

Transitory inflation on cards for cement

We interacted with some fuel sourcing experts from the cement industry. And key takeaways from these interactions were:

Tariff war creating distortions in fuel markets: So far in CY25, the price of South African coal in INR terms has declined by ~12%, while Reliance Industries' petcoke price has surged ~18%, highlighting a divergent trend despite the latter's close substitutability with the former in the cement industry. Currently, coal is trading at a discount to pet coke in INR terms, leading to the booking of ~9-10 US coal cargoes from India.

China has imposed tariffs on coal import from the US, but petcoke remains exempted, driving a surge in petcoke demand from China's cement, aluminium and glass manufacturers (for electricity generation). This has led to a rise in petcoke prices. Petcoke is allowed to be used as a fuel for electricity generation in China. On the other hand, petcoke supply was on the lower side, particularly from the Middle East. Short-term demand-supply mismatch resulted into outperformance of petcoke over coal. However, demand from China for petcoke is expected to taper off in the coming months due to a surge in supply, which should pull down petcoke prices. Post the Chinese new year, production from domestic coal mines has ramped up.

Thermal coal – In a structural bear market: Demand for coal is weak in India and Europe. Europe is relying more on gas. Subdued gas prices and end of 'winter season' demand for coal are straining coal prices. Upcoming supply glut in gas by end-CY25 or the start of CY26 and reduction in coal-fired capacity in Europe should likely depress coal prices.

Lower gas prices, expected surplus in the gas market, and likely slowdown in global GDP (driven by tariff uncertainty) should slow down coal demand. Thus, barring a major geopolitical event, the overall trend in coal prices is expected to be bearish.

Cement sector eyes gain given potential easing of sanctions on Russia: Thermal coal from Russia is supplied to India, China and Turkey but because of sanctions, the supply is less into the Indian markets. Currently, Russian coal mines are operating at lower utilization. In case sanctions are removed, the supply of Russian coal to the international market may spike.

Logistically, it makes sense for Russian coal to flow to Europe. The moment Russian coal supplies start in full swing, suppliers from other countries such as Indonesia and South Africa may have higher amount of coal inventory and hence, the market will be in surplus. Thermal coal exports from Russia fell from 210mn tonnes in CY22 to 160mn tonnes in CY24. Russia was the third largest exporter of coal. Its share in international coal trade fell to 11.5% in CY24 from 16.3% in CY22.

Cement industry is likely to see cost pressure in H1FY26: It may not be possible for all the cement companies to shift completely to coal in the short term, particularly for companies having poor quality of limestone. INR depreciation coupled with vanishing of petcoke discount versus coal is likely to increase the cost for cement companies in the upcoming quarters. However, cost inflation is likely to be transitory in nature. Thus, from a near-term perspective, the industry's margin may peak out in Q4FY25.

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