PRESS RELEASE

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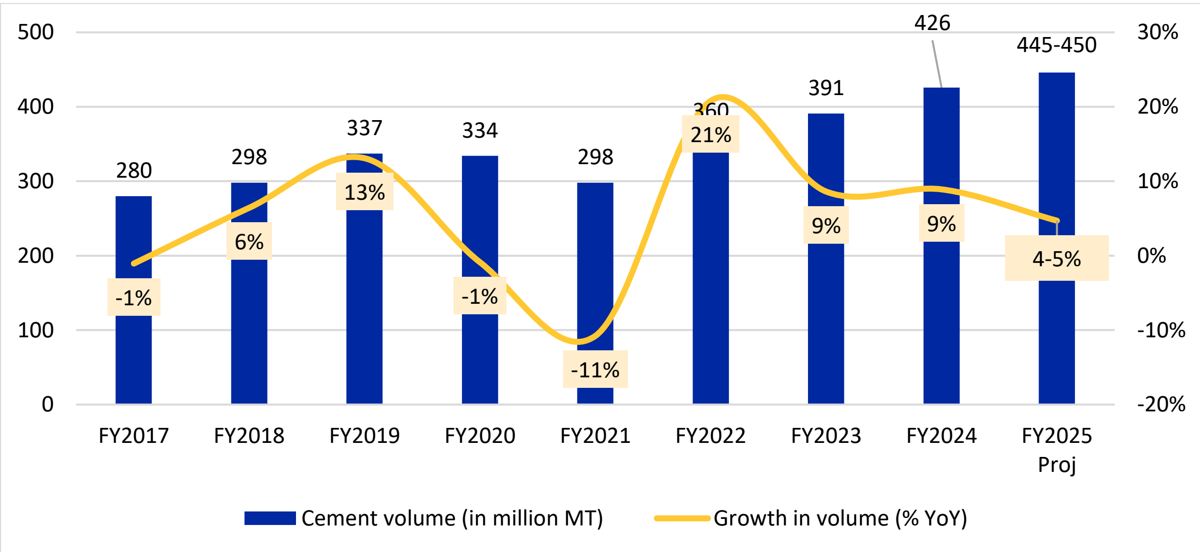
Growth in cement volumes to moderate to 4-5% YoY in FY2025: ICRA

- ***Pick-up in infrastructure spending will drive cement volume growth in H2 FY2025***
- ***Pressure on realisation will dampen operating margins of cement companies by 130-180bps in FY2025***

ICRA has revised its projection for the YoY growth in cement volumes in FY2025 to a modest 4-5% to 445-450 million MT from its earlier forecast of 7-8% released in July 2024, on account of slower-than-expected ramp-up in construction activity across the housing and infrastructure sectors, post the General Elections. The All-India cement volumes witnessed a muted rise of 2% YoY to 212 million MT in H1 FY2025 on account of the slowdown in construction activity in Q1 FY2025 during the elections, followed by the ample monsoon rainfall in Q2 FY2025. The likely improvement in farm cash flows, backed by healthy monsoons, an upbeat kharif output and elevated replenishment levels of reservoirs supporting the rabi crop sowings, are expected to boost the rural consumption in H2 FY2025, which should aid the cement demand for the rural housing segment, in ICRA's view.

Additionally, the sustained healthy demand for urban housing should support the pick-up in cement volumes from the housing segment. The infrastructure segment is likely to witness greater traction in H2 FY2025, supported by an increase in Government spending on infrastructure projects. The Government of India's (GoI's) gross capex spend in H1 FY2025 remained subdued at Rs 4.0 trillion (YoY contraction of 19%), against the revised Budget Estimate of Rs 11.1 trillion for the full year FY2025. The substantial headroom for the GoI's capital spending in H2 FY2025 to meet the FY2025 revised Budget Estimate, is likely to provide a fillip to construction activity and aid in supporting the allied input sectors like cement.

EXHIBIT 1: YEARLY TRENDS IN CEMENT VOLUMES



Source: ICRA Research

The cement prices remained under pressure, declining by 10% YoY to Rs 330 per bag in H1 FY2025 due to muted demand and oversupply in the market. While the lower sales realisations were partially offset by moderation in costs of coal and pet coke, which eased by 38% and 13% YoY in H1 FY2025, respectively, the OPBDITA/MT of cement companies in ICRA's sample set remained subdued and contracted by 19% YoY to

Rs 722/MT. On a YoY basis, the operating profit margins declined by 375 basis points to 12.0% in Q2 FY2025 and by 192 bps to 14.0% in H1 FY2025.

Commenting on the margins for FY2025, **Tushar Bharambe, Assistant Vice President and Sector Head, Corporate Ratings, ICRA,** said*: ICRA anticipates the operating performance of the cement companies to improve from Q3 FY2025 onwards, supported by the likely price hikes, uptick in cement volumes aided by increased Government spending on infrastructure projects, pick-up in construction activities, and stable input cost pressures – primarily pertaining to power and fuel. Despite the likely improvement in H2 FY2025, the OPBITDA/MT[1] of the cement companies in ICRA's sample[2] set is estimated to remain under pressure for full year FY2025, declining by 12-15% on a YoY basis to Rs 820-850/MT. ICRA's revised estimate of OPBDITA/MT is lower by Rs 150-180 /MT compared to its earlier forecast of Rs 975-1000/MT released in July 2024. Consequently, the operating profit margins for FY2025 are likely to ease by 130-180 bps to 15.6-16.1% from 17.4% in FY2024."*

ICRA estimates the capacity addition in the cement industry to be at 70-75 million MT during FY2025-FY2026, of which 33-37 million MTPA is expected to be clinker capacity and remaining grinding capacity. Around 33-35 million MT capacity is likely to be added in FY2025 (FY2024: 32 million MT), while 37-39 million MT addition is expected in FY2026. The eastern and southern regions are projected to lead the expansion during FY2025-FY2026 with a combined addition of 38-40 million MT capacity, equally split between the two regions. The capacity utilisation is estimated to remain moderate at 70% in FY2025 on an expanded base (FY2024: 70%).

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[1] *OPBIDTA/MT – Operating profit before interest, tax, depreciation and amortisation/metric tonne*

[2] *ICRA's sample includes ACC Limited (ACC), Ambuja Cements Limited (ACL), JK Cements Limited (JKCL), JK Lakshmi Cement Limited (JKLC), The India Cements Limited (ICL), The Ramco Cements Limited (RCL), UltraTech Cement Limited (UCL), Dalmia Bharat Limited (DBL), Birla Corporation Limited (BCL), Shree Cement Limited (SC), Sagar Cements Limited (SCL), and Heidelberg Cement India Limited (HCL)*

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