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INDIAN CEMENT SECTOR

Cement industry going through a wave of consolidation

MAY 2024

Agenda

1 Reasons for consolidation

2 Increase in consolidation – Timeline

3 List of mergers and acquisitions

4 Outlook

5 ICRA Ratings

Highlights

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The market share of top five cement companies increased from 45% as of March 2015 to 54% as of December 2023 and is expected to further surge to 55% as of March 2025, indicating consolidation in the cement industry.

Backed by healthy demand prospects for the cement sector, large cement companies are looking to increase their capacity and maintain market share through organic and inorganic expansions. While organic growth is expected to continue in the medium term, cement companies are also preferring the inorganic route (either acquisitions or mergers) leading to consolidation in the industry.

The market share of top five cement companies increased to 54% as of December 2023 from 45% as of March 2015 and is expected to further grow to 55% as of March 2025. Eastern and western regions are leading the consolidation with a likely rise in the share of top five cement players by 22-25% from FY2015 to FY2025. Southern India, though highly fragmented, may also witness some consolidation with increase in share of the top five cement companies from 40% in FY2015 to 50% by FY2025.

Consolidation leads to synergies in the form of cost reduction and improvement in operational efficiency. The acquirer gets access to ready-made capacity, limestone reserves and prevents companies from the hassle of longer gestation periods. There were 15 mergers and acquisitions (M&A) in the last nine years with the average cost of the M&A ($80/MT) being lower than the cost of setting up an integrated greenfield cement plant ($110–120/MT) leading to capex cost savings.

ICRA's outlook on cement sector is Stable. In FY2025, revenues are expected to increase by 9-10% and operating margins are likely to improve by 80 -100 bps to around 16.8-17.3%. The overall debt levels may be higher by 20% in FY2025 to fund the ongoing capex. However, with a possible increase in operating profits, the debt protection metrics are likely to be comfortable, with leverage (TD/OPBIDTA) and debt coverage metric (DSCR) of 1.3-1.4x and 2.7-2.8x, respectively.

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