

Cement companies' margins to fall 2%: ICRA

Our Bureau

Mumbai

Notwithstanding the growth in sales volume, the operating profit margins of cement companies are expected to decline by 1.60 to 2 per cent in this financial year due to sustained cost increase and the inability of cement companies to pass on the incremental cost, according to an ICRA report.

The all-India cement volumes increased by 11 per cent y-o-y to 187 million tonnes in first half of this fiscal supported by continued strong demand from rural housing and pick-up of infrastructure activity, the report added.

RAISING COSTS

Cement volumes are expected



to grow by 7 to 8 per cent in this fiscal, to about 388 million tonnes (16 per cent higher than pre-Covid levels of 334 million tonnes in FY'20) aided by demand from housing, both rural and urban, and the infrastructure sectors.

Despite the increase in the net sales realisations by 4 per cent, the OPBIDTA (Operat-

ing Profit Before Interest, Taxes, Depreciation and Amortisation) per tonne declined by 51 per cent y-o-y in September quarter to ₹552 a tonne primarily due to increase in input prices. Cost of power and fuel, raw material and freight costs per tonne were up by 62 per cent, 12 per cent and 5 per cent, respectively.

Anupama Reddy, Vice President and Co-Group Head, Corporate Ratings, ICRA said the OPBIDTA per tonne in first half of this fiscal declined 39 per cent to ₹761 a tonne.

DECLINING PROFITS

On a y-o-y basis, the operating profit margins declined by 11 percentage points to 10 per cent in September quarter, and by 672 bps to 13 per cent in first half of this fiscal.

While the operating performance from December quarter onwards is expected to show some improvement supported by the possible price hikes by the cement companies, the OPBIDTA per tonne for this fiscal is expected to decline by 26 to 30 per cent, to ₹775 to ₹825 a tonne from ₹1,115 a tonne in FY'22, given the high-cost fuel inventory and sustained cost side pressures.

Hence, the expected OPBIDTA per tonne will be lower by 11 per cent to ₹775 to ₹825 a tonne in this fiscal compared to earlier expectations of ₹875 to ₹925 a tonne in April.

Thus, the operating profit margins for the full FY2023 are expected to decline by 6 to 7 per cent compared to the earlier expected decline of 4.40 to 4.90 per cent.