

# [Indian region. the prime factor leading to such](https://assignbuster.com/indian-region-the-prime-factor-leading-to-such/)

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Indian cement industry is the second largest cement producerin the world after China; ahead of the US and Japan, with a total cementproduction capacity of ~420 million tons per annum (MTPA) as of June 2017. Thisaccounts for 6. 7 per cent of world’s total cement output.

The top 210 largeplants in India alone contribute 83 per cent of total capacity. Out of these210 plants, 77 are situated in Andhra Pradesh, Rajasthan and Tamil Nadu. Further, private sector companies contribute majorly in the total production capacitywith over ~98 per cent share and the remaining ~2 per cent contributed bypublic sector companies. Top 20 cement companies account for almost 70 per centof the total production of cement.  Coming to the price trend in cement industry, overall retailcement prices have witnessed a hike of `12 per bag in Q2FY18. This was led byjump in the price by `36 in western region and `15 in the southern region. Theprime factor leading to such a hike was the increasing production cost, i. e.

rise of 13 per cent in pet coke price. Risingpet coke prices and change inregulations led to higher raw materialcosts Almost 65 per cent of the pet coke in India is consumed by thecement industry of which 40 per cent were imported. The recent government banon usage of pet coke in some states, which was later lifted, caused adisruption in cement production and efficiency. Also, import duty on pet cokewas increased to 10 per cent from 2. 5 per cent to reduce its usage. This hikeis expected to affect the operating margins of cement companies, includingAmbuja (62% usage), Ultratech (74%), India Cement (73%), JK Lakshmi (80%), Shree Cement (100%). The distress had led few cement makers to change their rawmaterial from pet coke to coal for better power and fuel usage efficiency.  Moreover, this shift had led to steep increase in its powerand fuel costs (15-25% increase).

Sandshortage further led to margin pressure Further, shortage in sandavailability has led to an increase in sand prices. This triggered illegalmining and government has imposed a ban on river sand mining which is affectingthe supply significantly. However, in MP, the government has permitted sandmining at selected sites, whereas in Bihar and Uttar Pradesh, the sluggishdemand is persisting. GST rate increase and Rera further impacted companies thegovernment has fixed GST rate of 28 per cent for cement, which was 24 per centearlier. However, the GST rate for cement’s raw material, limestone, has beenfixed at 5 per cent. Also, for coal, the GST has been fixed at 5 per cent, which was 11. 69 per cent earlier.

This cut in tax rate on coal will help cementcompanies in cost reduction and will lead to profitability in coming years. However, reduction in cost for the end-consumer will happen only if the cementcompanies pass on their savings to their consumers.