Emkay Research

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Cement Sector

Event Update

Govt further tightens noose on cement producers

In a move to further rein in inflation and make curtail cement prices, the Govt hasscrapped the countervailing duty and additional customs duty on imported Portland cement. With this move the government has further tighten its noose on the cement producers and compel them to moderate cement prices. We do expect that cement industry would fight this move. However for government's stance to soften on cement prices, the industry might have to agree to government's proposal of moderating cement prices.

Impact on cement prices

Upfront the move is negative for the sector and likely to impact domestic cement prices. In order to see the impact of the Govt ruling on the import parity price we have worked out two scenarios in the following exhibit, one with CVD and other without CVD.

		Pre CVD cut	Post CVD Cut
A	Price (FOB China)	55	55
B	Freight cost	16	16
C	Insurance	1.4	1.4
D=A+B+C	Total cost at Indian Port	72	72
E	Re/USD	45	45
F=D*E	Price in INR	3259	3259
	Import Duty	0.0%	0.0%
G	Import duty INR	0.0	0.0
H	ADD:		
	Countervaling duty	408.0	0
	Additional customs duty	130.4	0.0
I=F+G+H	Price at Warehouse	3797	3259
	Sales tax	475	407
	Port Handling & Clearing Charges	100	100
	Secondary freight	120	120
	Loading and unloading	40	40
J	Sub total	735	667
K=I+J	City gate prices	4532	3926
L	Octroi	91	79
M=K+L	Landed cost	4623	4005
	Price per Bag	231	200
	Ruling prices	225	225
	Premuim/(Discount) to imported cement	-3%	12%

(Source: Industry and Emkay Research)

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Import parity price could come down by Rs30 per bag

With governments recent move the import parity price that had come down by Rs20 per bag on account of scrapping of customs duty, would further come down by Rs30 per bag to almost Rs200 per bag. This would narrow down the price differential and in effect would mean that imported cement would be significantly cheaper to current average retail prices of Rs225 per bag. With import parity price of Rs200, the player in the coastal regions like Gujarat, Mumbai region etc could be affect. For example players like GACL (3 million tonne capacity near coastal regions) and UTCL (5.3 million tonne capacity near coastal regions) supply cement in these coastal regions.

Pricing power for cement manufacturers could weaken

With narrowing price differential between domestic prices and import parity prices of cement and with Govt also continually acting as a watchdog, it seems that pricing power of domestic cement manufacturer could weaken further. Its is also to be noted that the industry is expected to add approximately 70 million tones of capacity by FY2009. This essentially means that supply is expected to increase at a CAGR of 11.8% against cement consumption CAGR of 10%.

Although we believe because of infrastructure bottlenecks at Indian ports, a significant amount of cement imports are not possible, the import parity price might act as a reference pricing point for price of cement. We continue to have a negative view on the sector.