

Cement prices go through the roof

Cos Increase Prices By Rs 10-12 Per Bag To Offset Hike In Excise Duty & Diesel Rates

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IN WHAT could be the highest-ever price rise in the history of Indian cement industry, companies across all capacities, have hiked the price of the key building commodity in the range of Rs 10-12 a bag, to offset the twin effects of the excise duty hike and the rise in diesel rates.

The hike, which amounts to a 4.5% rise in Mumbai alone, has come into effect from March 1, and has been implemented in all zones in India, said senior executives of at least three large cement companies that ET spoke to. This is also one of the first times that cement companies across the country have raised prices uniformly, as the commodity is zone-specific and cement prices depend on the market conditions of each region.

The last time that cement prices were raised by a large quantum was in November 2009 when prices were hiked by Rs 10 per 50 kg bag after a shortage in rail wagons affected supplies in the key markets of western and southern India. Cement is typically transported in 50 kg bags and is mostly moved from manufacturing sites to consumption centres through trains. Price hikes in this industry have always been Rs 3-5 per 50 kg.



HARD BLOW

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"It's an industry practice where any hike in input costs needs to be passed on to end-users to offset margins pressure," said Adesh Gupta, CFO of Grasim Industries, India's largest cement maker. The \$28-billion diversified Aditya Birla group controls UltraTech and Grasim that together account for almost a fifth of the Indian cement market. The group's capacity is expected to be increased to 63 million tonne in a few years.

In Mumbai, the country's largest cement consumption market, prices have been risen by Rs 12 per bag. Retail prices have touched Rs 280 and wholesale price in the trade segment is commanding around Rs 265 per bag, said dealers.

Although the price hike is attributed to Budget proposals of excise duty and diesel rate rise, analysts said, fast capacity addition in the world's second-largest cement growing market after China, is likely to depress prices and hence makers are squeezing each opportunity.

Cement players in the country have been aggressively ramping up capacity due to a spurt in domestic demand, which is one of the few markets in the world to see a sharp rise in cement usage. India's annual cement production, which is likely to grow by 10% every year. China produces 1.4 billion tonnes of cement every year.

"Costs of coal, pet coke and freight charges have gone through the roof. The price rise in

diesel and petrol would affect our input cost as it is an energy-intensive sector," said ML Pachisia, MD of Orient Papers & Industries, from Kolkata. Prices have increased by Rs 8 per bag due to excise duty rise and there could be a further rise in cement prices to offset diesel and other input costs, Mr Pachisia added.

The rise in excise duty has been steep. For every 50 kg bag with a retail price of less than Rs 190, the excise duty went up to Rs 290 a tonne from Rs 230. For cement costing over Rs 190, the excise duty was hiked to 10% from 8% on cement and cement clinker. "Prices moved upward by Rs 7 to offset the excise duty hike. Industry is passing another Rs 5 per bag due to the hike in diesel prices, which has impacted cement transportation costs," said RP Gupta, chairman of Rourkela-based Shiva Cement.

According to Sumit Banerjee, managing director of ACC, the increase in excise duty on cement and on petrol and diesel will have inflationary impact.

"Cement manufacturers' ability to pass the increase to the consumers shall depend on the demand-supply scenario. Since the supply is expected to exceed demand in short-to-medium term, cement companies might have to absorb some of the duty increase, thereby marginally reducing their profitability," said Nitin Gupta of consulting firm Ernst & Young.