

CEMENT

Sector Impact - Neutral

Background

- Cement consumption growth slightly slowed down to 8.4% in FY09. However, in the first nine months of the current fiscal, cement demand has zoomed with a growth rate of 14.1% on yoy basis.
- Among regions, the Eastern region has posted the highest growth in cement consumption followed by Northern and Central regions. Owing to the sluggish cement offtake, the Southern region has registered the lowest growth.

(Apr-Dec 09) (mn tonnes)	Capacity		Production		Consumption		Dispatch	
	FY10	Growth	FY 10	Growth	FY 10	Growth	FY 10	Growth
North	27.9	7.9%	24.5	19.4%	19.4	18.8%	24.5	19.9%
South	58.2	28.7%	43.2	8.3%	38.9	7.7%	43.1	8.0%
West	19.1	11.0%	14.8	8.0%	19.7	11.7%	14.8	7.8%
East	19.6	18.9%	15.5	17.4%	18.5	24.4%	15.4	17.1%
Central	17.7	0.0%	18.1	17.4%	17.9	17.5%	17.6	17.1%

Source: Cement Manufacturers Association (CMA)

Regional numbers provided above are adjusted by excluding numbers of ACC and Ambuja.

- After registering a capacity addition of about 52 mn tonnes during the period FY08-09, the industry continued to add capacity of about 15 mn tonnes in the first nine months of this fiscal. As a result, the operating rate of the industry has declined to a level of 82% compared to 84% in the same period last year.
- Average monthly prices of cement were higher by about 5% in the first half of FY10. However, during the third quarter of this fiscal, average cement prices have fallen across all the regions. The Southern and Western regions have registered the highest fall of 6% on qoq basis.

Budget Proposals

1. Provision of Rs.1,73,552 crore for the infrastructure development in the country which accounts for over 46% of the total plan allocation.
2. Allocation for the road sector increased by over 13% from Rs.17,520 crore to Rs.19,894 crore.
3. Allocation for Railways increased to Rs.16,752 crore which is about 6% higher than the last year.

4. Under Bharat Nirman, Rs.48,000 crore allocated for the rural infrastructure programmes.
5. Unit cost under Indira Awas Yojana (IAY) increased to Rs.45,000 in the plain areas and to Rs.48,500 in the hilly areas. Allocation for this scheme increased to Rs.10,000 crore.
6. Allocation of Rs.1,270 crore for Rajiv Awas Yojana (RAY) as compared to Rs.150 crore last year.
7. Scheme of 1% interest subvention on housing loan upto Rs.10 lakh, where the cost of the house does not exceed Rs.20 lakh - extended up to March 31, 2011. Also, Rs.700 crore provided for this scheme for the year 2010-11.
8. Allocation for Housing and Urban Poverty Alleviation raised from Rs.850 crore to Rs.1,000 crore in 2010-11.
9. Hike in excise duty on cement & clinker as per the details given in the duty structure below.
10. Imposition of Clean Energy Cess of Rs.50 per tonne on production of domestic coal and also on imported coal.

Duty Structure

(Rs. per tonne)	Existing	Proposed
EXCISE DUTY		
<ul style="list-style-type: none"> • Retail <ul style="list-style-type: none"> • Price below Rs.190 per 50 kg bag • Price above Rs.190 per 50 kg bag 	<p style="text-align: center;">230 8% ad-valorem</p>	<p style="text-align: center;">290 10% ad-valorem</p>
<ul style="list-style-type: none"> • Bulk • Clinker 	<p style="text-align: center;">230 or 8% ad-valorem whichever is higher</p> <p style="text-align: center;">300</p>	<p style="text-align: center;">290 or 10% ad-valorem whichever is higher</p> <p style="text-align: center;">375</p>

Excluding: 2% Education cess and 1% secondary & higher education cess

Budget Impact: Industry

1. Cement demand will continue to remain buoyant on the back of government's focus on infrastructure development which accounts for about 25% of the total cement consumption in the country.
2. Increased allocation to programmes like RAY and IAY and also extension of interest subvention scheme on housing loan likely to boost the housing demand in semi-urban and rural areas which will augur well for the cement industry.

3. Hike in excise duty will increase the prices of cement by about Rs. 3-5 per bag across different regions. With the sustained cement demand, rise in the excise duty will be passed on to the consumers. However, cement companies operating in the oversupply markets like South will find it difficult to pass on the hike in excise duty.
4. Imposition of Clean Energy Cess on coal will have a very negligible impact on the cost structure of cement companies.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
ACC	Cement	100	1 to 10	◄►
Grasim	Cement	56	1 to 10	◄►
	VSF	20		
	RMC	6		
	Others	18		
Ambuja Cements	Cement	100	1 to 10	◄►
UltraTech	Cement	93	1 to 10	◄►
	RMC	7		
India Cements	Cement	100	1 to 10	▼

Legends:

▲▲	Highly Positive	▼	Marginally Negative	◄►	Neutral
▲	Marginally Positive	▼▼	Highly Negative	∅	No Proposals