Cement

Outlook

Aggregate cement consumption, during April–November 2007, continued to be buoyant growing by a healthy 10.3 per cent. The cement production growth at 8.4 per cent continued to lag cement consumption growth, during the same period. After remaining stable in the preceding two months, cement prices resumed their upward trend in December 2007. Barring Delhi and Kolkata, cement prices across the major cities evidenced a rise in cement prices. The recent hike of 10 per cent in coal prices, announced by Coal India Limited, is expected to put cost pressure on cement companies. Considering this, the possibility of cement companies passing on the cost burden to consumers in a buoyant demand scenario can not be ruled out.

Investment momentum in the sector continued with new announcements touching a peak of Rs.14,092 crore during December quarter. As per CMIE's capex survey, total outstanding investment in the sector touched an all time high of Rs.78,008 crore as of December 2007.

In the absence of any major capacity additions, so far, the prevailing price scenario augurs well for cement companies. Average prices during the December quarter ruled higher by 10-20 per cent across various regions. We expect cement sector to post a 20 per cent sales growth during the December quarter.

Sluggish growth in cement production and consumption in November

Cement production growth at 4.7 per cent was sluggish in November 2007. This was the lowest growth recorded in any of the months during 2007-08, so far. North, South and West regions recorded a healthy production growth of around 8-10 per cent in November 2007. The Eastern and Central zones recorded a decline, proving to be a drag on the aggregate production growth. Cement consumption growth, at four per cent during the month, was outpaced by the production growth for the first time in the year 2007-08. The same also reflected in a faster increase in the inventory levels on a sequential basis. The inventory increased from 13.3 million tonnes in October 2007 to 15.2 million tonnes in November 2007.

Demand for cement remained upbeat during April–November 2007. While growth in cement consumption accelerated marginally during the period, production growth lagged. Cement offtake improved by a healthy 10.3 per cent to reach 104.2 million tonnes during the period. Production on the other hand grew by a slower 8.4 per cent to 107.7 million tonnes. Capacity utilisation of the industry improved to around 94 per cent during April–November 2007 as against 90.4 per cent in the corresponding year ago period. About eight million tonnes of new capacity was commissioned during April–November 2007.

The Western region continued its deficit status during November 2007. While cement consumption recorded a smart 16 percent growth to reach 20.05 million tonnes during April–November 2007, production grew at a much slower pace of six per cent to reach 18.3 million tonnes. The Eastern region also experienced cement deficit during the period. Consumption remained robust in southern and northern regions growing by 13.5 per cent and 11.2 per cent, respectively. The Central region continued its modest cement consumption growth during the period, recording a 5.3 per cent rise.

TABLE 40.1: Cement: Demand & Supply

	Prodn (Lakh tonnes)	Prodn (% chg.)	Consumption (Lakh tonnes)	Consumption (% chg.)	Cap. Util. (Per cent)	Closing stocks (Lakh tonnes)
Nov 2006	124.6	12.29	120.1	16.09	90.59	12.8
Dec 2006	135.0	8.28	131.2	10.00	98.12	11.6
Jan 2007	140.9	7.81	135.7	8.41	102.43	10.6
Feb 2007	130.4	6.36	126.7	8.22	94.47	10.2
Mar 2007	149.9	5.97	146.5	7.87	108.64	8.5
Apr 2007	140.1	6.41	133.8	7.56	101.45	9.4
May 2007	142.6	10.26	138.0	13.61	102.58	9.8
Jun 2007	136.6	5.99	132.9	7.83	95.89	10.1
Jul 2007	133.7	9.78	131.1	14.50	93.20	10.1
Aug 2007	128.5	17.41	124.1	18.61	89.59	11.6
Sep 2007	127.5	5.33	123.6	7.27	88.44	12.5
Oct 2007	138.1	7.38	133.6	10.90	95.74	13.3
Nov 2007	130.5	4.74	124.9	3.98	90.51	15.2
	Apr–Nov	Apr–Nov	Apr–Nov	Apr–Nov	Apr–Nov	Apr–Nov
2006–07	994.1	10.63	945.0	10.10	90.37	12.8
2007–08	1,077.1	8.35	1,042.4	10.31	93.96	15.2
	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar
2006–07	1,553.1	9.53	1,489.9	9.90	93.82	8.5

Cement prices to rule firm

After remaining stable in the preceding two months, cement prices resumed their northbound journey in December 2007. Reckoned over the preceding month, the price increased by 2.5 per cent to Rs.245 per 50 kg bag in Mumbai. Southern cities of Chennai and Hydrabad observed a modest hike of Re.1 per 50 kg bag. Retail cement prices were ruling at Rs.254 and Rs.218 per 50 kg bag in Chennai and Hydrabad, respectively. Prices remained stable in Delhi and Kolkata. On a year–on–year basis, the prices displayed an upward trend across the country. During April-December 2007, average prices in Mumbai and Kolkata inched up by around 12 per cent over the prices prevailing in the year ago period. Cement prices posted a nine per cent rise in Delhi during the same period. Chennai and Hyderabad registered the sharpest price hikes of 24 per cent each since the beginning of 2007-08. Ruling at Rs.265 per 50 kg bag, cement remains costliest in Bangalore.

In 2007-2008, so far, eight million tonnes of capacity came onstream which has been comfortably absorbed by incessant demand from the construction industry. During April–November 2007, cement exports dipped to 2.5 million tonnes against 5.9 millions posted in the year ago period. With government's liberal import policy proving ineffective in easing supply constraints, so far, the present demand– supply equation appears to be fairly balanced.

On the cost front, cement companies are grapelling with high power cost. Coal continues to be in short supply with central government recently sounding alert on acute shortage of the commodity. To aggravate the problem of cement companies, the Coal India Limited (CIL) announced a 10 per cent hike in coal prices with effect from December 14, 2007. This would further put cost pressure on cement companies. Considering this the possibility of cement companies passing on the cost burden to consumers in the busy construction season can not be ruled out.

TABLE 40.2: Cement: Prices

	Cement		Cement		Cement		Cement		Cement	
	Average Mumbai	Change (%)	Average Delhi	Change (%)	Average Kolkata	Change (%)	Average Chennai	Change (%)	Average Hyderabad	Change (%)
Dec 2006	224	39.03	210	26.88	211	21.04	206	25.57	175	40.34
Jan 2007	224	36.74	208	25.52	210	18.67	207	30.89	177	38.01
Feb 2007	224	29.71	207	22.53	210	16.92	212	29.90	189	39.88
Mar 2007	229	13.81	216	7.18	227	15.02	227	37.47	212	41.32
Apr 2007	233	15.35	219	7.00	230	13.90	234	41.37	216	29.50
May 2007	234	15.84	219	7.00	230	14.33	240	25.37	213	23.87
Jun 2007	237	14.08	219	7.00	228	13.35	243	18.00	212	18.13
Jul 2007	242	12.79	221	8.10	228	13.32	248	19.97	222	23.13
Aug 2007	240	11.65	222	8.47	230	14.24	254	23.26	232	28.34
Sep 2007	239	11.19	222	8.91	230	13.45	255	23.68	232	28.90
Oct 2007	239	9.89	227	13.19	230	11.89	253	22.67	217	21.95
Nov 2007	239	7.24	227	11.65	230	8.90	253	22.67	217	22.83
Dec 2007	245	9.58	227	8.21	230	9.16	254	23.58	218	24.49
	Apr–Dec	Apr–Dec	Apr–Dec	Apr–Dec	Apr–Dec	Apr–Dec	Apr–Dec	Apr–Dec	Apr–Dec	Apr–Dec
2006–07	214	31.05	205	27.91	204	11.46	201	15.81	177	47.50
2007–08	239	11.78	223	8.76	230	12.41	248	23.91	220	24.46
	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar	Apr–Mar
2006–07	217	29.45	206	24.94	207	12.78	205	19.91	181	45.50

Note: Cement prices upto September 2004 are being sourced from the Cement Manufacturers Association.
Cement prices after September 2004 are based on CMIE's independent polling of traders

Investment momentum continues

The cement industry is swamped by a major capacity augmentation drive to meet the strong cement demand arising from flourishing construction industry. The investment in the sector evidenced a steady increase over the last three years, on the back of a continued buoyancy in cement consumption. As per CMIE's capex survey, total outstanding investment in the sector touched an all time high of Rs.78,008 crore as of December 2007. These are spread over 167 projects of which 59 projects amounting to Rs.21,583 crore are presently under implementation. New projects announced, at Rs.14,092 crore, also touched a peak during the quarter. Hyderabad based Sanghi industries topped the chart, announcing a 7 million tonne plant at Satna, Madhya Pradesh with a capital outlay of Rs.3,000 crore. It is interesting to note that after Rajasthan and H.P in North and Andhra Pradesh in South, Madhya Pradesh has emerged as a new destination for cement companies, owing to abundance of limestone reserves in the state.

The operational capacity of the sector as of December 2007 stood at around 176 million tonnes per annum. Based on announcements made till December quarter, the incremental capacity planned add upto over 130 million tonnes, spread over next three years.

Nearly 23 per cent of the planned capacity would come from the top two cement groups in the industry. Over the next two years, the Holcim group would scale up its capacity by 15 million tonnes to around 54 million tonnes. The Aditya Birla group is also expected to add 15 million tonnes over next two years, taking its annual capacity to around 46 million tonnes.

FIGURE 40.1: Cement: Total Investment

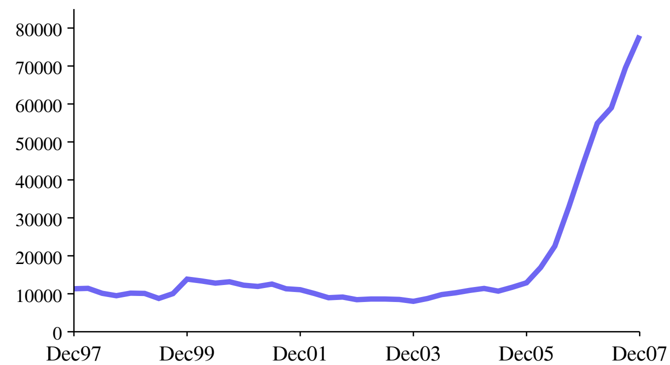

TABLE 40.3: Investment Statistics for cement

	Project Under - Implementation		New Projects		Total Investment		Projects Completed		Projects Shelved	
	(Nos.)	(Rs.crore)	(Nos.)	(Rs.crore)	(Nos.)	(Rs.crore)	(Nos.)	(Rs.crore)	(Nos.)	(Rs.crore)
Dec 2004	37	6,725.25	2	711.00	65	10,903.25	0	0.00	0	0.00
Mar 2005	37	6,860.25	2	400.00	65	11,403.25	9	110.00	0	0.00
Jun 2005	35	6,608.25	6	475.64	62	10,691.89	6	454.00	1	150.00
Sep 2005	38	7,528.05	7	697.00	64	11,725.89	0	0.00	0	0.00
Dec 2005	36	7,583.05	9	843.00	67	12,893.89	3	590.00	0	0.00
Mar 2006	38	7,861.59	8	4,593.54	73	16,931.43	1	11.00	0	0.00
Jun 2006	39	10,354.59	21	6,215.00	85	22,554.43	5	895.00	0	0.00
Sep 2006	42	12,004.29	18	9,056.37	101	32,957.39	2	69.80	0	0.00
Dec 2006	50	15,851.09	23	9,778.95	124	44,176.34	0	0.00	0	0.00
Mar 2007	52	15,601.09	16	11,176.00	138	54,898.50	2	725.00	0	0.00
Jun 2007	52	17,160.99	9	4,711.00	140	58,996.40	5	1,013.00	0	0.00
Sep 2007	51	21,624.19	25	12,153.00	156	69,585.45	5	618.80	0	0.00
Dec 2007	59	21,583.19	17	14,092.00	167	78,008.67	7	1,578.00	0	0.00

Cement index remains flat in December

In contrast to general rally in the market, the CMIE cement index remained flat in December 2007. It underperformed the broader benchmarks – BSE Sensex and NSE Nifty, which posted gains of 5-7 per cent. It also underperformed COSPI index, which posted a healthy 12 per cent gain during the month. 25 out of 35 companies in the sample ended the month on a positive note. While most of the industry majors ended the month on a negative note, small and mid cap companies continued with their superb performance on the bourses preventing the sectoral index from slipping into red. Notable gainers on the bourses included Sagar Cements (69 per cent) and Anjani Portland Cements (57 per cent).

Portugal based cement MNC, Cimpor, entered India with acquisition of Grasim's 53.63 per cent holding in Shree Digvijay Cements. The deal was struck at Rs.42.5 per share. The scrip of Shree Digvijay Cements hit its 52 week high of Rs.45.25 in November 2007, when media reported the move of Birla Group to sell its stake in the company. The scrip, however, ended December at a 15 per cent discount to its 52 week high (Rs.39).

TABLE 40.4: Cement Index: Stock Market Volume Data

	Index	No. of cos in Index	Mkt. cap	P/E	Volume		Returns	E.R. over COSPI	Liquidity
			Rs.crore	Times	Rs.crore	Mln. nos.	%		Times
Dec 2006	4,388	33	1,17,871	22.2	8,495	315.5	1.7	0.7	1.26
Jan 2007	4,229	33	1,13,605	15.6	6,811	276.8	-3.6	-7.2	1.34
Feb 2007	3,569	33	95,760	13.2	8,026	302.0	-15.6	-7.1	1.63
Mar 2007	3,221	33	85,820	11.8	11,556	505.5	-9.7	-10.7	1.82
Apr 2007	3,518	31	72,787	11.4	5,661	291.4	9.2	1.6	2.03
May 2007	3,547	31	73,378	11.5	5,083	245.3	0.8	-5.2	1.82
Jun 2007	3,886	32	81,848	12.6	4,919	245.9	9.6	7.3	1.54
Jul 2007	4,227	33	1,16,056	13.0	9,764	370.0	8.8	4.0	1.07
Aug 2007	4,327	33	1,18,205	13.2	8,010	343.0	2.4	3.3	1.05
Sep 2007	4,942	34	1,35,041	15.1	7,535	352.0	14.2	-0.2	0.93
Oct 2007	5,019	34	1,37,219	13.3	8,579	338.1	1.6	-18.6	0.95
Nov 2007	5,143	35	1,40,744	13.6	5,685	270.5	2.5	2.6	0.90
Dec 2007	5,170	35	1,43,182	14.1	5,518	277.4	0.5	-11.3	0.85

ER: Excess Returns COSPI: CMIE Overall Share Price Index

TABLE 40.5: Cement: Performance of Major Companies on the Bourses

	Mkt. cap	Returns (%)		No. of shares traded (Lakh nos.)		Trading volume (Rs.crore)		P/E	Beta
	(Rs.crore)	Nov 2007	Dec 2007	Nov 2007	Dec 2007	Nov 2007	Dec 2007	(Times)	
Grasim Industries	33,573	2.5	-3.7	18.6	22.0	687.1	811.8	18.0	0.96
Ambuja Cements	22,387	3.4	-1.8	400.9	225.0	595.6	337.6	12.0	0.80
A C C	19,228	1.2	-6.0	95.0	95.1	1,017.6	1,001.0	14.3	0.90
Ultratech Cement	12,617	-1.3	3.0	19.7	18.9	196.8	187.9	14.2	0.97
Century Textiles & Inds.	10,882	5.5	4.9	102.0	65.7	1,103.4	738.0	34.2	1.56
India Cements	8,742	4.8	4.9	343.1	301.2	989.7	931.1	14.0	1.43
Madras Cements	5,476	0.6	-2.1	0.8	0.7	36.6	30.4	15.2	0.98
Shree Cement	4,671	-5.0	-4.3	1.2	3.4	16.4	48.9	14.1	1.04
Birla Corporation	2,544	-2.9	-3.9	39.2	40.8	133.5	137.4	6.4	1.41
Binani Cement	2,430	9.8	-1.5	70.5	36.6	79.3	43.2	12.3	
Cement	1,43,182	2.5	0.5	2,704.7	2,773.5	5,685.3	5,518.4	14.1	0.97