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Cost Escalation in Cement Industry

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Inflation marred cement industry facing huge rise in input cost, says AEP

Cement industry facing the charges of cartelization, has borne a sharp rise of 42 per cent in its raw material cost in the fourth quarter of fiscal 08 even as the wholesale prices of cement surged by 8.5 per cent during this period.

As the inflationary pressures across commodity segments have gripped the economy, cement seems to be one of the worst hit sectors as the seven prominent industry players have reported 42 per cent jump in the raw material cost against 25 per cent increase in sales in the last quarter of fiscal 08, revealed an Assocham Eco Pulse (AEP) study on 'Cost Escalation in cement industry'.

The AEP analyzed that the key raw materials used in production of cement have recorded a huge rise in prices. The wholesale prices of limestone, a key ingredient for cement manufacturing, have climbed by 13.9 per cent in first three months of the year 2008. Fire clay has risen by as much as 30 per cent.

The power and fuel cost, which constitute 60 per cent of the total operating expenditure of the cement companies have increased by 24 per cent in the fourth quarter. This is on account of the 10 rise in coal prices.

Cement Industry Statistics

	Q-on-Q rise in Q4, FY08
Raw Material Cost*	45 per cent
Cement prices	8.5 per cent
Limestone prices	13.9 per cent
Fire Clay prices	30 per cent

*based on profit and loss statements of top seven cement companies

Owing to high input cost, the top three cement firms including Grasim Industries, Ambuja Cement and ACC, accounting for one-third market share of industry, have registered minimal or no growth in their bottom lines in the last quarter of financial year 2007-08.

Ambuja Cement has reported 42 per cent decline despite 18.6 per cent growth in top line. Its raw material cost was up by 68 per cent.

ACC Ltd with about 11 per cent market share has witnessed 7.2 per cent growth in sales with no growth in net profit.

Grasim Industries, whose three-fourth revenue comes from cement segment, recorded a rise of 26 per cent while sales grew by 18.7 per cent. The net profit growth was restricted to nine per cent.

Instances of unbearably high raw material costs were found in other cement companies as well. Ultratech Cement recorded 35 per cent rise in its raw material cost in Q4 with only 9.3 per cent growth in sales. The increase in input cost was 86 per cent in case of Binani cement and 51 per cent per cent in Dalmia Cement.

But at the same time cement remains one of the highest tax items in the country. The differential excise duty structure which was introduced in the Union Budget of fiscal 2007-08, was further revised upwards in the central budget for fiscal 09, wherein excise duty on bulk cement was increased from previous Rs. 400/- per tonne to '14 per cent or Rs.400/- per tonne whichever is higher'. Also, the excise duty on cement clinkers was raised from Rs.350 per tonne to rs.450 per tonne.

Under the higher duty regime, the cement production growth declined from 9.5 per cent in April-February 2006-07 to 7.5 per cent in the corresponding period of the financial year 2007-08.

The AEP stated that continued rise in the raw material cost of the cement companies may prove detrimental to their expansion plans in view of their inability to share the cost burden with the consumers. Most of the companies are working at 90-100 per cent capacity while many of them plan to raise their capacities in view of the huge demand for cement arising from housing and infrastructure projects.

The Study was done by Assocham Research Bureau on the basis of the profit and loss statements of the top seven cement companies whose combined market share is more than 45 per cent. The wholesale prices of various commodities were based upon the WPI index maintained by the CSO.