

February 08, 2015

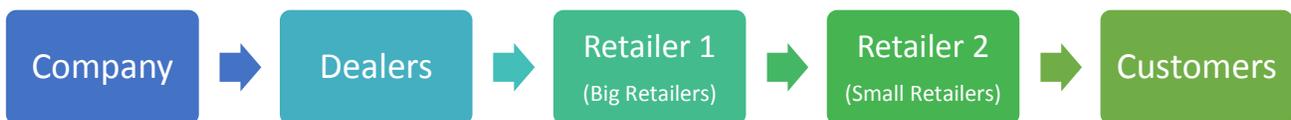
[Flash Note on Current Dynamics of Bangladesh Cement Industry]

Bangladesh Cement Industry:

Bangladesh Cement Industry currently holds an installed capacity of 33-35 Mn MT, while it can supply 25-27 Mn MT cement, efficiently. However, the demand is at lower-end, hovering around 18-20 Mn MT. As a result, the industry possessed with overcapacity. Despite industry-wide overcapacity, per capita cement consumption is still very low, with 107 KG in Bangladesh, in comparison to its regional peers, like 210 KG in India, 265 KG in Pakistan, 310 KG in Sri Lanka and 570 KG in Korea. Backed by ongoing and upcoming infrastructure development activities, we do expect and believe that, demand may flourish and spike up cement consumption, in the days ahead. Hence, industry leaders with exceptionally higher installed capacity may see higher capacity utilization rates, merging to industry average utilization rate of 60-65%. The good news is that, for the last several years, 100% demand for cement has been filled up locally. Notably, some companies has also been exporting cement to India, while some others are expecting to export cement in Nepal and Myanmar.

Cement Industry Supply Chain:

Usually, the supply chain of cement industry passes over three types of middle-men. After the production of final product from various raw materials like clinker, limestone, slag, fly-ash and gypsum, cement companies sell directly to the regional dealers from whom retailers in different phases procure cement to sell to end users. Below chart is chowing a supply chain of cement industry:



Current Dynamics of Bangladesh Cement Industry:

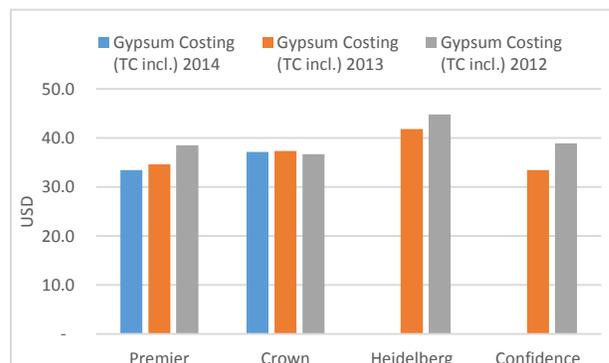
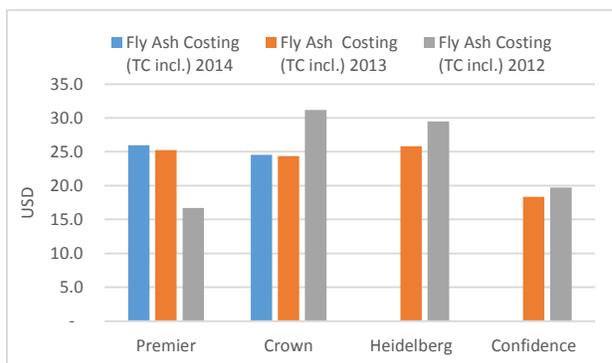
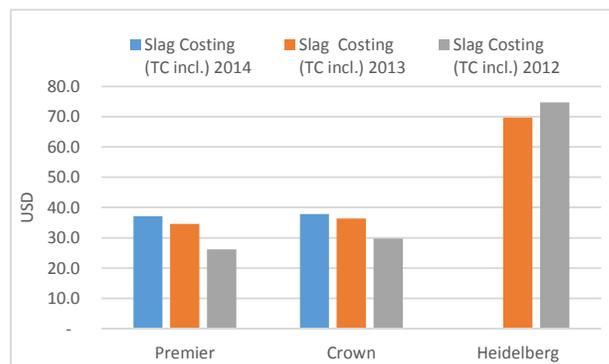
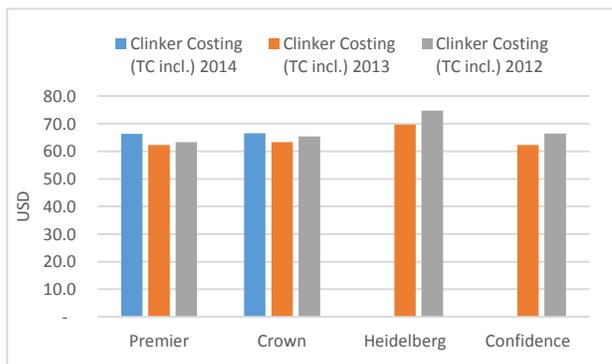
Currently, a number of issues are turning around Bangladesh Cement Industry, like:

- **Overcapacity resulted price cutting:** Most of the cement companies expanded their capacity in 2013-14 period amid existing overcapacity throughout the industry. But, demand did not flourish as was expected from infrastructure development activities. Hence, higher supply pressure with low demand ultimately shrank cement price/bag, lately. Overall, cement price/bag declined BDT 5-20 at the eve of 2015. Below chart is showing price comparison of different cement brands:



Source: Primary data collected by Research, IDLCIL

- Raw material cost soared:** The core raw material of producing cement is clinker which consist of 75% for Portland Composite Cement (PCC) and 95% for Ordinary Portland Cement (OPC). Lately, clinker sourcing cost increased by USD 2-3/MT which has been creating pressure on Gross Profit Margin of cement companies. Besides, Slag costing as well as Fly Ash costing also increased slightly while Gypsum costing adjusted downward marginally, as depicted below:



Note: TC-Transportation Cost; Source: Annual Report of Respective Companies

- Discount offer to push sales:** Dealers are the main middle-men, snatching higher return while leaving marginal profit for the retailers. As the companies are very eager to quick sell their additional production amount, they are offering dealers higher commission (by BDT 3-5) than previously. Hence, there has been a shift in commission sharing amid dealers and retailers. Besides, most of the cement companies were offering 2 bags additional (free) with 100 bags, previously. But, currently the dynamics changed and almost all the companies except Holcim and Scan brands were offering 4 additional bags with the purchase of 100 bags. This addition free limit increased fixed cost burden on company's behalf and turning down company's margin.

Analyst's Note:

- Still there is higher growth potential (around 15%) of cement industry, backed by expected demand from infrastructure development activities.
- Amid the changed dynamics of reduced price and increased cost, the cement companies may need to adjust their business policy, which may take 3-6 months to normalize.
- In the meantime, some companies have already faced margin erosion in short-run. But, in long-run, we do believe that, companies may overcome these difficulties and run their business, smoothly and profitably.

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