
Slowdown signs - Cement companies trim output to match demand in Q2

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Cement companies seem to have cut production in a conscious attempt to match the sharp fall in demand and prices during the second quarter of 2009-10.

Sales and production at ACC, Ambuja Cement, UltraTech Cement and Grasim Industries which together control 40% market share, dropped on a sequential basis in the second quarter of FY-10 due to depressed demand from the realty and infrastructure sectors.

ACC's output in the second quarter was down by 8% at 5.05 million tonnes against 5.48 million tonnes in the first quarter, while Ambuja Cement slashed its production 13% to 4.24 million tonnes against 4.89 million tonnes. Cement production at Aditya Birla Group which includes UltraTech and Grasim Industries dipped by 11% to 8.42 million tones.

Similarly sales at ACC were down by 7% at 5.06 million tonnes against 5.42 million tonnes registered in the June quarter. Despatches dipped 12% each at Ambuja Cement and Aditya Birla Group 4.23 million tonnes and 8.36 million tonnes respectively.

A cement company official said that "Production was curtailed as we did not want to add to the inventory as in the second half of last fiscal. Moreover, the demand is always lower in the second quarter of the financial year."

The official said that however year on year cement companies' profitability may increase on the back of a fall in cost of inputs such as of coal, power, freight, fly ash, etc. Besides, the weak dollar has brought down coal import bill substantially.

Mr Rakesh Arora an Analyst with Macquarie Equities said that in the last six months cement companies have added about 20 million tonnes or around 10% of the total capacity. He added that "Overall we expect another 30 million tonnes to 35 million tonnes to be added in the next one year, with bulk of the addition coming in the first half of next year. The impact of the new cement capacity will be felt in the second quarter of next year."

Cement prices have fallen by INR 15 to INR 25 a bag in the second quarter of FY-10 and the indications are they may fall further by another INR 10 to INR 15 a bag. In the September quarter, the average cement price was INR 250.

(Sourced from Business Line)

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