

Cement plays a vital role in economic development of any country and India is no exception. Having more than hundred years of history, Cement has been used widely in construction of anything, from a small building to a huge multipurpose project. Indian cement industry, with a total capacity of around 400 million tonnes (MT), accounts for about 8 percent of the total global production. There is a direct linkage between cement consumption and macro-economic growth and contraction. However, despite Indian economy growing at around 7.6 percent in FY16, cement production remained sluggish, growing below 5 percent. The progress made by the economy failed to translate into positive impact on demand revival and improved corporate earnings.

Ever since it was deregulated in 1982, Indian cement industry has attracted large investments, from both domestic and foreign investors, making it the second largest in the world. However, compared to many major economies, India still has the lowest level of per capita cement consumption. The per capita cement consumption in the country though has increased many fold from 28 kg in 1980-81 to around 225 kg in 2014-15, though it is still relatively low compared to other major economies (world average cement consumption stands at about 543 kg). Even among the BRIC nations, India has the lowest level of per capita cement consumption, with China topping the list with per capita consumption of over 1500 Kg.

Sometimes one's biggest weakness becomes a major strength, this low per capita consumption and the process of catching up with international averages together with strong economic growth is expected to drive future growth in the industry, also making it an attractive sector for international investment. Moreover, the increase in government spending on housing and infrastructure, as well as faster urbanization and industrialization activities by private players has resulted in increased demand for updated quality building material like cement.

The housing sector is the biggest demand driver of cement industry, accounting for about two-thirds of the total consumption followed by infrastructure, commercial construction and industrial construction. The industry is dominated by top 20 cement companies, which account for almost seventy percent of the total cement production of the country. Currently, India has around 188 large cement plants, together they account for 97 percent of the total installed capacity, while 365 small plants that account for the rest. More than one third of total large plants are located in the states of Andhra Pradesh, Rajasthan and Tamil Nadu.

Economical scenario

Global Economical: The global economy is likely to remain trapped in a low growth trajectory in near term, due the sharp correction in crude oil and commodity prices. Besides, a barrage of monetary stimulus has led to lower interest rates close to zero in many of the developed economies. The International Monetary Fund (IMF) expects the world economy to grow by 3.1 percent in 2016 and by 3.4 percent in 2017 , 0.1 percent lower compared to the figures expected in April 2016. According to IMF, the UK's Brexit vote may cause a substantial increase in

economic, political and institutional uncertainty having a huge adverse impact on investment, market and consumer confidence. The latest forecast puts UK growth in 2016 at 1.7 percent, down only 0.2 percent from its April estimate. Growth in the advanced economies is projected at 1.8 percent in 2016, with US growth pegged at 1.8 percent, Euro Area at 1.6 percent and Japan at 0.3 percent. Growth in the emerging markets in 2016, overall, is projected at 4.1 percent, much of it coming from China, India and the ASEAN region. Going forward, the path ahead for the global economy remains difficult, with greater uncertainties thrown in. Concerns persist about the China's slowdown and its ability to shift smoothly from export-led to domestic led growth, and increasing fiscal pressures in the oil producing countries, including the rich Middle-East countries are some signs of global consolidation. Financial markets will remain nervous & exchange rate will be volatile in short-term.

Indian Economy: With the projected GDP growth of over 7.5 percent in FY17, Indian economy would continue to retain its position as fastest growing major economy in the world on account of the government's pro-growth policies. The economy would also benefit from expected large increases in public wages and declining inflation post good monsoon. Investment would also pick up gradually as excess capacity fades, deleveraging continues for corporations and banks, and infrastructure projects mature. There have also been positive moves on the policy front, in areas related to ease of doing business, promoting start-ups, rationalizing the tax structure and administration, and opening up more areas for foreign investment through the automatic route. The government is substantially stepping up infrastructure spending. However, some issues will be more complex and therefore may require longer time to be fully resolved. For example, capital investment will take time to revive, given stretched corporate balance sheets, low capacity utilization, (at only 72.5 percent in the organized industrial sector), and competition from imports. Slow global output and trade growth will continue to impact exports. There is also the overhang of nonperforming assets in the banking sector. Much more also needs to be done to 'monsoon-proof' the Indian economy.

Industry internals

India, the world's second largest cement producer in the world, has witnessed a compound annual growth rate (CAGR) of 6.12 percent during the period of March 2009 to March 2016. Currently, the country's cement production stands at 282.78 million tonnes in FY16 as against 186.6 million tonnes in FY09 and 270.03 million tonnes in FY15. The industry has evolved over the years to become more organized, efficient and structured; and has witnessed a significant development in manufacturing technology. Innovation, increased use of blended cement, improved energy efficiency, advanced technology and use of alternative fuels have played an important role in supporting the environment and have helped the nation preserve its rich natural resources.

After showing a strong growth between FY09 and FY13, Indian cement industry witnessed demand disruption in FY14 due to a slowdown in the infrastructure and construction sector. During that period, consumption growth was in mid-single digit trajectory, while a massive one-fourth of the overall capacities were lying unutilized. Besides, the 6.5 percent hike in freights by the Indian Railways in June 2014 and the country's sluggish economy growth also weighed on cement demand. However, cement demand started recovering in the last quarter of FY14, driven

by rural housing demand following increased rural incomes and pre-election spending by state governments, primarily on road strengthening and improvements, state highways and power transmission. Nevertheless, trend once again changed in the final quarter of FY15, due to government spending was cut, procedural delays in clearances for industrial & infrastructure projects and income from agriculture decreased because kharif production saw a decline in due to poor monsoon. Trend continued as India's cement demand remained sluggish for most of FY16, particularly on account of low demand from the housing segment. Average cement prices were also down by 6 per cent for the fiscal 2015-16 to Rs 272 per 50 kg bag. However, there were signs of demand recovery in the last quarter of FY16, reflected in double-digit growth riding on account of higher infrastructure spending and on development in Andhra Pradesh and Telangana.

Industry growth in recent time

About 60 percent of India's cement consumption is from housing, with infrastructure and new manufacturing facilities each contributing 20 percent. Currently, the country's cement industry has an installed capacity of over 350 million tonnes per annum, but the domestic consumption of cement in FY16 was around 300 million tones. As a result, the cement market in India remained very competitive. After witnessing slow growth for several quarters, Indian cement industry demand rose by faster pace of around 9 percent in Q1 2016 on account of Pick-up in demand from infrastructure projects backed by the Government spend, and anticipation of above normal monsoon forecast accelerated the rural and commercial demand. However, between April and June this year, cement demand improved by 4.4 percent even as the real estate sector, which consumes large amounts of cement is not showing much growth.

However, consistent with the positive outlook for the Indian economy, the industry anticipates a similar revival in demand for cement and concrete. Signs of increased construction activity have been witnessed in industrial and commercial segments as well as from many housing and mid-income housing schemes across India. Besides this, there are strong indicators of an uptrend in demand for cement and concrete from projects such as concrete roads, flyovers & bridges, power plants, irrigation schemes, ports, railways and metro projects.

Regional Matrix

Cement, being a bulk commodity, is a freight intensive industry and transporting cement over long distances can prove to be uneconomical. Therefore, Cement is largely a regional play with the industry divided into five main regions namely north, south, east, west and the central region. The southern region is excess in capacity owing to the availability of limestones, while the western and northern regions are the most lucrative markets on account of higher income levels.

Southern Region: after witnessing sluggish growth in last few years, cement industry in south has witnessed a demand recovery in last two quarters of FY 2015-16, on account of higher demand from Andhra Pradesh and Telangana. The Telangana government was seeking cement for its low-cost housing programmes, while Andhra Pradesh government was seeking cement to meet the needs of Panchayat Raj, irrigation and housing programmes. Earlier, the lack of demand resulting in nil growth in the southern markets with even negative growth in Tamil Nadu and

Andhra Pradesh, which led to a lower capacity utilisation of around 60 percent in FY15. While there was an unprecedented abnormal rainfall with consequent floods in Tamil Nadu, the neighbouring states which continued to have weak monsoon resulting in no improvement in rural demand for cement. Furthermore, the increase in input costs and railway freight compounded the problem for cement companies in the region.

Going forward, in the southern markets, the demand is expected to increase further during FY2017, supported by the construction of a new capital for Andhra Pradesh and with the focus on irrigation and water grid schemes by the Telangana government. Most of all leading players in the region have already commissioned their new units. With capacity additions taking place at a slower pace, the demand supply equation is expected to continue to remain favourable.

Eastern Region: the key consumption centers in the eastern region are West Bengal, Orissa, Bihar and Chattisgarh, with West Bengal absorbing the maximum quantum of cement. The region, with an installed capacity of 49.4 MT, contributes to 13 percent of the total capacity in India. Historically, demand for cement in the eastern region was driven from industrial projects that were implemented in the mineral resource-rich states of Orissa, Jharkhand and Chhattisgarh, as well as housing projects in rural and semi-urban areas. However, the region witnessed demand slowdown in recent years, which leads to price reduction. On an average, in the East, the FY 2016 prices were lower by Rs. 5/bag on a YoY basis. However, the government's increased focus on the development of infrastructure in the Eastern region in segments like roads, airports, railways, hydropower and focus on rural & semi-urban housing projects is expected to revive cement demand for regional players. The per capita consumption in the East is among the lowest in all the regions, which underlines a huge growth potential. Going forward, the Eastern region is expected to see growth in capacity additions in near future, as many cement companies are in the process of setting up new plants in the region.

Central Region: this region comprises of Madhya Pradesh and Uttar Pradesh. The region, with an installed capacity of 52.8 MT, contributes to 14 percent of the total capacity in India. The capacity utilization rate is always been high in this region compare to all the other regions, on account of higher demand from end users. Going forward, the growth trend is likely to continue in Central markets on the back of renewed government spending on infrastructure development and conversion of kutchha houses in rural areas to pukka houses.

Some major infrastructure investments in the region

- Uttar Pradesh is set to receive investments to the tune of \$3.6 billion (about Rs. 23,913 crore) towards infrastructure and industrial development from five Indian-owned businesses in the United Arab Emirates.
- The Centre government has decided to invest about Rs 75,000 crore in augmenting highway infrastructure in Uttar Pradesh over the next two years.
- With an aim to boost tourism in Uttar Pradesh, the Centre has approved projects worth over Rs 300 crore for developing Ramayana, Krishna and Buddhist circuits in the state.

- Madhya Pradesh is expecting Rs 1300 crore investment, from both private and public sector, this financial year for upgradation of tourism infrastructure.
- The Madhya Pradesh Government will spend Rs 15,000 crore on Bhopal's development in the next five years.

Western Region: the Western region consists of the states like Maharashtra, Goa and Gujarat, most of the country's exports are from this Region, while major export markets are Sri Lanka, Nepal, Africa and the Middle East. The region, with an installed capacity of 57.6 MT, contributes to 15 percent of the total capacity in India. The profitability margins of most cement companies in this Region declined or reported moderate increase on yearly basis during FY 2016 when compared to FY 2015. Overall lower cement prices in the region during FY 2016, coupled with an increase in raw material and freight costs, have impacted the operating profitability of the mills located in this region. In the western markets, the cement prices during FY2016 were lower by Rs 15/bag on a Y-o-Y basis and the price in Apr-May 2016 lower by Rs 10-15/bag, compared to Apr-May 2015. However, the demand has started picking up in this region's markets due to increased construction and infrastructural activities. Going forward, the demand outlook for the region remains relatively more favorable given the state and central government's focus on revival of infrastructure and investment spending, and the likelihood of a recovery in the rural demand from H2 FY2017 given expectations of a better monsoon.

Some major project in the region

- Coastal Mumbai Water Transport Project
- Metro Rail Project coming up in Maharashtra
- Gujarat - Rajasthan Highway Project
- Terminal Expansion Project at Hazira Port
- Government allots funds worth Rs 10,000 crore to Goa for its various infrastructure projects

Northern Region: Northern Region has always been a high demand lucrative market for cement industry. The key consumption centers in the region are Rajasthan, Punjab, Haryana and the NCR, with Rajasthan producing the maximum quantum of cement. Around eighty percent of the cement produced in the North is consumed within the eight states that form this region, while remaining twenty percent of the cement produced within the region is dispatched to states outside this region such Uttar Pradesh, Madhya Pradesh and Gujarat. Further, in comparison to the western, central and eastern regions, cement production is the highest in the northern region. The capacity utilization in the region is always been high compared to pan India average as there was limited capacity additions compared to south India. Furthermore, steady growth of agriculture had encouraged housing construction activity in this region, resulting in the increased consumption of cement over the period. Going forward, the growth trend is likely to be strong in Northern markets on the back of renewed government spending on infrastructure development

and strong demand from low cost housing segment. Impacted by higher capacity addition in recent years, utilization is estimated to remain below 85 percent mark in the current fiscal (FY17). However, utilization rate is expected to surpass 90 percent in next two years on the back of limited addition and resilient demand. Besides, consistent demand growth, coupled with high utilization rate, would bolster cement prices in the region.

Key issues of the industry

- On the import duties front, the tariff on cement in India was reduced from 12.5 percent to nil in January 2007 and it continues to be at the same level till date, while all the major inputs for manufacturing cement such as limestone, gypsum, pet coke, packing bags etc attract customs duty. From last few years, due to low demand of cement in the country more than 116 million tonnes of domestic cement capacity is lying idle. In this situation, duty free imports cause further hardships to the country's cement industry, which is already reeling under low capacity utilization. This may also partly explain the surge in India's cement imports in recent years. The neighbouring countries like China and Pakistan are raising their export of cement and clinker to India. Almost one tonne of cement comes from Pakistan every month through the Wagah-Attari border, while large clinker imports from China, both at cheap prices.

In order to provide a level playing field to the local cement players, basic customs duty be levied on cement imports into India. Alternatively, import duties on goods required for manufacture of cement be abolished and freely allowed without levy of duty.

- Cement industry is one of the basic and core infrastructure industries. However, unlike other similar industries/goods, cement is subject to higher rates of taxation.

It is required that Cement be stipulated as 'Declared Goods' under Section 14 of Central Sales Tax Act so that it is put on an equal footing with other core sector goods like coal, steel, crude oil, jute, cotton yarn etc.

- Cement is a commodity that largely packed in paper or plastic bags. It is then transported either by rail or road. Transportation of this commodity by road beyond 200 kilometers is not economical therefore around 55 percent cement is carried by the railways. However, unavailability of wagons, particularly in peak season, coupled with infrastructure constraints at terminals and the slant in some of the policies of the railways, not only hamper the planned movement of cement to the consumption centres, but also make the end-cost of rail transportation higher than road transport for a majority of market centres.

Under this scenario, there is a need to encourage transportation through sea, which is not only economical but also reduces losses in transit.

Issues related to raw materials

The input costs, which include coal, electricity tariffs, railway transport and freight charges, royalty and cess on limestone, are one of the important factors that control the price of cement.

Following are the primary concerns that industry faces on using these components for cement production

Limestone

It is one of essential raw materials for production of cement. In order to produce one tonne of cement, around 1.6 tonnes of limestone is required. Therefore, many times the location of cement plant is determined by the location of limestone mines as manufacturer can't afford to transfer limestone from long distance. The total limestone deposit in the country is estimated to be around 90 billion tones, with Andhra Pradesh enjoying the largest share of over one third of total deposit, followed by Karnataka, Gujarat, Madhya Pradesh and Rajasthan. Also, cement producers have to pay large amount of money by way of royalty payment to the central government and cess on royalties levied by the state government.

Coal

Coal is the key fuel for manufacture of cement in India. Cement producers require a huge quantity of coal to meet their kiln and captive power generation needs, but consistent supply of this fuel at reasonable and stable prices remains a key area of concern for the Industry. The coal consumption in a normal dry process system ranges from 20 to 25 percent of clinker production. This means for per ton clinker produced 200 - 450 kg of coal is consumed.

Electricity

Electricity accounts for 16 percent of the cost of production of cement. Since the state governments mostly supply electricity in the country and various states have different tariff structure, the power tariffs differ according to the location of the plant and on the production process. As a result, cement plants in different states attract different power tariffs. Another major issue to the industry is severe power cuts. Many cement producing states such as Andhra Pradesh, Madhya Pradesh experience power cuts every year causing substantial production loss.

Outlook

The year 2016 brought back good times for Indian cement industry as cement manufacture started showing improvement from first half of the calendar year, while primary fuels like coal and crude oil tumbled to multi-year low. The cement industry's medium to long term outlook looks optimistic as demand for cement is likely to get boost from industrial and commercial segments as well as from mass housing and mid-income housing schemes across the country. In order to achieve the Government's vision of 'Housing for All' by 2022, where 11 crore houses have to be constructed at an investment of \$ 2 trillion (Rs 13,600 billion), is going to drive cement consumption in coming year. Though housing segment remained the most significant demand driver for cement industry, progress in infrastructure activities is likely to fuel cement consumption in short-run on account of massive investment in infra projects like freight corridors (Western and Eastern), railways, smart cities, metro railways, roads and highways, among others. The government under its current fiscal year's budget has allocated Rs 2.21 lakh crore for infrastructure sector, a crucial move to revive investments in the sector with the

participation of the private players. Moreover, the government plans to expand the capacity of the railways and the facilities for handling and storage to ease the transportation of cement and reduce transportation costs.

Going forward, incremental capacity addition is expected to be limited as many cement players have already commenced their new units, while cement demand is likely to improve, resulting in higher capacity utilization. Demand from rural market is also expected to rise as better than expected monsoon as well as strong government push for the rural sector will improve rural income. The government has also increased its budget allocation for the IAY (Indira Aawas Yojana), PMGSY (Pradhan Mantri Gram Sadak Yojana) and MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) that have the potential to further improve cement demand.

Companies Financial Data In Industry

| Company Name | CMP | MCAP | BOOK VALUE | DIV. YEILD % | TTM EPS | TTM PE |
|---|----------|-----------|------------|--------------|---------|--------|
| Shree Cement Ltd. | 16759.10 | 58384.05 | 1919.75 | 0.14 | 276.31 | 60.65 |
| Ultratech Cement Ltd. | 3826.10 | 105004.41 | 783.32 | 0.25 | 85.95 | 44.52 |
| Deccan Cements Ltd. | 930.20 | 651.49 | 424.79 | 0.27 | 61.42 | 15.14 |
| Trinetra Cement Ltd. | 72.20 | 32.31 | -227.45 | 0.00 | 59.97 | 1.20 |
| OCL India Ltd. | 774.35 | 4406.07 | 265.54 | 0.52 | 51.55 | 15.02 |
| HIL Ltd. | 593.65 | 443.02 | 652.22 | 2.95 | 42.71 | 13.90 |
| Kakatiya Cement Sugar & Industries Ltd. | 352.50 | 274.03 | 268.31 | 0.77 | 41.84 | 8.42 |
| ACC Ltd. | 1655.45 | 31087.24 | 461.40 | 1.03 | 36.72 | 45.08 |
| The Ramco Cements Ltd. | 549.50 | 13082.32 | 136.45 | 0.55 | 25.90 | 21.21 |
| JK Cement Ltd. | 785.70 | 5494.18 | 253.87 | 0.51 | 23.20 | 33.87 |
| Sagar Cements Ltd. | 628.25 | 1092.40 | 320.83 | 0.80 | 18.20 | 34.52 |
| Visaka Industries Ltd. | 159.95 | 254.02 | 228.98 | 3.13 | 17.28 | 9.26 |
| Everest Industries Ltd. | 264.05 | 406.34 | 233.43 | 1.89 | 15.69 | 16.83 |
| NCL Industries Ltd. | 119.35 | 438.41 | 56.07 | 1.68 | 11.45 | 10.42 |
| Keshav Cements Ltd. | 72.85 | 37.33 | 40.83 | 1.37 | 8.65 | 8.42 |
| Saurashtra Cement Ltd. | 80.90 | 559.76 | 42.74 | 1.24 | 8.17 | 9.90 |
| Mangalam Cement Ltd. | 358.00 | 955.64 | 192.31 | 0.14 | 7.85 | 45.61 |
| Anjani Portland Cement Ltd. | 160.55 | 405.96 | 67.72 | 0.00 | 7.42 | 21.63 |
| Keerthi Industries Ltd. | 107.50 | 86.18 | 63.62 | 0.00 | 7.00 | 15.35 |
| Ramco Industries Ltd. | 134.75 | 1167.78 | 61.87 | 0.59 | 6.56 | 20.54 |
| JK Lakshmi Cement Ltd. | 441.70 | 5197.49 | 115.75 | 0.06 | 4.96 | 89.00 |
| Ambuja Cements Ltd. | 270.65 | 53741.49 | 54.38 | 1.03 | 4.87 | 55.59 |
| The India Cements Ltd. | 140.15 | 4305.11 | 111.81 | 0.71 | 4.61 | 30.38 |
| Heidelberg Cement India Ltd. | 136.20 | 3086.47 | 40.14 | 0.00 | 2.72 | 50.14 |
| Orient Cement Ltd. | 172.60 | 3536.03 | 49.08 | 0.58 | 1.31 | 132.02 |
| KCP Ltd. | 96.40 | 1242.80 | 30.50 | 1.04 | 1.16 | 83.13 |
| Sanghi Industries Ltd. | 82.40 | 1812.63 | 42.56 | 0.00 | 1.15 | 71.61 |
| Sri KPR Industries Ltd. | 23.50 | 47.34 | 17.61 | 2.98 | 1.12 | 20.99 |

| | | | | | | |
|--|--------|---------|--------|------|--------|--------|
| Shree Digvijay Cement Company Ltd. | 26.35 | 372.52 | 14.63 | 0.00 | 0.78 | 33.77 |
| Prism Cement Ltd. | 114.35 | 5755.88 | 19.95 | 0.00 | 0.64 | 179.59 |
| Udaipur Cement Works Ltd. | 16.05 | 473.80 | 1.40 | 0.00 | 0.48 | 33.63 |
| Shiva Cement Ltd. | 6.73 | 125.85 | 5.13 | 0.00 | -0.10 | 0.00 |
| Gujarat Sidhee Cement Ltd. | 33.15 | 285.60 | 20.95 | 0.00 | -0.35 | 0.00 |
| Panyam Cements & Mineral Industries Ltd. | 51.00 | 81.69 | 13.40 | 0.00 | -0.46 | 0.00 |
| Barak Cement Ltd. | 24.05 | 53.29 | 37.39 | 0.00 | -1.31 | 0.00 |
| Century Textiles & Industries Ltd. | 674.00 | 7528.29 | 197.65 | 0.82 | -2.20 | 0.00 |
| Burnpur Cement Ltd. | 14.99 | 129.10 | 10.27 | 0.00 | -2.48 | 0.00 |
| Andhra Cements Ltd. | 7.92 | 232.47 | 1.58 | 0.00 | -2.72 | 0.00 |
| Pacific Industries Ltd. | 125.50 | 16.96 | 447.11 | 0.00 | -3.48 | 0.00 |
| Sahyadri Industries Ltd. | 68.40 | 65.40 | 113.63 | 2.19 | -10.98 | 0.00 |
| Jaiprakash Associates Ltd. | 11.58 | 2816.79 | 61.43 | 0.00 | -13.32 | 0.00 |

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