SectorVector

December 2024

Reading the topical trends

Wet cement

Weaker pricing power, sluggish demand to pare cement makers' margin by 170-220 bps to 15-16% this fiscal

Cement makers are expected to see operating margin shrink 170-220 bps to 15-16% this fiscal on subdued realisations due to lack of pricing power and sluggish demand, and despite costs remaining benign.

Cement prices are likely to moderate 5-6% this fiscal.

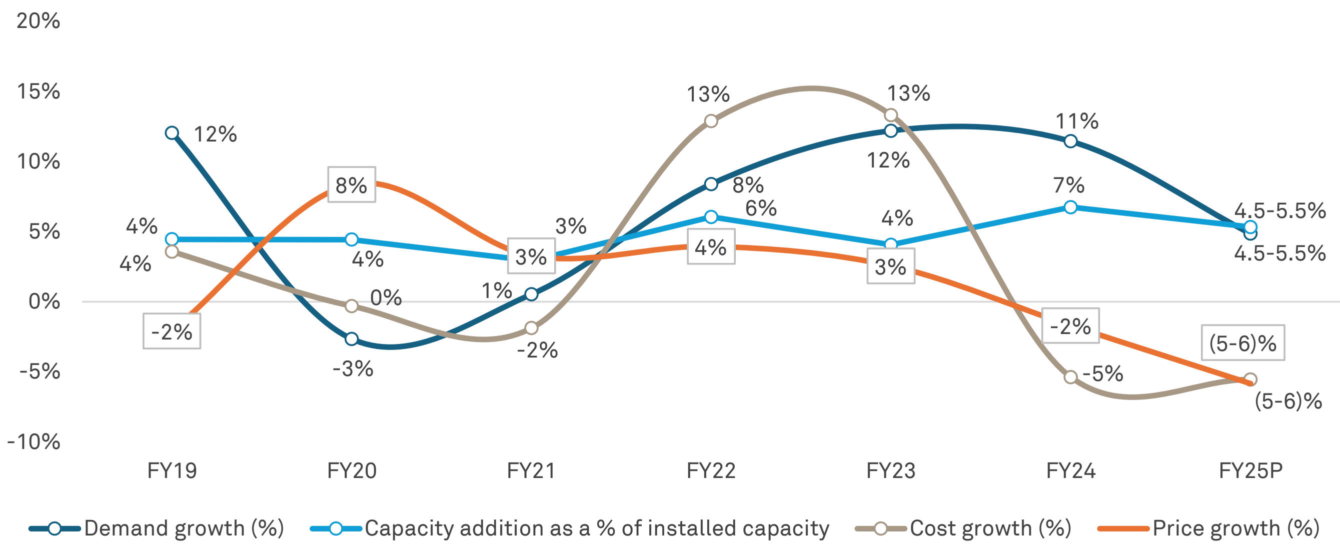
Demand, which had logged a healthy compound annual growth rate (CAGR) of ~11% between fiscals 2022 and 2024 fuelled by government spending on infrastructure and rural development—especially before the general elections—is expected to lose steam to 4.5-5.5% this fiscal.

Demand will be weighed down by a combination of base effect, seasonal weakness, and deceleration in construction activity during the first half (amid an extended heatwave and labour unavailability during the general elections), although the second half is expected to see a revival in rural demand and an improvement in government spending on infrastructure to meet budget targets.

As for supply, companies have added a substantial capacity of ~101 million tonne (MT) in the past two fiscals. The trend is expected to bolster further with another 210-220 MT to come on stream between this fiscal through 2029 (implying a 5.5-6.5% CAGR) as manufacturers expand to newer geographies aggressively to gain market share.

The resource-intensive industry's major input costs comprise power and fuel (P&F), raw materials and freight. P&F costs had rocketed in fiscals 2022 and 2023 as geopolitical uncertainties drove up the prices of crude oil and coal. But overall input cost declined with a correction in energy prices in fiscal 2024 and is expected to fall a further 500-600 bps this fiscal on lower energy and freight tabs.

Prices versus demand, supply and costs

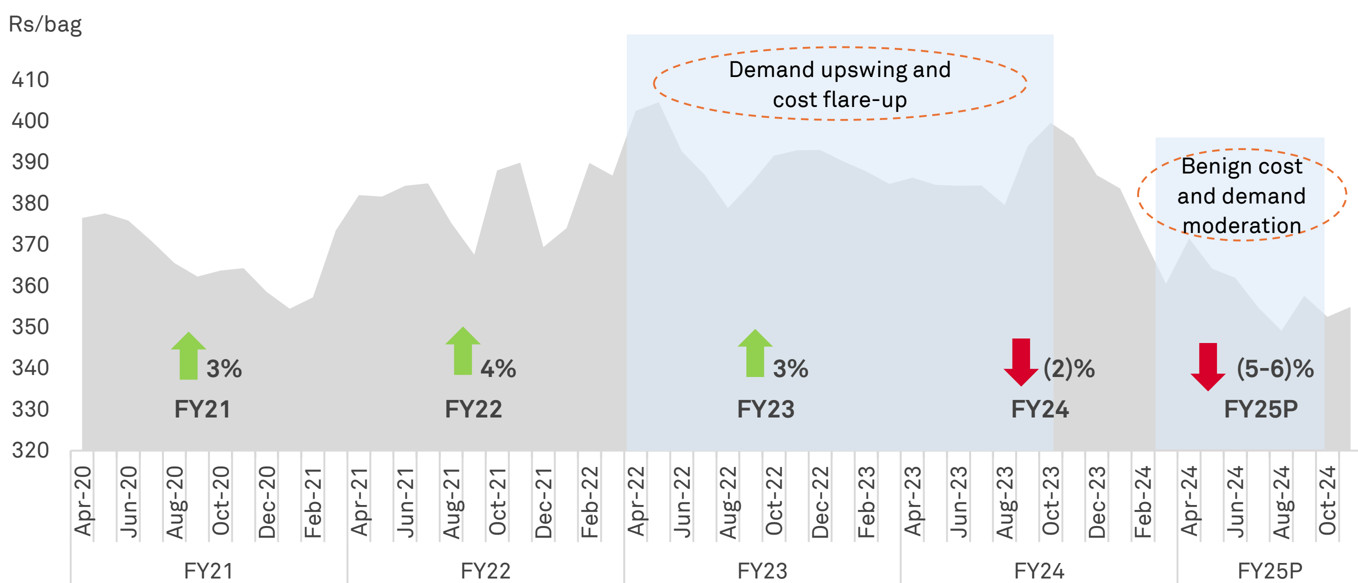


Source: CRISIL MI&A Research, Industry

Cement prices clocked ~5% CAGR between fiscals 2020 and 2023 and hit an all-time high of Rs 391 per 50 kg bag in fiscal 2023 due to healthy demand momentum coupled with higher input cost. However, prices fell ~2% to Rs 384 per 50 kg bag last fiscal despite sustained demand as cost pressures eased and competition increased.

With demand growth moderating and rising competitive intensity, prices are likely to remain under pressure this fiscal, likely dropping 5-6% on an already low base.

Pan-India cement prices



Source: CRISIL MI&A Research
Note: The above cement prices are retail cement prices for Category A players

Regional divergence

Although prices are expected to decline across the country, regional disparities would persist.

The eastern region would be the most affected with 11-12% slide likely this fiscal after a ~3% fall last fiscal amid sluggish demand momentum and new capacities coming on stream. The region saw ~15 MT of capacity addition last fiscal and another 18-20 MT is slated to come on stream this fiscal, leading to an increase in effective capacity. That, in turn, will intensify competition as manufacturers vie for market share.

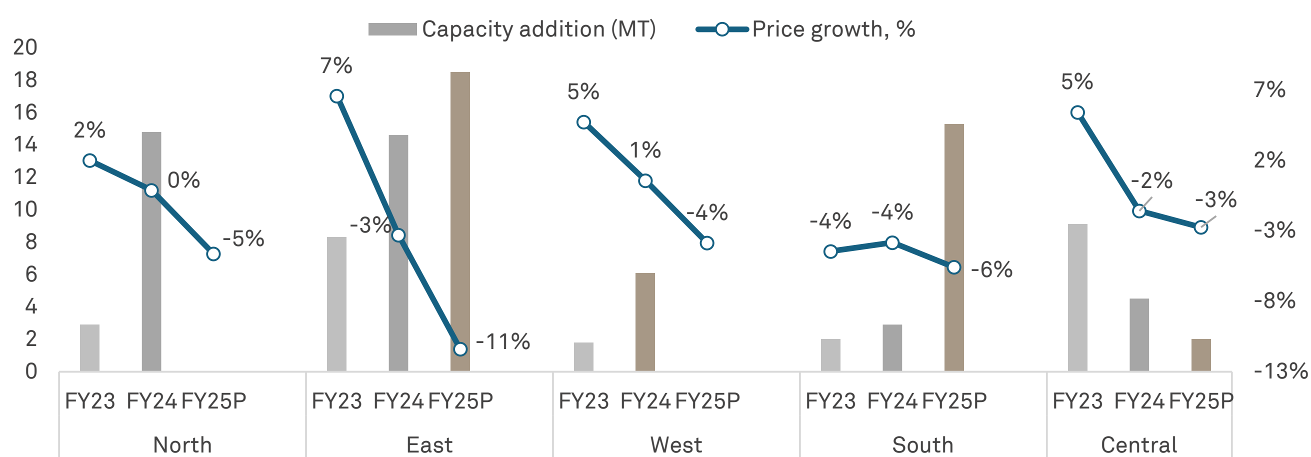
In the south, cement prices are set to decline 5-6% after slipping ~4% last fiscal because of subdued demand momentum and higher effective-capacity growth. Limestone availability has persuaded manufacturers in the region to set up integrated units, leading to higher capacity base compared with other regions.

In the north, prices remained rangebound last fiscal, limited by an elevated price base and ~15 MT of capacity addition. However, they are expected to decline 4-5% this fiscal despite no fresh capacity addition because of faster growth in effective capacity compared with demand.

Prices in the west are foreseen falling 3.5-4.5% after a marginal inch-up last fiscal, as no additional capacity is expected this fiscal.

The central region should see a modest price decline of 2-3% this fiscal after a ~2% fall in the last fiscal. The effective capacity is expected to increase only a marginal 2.5-3.5%, because of a limited supply addition of ~4.5 MT last fiscal and an expectation of only 1-3 MT of addition this fiscal.

Variance in regional prices



	North	East	West	South	Central
Demand growth FY25	5.5-6.5%	5-6%	5.5-6.5%	2-3%	4.5-5.5%
Effective capacity growth FY25	9-10%	8-9%	3.5-4.5%	6-7%	2.5-3.5%

Source: CRISIL MI&A Research

Lower realisation to hurt profitability in fiscal 2025

Realisation is expected to weaken this fiscal on weaker pricing power and demand moderation. While benign costs should provide relief, subdued realisations can hurt profitability. Operating margin is seen slipping 170-220 bps to 15-16%.

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