

**Press Release**

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**Chunky price hikes by cement makers after a long drought**

Steep price hikes, cost deflation to reverse two years of margins contraction

After a protracted stall, cement retail prices soared in February, with the hike at the pan-India level estimated at Rs 24-25 per bag (50 kg) in the last week of the month compared with the corresponding week of January.

The southern region saw the steepest hikes, at Rs 52 per bag in Bengaluru, Rs 62 per bag in Chennai, and Rs 77 per bag in Hyderabad.

Hikes in other regions were less sharp, at Rs 26 per bag in the west (led by robust hike in Pune), Rs 12 per bag in the east, Rs 7 per bag in the central region, and a meagre Rs 4 per bag in the north. Prices struggled to rise in north given moderate growth in demand vis-a-vis other regions and the ongoing ramp-up of acquired assets.

This upends the downtrend in cement prices seen since the rollout of the Goods and Services Tax.

Even in the current fiscal, cement prices had seen a sedate run, declining 2.5% over April and January despite healthy demand growth of 12.5-13% in the nine months. A slew of capacity additions – totalling 27 MT – between the March quarter last fiscal and the third quarter this fiscal, coupled with ramp-up of acquired assets kept price hikes away despite robust rise in volumes during this period.

The recent steep hikes in cement prices will boost the operating profitability of manufacturers even as costs are descending and demand growth ascending.

**Says Prasad Koparkar, Senior Director, CRISIL Research, “The price hikes, coupled with falling costs and rising demand growth, will enable 200-250 bps on-year improvement in margins in the current quarter. That said, sustainability of these prices beyond the current quarter appears uncertain as demand momentum is seen coming off in the first half of next fiscal given the impending elections. However, price cuts on these massive hikes would still ensure reasonable price growth of 3-5% through fiscal 2020.”**

Incremental demand is expected to outpace incremental supply by 5-5.5 MT in fiscal 2020, aiding modest price hikes. CRISIL Research expects 22-24 MT of gross capacity additions next fiscal, with almost 65-70% of these commissioning in highly competitive markets of the south and the east.

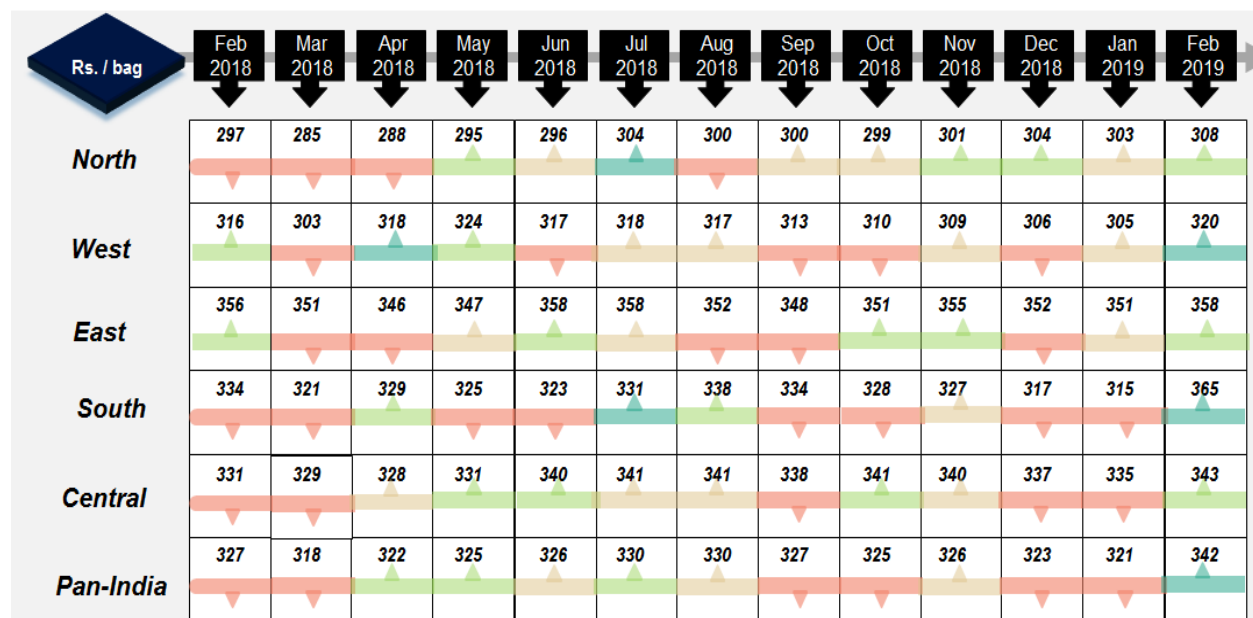
Meanwhile, the cost of power & fuel and freight have been trending down. Petcoke prices have softened to \$91/tonne in the current quarter compared with \$110/tonne in the corresponding quarter a year ago.

CRISIL Research foresees power & fuel costs correcting by 4-6% this fiscal, led by petcoke and coal. Freight expenditure is also expected to climb down with falling prices of diesel and relaxation of axle-load norms. The new axle load norms would potentially aid 5-10% savings on road freight, especially from the primary freight side, depending on how it is implemented at the state level.

**Says Rahul Prithiani, Director, CRISIL Research, “Margins of cement players have been in the contraction phase for two years, and are estimated to shrink 150-200 bps in the current fiscal, at 16-16.5%. With modest realisations growth and cost deflation, we expect the trend to reverse next fiscal, with the industry seeing healthy expansion of 150-250 bps. However, the election outcome and its impact on demand growth would be key monitorables for sustenance of prices and thereby profitability.**

## Annexure

### Regional cement price trajectory



Source: CRISIL Research

Note: Aforementioned cement prices are reflective of trade retail sale prices for category A brands polled across 16 cities (for 50 kgs bag). These are average prices for the month (weekly averages). For instance, though the average price for February in India was higher by Rs 21/ bag, prices in the fourth week of the month were higher by Rs 24-25 compared with the fourth week of January.

For further information,

## Analytical contacts

### Prasad Koparkar

Senior Director  
CRISIL Limited  
B: +91 22 3342 3000  
[prasad.koparkar@crisil.com](mailto:prasad.koparkar@crisil.com)

### Rahul Prithiani

Director  
CRISIL Limited  
B: +91 22 3342 3000  
[rahul.prithiani@crisil.com](mailto:rahul.prithiani@crisil.com)

## Media contacts

Saman Khan  
Media Relations  
CRISIL Limited  
D: +91 22 3342 3895  
M: +91 95940 60612  
B: +91 22 3342 3000  
[saman.khan@crisil.com](mailto:saman.khan@crisil.com)

Hiral Jani Vasani  
Media Relations  
CRISIL Limited  
D: +91 22 3342 5916  
M: +91 982003 9681  
B: +91 22 3342 3000  
[Hiral.Vasani@crisil.com](mailto:Hiral.Vasani@crisil.com)

Parmeshwari Bhumkar  
Media Relations  
CRISIL Limited  
D: +91 22 3342 1812  
M: +91 841184 3388  
B: +91 22 3342 3000  
[Parmeshwari.Bhumkar@ext-crisil.com](mailto:Parmeshwari.Bhumkar@ext-crisil.com)

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