

Cement

NOVEMBER
2011



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- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Success stories: Innovative solutions
- ❖ Opportunities
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Advantage India

Strong demand

- Robust infrastructure growth
- Large export market
- Low per capita consumption indicating growth potential

Long-term potential

- Oligopoly market, where large players have partial pricing control
- Low threat from substitutes

FY13F

Market size:
256.5 mtpa

Advantage India

Structural drivers

- Increasing presence of Tier II cement players
- Use of alternate fuels to lower production costs and emissions

Attractive opportunities

- Under-supplied North East region, which is experiencing robust growth in demand for cement

FY10

Market size:
196.4 mtpa

Source: Edelweiss

Notes: 2013F – Forecasted market size for 2013, mtpa—million tonnes per annum

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Overview of the Indian cement industry



Key statistics

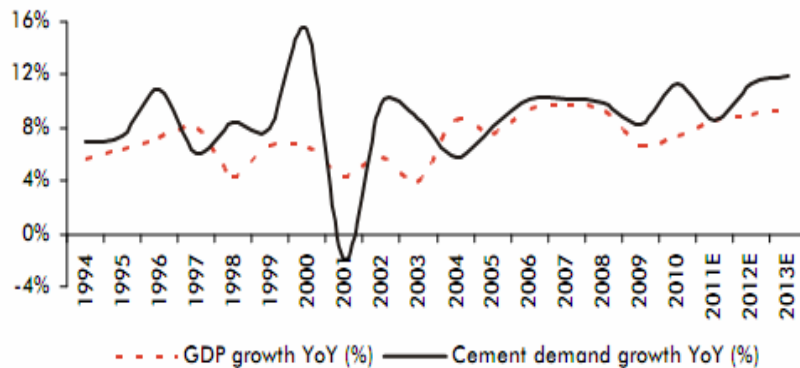
- India is the second-largest cement market in the world, accounting for 7–8 per cent of global cement production
- India exports cement to more than 30 countries
- Cement production of one million tonnes is estimated to generate downstream employment for 50,000 people

Source: Cement Manufacturers' Association (CMA), Aranca Research
Note: mtpa: million tonnes per annum

Key industry dynamics

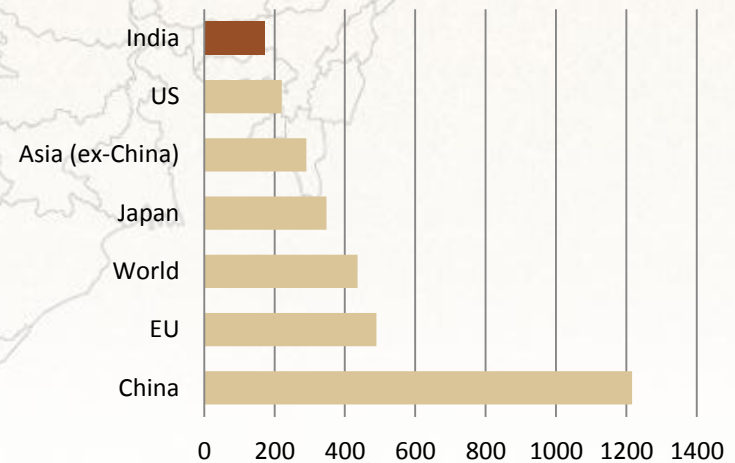
- Although India is one of the largest cement markets in the world, per capita consumption of cement is just around 170 kg, which is very low in comparison to the global average consumption of about 430 kg.
- Demand for cement in India is cyclical; barring short-term disruptions, it grows largely in tandem with economic growth.

Trend in GDP and growth in cement demand



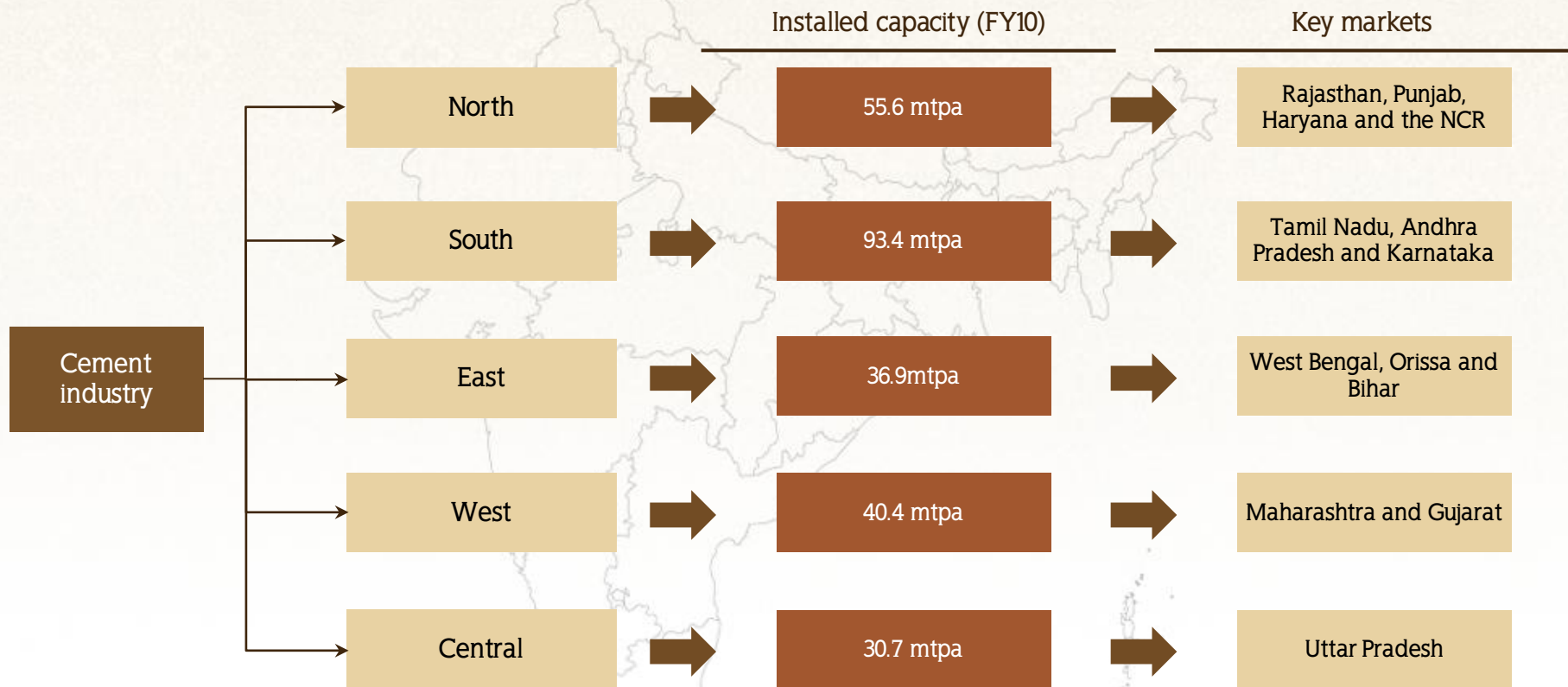
Source: Ambit Capital, Aranca Research
Note: GDP- Gross Domestic Product

Per capita cement consumption in 2009 (kg)



Source: Indiabulls, Aranca Research

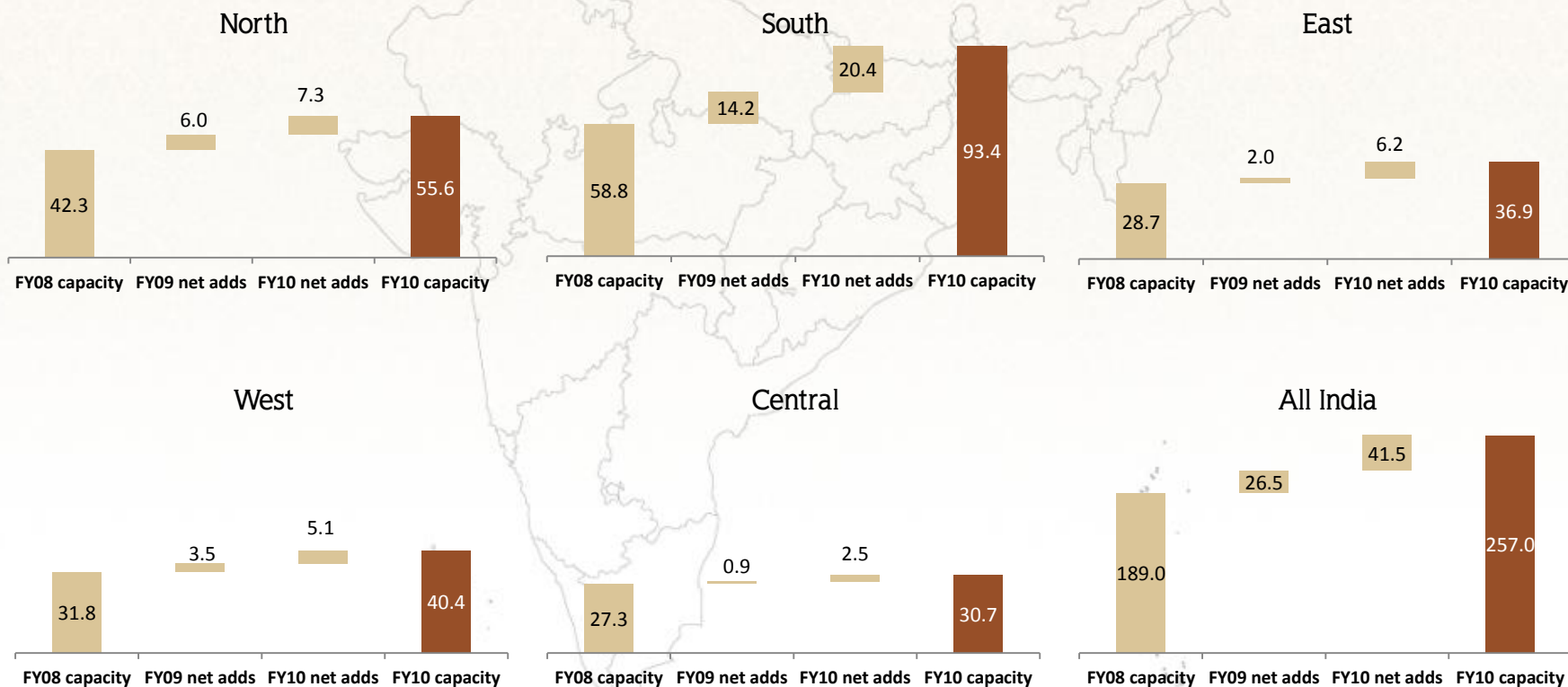
The industry is split into five geographic segments



Source: CMA, Edelweiss, Aranca Research
Note: mtpa: million tonnes per annum

Capacity additions have occurred mainly in the South ...

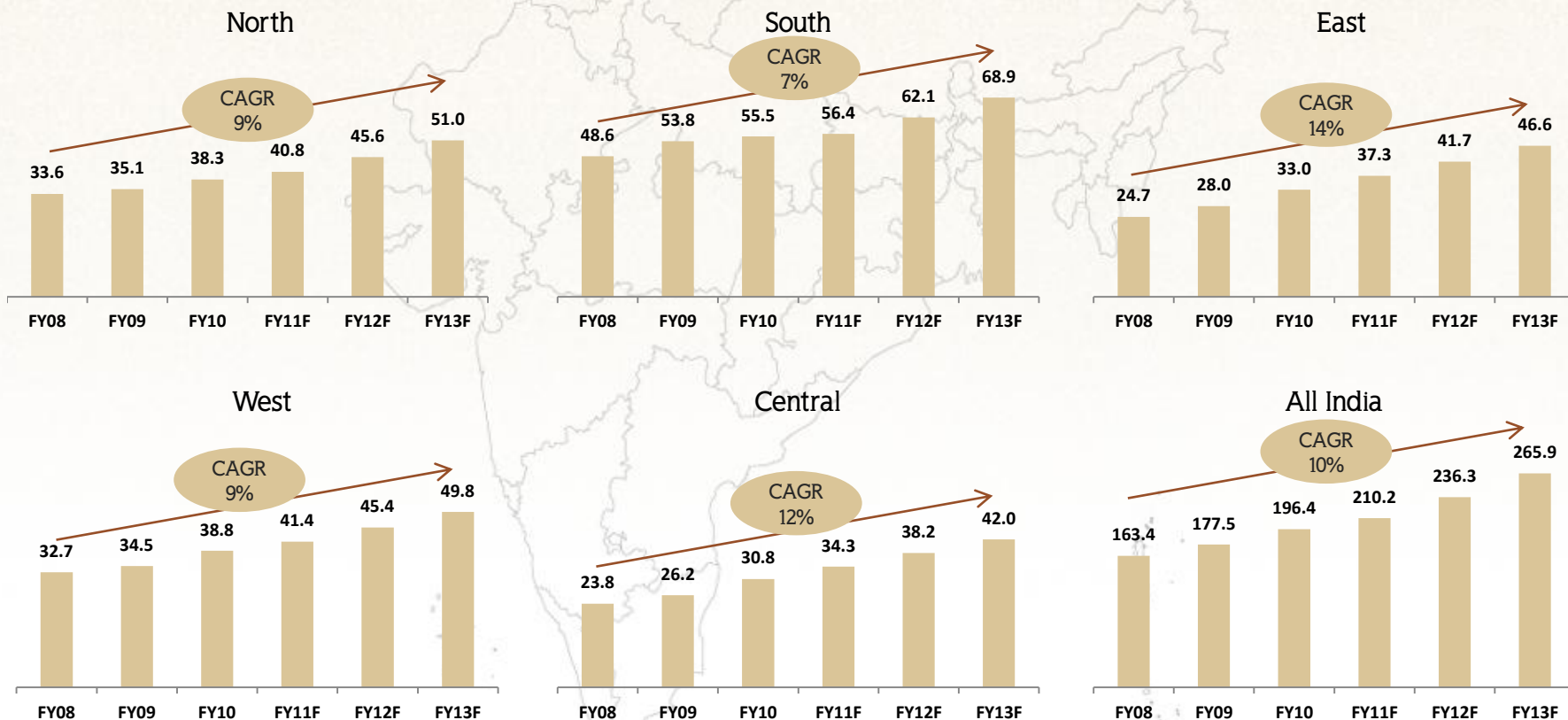
Total capacity addition in the Indian cement industry by geographical segments (mtpa)



Note: mtpa: million tonnes per annum
Source: CMA, Edelweiss, Aranca Research

... while the East and Central regions have high demand growth

Region-wise domestic consumption of cement (mtpa)



Note: mtpa: million tonnes per annum
Source: CMA, Edelweiss, Aranca Research

The mismatch leads to skewed inter-regional movement

- The surplus North and South regions are the leading suppliers of cement
- The East, West and Central regions face a deficit of cement, thus compelling purchases from the North and South
- Due to logistical issues, the South is the main supplier to the West, while the North is the main supplier to the Central region

Inter-regional movement of cement in FY10 (million tonnes)

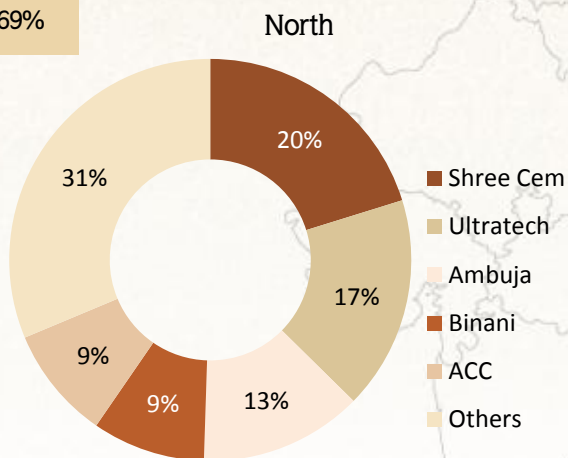
		Receiving regions					Total
		North	East	South	West	Central	
Supplying regions	North		0.12		3.35	3.83	7.30
	East						
	South	0.04	0.94		5.08	0.17	6.24
	West		0.12			0.27	0.39
	Central		3.33				3.33
	Total	0.04	4.52		8.43	4.28	

Source: CMA, Edelweiss, Aranca Research

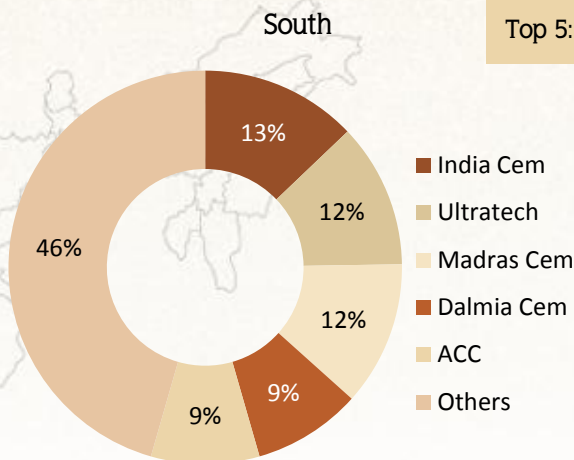
Market concentration is high across regions ... (1/2)

Market share by installed capacity (2010)

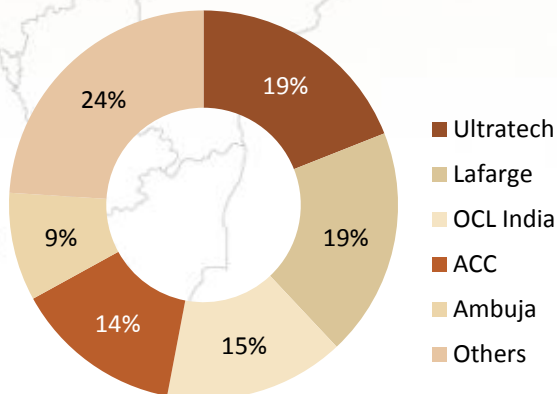
Top 5: 69%



Top 5: 54%



East



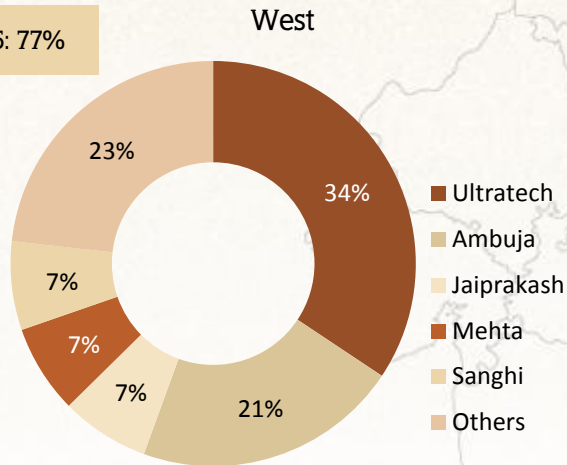
Top 5: 76%

Source: CMA, Kotak Institutional Equities, Aranca Research

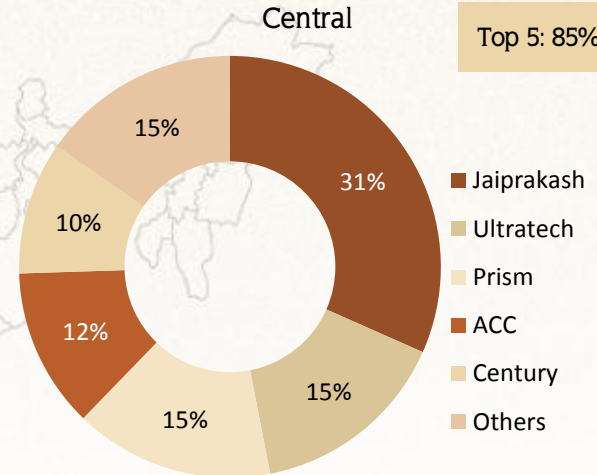
Market concentration is high across regions ... (2/2)

Market share by installed capacity (2010)

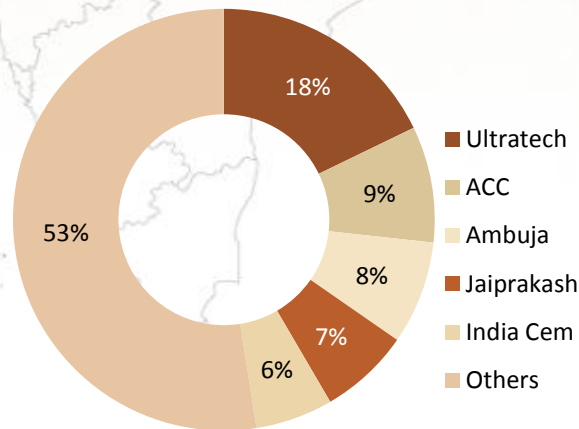
Top 5: 77%



Top 5: 85%



All India



Top 5: 47%

Source: CMA, Kotak Institutional Equities, Aranca Research

Notable trends in the cement industry

Increasing presence of Tier II cement players *

- Presence of Tier II cement players across regions is increasing, which helps to diminish market concentration of industry leaders
- Average capacity of Tier II players increased from about 5–6 mtpa in 2006 to 14 mtpa in 2010

Cost reduction through the use of alternate fuels **

- Major cement manufacturers in India are increasingly using alternate fuels, especially bioenergy, to fire their kilns
- This is not only helping to reduce production costs of cement companies, but is also proving effective in reducing emissions

Increasing sale of blended cement

- The proportionate sales of blended varieties of cement—Portland Pozzolana Cement (PPC) and Portland Blast Furnace Slag Cement (PBFC)—has risen over the years
- Blended cement constituted 69 per cent of the total cement sales in 2009–10, compared to 37 per cent in 2000–01

Notes: *Tier II cement players: Players other than ACC, Ambuja, and Ultratech with capacity more than 8 mtpa

** The Success Stories section includes cases of successful employment of alternate fuels in cement production to reduce production costs

Source: CMA, Kotak Institutional Equities, Indiabulls, Aranca Research

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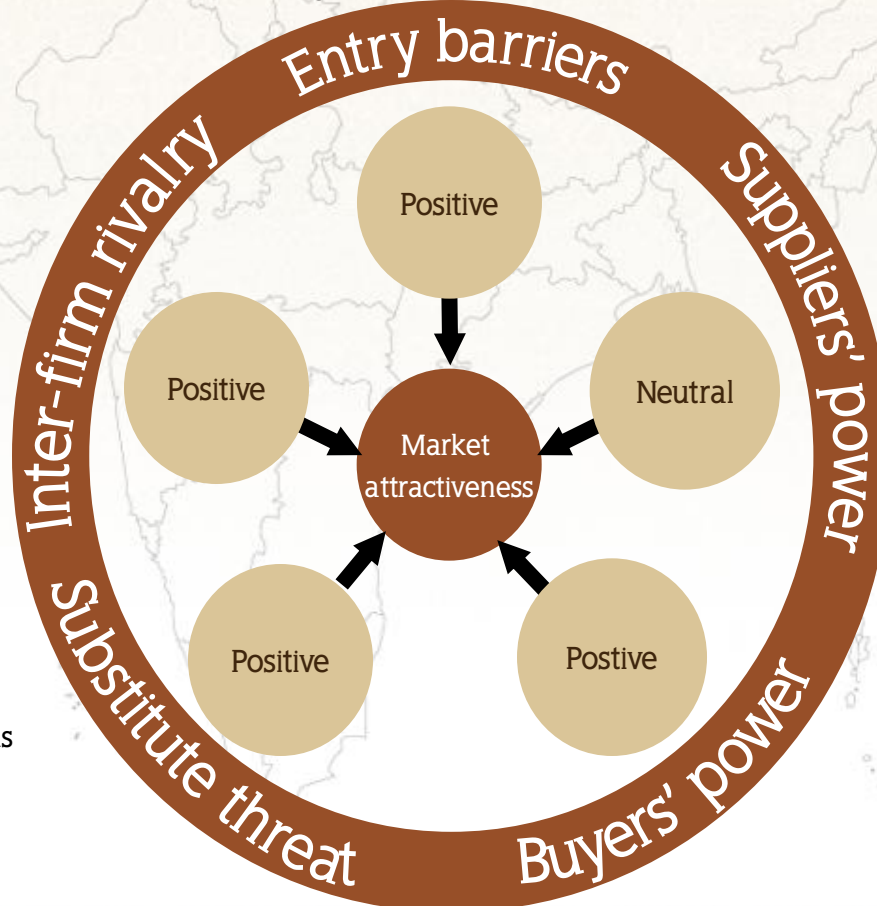
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Conducive industry forces support long-term attractiveness

- High – Huge capital investments required present substantial barriers to entry and achieving economies of scale

- Low – The Indian cement market is oligopolistic in nature, characterised by tacit collusion, where large players partially control supply for better price discipline

- Low – Cement, practically, has no substitutes



- Moderate – Cement players have to depend on the Railways for carriage outward and local coal companies for fuel, although diversification of freight options and fuel sources is diminishing the suppliers' power

- Low – Substantial market concentration among large players ensures low bargaining power of buyers

Strong demand drivers in the near term...

Housing growth

- The Housing segment accounts for a major portion of the total domestic demand for cement in India
- Between 2010 and 2014, demand for housing units is estimated to be 4.3 million, leading to a higher demand for cement for homebuilding
- Growing urbanisation, an increasing number of households and higher employment are primarily driving the demand for housing
- Initiatives by the government are expected to provide an impetus to construction activity in rural and semi-urban areas through large infrastructure and housing development projects

Infrastructure growth

- The government is strongly focused on infrastructure development to boost economic growth
- It plans to increase investment in infrastructure to USD1 trillion in the 12th Five Year Plan (2012–17), compared with USD514 billion under the 11th Five Year Plan (2007–12)
- Infrastructure projects such as Dedicated Freight Corridors as well as new and upgraded airports and ports are expected to further drive construction activity
- The government intends to expand the capacity of the railways and the facilities for handling and storage to ease the transportation of cement and reduce transportation costs

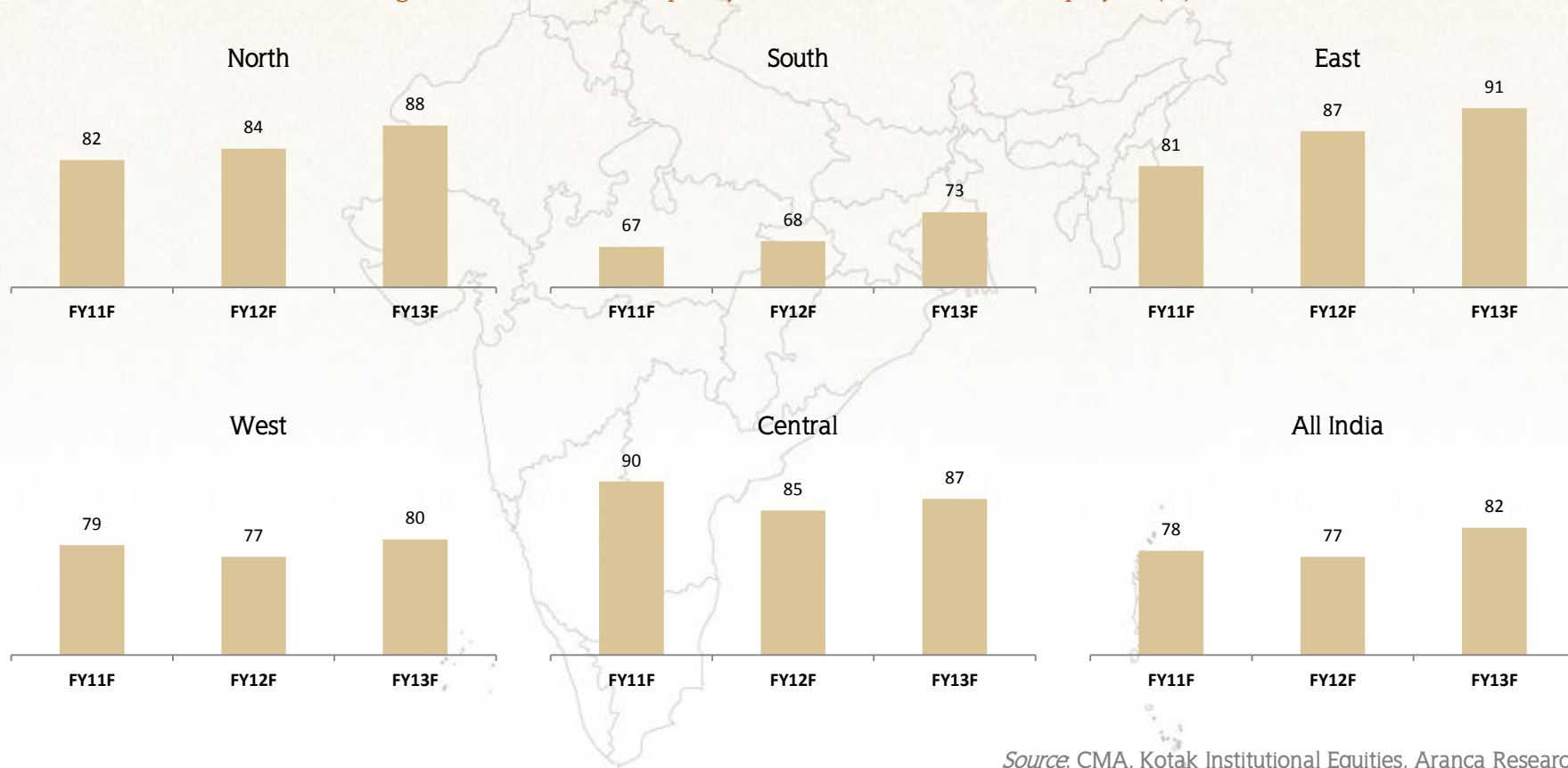
Commercial real estate growth

- The demand for Commercial Real Estate segments, comprising retail space, office space and hotels, as well as civic facilities including hospitals, multiplexes and schools, has been rising due to the growth in economy
- The demand for office space in India is being driven by the increasing number of multinational companies and the growth of the services sector
- Strong growth in tourism, including both business and leisure travel, has boosted the construction of hotels in the country
- Estimated demand by real estate segment between 2010 and 2014: Office (240 million sq ft), Retail (55 million sq ft), Hospitality (78 million room nights)

Source: Cushman & Wakefield, Aranca Research

... expected to boost capacity utilisation and profitability

Region-wise forecasted capacity utilisation levels of cement players (%)



Source: CMA, Kotak Institutional Equities, Aranca Research

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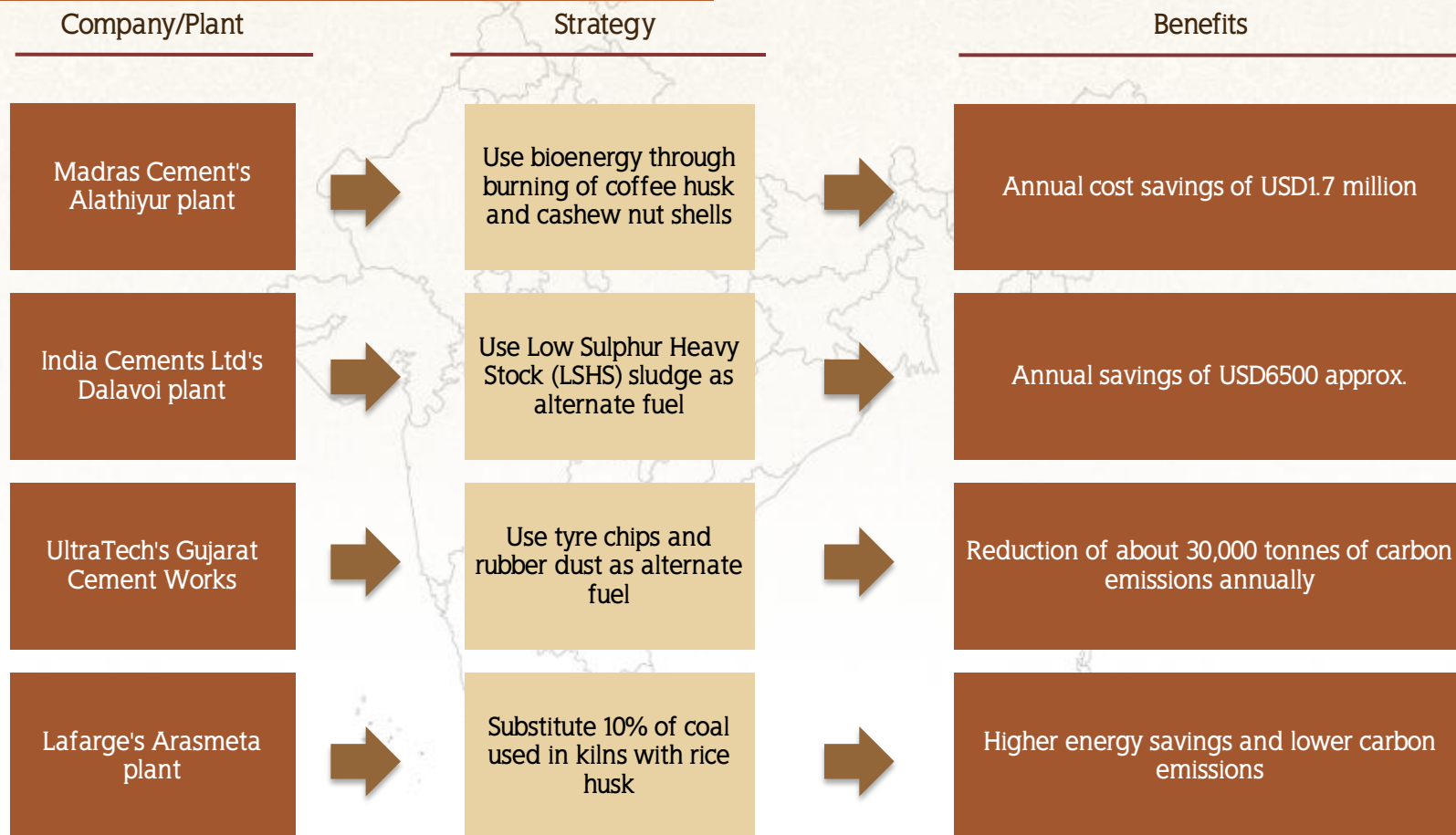
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Cases of successful use of alternate fuels in cement production



Source: CMA, Aranca Research

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North East India: A land of opportunities for cement firms

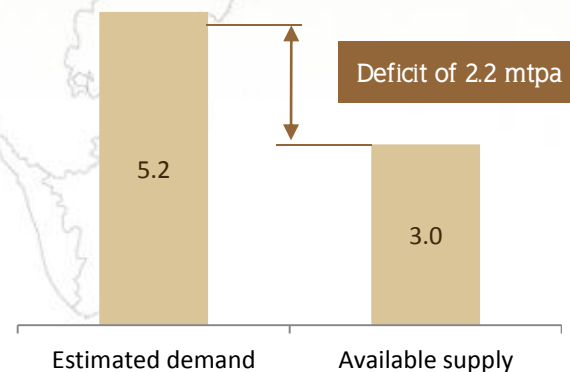
NE India: Cement demand

- The North East (NE) region has consistently been a cement deficit region over several years
- At present, cement demand in the NE is about 5.2 mtpa

NE India: Cement supply

- Cement manufactured locally is inadequate to meet the local demand for cement
- The deficit is met through cement purchased from other parts of India
- High transportation costs cause the landed costs of cement to increase considerably

NE India: Cement demand-supply gap

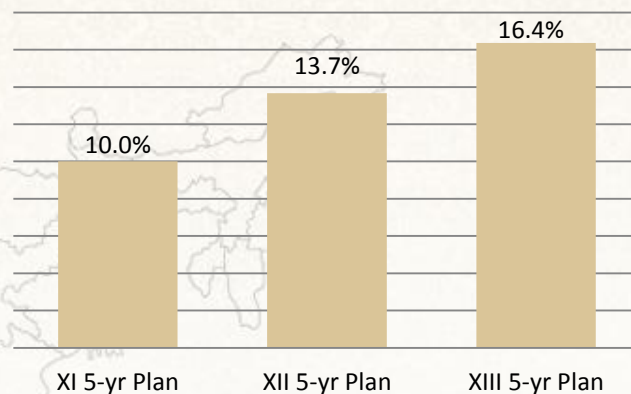


Source: Industry sources, Aranca Research
Note: mtpa: Million tonnes per annum

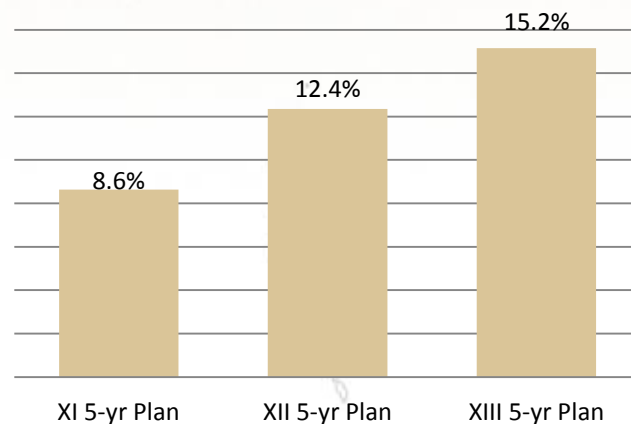
North East India: Demand drivers for cement

- The Government has approved a package of fiscal incentives and other concessions for the North East Region, namely the North East Industrial and Investment Policy, 2007, effective from 1 April, 2007
- The major policy and fiscal initiatives are expected to catalyze infrastructure and industrial development in the region, spurring the demand for cement

NE states projected GDP growth at constant prices



NE states projected per capita income growth



Source: North East Vision 2020 document, Aranca Research

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Industry associations

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Website: www.ncbindia.com

Glossary

- **CMA:** Cement Manufacturers' Association
- **GDP:** Gross Domestic Product
- **GoI:** Government of India
- **INR:** Indian Rupee
- **MTPA:** Million tonnes per annum
- **NE India:** North East India
- **FY:** Indian financial year (April to March)
 - So FY10 implies April 2009 to March 2010
- **USD:** US Dollar
 - Conversion rate used: USD1= INR48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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