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Housing sector, infra spend to boost FY22 cement demand

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Faster-than-expected recovery in the Housing sector along with Government's thrust on infrastructure spending is expected to boost cement demand by 10-12 per cent in FY22.

The growth comes after cement demand declined in FY20 by (-) 1 per cent and (-) 11 per cent in FY21.

"Pent-up demand and low interest rates have driven the realty sector amid the pandemic, and, the government's push towards big-ticket infrastructure projects has increased the growth momentum for the highways sector," said ratings agency Brickwork Ratings (BWR).

"An improvement in these two sectors, which are among the largest consumers of cement, indicates a strong recovery path for the cement sector."

According to the agency, growth momentum is likely to continue, and production is expected to grow by lower double digits in FY23.

"A strong demand recovery shall support cement prices as the prices of raw materials such as limestone and pet coke have already witnessed an upward trend."

"Furthermore, with an increase in power, freight and logistics costs, BWR expects overall cement prices to increase by 6-8 per cent year-on-year."

As per the agency, limestone price account for around 60 per cent of the total raw material cost.

"As of August 2021, limestone prices had increased by 30-32 per cent in FY22 from FY21 levels. Apart from these overheads, the increase in fuel, power and freight costs has also weighed on the profit margins."

"The recent increase in diesel and pet coke and coal prices has had a major impact on cement companies' Earnings before Interest, Taxes, Depreciation, and Amortisation (EBITDA) margins."

Besides, in FY22, BWR expects the EBITDA margins for cement players to contract by 40-60 bps on account of the rise in input costs for the companies.

"Although the companies have also raised cement prices, the increase in these prices is not in the same proportion as the input costs; the companies are, therefore, taking a hit on the margins to safeguard higher volumes."