



CEMENT

April 2010

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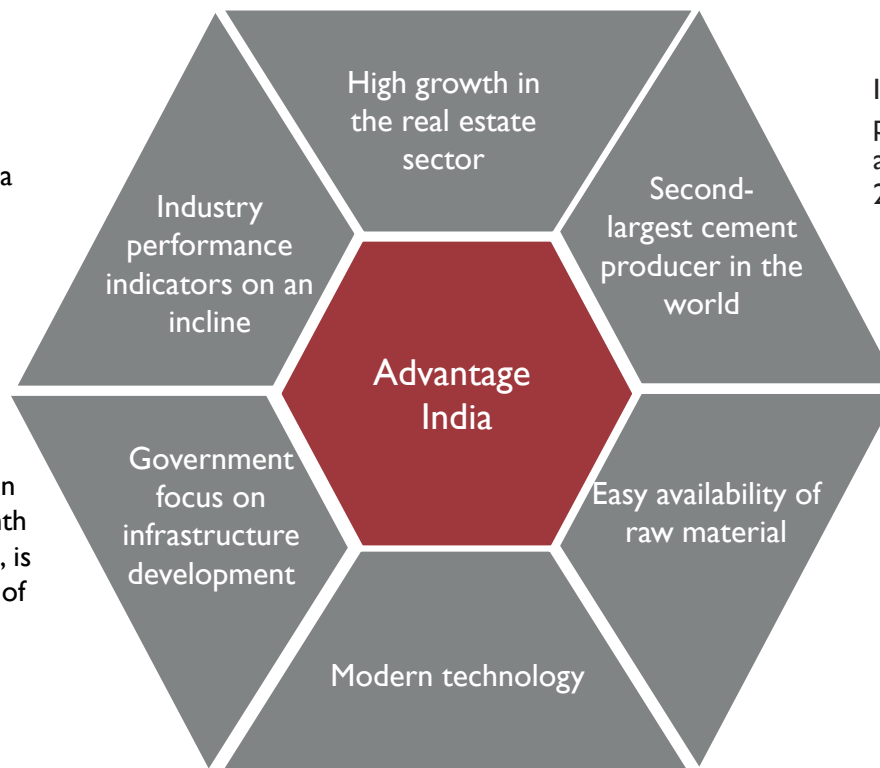
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Advantage India

The Indian cement industry has been on a high growth trajectory for more than a decade, led by buoyancy in sectors such as real estate and construction.

Cement industry's sales, installed capacity and production have witnessed a sustained growth between 2004 and 2009

Government expenditure on infrastructure, in the Eleventh Five Year Plan (2007–2012), is expected to be to the tune of US\$ 350 billion.



India ranks second in cement production in the world, with an installed capacity of about 230 million tonnes in 2008–09.

In India, limestone is available in many states such as Rajasthan, Himachal Pradesh, Madhya Pradesh, Tamil Nadu, Andhra Pradesh and Jharkhand.

The industry has witnessed continuous modernisation and adoption of new technologies in recent years.

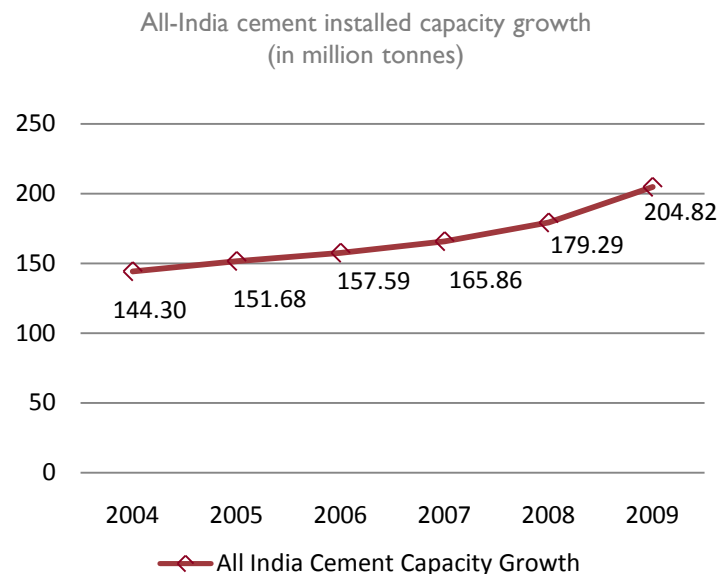
Source: "Industry," Cement Manufacturers Association of India website, www.cmaindia.org/industry.html, accessed 22 February 2010,

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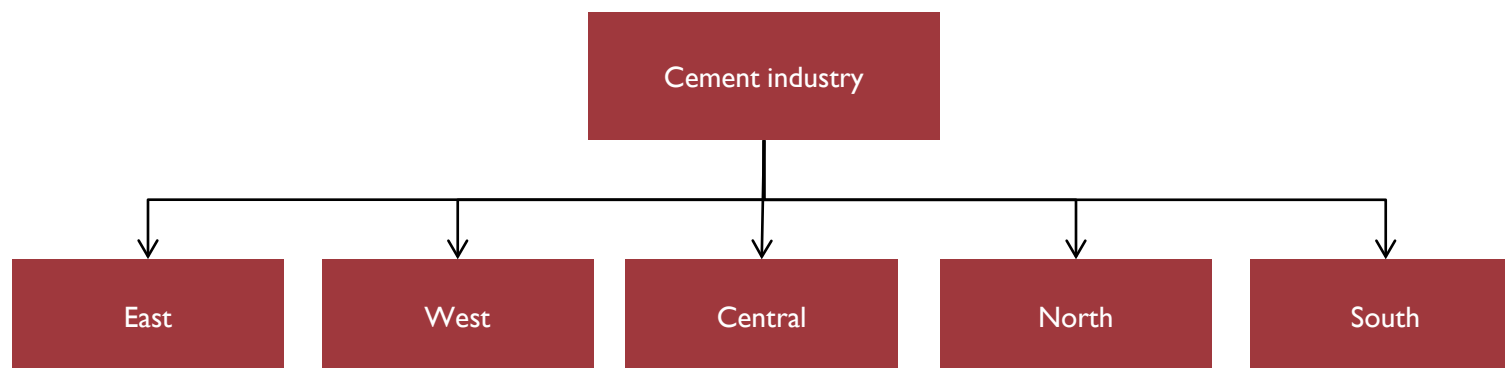
Market overview

- The installed capacity of the Indian cement market is estimated at about 230 million tonnes as of 2008–09.
- The production of cement in 2008–09 was recorded at 187.61 million tonnes. Further, the industry is expected to augment capacity by about 100 million tonnes by 2013 to meet future demand.
- The industry recorded a CAGR of about 7.3 per cent in installed capacity between December 2004 and December 2009.
- The Indian cement industry recorded a turnover of US\$ 18.5 billion in 2008.
- The Cement Manufacturers' Association of India (CMA) estimates the industry manpower at about 140,000 as on 2009.
- Cement players in India produce different types of cement based on varied compositions such as Ordinary Portland, Portland Pozzolana, Portland Blast Furnace Slag cement, white cement and specialised cement.



Sources: CMIE, Cement Manufacturers' Association; Ernst & Young analysis

Market segments ... (1/2)

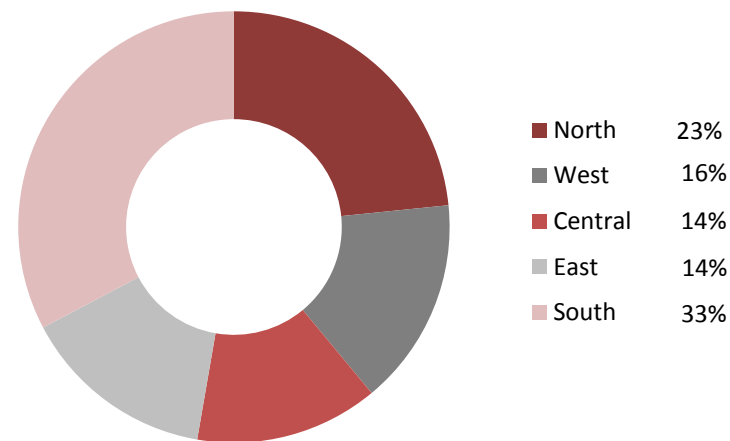


- The cement industry in India can be divided into the five geographical zones of India — North, South, East, West and Central — based on localised variations in the consumer profile and supply-demand scenario.

Market segments ... (2/2)

- The South zone is the largest market, with the highest installed capacity of 67 million tonnes, followed by the North zone with about 48 million tonnes, in 2009.

Regional share of installed capacity (2009)

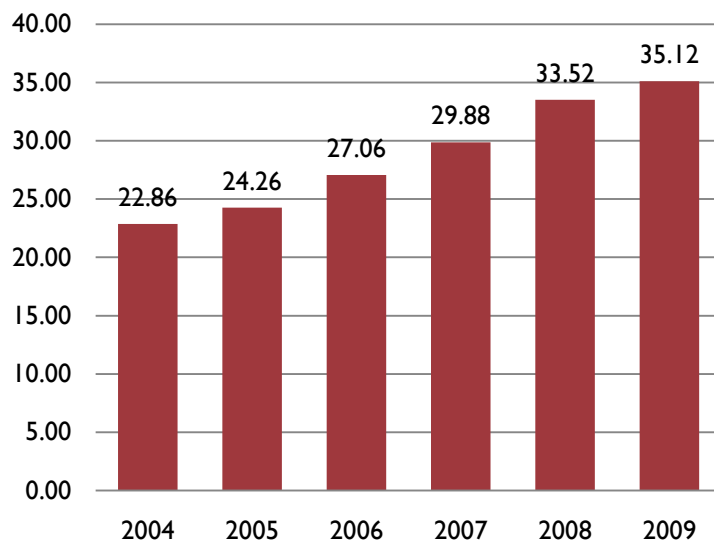


Sources: CMIE; Ernst & Young analysis

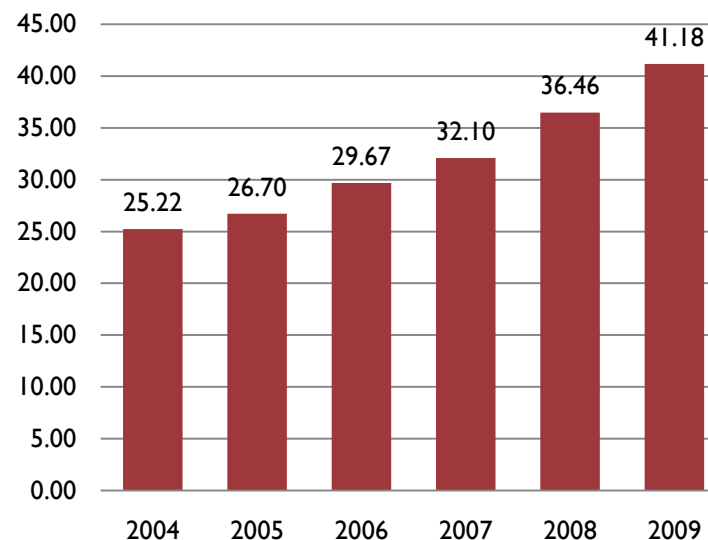
Market segment — North

- Key markets in northern India include the states of Rajasthan, Punjab, Haryana and the National Capital Region (NCR).
- Demand in this region is being driven by infrastructure, residential and commercial projects, including the projects under the Commonwealth Games 2010 to be held in Delhi in October 2010.

Cement consumption — North zone
(in million tonnes)



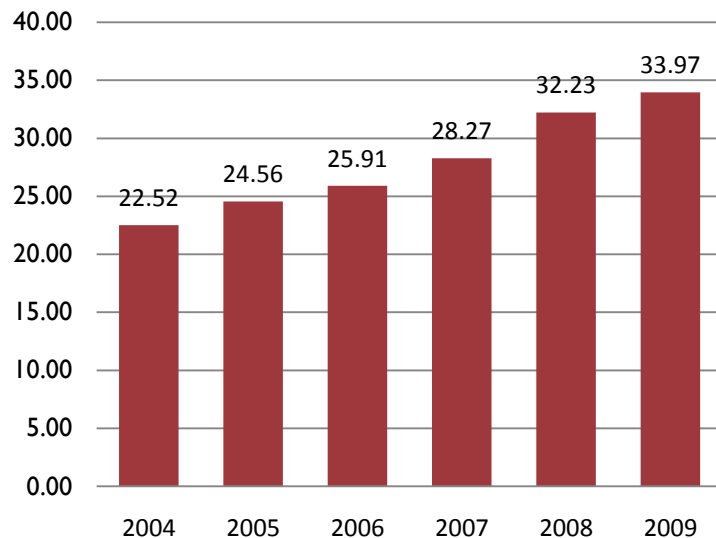
Cement production — North zone
(in million tonnes)



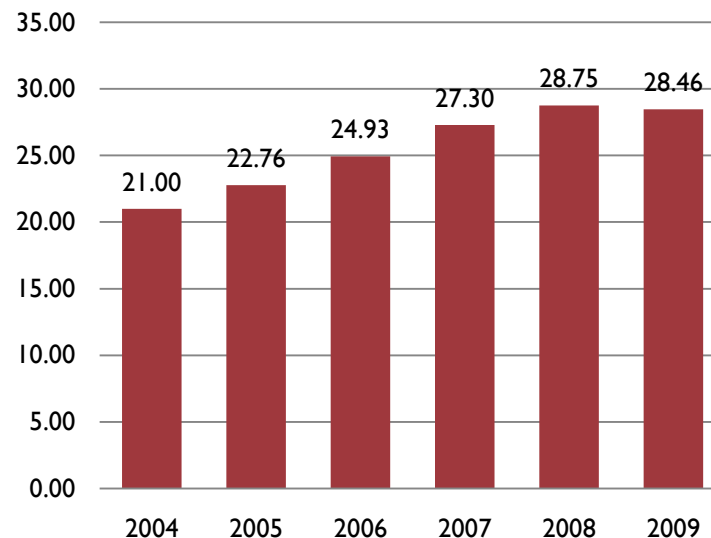
Market segment — West

- The states of Maharashtra and Gujarat are the key markets in this region.
- Over the past few years, growth in housing and commercial real estate has augmented the demand for cement in this region.
- The western region also exports cement to countries in the Middle East.

Cement consumption — West zone
(in million tonnes)



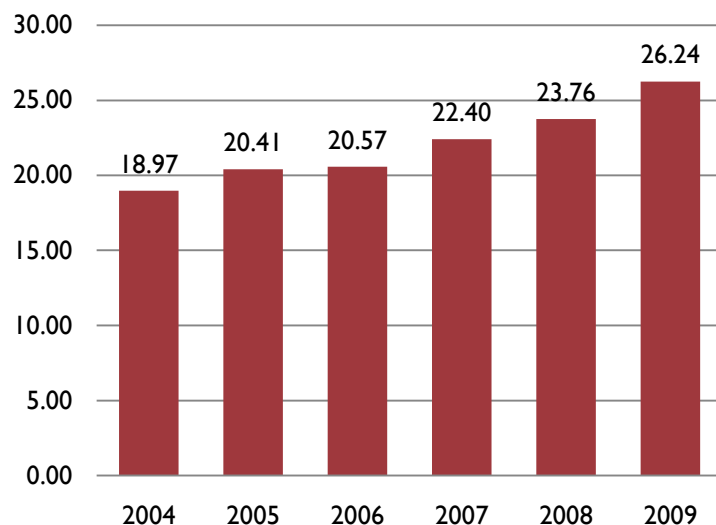
Cement production — West zone
(in million tonnes)



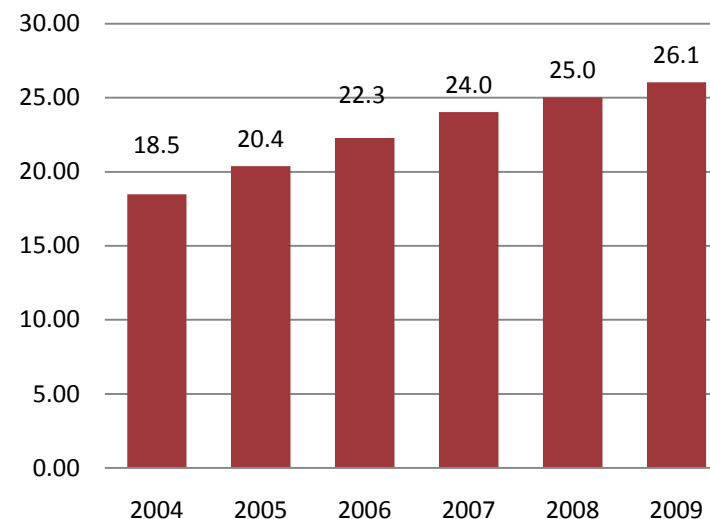
Market segment — Central

- The state of Uttar Pradesh is the key market in this region.
- The demand for cement has grown in this region primarily due to an increase in the number of housing and infrastructure projects.

Cement consumption — Central zone
(in million tonnes)



Cement production — Central zone
(in million tonnes)

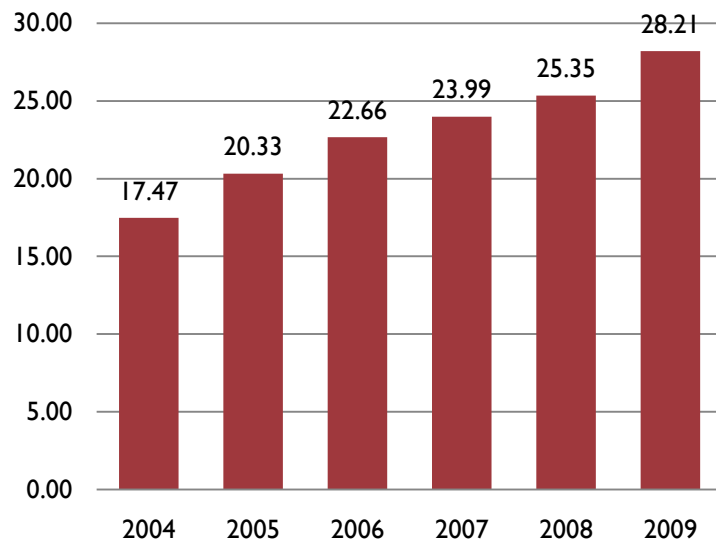


Sources: CMIE; Ernst & Young analysis.

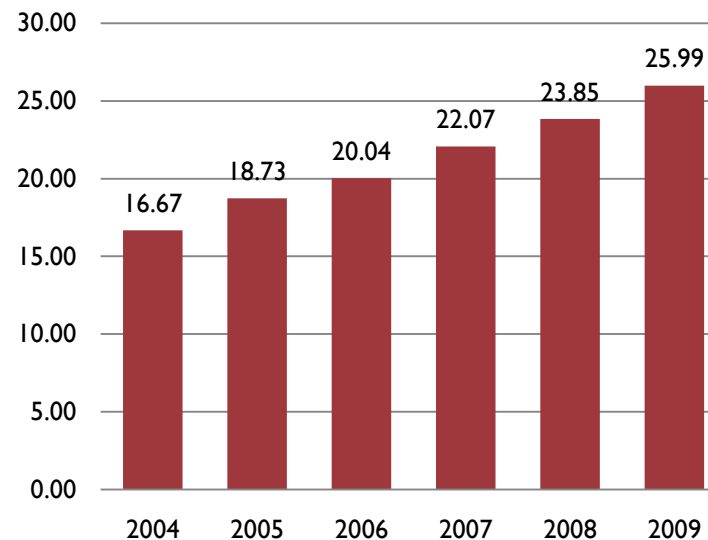
Market segment — East

- The key markets in the East are the states of West Bengal, Orissa and Bihar.
- Growth in housing and industrial activity are primarily driving demand for cement in this region.

Cement consumption — East zone
(in million tonnes)



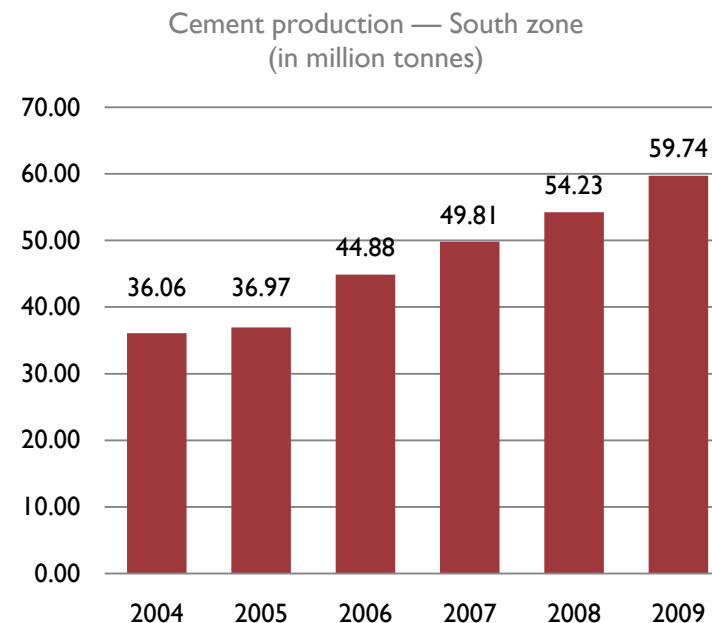
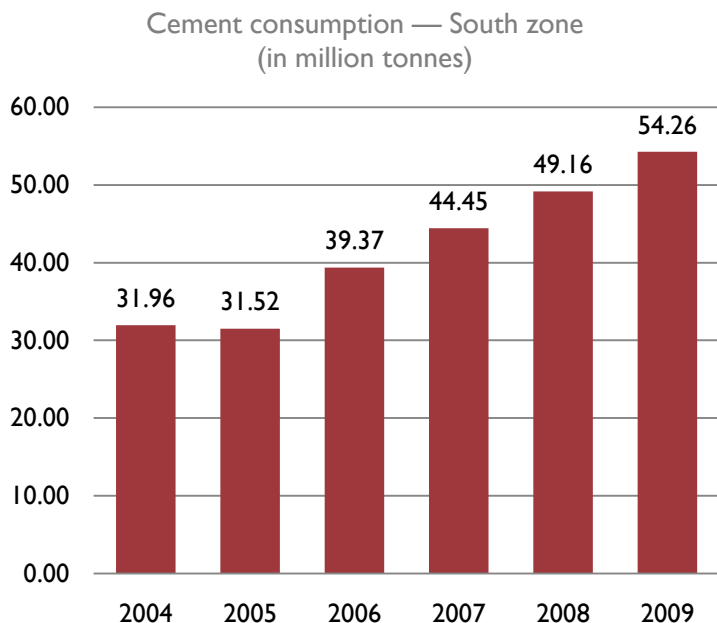
Cement production — East zone
(in million tonnes)



Sources: CMIE; Ernst & Young analysis.

Market segment — South

- Key markets in the southern region are the states of Tamil Nadu, Andhra Pradesh and Karnataka.
- The South zone has vast reserves of limestone.
- Growth in the real estate market in the region, coupled with the development of key infrastructure projects such as airport and metro rail, has resulted in increased demand for cement in this region.



Growth drivers ... (1/2)

Housing

- The housing segment accounts for a major portion of the total domestic demand for cement in India.
- The housing segment is expected to be a key demand generator for the cement industry, considering the intensive demand the segment is currently witnessing.
- According to the Eleventh Five Year Plan (2007–2012), housing demand is estimated to increase from more than 24 million units in 2007 to over 26 million units at the end of the Plan period.
- Growing urbanisation, an increasing number of households and higher employment are primarily driving the demand for housing.

Infrastructure

- The Government of India (GoI) is strongly focussing on infrastructure development to boost the economy's growth. The GoI plans to spend about US\$ 350 billion on infrastructure development under the Eleventh Plan.
- Infrastructure projects such as the Dedicated Freight Corridors (DFCs) and upgraded and greenfield airports and ports are expected to drive construction activity.
- Further, upcoming industrial clusters and infrastructure development in emerging tier-II and tier-III cities are also expected to fuel growth in the sector.

Real estate

- The commercial real estate (CRE) segments, comprising retail space, office space and hotels as well as civil facilities including hospitals, multiplexes and schools, have been on the rise with a growing economy.
- Service sectors such as telecom and financial services, as well as the IT/ITeS sector (which accounts for the maximum commercial office space in the country) are growing.
- Manufacturing sectors (pharmaceuticals, biotechnology, automotives) and fast moving consumer goods (FMCG), are likely to drive the demand for office space.

Growth drivers ... (2/2)

- Government initiatives are expected to provide impetus to construction activity in rural and semi-urban areas through large infrastructure and housing development projects.
- According to the Eleventh Plan, the GoI intends to substantially augment railway capacity and facilities for handling and storage to ease the transportation of cement and further reduce its transportation costs.
- The industry is also focussing on the modernisation of trade through high-end technology adoption and low energy consumption, which is comparable with the best in the world.
- The demand for cement in India is expected to increase in the long run, since fundamental growth drivers of the economy, such as infrastructure, trade and per capita income, are intact.

Source: Eleventh Five Year Plan (2007–2012)

Key trends

Resurgent demand

- The slowdown in the Indian real estate industry due to the 2008–09 economic recession, to an extent, affected the cement industry as well. However, recent policy interventions and interest rate cuts by the Reserve Bank of India (RBI) have propelled the real estate industry towards a speedy recovery and, in turn, positively impacted cement sales.

Rising cement prices

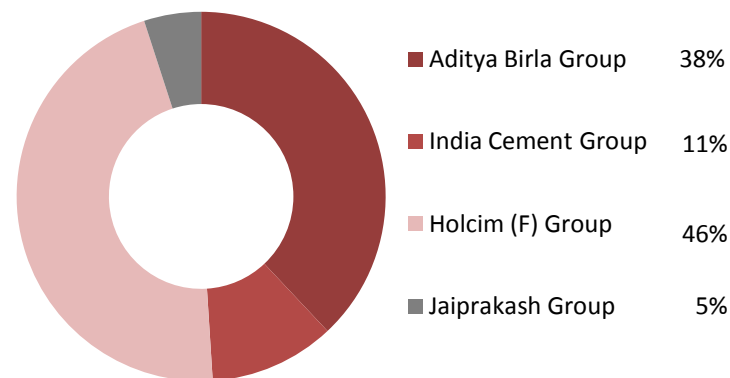
- Cement prices have witnessed an upward trend across regions over the past few years due to a constricted supply scenario and an increase in input costs. However, prices are expected to stabilise in the near future, as supply rises on the back of capacity expansions and players focus on captive power generation to reduce input costs.

Sources: CMIE; Ernst & Young analysis.

Key players

- The Indian cement industry comprises 134 large and about 350 mini cement plants, including public sector units. Large producers contribute about 95 per cent to the installed capacity, while mini plants account for the rest.
- Industry comprises a few large players with a pan-India presence as well as several regional and stand-alone players. There are primarily two groups with a pan-India presence — Holcim Group (comprising ACC and Ambuja Cements) and Aditya Birla Group (including Grasim Industries, UltraTech and Century Textiles).
- Shree Cement, India Cement, Lafarge, Jaypee Group and Binani are regionally focussed players.
- Holcim Group and Aditya Birla Group have emerged as the largest players in the Indian cement industry, with a market share of 46 per cent and 38 per cent, respectively, in 2009.

Market share (production) of key players (2009)



Sources: CMIE, Ernst & Young analysis; Cement Manufacturers' Association of India website, www.cmaindia.org/industry.html, accessed 22 February 2010.

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Investments

- Total FDI in the cement sector between 2000 and October 2009 stood at US\$ 1.69 billion.
- Most cement companies have announced expansion plans for 2010, which is expected to result in a fresh capacity of more than 50 million tonnes. Some new cement projects in the pipeline in 2009–2010 include

Company	Project	Investment (US\$ million)
Grasim Industries Ltd	Clinker and cement project in Kotputli, Rajasthan	265.62
Ambuja Cements Ltd	Cement plant in Dadri, Uttar Pradesh and Panipat, Haryana	93.75
Jaiprakash Associates Ltd	Cement plant in Solan, Himachal Pradesh	416.66
ACC Ltd	Cement plant in Wadi, Karnataka	312.5

Sources: CMIE; Fact Sheet on Foreign Direct Investment (FDI) from August 1991 to October 2009, Department of Industrial Policy and Promotion.

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Policy and regulatory framework ... (1/2)

- Regulatory scenario
 - The Ministry of Mines regulates the mining sector, while the states own the minerals sector in their respective territories in India
 - FDI up to 100 per cent is allowed in the mining sector under the automatic route for cement production.
- National Mineral Policy (NMP) 2008
 - The NMP aims at achieving the twin goals of large-scale prospecting with optimal mining and attracting investments with the latest technology.
- To implement the comprehensive reforms stated in the NMP, the GoI has proposed a new legislation and amended the existing Mines and Minerals (Development and Regulation) Act. This legislation is expected to enhance the country's regulatory environment by making it simple and transparent.

Policy and regulatory framework ... (2/2)

- The impact of the Union Budget 2010
 - Excise duty has been increased by 2 per cent.
 - The Budget has allocated US\$ 36.16 billion to India's infrastructure development. Heightened focus on railways, housing, urban infrastructure and continued easy financing of the projects is expected to give impetus to the construction sector.
 - Further, the additional deduction available for investment in long-term infrastructure bonds for individuals is expected to speed up the execution of infrastructure projects.

Sources: Ministry of Mines, Government of India, 'Doing Business in India,' 2010, Ernst & Young report; "India Budget," 2010, Ernst & Young.

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Opportunities

- Per capita consumption in India continues to be low at 143 kg, as compared to other countries such as China (1,014 kg) and Japan (524 kg), which indicates significant potential for growth.
- Housing, infrastructure and industrial and commercial construction are expected to be the key drivers for future growth. The Union Budget substantially stepped up allocation for many infrastructure sectors over the budget estimates for the previous year, especially for the National Highways Development Programme (NHDP), Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Accelerated Power Development and Reform Programme (APDRP).
- Demand for housing, which accounts for the largest share of the total domestic demand for cement in India, is set to grow rapidly due to increasing urbanisation, rising number of households and growing employment. According to the Eleventh Plan, the demand for housing in India is estimated to increase from more than 24 million units in 2007 to over 26 million units by the end of the Plan period.
- Infrastructure projects such as DFC as well as upgraded and greenfield airports and ports are expected to step up construction activity, thereby leading to a surge in the demand for cement.

Sources: Department of Industrial Policy and Promotion, Eleventh Five Year Plan (2007–2012) and The Union Budget 2009–10.

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Industry associations ... (1/2)

Cement Manufacturers' Association

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Website: www.cmaindia.org/index.html

National Council for Cement and Building Materials

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Industry associations ... (2/2)

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Website: www.indianconcreteinstitute.org/

Note

Wherever applicable, numbers in the report have been rounded off to the nearest whole number.

Conversion rate used: US\$ 1 = INR 48

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