

SectorVector

Reading the topical trends

March 2023

Building strength

The cement industry is likely to add 145-155 MT incremental capacity in five fiscals through 2027

India, apart from being one of the fastest-growing economies, is also the second-largest cement producer globally.

Demand is fuelled by the thriving housing sector (accounting for 60-65% of cement consumption) and continued investments in infrastructure.

Indian cement makers have added substantial capacity — 217 MT — from fiscals 2013 to 2022. In the five fiscals through 2017, around 108 MT were added, and while in the next five fiscals through 2022, 109 MT were added despite pandemic-induced disruptions.

On the balance-sheet side, healthy post-pandemic demand recovery and strong profitability helped producers deleverage.

Capex plans, which were on hold or delayed due to the pandemic, restarted in the latter half of fiscal 2021. Then fiscal 2022 saw the highest capacity addition of the preceding decade at 34 MT. That took India's total installed capacity for cement by ~61% to ~570 MT from 353 MT in fiscal 2012.

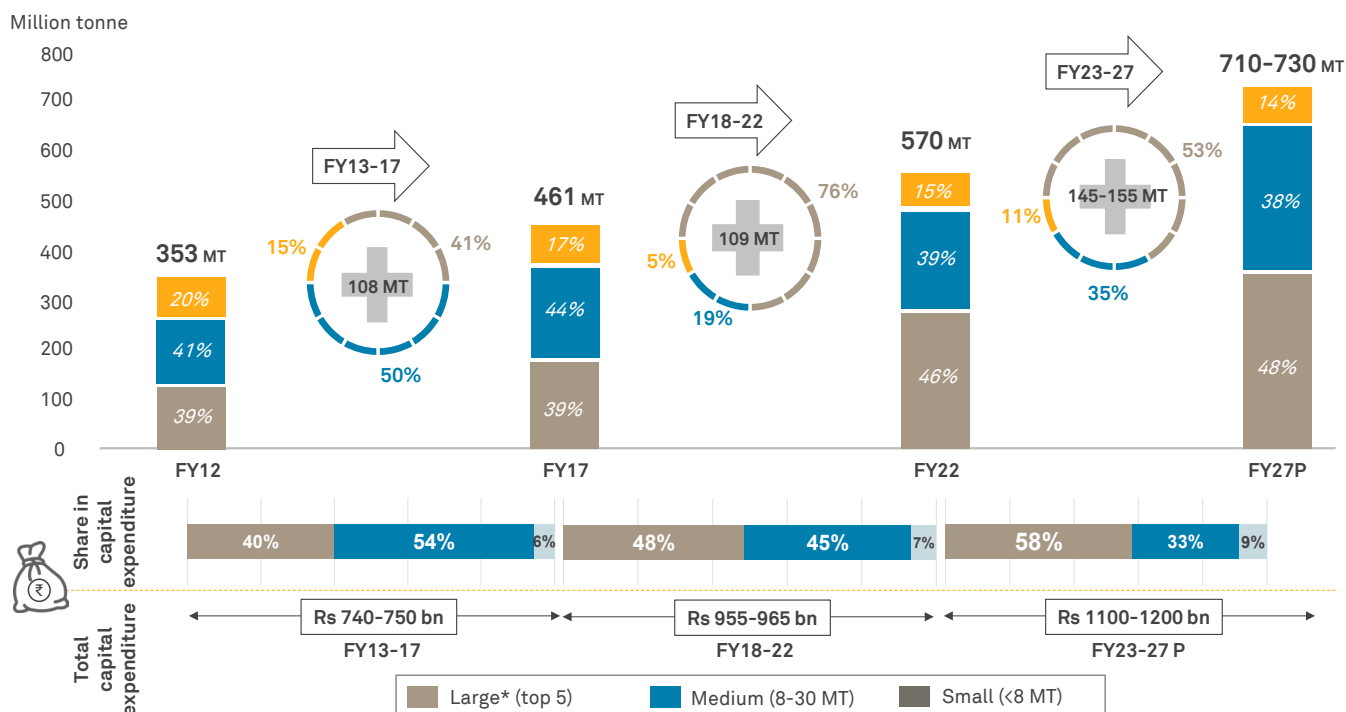
In fiscal 2023, capacity addition is expected to moderate to 30-32 MT (inclusive of grinding and integrated units). Higher input costs have impacted the industry's profitability, thereby slowing capex. In fiscal 2024 as well, capacity addition should flatline at 30-32 MT. That is because policies may change because of general elections.

Once the battle of hustings is over, we expect capacity additions to gather pace, supported by the rising demand amid a growing population and the government's infrastructure thrust.

Cement companies are expected to go on an expansion spree, and add 145-155 MT of capacity between fiscals 2023 and 2027. That translates to 4-5% compound annual growth rate (CAGR) on a high base.

A robust 6-7% CAGR expected in cement demand over this five fiscals will encourage the growth in supply. Many producers have been unveiling long-term capacity growth plans in an effort to capture market share despite near-term cost headwinds.

Large cement makers to account for more than half of incremental capacity additions



Source: CRISIL MI&A Research

Note: *Large players include Ultratech Cement, Adani Cement (ACC and Ambuja), Dalmia Bharat, and Shree Cement

Between fiscals 2013 and 2017, mid-sized producers aggressively added capacity organically and inorganically. As a result, their share of the capacity mix swelled to 44% in fiscal 2017 from 41% in fiscal 2012, while the share of large producers remained stable at 39%.

Most of these capacities were added by regional companies, especially in the south. Hence, the mid-sized ones accounted for more than half of the capacity additions and capital expenditure during this period.

However, from fiscal 2018, consolidation began with large producers led by Ultratech Cement going for more inorganic expansion, acquiring nearly 38 MT of capacity from mid and small companies. Consequently, their share in the capacity mix rose to 46% in fiscal 2022 from 39% in fiscal 2017.

Also, gap in share of capacity addition between large and mid-sized producers widened sharply — the former's share bulged to ~76% from 41% (including organic and inorganic expansions). On the other hand, the latter's contracted to ~19% from 50%, and their share of the capacity mix dwindled from ~44% to ~39% in fiscal 2022.

Given the strong demand outlook and acquisition of most of the smaller and financially weak companies, large producers are now focusing on organic growth.

The top 5 will drive a lion's share of incremental capacity addition over the medium term.

The expected 145-155 MT of increased capacity over fiscals 2023-27 will entail a likely capital expenditure of ~Rs 1.2 lakh crore, with large producers accounting for more than half of the spending.

They will be able to fund the capex through internal accrual, with comfortable gearing giving them financial flexibility to raise debt, if required.

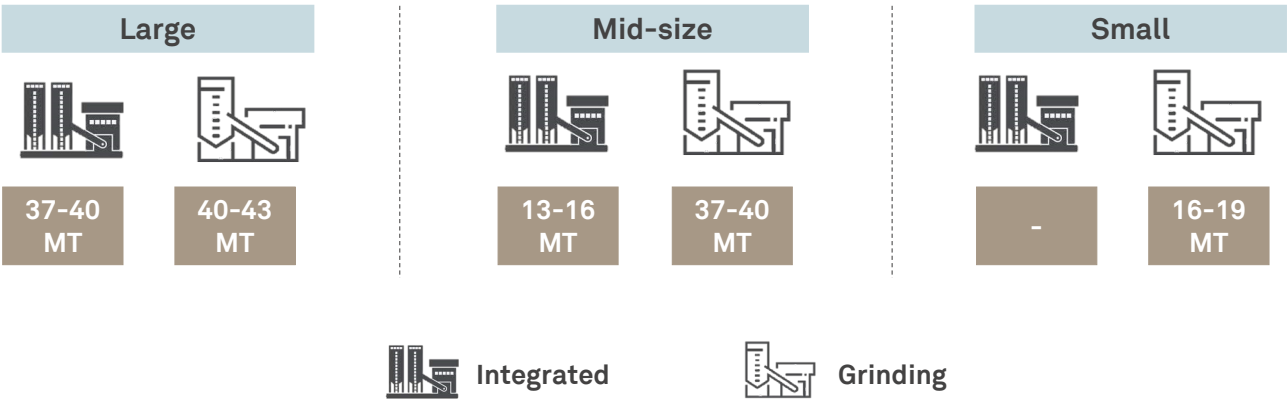
Grinding units to remain principal contributor in upcoming capacity additions

Being logistics-oriented, the cement industry has preferred to install more grinding units nearer consumption centres in the past decade for better market reach and freight cost rationalisation.

Continuing with the trend, grinding units are expected to account for 60-65% of additional capacities being installed as against lower share of integrated units (35-40%). Of the total new

capacity additions from fiscals 2023-27, 94-97 MT of grinding capacities would be added and 51-54 MT of integrated capacities.

Cement makers



Source: CRISIL MI&A Research

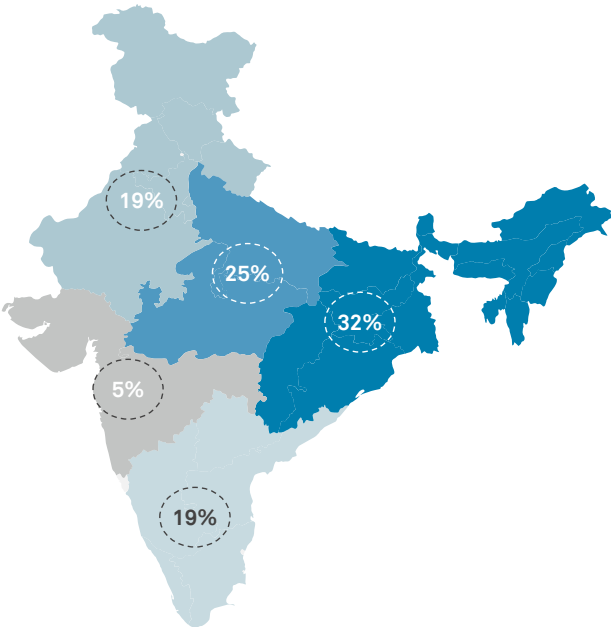
Given better financial position and possession of mines, larger companies are to set up integrated capacity of 37-40 MT, almost on a par with the addition of 40-43 MT of grinding units.

Mid-sized players will likely add 37-40 MT of grinding units as against only 13-16 MT of integrated units. However, limited geographical reach coupled with under-pressure profitability will restrict the expansion plans of small producers to only grinding capacity addition of 16-19 MT, with no new integrated facilities.

East to account for one-third of total capacity additions over fiscals 2023-27

Eastern India is expected to dominate capacity additions over the medium term, largely on account of the rural housing and infrastructure boom and a favourable base. Inadequate focus on infrastructure and housing in the past have created room for healthy demand growth.

The central region will follow, led by a strong demand uptick from rural housing and infrastructure. Together, these regions are expected to account for ~57% of overall capacity addition, a chunk of it in the east. South and north are expected to add 19% each, while the west will add only ~5% of incremental capacities over the period.



Source: CRISIL MI&A Research

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