

Expansion by newer cement firms could induce price volatility

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The entry of new cement manufacturers and expansion of regional cement companies into larger markets are likely to increase competition and depress prices, analysts say. While new entrant Emami Cement Ltd will focus on Chhattisgarh and West Bengal, JSW Cement Ltd has aggressive expansion plans for west and south regions. Meanwhile, Vadraj Cement Ltd, a regional cement maker formerly called ABG Cement Ltd, will enter the western markets of Gujarat and Maharashtra next fiscal. All three could increase competition for larger pan-India companies.

The disruption can induce pricing volatility, especially in the western and eastern markets in the next two years, Religare analysts Navin Sahadeo, Siddharth Vora and Aman Chaplot wrote in a 2 February report.

With Vadraj Cement and JSW Cement adding a combined 6 million tonnes per annum (mtpa) output by FY2020, capacity utilization in the industry may remain below 80% even with an 8% demand growth, they wrote.

"With virtually no change expected in pan-India utilisation levels in FY18 (vs. FY17) and only modest improvement in FY19, we see little scope for margin-accretive cement price hikes. We believe the hikes, at best, will be to pass along cost pressures," the Religare analysts wrote.



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The Indian cement industry is estimated to have a capacity of about 420 mt. ACC Ltd, Ambuja Cement Ltd, UltraTech Cement Ltd and Dalmia Cement Ltd command about 40% of this market. The majority of India's cement out-

put—about 60%—goes into housing, followed by infrastructure and commercial sectors.

"Expansion of regional cement companies to other states will lead to increased volatility. There have been

several instances in the past where cement companies have aggressively expanded in new regions and disrupted the pricing in the market," said a brokerage analyst asking not to be named as he is not authorized to talk to reporters.

A month after Vadraj Cement announced its plans to set up a plant in Gujarat, cement prices in that market fell from about Rs260 a unit to Rs200, this analyst said.

Emami Cement, part of consumer goods major Emami group, in October unveiled its cement brand and said it was looking to scale up its cement production capacity from 4 million tonnes (mt) to 15-20 mt in 3-5 years. The parent has budgeted as much as Rs9,000 crore for the proposed expansion and is also exploring opportunities to buy existing

plants.

Rajasthan-based Shree Cement Ltd has stepped into the eastern market which has seen several new entrants, keeping prices depressed for the past year. Shree Cement is also planning to enter Karnataka in fiscal 2019 with a 4 mtpa plant.

JSW Cement, part of \$11 billion JSW Group, plans to increase its capacity five-fold from the current 6 mtpa to 30 mtpa by 2020. Last month, the company agreed to buy a controlling stake in Odisha-based Shiva Cement.

However, H.M. Bangur, managing director of Shree Cement, disagreed about the price volatility. "Cement demand in India is on the rise with about 6% growth per year compared with depressed demand in European markets.

India will continuously need newer capacities for the next 20 years to meet the expanding demand. If the cement industry does not expand, there will be a shortage within a few years," Bangur said.

"For example, cement demand in south India is more than 80 million tonne; an addition of 2-3 million tonne will not have any adverse impact as that much capacity will be absorbed in the natural course. I don't see any price volatility."

Vadraj Cement, JSW Cement, and Emami Cement did not respond to email queries sent on Monday.

The cement sector, which typically grows at 5-6% a year, has slowed in the current fiscal. Companies are banking on growth levels returning next fiscal.

