

Opportunity landscape

As a consequence of the pandemic and subsequent lockdowns, many cement manufacturers decided to either cut down or defer their capital expenditure. This was due to the resulting fall in demand and companies looking to conserve capital. However, the cement industry has seen a comeback in the initial months of FY2021 with many players announcing expansion of capex guidance plans.

FY2021 saw a fall in cement production close to 11-13% and capacity utilization going down by 50-55%. However, the future is optimistic with the government increasing its spend on infrastructure due to its multiplier effect on the economy. In addition to greater institutional and government investment, there is growing demand in both the residential and commercial segments.

Cement production in India is projected to reach

**400
MnT**

by 2024, growing at a CAGR of 4%

Consumption of cement expected to grow at a CAGR of

4.5%

by 2024, outweighing the projected growth rate of production during the same period

A major hurdle that stands in the way of cement demand and supply is the second wave of the coronavirus that has impacted the country gravely. Despite this, overview of the sector in the long term is favourable.

Renewed focus of the government on infrastructure development

Infrastructure development is one of the main focus areas of the central and state governments. As the sector supplements the growth of other industries, investment in this segment has assumed critical importance. Leading from this, even before the pandemic hit the Indian economy, the Government of India had set its sights on pushing through several projects such as building 100 Smart cities. The National Infrastructure Pipeline, first announced in 2019, has been expanded to include 7,400+ projects.

₹ 5,54,000 Crores

Allocation in Union Budget towards capital expenditure for FY2022

₹ 1,00,000 Crores

The cost of 217 projects completed under the National Infrastructure Pipeline

Southern India has an incredible pool of resources and robust infrastructure. Key infrastructure projects include the Bengaluru-Chennai expressway as well as a 464 km highway passing through Chhattisgarh, Odisha and North Andhra Pradesh. Upcoming projects include 3,500 km of highway projects in Tamil Nadu at an investment of ₹ 1.03 Trillion and 1,100 km of highway in Kerala at an investment of ₹ 650 Billion.

In addition to this, there is a plan in motion to enhance the capacity of Indian Railways as well as facilities for handling and storage. This will make cement transportation more convenient and at the same time cut back on transportation and logistics cost (which is one of the biggest expenses for cement manufacturers). Cement sector demand directly correlates to the boom in infrastructure.

Additional outlay of ₹ 18,000 Crores under Pradhan Mantri Awas Yojna (Urban)

This amount is beyond what was provided for the scheme by the previous budget of 2020-21. The funds will be disbursed through additional allocation and extra-budgetary resources. The scheme, intended to benefit the affordable housing mission of the government and boost the real estate sector will supplement the growth of the cement industry in the process.

Increased demand from affordable housing

The housing segment (inclusive of low cost housing) constitutes close to 68% of the total demand for cement. Real estate markets in Tier-1 cities and metros are opening up. A by-product of the 'Work from Home' culture is that more people are looking to buy spaces of their own as well as scale up their existing spaces. This has resulted in renewed demand for cement and building materials. Other factors having an impact and consequently influencing demand include the availability of cheap housing loans, extension of CLSS, focus of realtors on completing existing and stalled projects, etc.

Affordable houses accounted for 40% of the demand in 2020. There is growing demand for houses costing between ₹ 40-50 Lakhs in tier 2 and 3 cities. The demand for affordable housing is further supplemented by the extension of the income tax benefit by another year for both buyers and developers.

Revival in urban India

There is a renewed demand in urban India resulting from the rise of low cost housing and increase in government infrastructure projects. Construction in urban areas picked subsequent to the initial lockdown and as a consequence of pent-up demand. Similarly, multinational corporations and the IT sector are driving the demand for commercial spaces and office parks. Another factor influencing demand is gaining momentum in the non-trade sector as construction involving institutional projects, such as building of roadways and metros, resumed. The government aims to utilise the outlay under the urban housing scheme to help commence work on 12 Lakhs houses, complete 18 Lakhs houses, and create 78 Lakhs new jobs as well accelerate demand for both steel and cement.



Demand driven by rural, semi-urban and retail markets

There has been increased demand from rural areas due to the increased availability of labour. Subsequently, there has also been a rise in the construction of rural infrastructure and low cost housing. During the pandemic, consumption and demand grew in the rural, semi-urban and retail markets. Demand in the retail market is driven by housing and repairs/modifications. Rural demand is believed to be the major driving force in cement consumption. One possible explanation for this could be favourable monsoons leading to greater cash inflow in the rural economy. This, in turn, has, and will continue, to lead to greater expenditure on infrastructure.

₹ 40,000 Crores
Budget allocation for rural infrastructure development in FY2022



Availability of raw materials

Limestone, coal, minerals, and energy form the primary raw materials for cement production, and their uninterrupted supply is crucial for sustaining the cement sector. Between 2010 and 2019, coal's share in India's energy mix has grown from 40% to 44%, with coal being the single largest contributor to the fuel mix. As of today, coal accounts for nearly half the energy produced in the country. Coal supply and end use attract one-third of investments towards energy.

Coal is essential to the country's considerable steel manufacturing capabilities and the fast-advancing cement industry. Over the last decade, production of coal has grown by 100 Million Tonnes (coal equivalent). Investment has doubled with the government's objective of eliminating imports. The objective of reaching 1.5 Billion Tonnes in terms of production has been pushed back due to supply related challenges. Investment by domestic players is increasingly low in capital due to considerable overcapacity in the coal value chain. India has evolving energy demands but the impact

of emissions is weighing in on coal production and use. There is greater competition from renewable energy sources and primarily solar power. In addition to this, the quality of coal produced in the country is relatively low and the pandemic has only fuelled the challenges faced by the segment.

SCL's advantage

We have strong reserves of limestone, including over 404.21 Mnt at Mattampally, over 161.96 Mnt at Gudipadu (SCRL) and 63.047 Mnt at Jeerabad (Satguru). We also have easy access to fuel i.e. coal, while our packaging material is sourced from a Group entity.

17.68%

Renewable raw materials utilised.

Material consumption 2020-21 (MnT)

Main Raw Material		Additives	
Lime Stone	32,36,918	Iron Ores	25,309
Lime Stone (Purchased)	2,007	Laterite(Fe)	1,37,306
Lime Stone (PI) in OPC	66,396.75	Laterite(Al)	76,708
Clinker	5,50,561.475	Mineral Gypsum	8,615.641