.9	<div><div></div></div> 12.1	<div><div></div></div> 7.8	<div><div></div></div> 8.2	<div><div></div></div> 7.3
ROE(%)	<div><div></div></div> 13.1	<div><div></div></div> 19.3	<div><div></div></div> 10.1	<div><div></div></div> 8.3	<div><div></div></div> 21.4	<div><div></div></div> 17.1	<div><div></div></div> 14.6
ROCE(%)	<div><div></div></div> 10.3	<div><div></div></div> 15.1	<div><div></div></div> 10.7	<div><div></div></div> 11.2	<div><div></div></div> 17.3	<div><div></div></div> 12.5	<div><div></div></div> 10.2

EBITDA/Ton	1,340	1,485	1,250	1,040	959	1,280	1,520
EV/EBITDA	17.7x	24.7x	13.4x	13.8x	7.7x	7.8x	17.6x

A rich valuation is driven by higher profitability, a key requirement for which is scale, the quest for which is spurring M&A activity



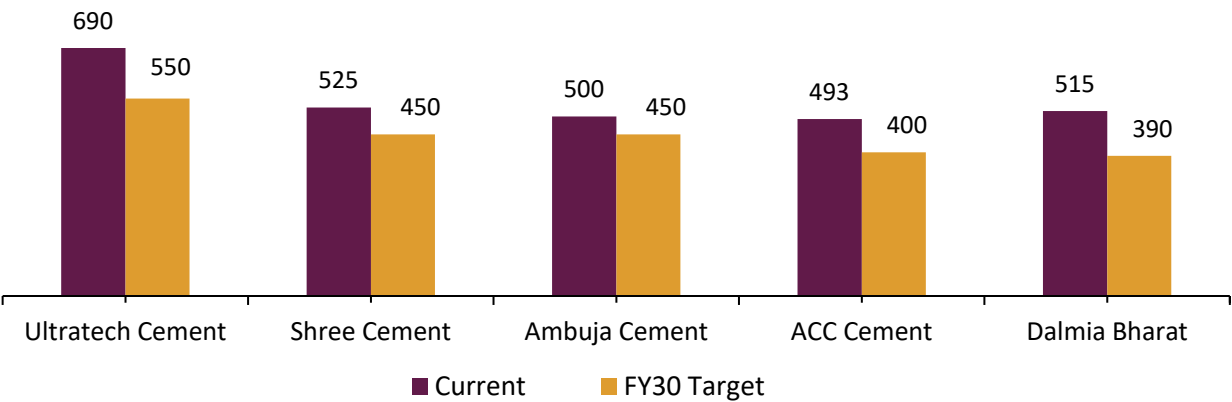
## Recent transactions with more consolidation expected

YEAR	ACQUIRER	TARGET	STAKE (%)	DEAL SIZE (INR MN)	CAPACITY (MT)	EV/TON (INR/MT)
2016			50	12,000	623	9,930
2016			100	16,500	750	4,748
2016			98	54,000	855	7,560
2017			51	1,875	645	13,710
2018			100	78,750	1,343	15,758
2018			100	56,250	833	8,505
2019			15	24,000	1,680	7,365
2020			100	55,125	1,478	7,913

# Sustainability efforts and risks in the industry



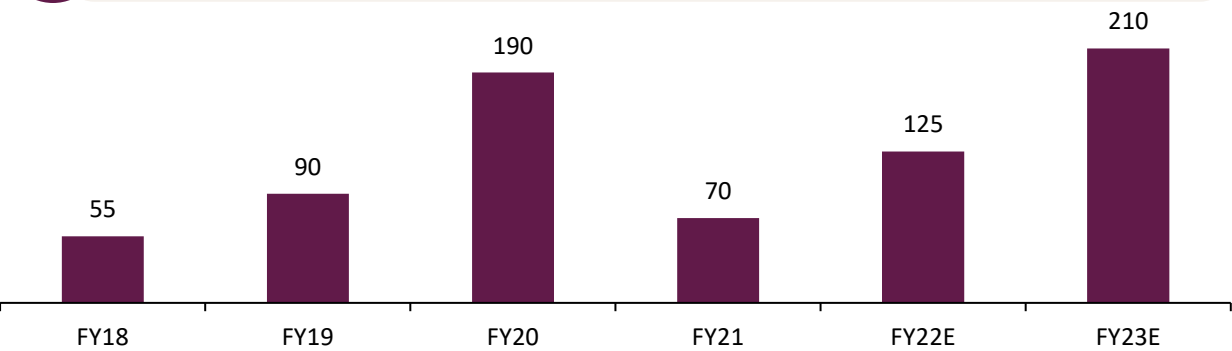
CO2 EMISSIONS KG/TON OF CEMENT



The Indian cement industry is amongst the **most efficient** globally, in electricity and thermal energy **consumption rate** and the largest players are **stepping up** in their ambition to further cut **greenhouse gas (GHG)** emissions



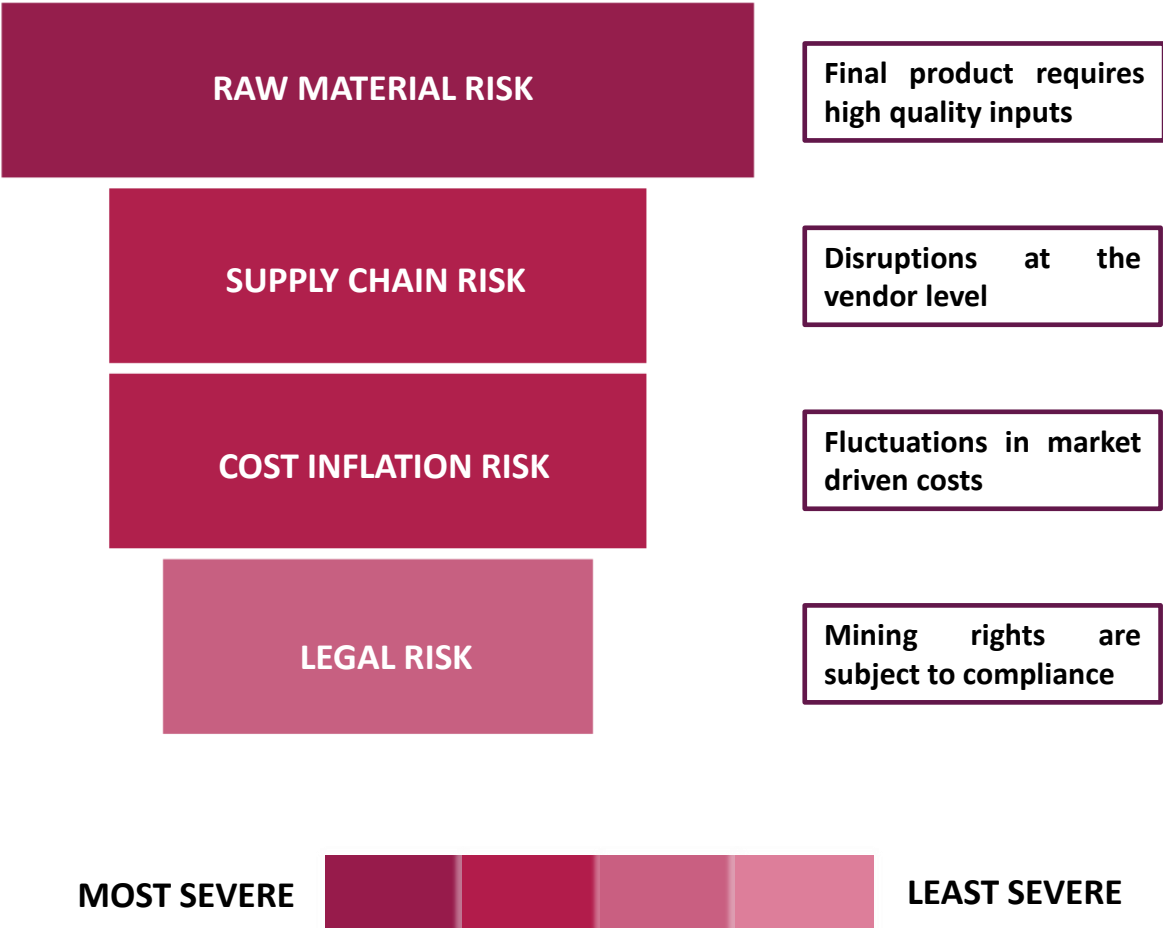
WHRs ADDITIONS (MW)



**WHRs adoptions** by the incumbents of the industry will continue to **grow** to achieve more operational efficiency



MAJOR RISKS IN THE INDUSTRY





The Investment Research Society

An initiative of the students of the Indian Institute of Foreign Trade - New Delhi, Aurum strives to inculcate the students with skills of Equity Research, Capital Markets and Portfolio Management, and foster a culture of investing.

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