Key messages

- **Biggest consolidation in the cement industry**
  - Deals worth Rs 32,000 crore announced, fiscal 2017 was a landmark for the cement industry
  - Acquirers' market positions get an immediate fillip (42 MTPA i.e. additions in the past 2.5 years)
  - But debt share will also increase sharply, impacting debt metrics

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  - Demonetisation effect waning, visible volume recovery for top players in Q4FY17
  - Demand growth will be driven by govt push to infrastructure and affordable housing
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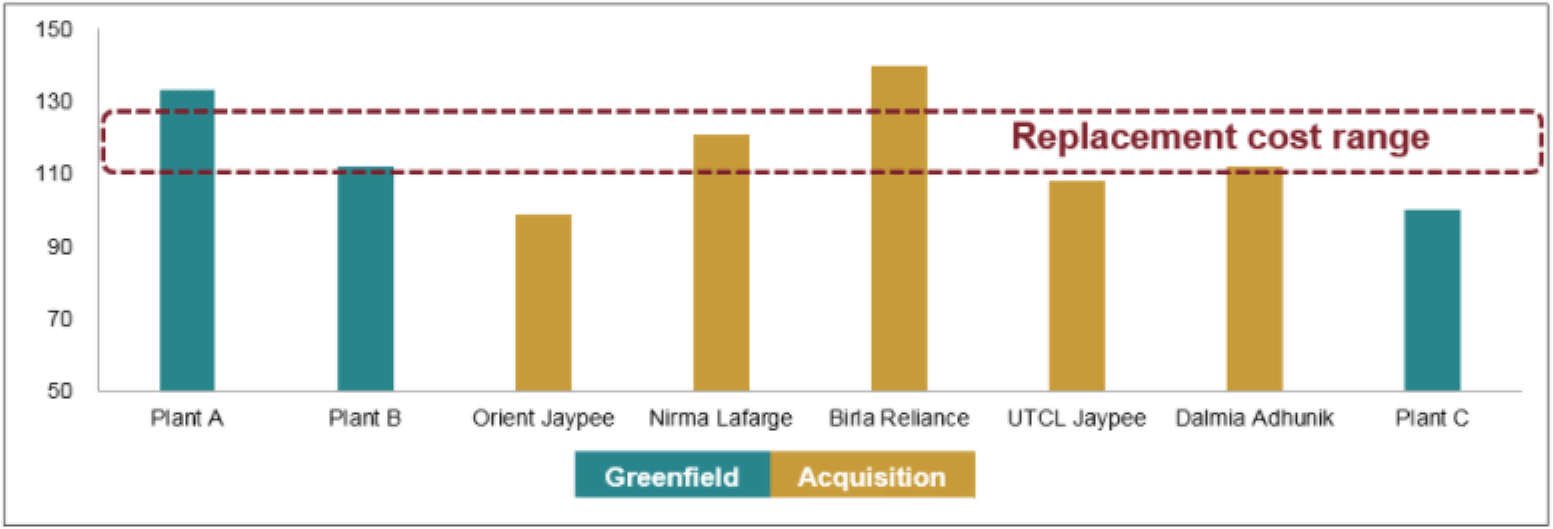
- **Despite higher debt, credit profiles of acquirers resilient**
  - With conducive macros, acquired assets to provide healthy volume improvement
  - Potential cost efficiencies also available from acquired assets
  - As a result, EBITDA to rise by 30% resulting in swift correction in debt metrics by fiscal 2020

A landmark year of consolidation

- **M&A deals worth ~Rs 32,000 crore announced in fiscal 2017**
  - Involved ~42 MTPA, or ~10% of the installed capacity
  - These deals account for 34% of industry debt
  - Going forward, M&A intensity is likely to be restricted to relatively smaller transactions
- **Amendment to MMDR Act was the key enabler**
- **Valuations were prudent compared with the cost of setting up greenfield projects**

Enterprise value (EV) per tonne (in $) across transactions



Source: Annual reports, news articles, publicly available information

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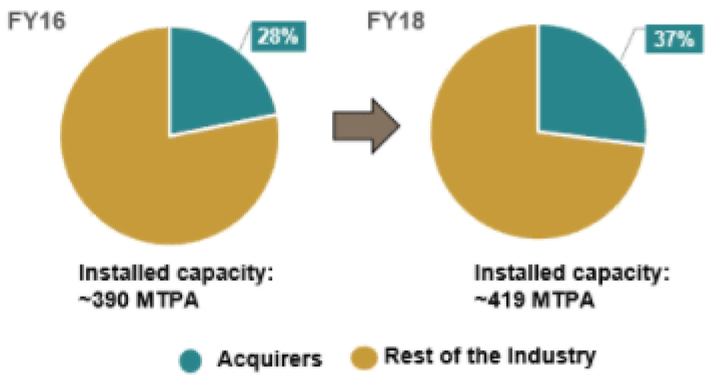
Market share of acquirers has risen, but debt metrics would weaken in fiscal 2018

A surge in acquirers' market share…



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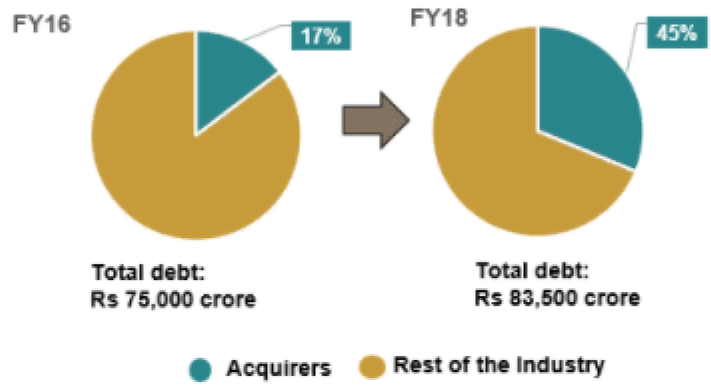

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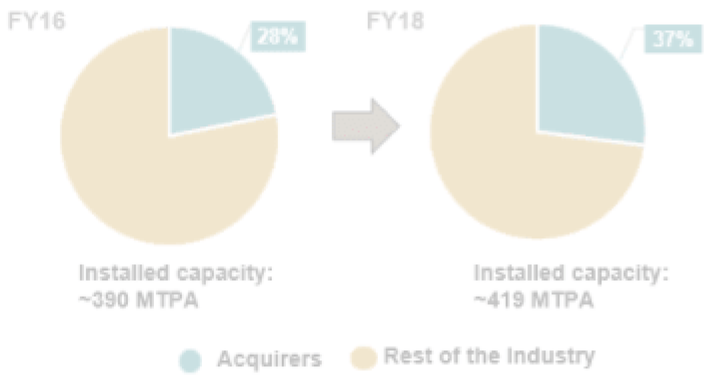

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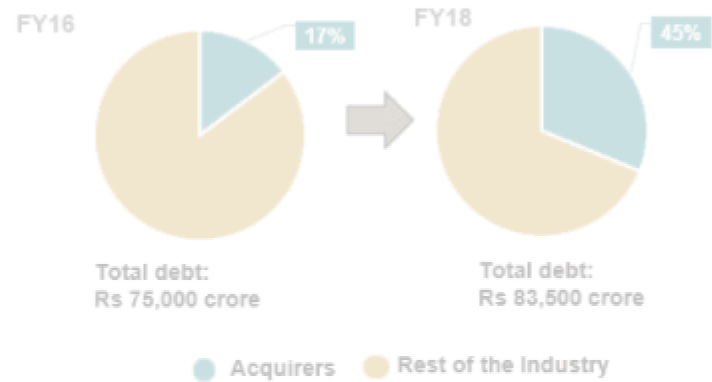
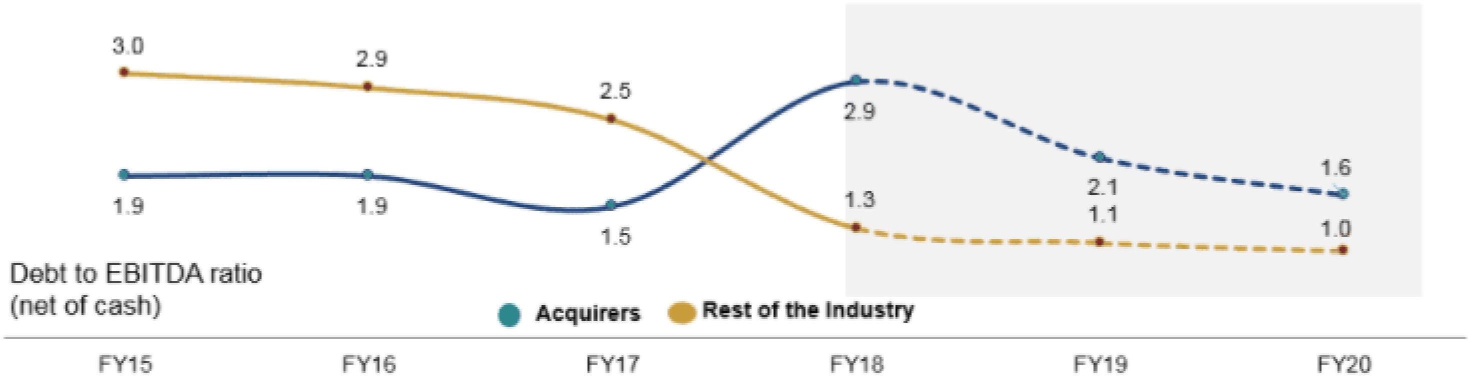


…with the resultant hit on debt metrics in fiscal 2018



Acquirers: Ultratech, Dalmia Bharat, Birla Corporation, Nirma and Orient Cement

Source: Annual reports, news articles, publicly available information

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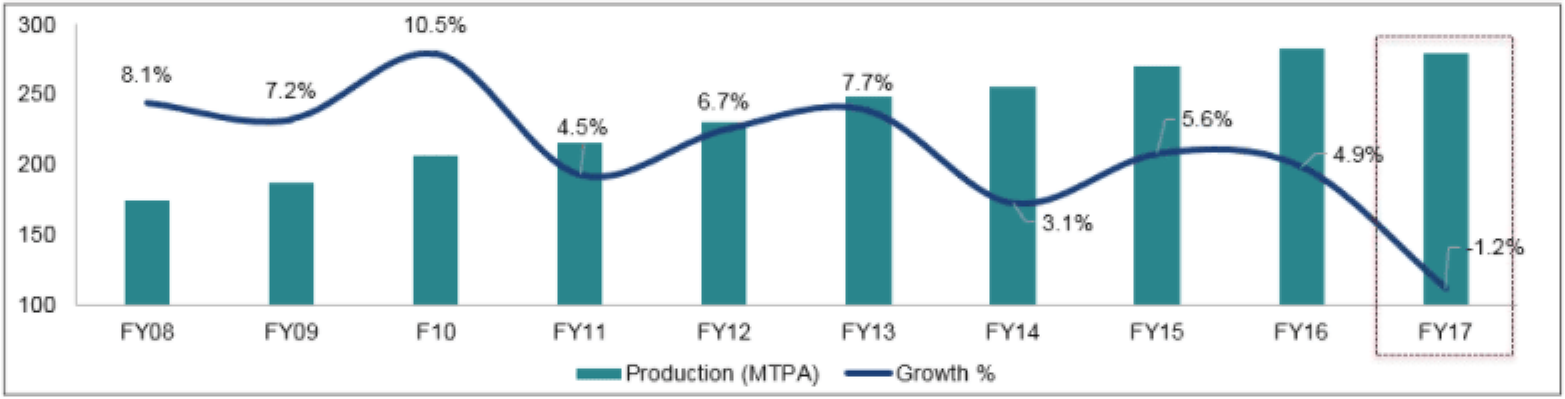
Demonetisation effect waning, visible recovery in volume

Fiscal 2017 was the first year of volume decline in the past decade



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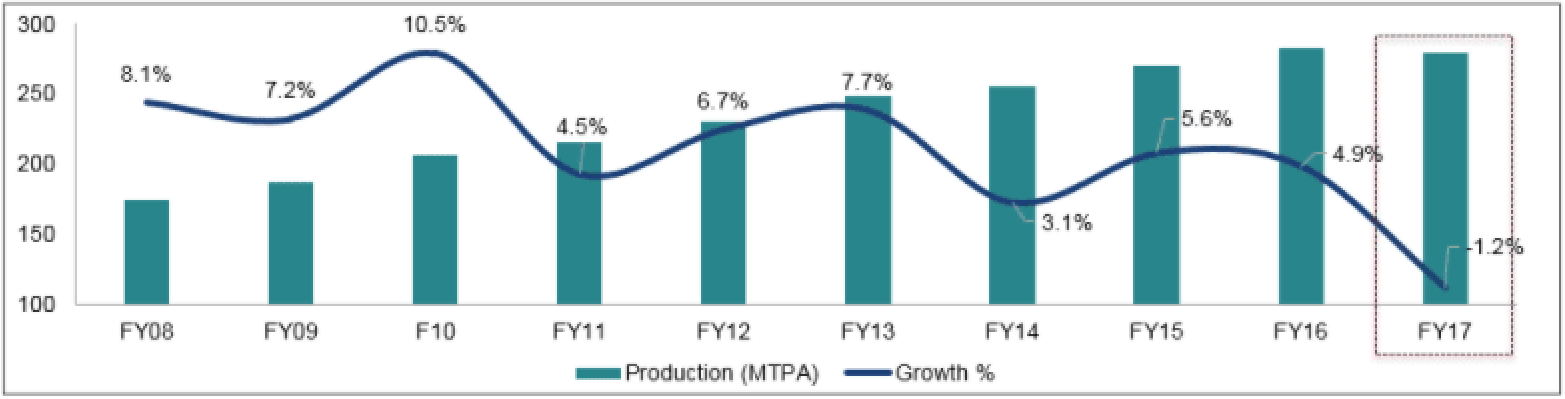
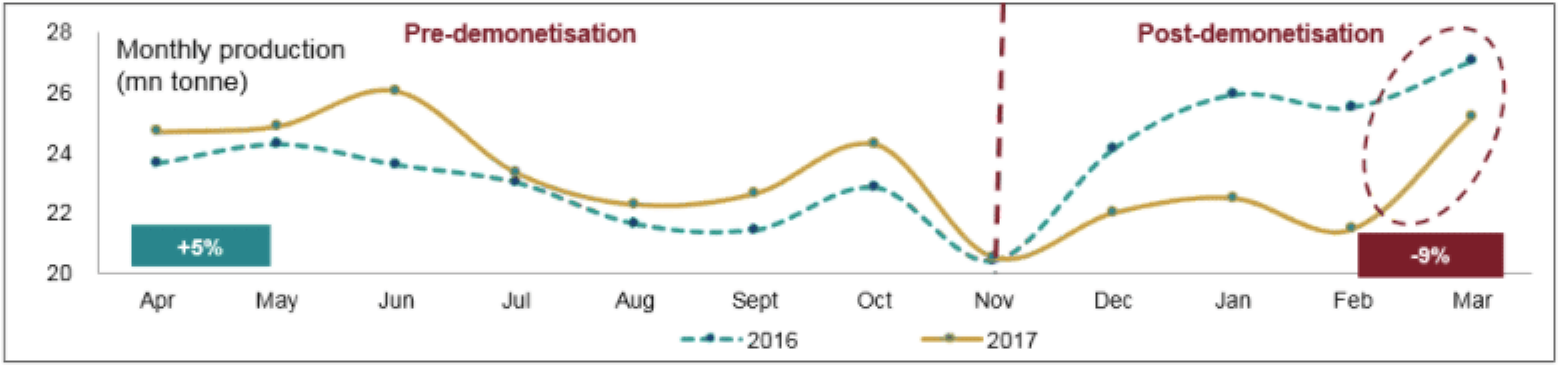


Demonetisation was a speed breaker, but green shoots are visible now



*Source: DIPP; *data represents 100% installed capacity*

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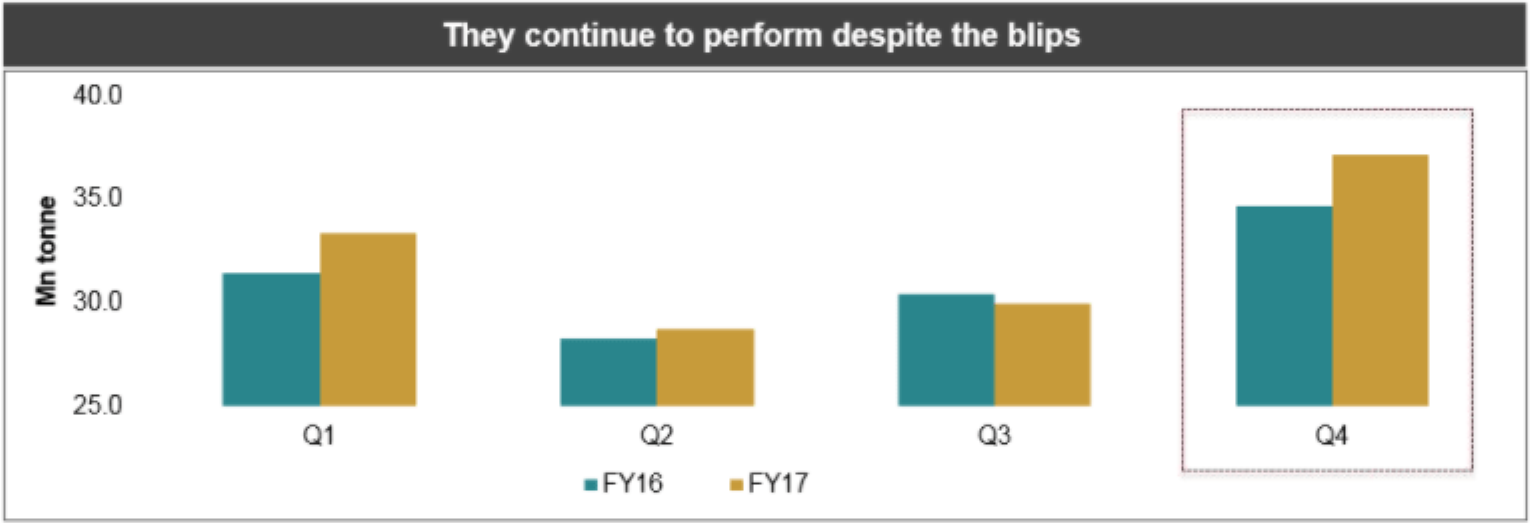
Despite demonetization, top 5 fare better than the industry



- Top 5 players (accounting for 45% of the installed capacity) have reported 3.6% growth in volume in the fourth quarter of last fiscal
- South was the most resilient region

Source: company filings

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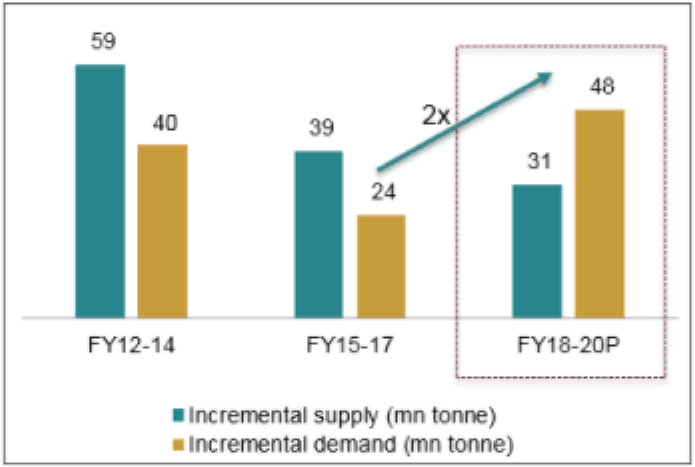
Industry entering into an asset sweating mode

Reversal in trend with incremental demand outpacing supply; south, west and east lead



- **In the next three years, incremental demand is seen at 48 million tonne, which is twice the incremental demand seen in the past three years**
- **As a result, operating rates are set to improve to 73% from 68%**
- **Lower capacity addition will also reduce the capex (i.e. excluding acquisitions) intensity by almost Rs 8,000 crore**

*Source: CRISIL Ratings; *Industry data represents 100% installed capacity*

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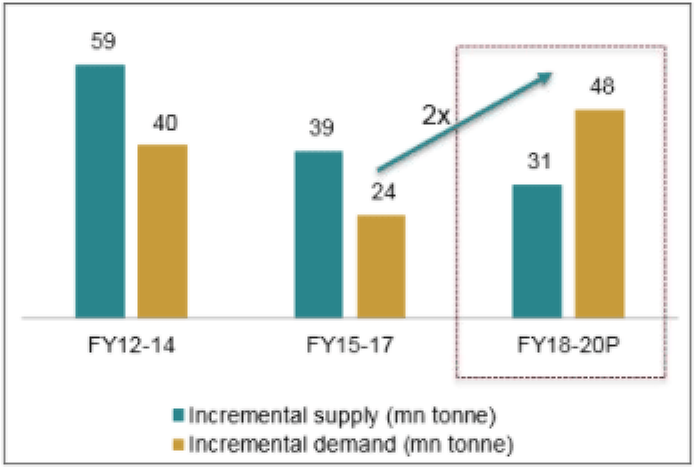

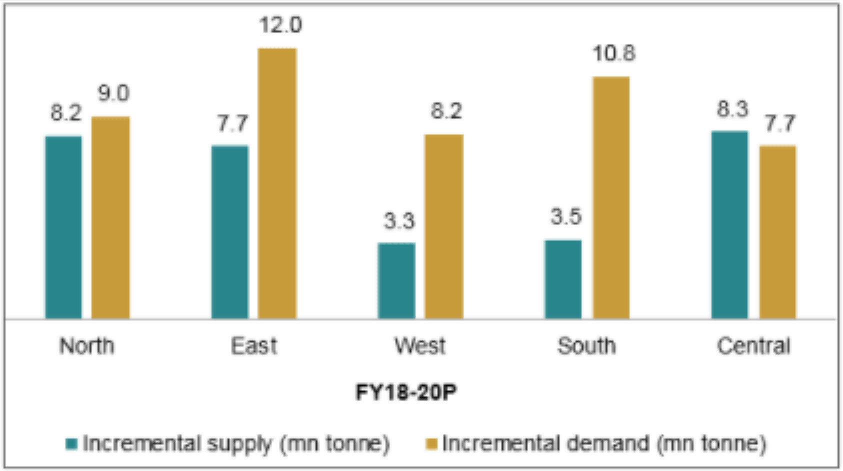

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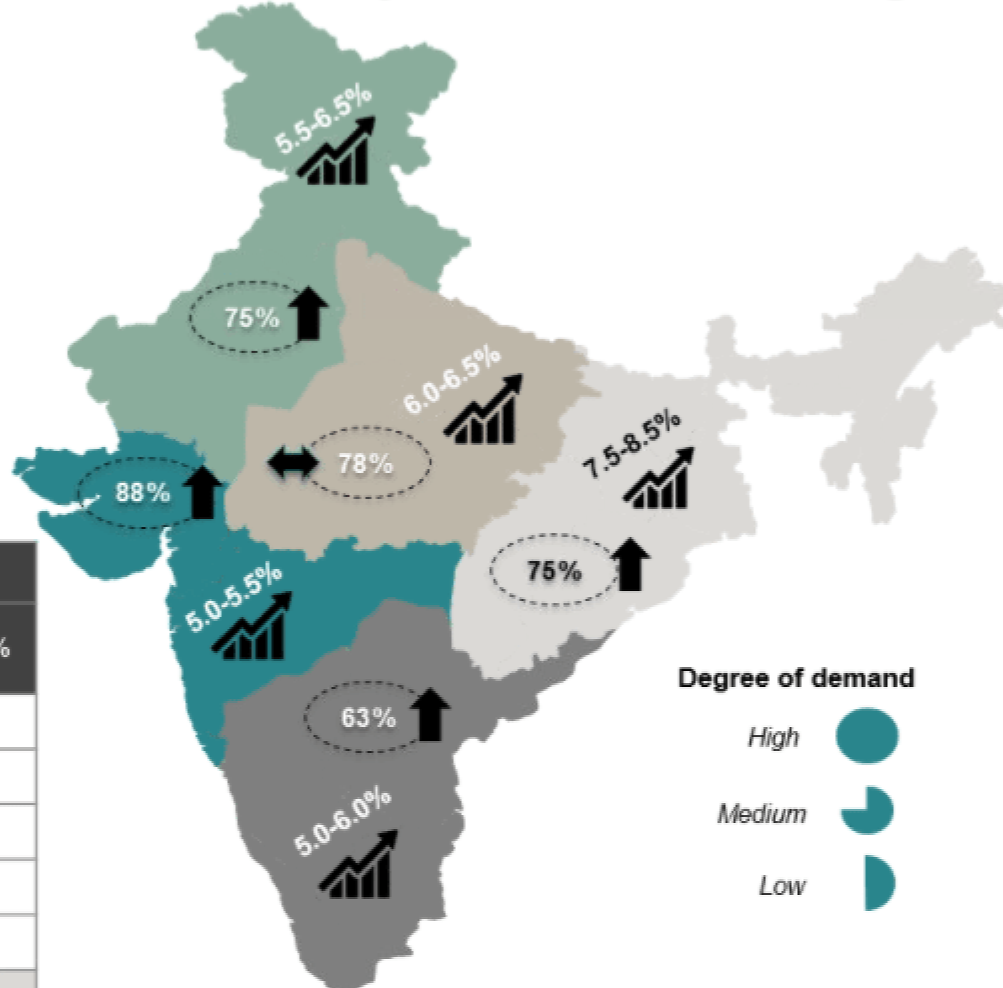
Infra main demand driver, followed by affordable housing

Expected demand growth rate in FY18-20P

Expected operating rates in FY18-20P

Operating rate expectation vis-à-vis FY17



Region	I	H	C&I
Demand share	25-30%	55-60%	15-20%
North (22%*)	High	High	Medium
Central (13%)	High	High	Medium
West (13%)	High	Medium	Medium
East (17%)	High	High	High
South (34%)	High	Medium	Medium
National(409 mtpa)			

I: Infrastructure; *H:* Housing; *C&I:* Commercial & Industrial
National capacity as of March 31, 2017

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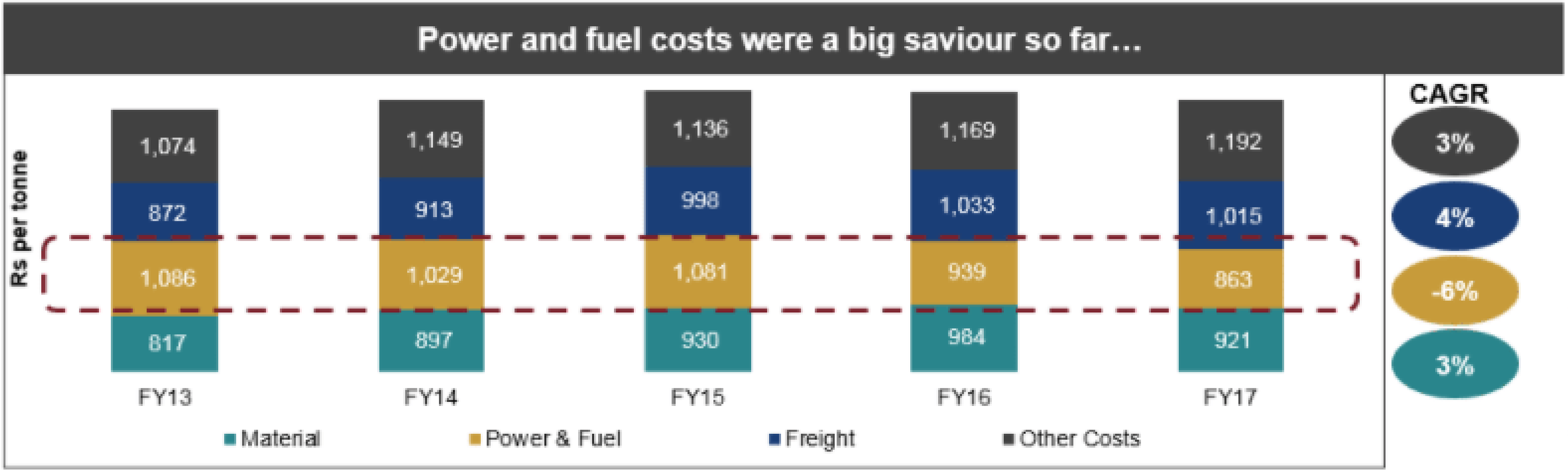
**Capacity share in pan India*
Source: CRISIL Research; East includes north-east region

Industry has limited headroom to contain costs



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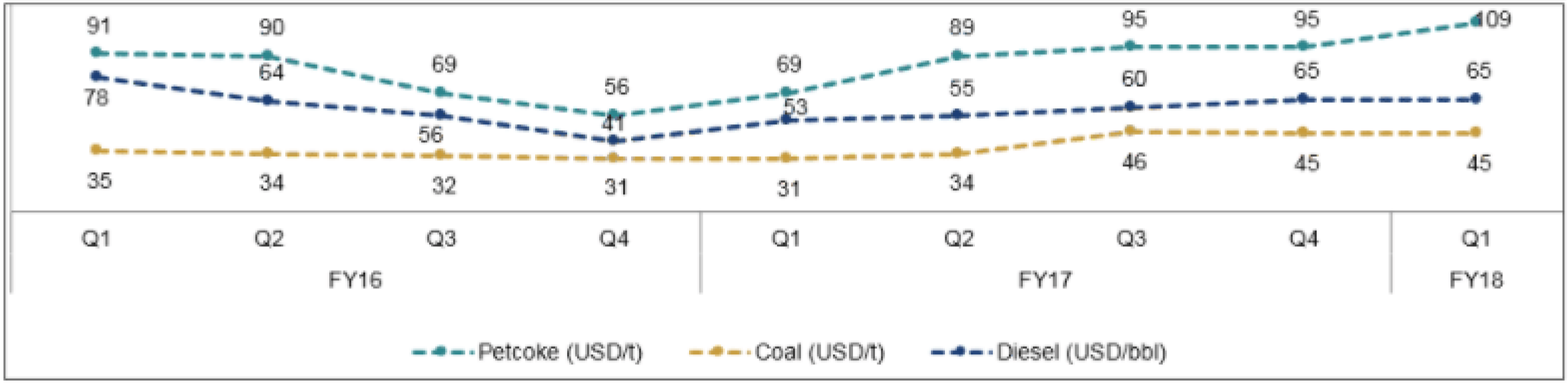
Industry has limited headroom to contain costs

Power and fuel costs were a big saviour so far…

… but that cushion may reduce with petcoke prices rising



Source: Annual reports, news articles, publicly available information; Industry data represents 80% installed capacity; CRISIL Research

Non-coking Indonesian coal : @ GCV of 4200/kcal

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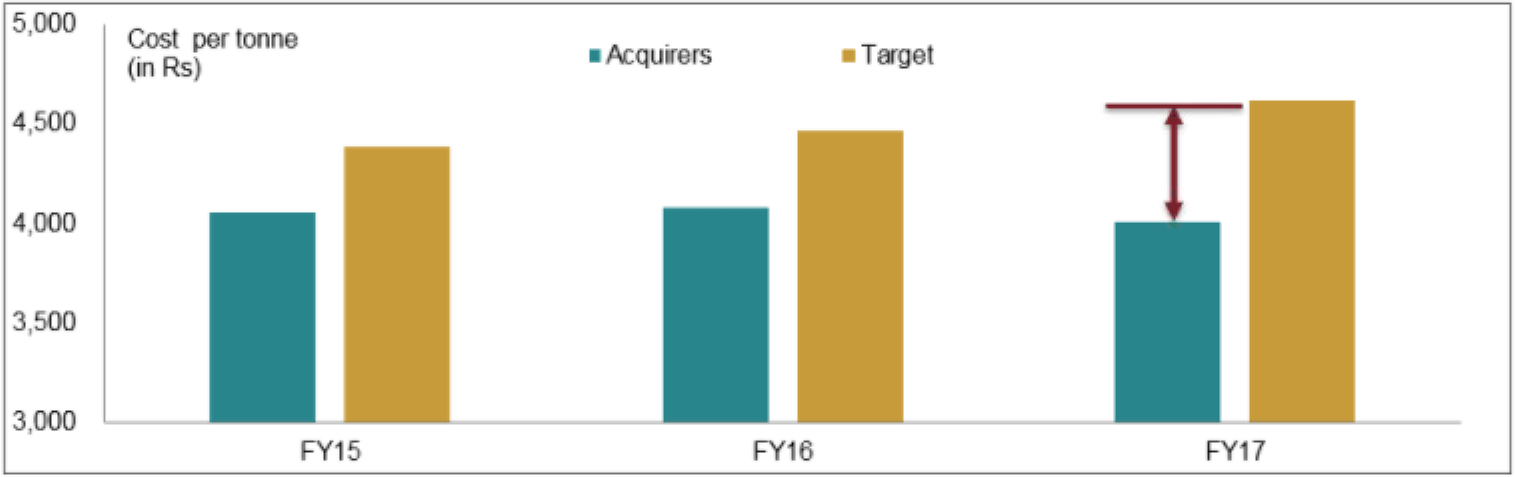
Acquirers better placed because of cost synergies

Potential to improve cost by Rs 500-600 per tonne



- **Synergies to come from**
  - Economies of scale
  - Complementing locations to provide better cement and clinker re-routing
  - Better blending mix
- **Efficient utilisation of assets to result in fixed-cost absorption**
- **Tax incentives available**

Source: Annual reports, news articles, publicly available information; Industry data represents 80% installed capacity

Target: Jaypee, Lafarge and Reliance Cement

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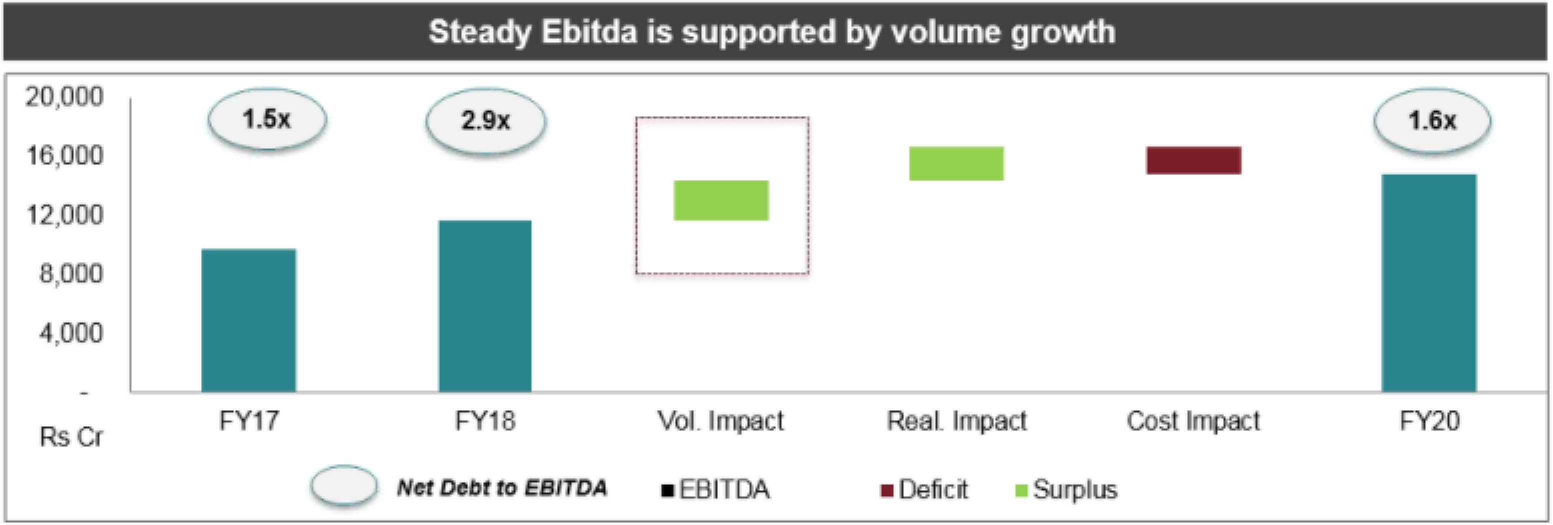
Swift correction in debt metrics after fiscal 2018



- **Acquirers to generate annual EBITDA of Rs 12,000-14,000 crore over the next two years, nearly 30% higher than that in the recent past**
  - Aided by volume ramp up from acquired capacities, steady realisations and cost synergies
- **This along with scheduled debt reduction to spawn steep correction in net debt/EBITDA (net off cash)**
- **Acquirers to reach the comfortable levels of debt / EBITDA in 2 years**

Source: CRISIL Ratings

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The road ahead

- **The cement industry is all set for a new phase…**
  - A large part of the consolidation is done
  - Demonetisation effects are fading away
  - Macros are conducive
  - Credit profiles will remain resilient despite higher debt

- **…but some factors could delay improvement in credit profiles, such as**
  - Realisation outlook in various regions
  - Increase in input cost, mainly power and fuel
  - Delay in harnessing synergies
  - Slower-than-expected demand in infrastructure

- **We will deliberate these issues further in our panel discussion…**

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