

**CEMENT**

1 April 2021

**Expert meeting takeaways – Demand outlook robust**

We hosted Sanjay Ladiwala, a renowned cement industry expert associated with the business since 1973. He has been the President of the Cement Stockists & Dealers Association of Bombay for 28 years and the Chairman for 4 years. Key excerpts:

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**Cement prices to resume growth trajectory:** India's cement industry is at an inflection point. Consolidation, expected growth in demand and healthy utilisation of 72-73% could underpin a 4-5% annual increase in average cement prices (averaging for cyclical fluctuations) for the next 2-3 years at least.

**Positive outlook on demand growth:** With healthy revival in demand over the past two quarters, the industry could see 4-5%/9% volume growth in FY21/FY22. Demand growth over the medium term would be underpinned by the government's commitment to infrastructure development and affordable housing. Rural demand from independent housing would serve as the backbone, growing at a slow and steady pace of 2-3% for the long term. North and East India will see relatively higher benefits of infrastructure-driven growth.

**High infrastructure demand does not mean lower profitability:** While cement sold in the non-trade channel earns lower realisation, the cost of its distribution, logistics and marketing is Rs 500-600/t less than that of trade.

**Capacity growth may not depress prices in medium term:** A significant proportion of the cement industry is reaching an optimum clinker-to-grinder ratio, limiting further opportunities for brownfield expansion. Greenfield capacity will take longer to materialise (6-8 years). Capacity growth by itself will not put pressure on prices in the medium term.

**Near-term margin headwinds from cost increases manageable:** The cement industry has significant opportunities to improve efficiency in logistics with the use of technology and analytics. GST implementation has helped the industry accelerate the pace of technology adoption, besides improving transparency and data availability. In the medium term, increasing adoption of blended cement will also augment the bottomline of cement companies.

**Key risks:** Near term, any lockdown to avoid the spread of Covid-19 is a key risk to steady demand growth. Longer term, the availability of limestone is a risk to growing capacity.



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**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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