THE ECONOMIC TIMES KOLKATA WEDNESDAY 23 DECEMBER 2009

Cement prices may dip over capacity addition

Mithun Roy
MUMBAI

CEMENT prices are likely to fall early next quarter, especially in the weak southern market, as the Indian building commodity industry grapples with the near-term effects of additional capacity, the chairman of mid-sized Shiva Cements, RP Gupta, told ET on Monday.

"There will be pressure on selling prices due to large capacity addition. India's (total) capacity could reach 270 million tonnes by fiscal year 2011," Mr Gupta said in an interview. The current total installed capacity of the Indian cement industry — considered to be world's second fastest growing market after China — is 240 million tonnes.

Shiva Cements, a Rourkela-based company, is partly owned by ACC, India's second largest cement company. While ACC owns 14. 3%, the Gupta family, the promoters own about 28%.

"While cement prices in east India will remain stable, it is likely to fall in most other places," said Mr Gupta. "The fall could be in double figures in a few pockets in south India, while in northern and western India, it will remain volatile," he added.

Cement is highly zone-specific and competitive industry where the cost of travelling hinders movement of the commodity. So a manufacturer in western India, typically sells his product in the western market alone, unlike other commodities such as steel, which is sold everywhere irrespective of the manufacturer's location.

Interestingly, prices of cement had gone up by Rs 10 for a 50 kg bag, in southern India late November, to about Rs 175. A similar price hike in Mumbai on December 2, had raised prices to Rs 245 per bag.

Shiva Cement is currently expanding its capacity to 2.3 million tonnes, from the current 0.13 million tonnes at a cost of Rs 800 crore, which will be done in two phases. The company is expecting sanction of term loan up to Rs 80 crore by January end, for part funding of phase I expansion, which could cost about Rs 165 crore. The first tranche of equity of up to Rs 11 crore will be brought by promoters through a preferential allotment, and the balance Rs 70 crore will be brought in either through a rights issue or preferential allotment, said Mr Gupta.

After phase I, the shareholding of the promoter group will cross 30%. "We have the leverage to raise debt as the present debt equity ratio is below 0.20, which will remain below 0.50 even after implementation of phase I expansion," Mr Gupta added.