

# Cement Industry: April-February 2021 update and FY22 outlook

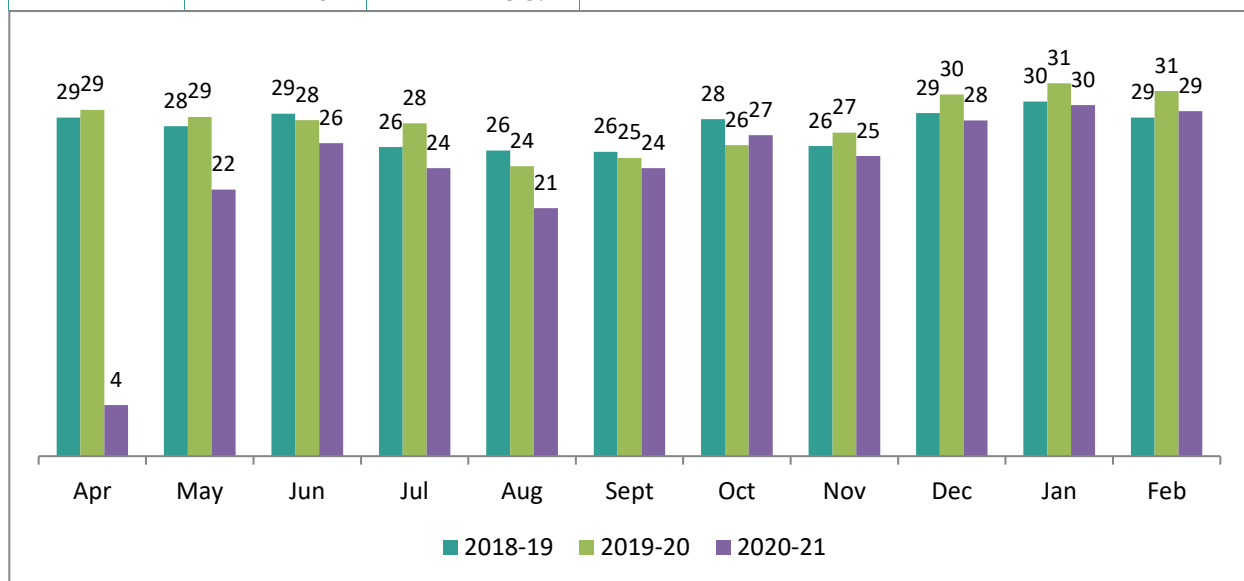
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## Demand-Supply during April-February 2021 i.e. 11M-FY21

### Domestic Production and Capacity Utilisation

Table and Chart 1: Domestic Production of Cement (Unit: Million tonnes)

	Production	Change (y-o-y)
2018-19	304	13.0%
2019-20	310	1.8%
2020-21	262	-15.5%



Source: Office of the economic advisor, CARE Ratings

Cement production fell by 5.5% during February 2021 compared with 5.8% decline witness during January 2020 and 7.8% increase during February 2020. Slow pick up in infrastructure projects and waning pent-up demand can be ascribed to a drop in production during the month. Usually cement production is high during Q4 as construction activities are at its peak.

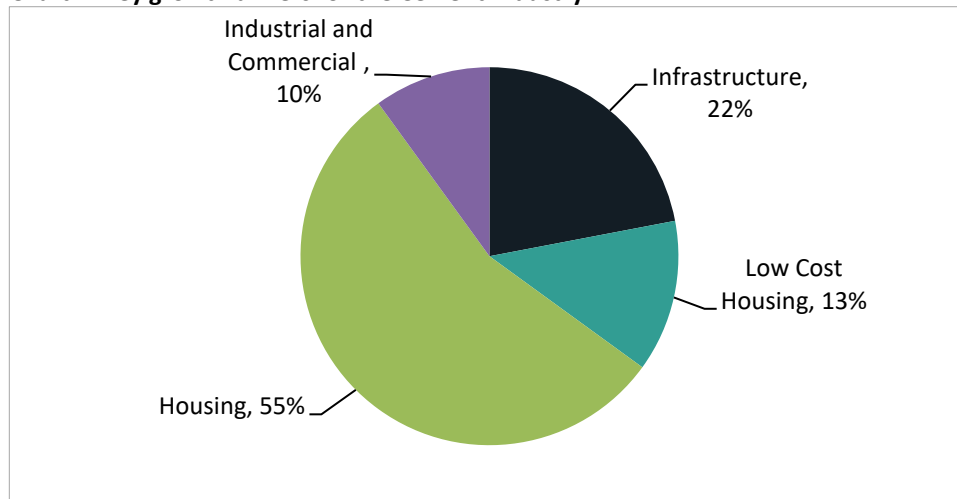
Cumulatively domestic cement production has fallen by 15.5% during 11M-FY21 compared with the 13% growth and 1.8% growth achieved during 11M-FY19 and 11M-FY20. Outbreak of the COVID-19 pandemic in the Indian sub-continent which forced the government to announce a nation-wide lockdown, 25th March 2020 onwards which had majorly affected the cumulative domestic cement production. The nationwide lockdown had come at the time when construction activities are at its peak.

Capacity utilisation of domestic manufacturers has been around 52.4% during 11M-FY21 as units have been operating at sub-par capacities along with staggered shifts but it has been improving from 45% during H1-FY21, 49.5% during 9M-FY21 and 51.2% during 10M-FY21. Cement manufacturers had cut down or deferred CAPEX expenditure given the fall in demand and also as companies looked to conserve their capital/cash flows but lately many of the players have been announcing CAPEX expansion of CAPEX guidance plans.

### Trend in Demand Drivers for the Cement Industry

Cement demand is closely linked to the overall economic growth, particularly of the housing and infrastructure sector. Increasing demand from affordable housing and construction work for other government infrastructure projects like roads, metros, airports, irrigation etc. are demand drivers which support cement demand.

**Chart 2: Key growth drivers for the Cement Industry**



Source: CARE Ratings, Company Filings

Amidst the pandemic cement consumption is growing strong in the rural, semi-urban and retail markets. Over the months, cement demand is being driven by rural India due to better labour availability; there has been an increase in construction of rural infrastructure and low cost housing. Rural demand is usually w.r.t. retail market largely which is the housing and repair and modification market). Now as the economy has unlocked, there has been a steady pick up in housing and government infrastructure projects which has resulted in reviving demand across our markets even in urban India. Project execution too has picked up pace

- Real Estate markets in Tier-1 cities has been opening up and is garnering good traction with the advent of “work from home”, consumers want to buy their own space or a larger space.
  - Realtors are also focusing on completing existing or stalled projects.
- Cement demand in terms of low cost housing is showing green shoots. Cheap housing loans, extension of the CLSS and the need for space is also spurring some demand.
  - As part of the Atmanirbhar Bharat package, the government has also made a provision for an additional outlay of Rs 18,000 crore for the urban housing scheme (PMAY-U). The allocated amount is over and above the Budget Estimates for 2020-21 (Rs 8,000 crore) and will be through additional allocation and extra-budgetary resources.
  - The following announcement is to help complete real estate projects in the affordable housing segment. It is to help start work on 12 lakh houses as well as complete 18 lakh houses, create 78 lakh new jobs and augment the demand for steel and cement.
- Demand is also getting influenced by the non-trade segment gaining momentum with the resumption of construction work of institutional infrastructure projects such as roadways and metros.
  - MORTH has constructed 11,138 km of National Highways upto February 2021 compared with 8,785 km constructed upto February, 2020. Despite the pandemic led disruptions, the centre has managed to construct 33 kms/day of national highways, which has been the highest ever pace achieved.

### **Outlook for FY22**

Cement production is to end with a fall in production by 11%-13% during FY21 and capacity utilization is to be around 50-55%. Production of cement has grown by 13.3% during FY19 and fallen by 0.8% during FY20.

Going forward, for FY22 outlook for cement industry seems sanguine due to the government’s thrust towards infrastructure creation and development and it being the propeller of growth in the economy going forward. **Cement Production is to increase sharply by 10-12% after two years of a muted growth and capacity utilisation is to be around 60%-65%. Cement production is usually closely in-line with demand which is also to increase sharply during FY22**

- Cement demand w.r.t. infrastructure development will increase considering budgetary allocation made towards capital expenditure has increased by 26.2% to Rs 5.54 lakh crore. Even the projects under the gamut of National Infrastructure Pipeline (NIP) has expanded to include 7,400 projects as against 6,835 projects.
- Increased spending in metro works and railway works is a positive for cement manufacturers.
- Enhanced outlay of Rs. 1,18,101 crore for MoRTH of which Rs. 1,08,230 crores is for capital is to augment road construction as well. Despite the pandemic led disruption the centre has managed to construct 33 kms/day of national highways and aims to construct 40 km/day during FY22.

- Proposals to further incentivize and boost affordable housing to real estate developers is to support cement demand.
- Lastly, rural demand will also be the major driver for cement considering the monsoons have been favourable in most part of the country. This could translate in an inflow of cash in the rural economy, which could commensurate in infrastructure creation thus augmenting cement demand. Allocation towards rural infrastructure creation has increased to Rs 40,000 crore from Rs 30,000 crore.

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