

# Additional levy on limestone by Tamil Nadu – negative read through for cement sector as a whole

## Executive Summary

**Negative read through for the Cement sector as a whole:** Given the backdrop of July 2024 SC ruling which empowers states to levy additional taxes on minerals and mineral bearing land, **we expect more mineral rich states to follow through with similar legislations as enacted by Tamil Nadu and proposed by Karnataka.** This is what our experience with additional royalties on iron ore tells us. Tamil Nadu levy and Karnataka levy (awaiting final clearances) are sentiment negative in our view for the Indian Cement sector as a whole. However, since enactment of these laws is time taking, the threat is not immediate in terms other states to follow suit. Additionally, our channel checks indicate that there is a possibility that royalty on limestone could be increased by ~INR 40/t to INR 120/t by the union government which could be a double whammy.

**Event Update:** Tamil Nadu has imposed an additional levy (apart from royalty) on several major and minor minerals, including limestone, under the Tamil Nadu Mineral Bearing Land Tax Act of 2024. **The additional levy on limestone (apart from all other existing levies like royalty, DMF, and NMET) would be INR 160/ton.**

**Background:** In a landmark judgment in Jul 2024, **the honorable SC of India ruled that states in India have the legislative authority to tax mineral-bearing lands.** This verdict opened avenues for the state legislatures to collect royalties, along with taxes on major minerals, and on mineral-bearing land based on the value of the minerals extracted there.

There was a **similar act that was passed by the Karnataka state government in December 2024**, which is awaiting clearance from the state governor. There is also an increasing likelihood, in our view, that other states could also start enacting such laws in due course.

**Impact on Cement sector in Tamil Nadu :** Of the ~25+ mn ton clinker capacity in Tamil Nadu, Ramco Cement /Dalmia Bharat account for ~30% each, with the rest 40% split between other 4-5 players. **This additional levy of INR 160/mt of limestone would mean an impact of up to INR 200/ton of Cement, as per our calculations.** To fully pass through this impact, the cement industry in Tamil Nadu would have to take a price hike of ~INR 10/bag. However, it is unlikely that the full impact of the cost hike can be passed onto the end consumers, in our view.

**Company-wise impact (Tamil Nadu based) :** Amongst the listed cement players under our coverage Ramco Cement, Dalmia Bharat would be impacted the most as ~50/25% of their cement production volumes can be attributed to clinker produced in Tamil Nadu. We assess the impact on these 2 companies under 2 scenarios:

**1) Assuming full cost absorption:** (nil transmission to the market), we expect Ramco Cement/ Dalmia Bharat's annual EBITDA to be lower by ~6%/10%, respectively.

**2) Assuming half cost absorption:** (half transmission to the market), we expect Ramco Cement/Dalmia Bharat's annual EBITDA to be lower by ~3%/5%, respectively.

However, we are not changing our estimates for Ramco Cement/Dalmia Bharat at this stage. We will continue to monitor the developments in this space and may accordingly change our view on the sector as well as stocks under our coverage in due course of time.

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