Need to stimulate demand for cement in housing and infrastructure: A.K. Jain

Mr A.K. Jain, Executive Director of The Associated Cement Companies Ltd (ACC), in a recent interview to Indiainfoline.com, spoke at length on various issues that are of interest to the cement, concrete and the construction sectors. We are reproducing the interview here for wider dissemination.

Q: **What is the current scenario in the cement industry?**

AKJ: The industry has been recording robust growth. During the last fiscal, the industry grew by 9.5 percent. When compared with the rest of the core industry, it is a very good performance. That momentum has been maintained during the current year. In the first 4-5 months of the current year, we have grown at over 11 percent. So the demand for cement has been going pretty well in most parts of the country. A large part of that demand is coming from the housing sector. Our belief is that for FY03, the industry should be able to grow at 9-10 percent. This is taking into consideration, certain apprehensions on account of drought and late monsoon. During the remaining part of the year, we are expecting a substantial demand from the road sector. October onwards, we should see a substantial demand coming from the road sector and that of course would continue till about mid-2004. The current highway programme is expected to consume 5-6 million tonnes (mt) of cement. For the first phase of the National Highway Development Project (NHDP) the cement demand is expected to be 5-6 mt.

Q: **You mentioned the growth rates factoring in the drought. Are you saying that the drought will not have much impact on the cement sector?**

AKJ: Our experience is that drought has no direct connection with the cement demand. I agree rural cement consumption has a fair share in demand. However, construction activities, which have already started, will not be stopped halfway. They will be completed. Therefore, you will not see any immediate impact on the cement demand. We will have to wait and watch whether any subsequent impact would happen in the latter half of this year. This again depends on a number of factors. Drought is just one among them. More than the quantity of agricultural goods that is produced, it is the prices that have a large impact. If volumes are less, the prices tend to move higher. Therefore, the net holding is what finally counts. If one looks at the average of the last 20 years, there is no correlation between drought and demand. During a number of years when the rainfall has been poor, agricultural production has registered a negative growth. However, cement demand during those years or the following year was not really affected.

Mr A.K. Jain joined ACC in 1969 after completing B.Tech. in Chemical Engineering from IIT, Mumbai. He has had rich and varied experience in different areas of management — beginning with 14 years at ACC's R&D Division, where he was involved in product and process development and the commercialisation of technologies in the fields of cement, refractories and chemicals. He then moved to general management at ACC's Corporate Office where he headed the Technical Services Department, followed by a stint in Personnel Management in the Human Resources Division. Then followed a stint of seven years as Chief Executive of ACC's Refractories Business before taking over as the chief of Cement Marketing Division (CMD), in 1997. In January 2002, he was elevated as Executive Director on the Company's Board. Mr Jain is also Chairman of the Apex Marketing Committee of the CMA.

Q: **With delays in monsoon and many states being declared drought- affected, do you see the government funds shifting from infrastructure projects to relief funds?**

AKJ: As of today, the only infrastructure project on which we are depending is NHDP. Here the funds are tied up and they do not come from the

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general funds. We don't expect these funds to get diverted. On the other hand, if rehabilitation work is taken up seriously, it will lead to further demand for cement. Most of the relief work is after all construction. Demand for check dams, roads and culverts, will result in extra demand for cement. Therefore, if government spending is going to shift to rehabilitation and drought relief work, it will actually help the cement industry.

Q: What is the CMA agenda at present?

AKJ: As manufacturers, I think there are two or three broad areas, which have always been on our agenda. First is to stimulate demand for cement. Even though India is the second largest producer of cement in the world, our per capita consumption is still very low. By world standards, we consume less than half. The second is exports. India presently exports about 5.5 mt of clinker every year. Considering the size of our industry, this can easily be doubled, provided certain constraints are removed. The third issue is that the cement industry, as a whole, is a very heavily taxed industry. Therefore, the consumer ends up paying a very high price for cement. The manufacturer does not get the ideal price for cement. Cement is such a basic commodity. It should be available at a much lower price. There is no reason why consumers should pay such a high tax. On an average, a 50-kg bag of cement has taxes to the tune of around Rs 45. This has to be borne by the consumer.

Q: What is the transportation cost per bag of cement?

AKJ: Transportation of course varies from place to place. Depending on the location, it can vary from anything between Rs 10 per bag to Rs 40 per bag. Tax and transportation are the two components (tax and transportation cost) where producers have no control. If you look at cement prices, the margins that the producers get for producing the cement is still one of the lowest in the world. However, to the consumers it appears that cement prices are high. The producer is quite helpless here.

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Q: What are some of the steps taken by CMA to increase demand for cement?

AKJ: We have been working with all the government bodies to promote concrete roads. We are working with NHDP, Pradhan Mantri Gram Sadak Yojna (PMGSY). We are taking up demonstration projects because roads can be a major consumer for cement. The merits of concrete roads have very clearly been established. I would say that is the thrust area for the cement industry. Most parts of rural India have *kuccha* roads (undeveloped roads). Through PMGSY, we have been taking up a number of demonstration projects. We build concrete roads in a number of states to demonstrate the merits. Concrete pavements with their long life and negligible maintenance, come out invariably superior to bituminous ones. Moreover, the economic costs to the country, fuel saving and environmental friendliness make concrete roads a far superior choice over bituminous ones.

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Q: What is the role played by exports? Is it viable?

AKJ: We need to export because excess capacity needs to be sent out of the country. The margins earned by the companies depend on the plant's location and the efficiency of the producer. If you have a plant, which is efficient and located near the coast, then margins will be better. However, margins are not very high in exports.

Q: Roughly, what would be the quantity of cement required per kilometre of concrete road?

AKJ: It depends on a number of factors. For NHDP, instead of bitumen they use concrete. The requirement is around 1,000 tonnes of cement per km for twin lanes. This does not cover the cement requirement for the structures. Roads always require a lot of bridges and other structures. These structures will consume additional cement.

Q:CMA was in talks with the railway ministry to increase the import of duty-free coal to 40 percent of the total cement exports from the present level of 20 percent. Tell us more about it?

AKJ: The demand was made basically for the purpose of exports. The problem with exports is that while there are some duty-draw backs, there are a number of taxes and duties, which are imposed at the state level. These are, however, not compensated in the duty drawback. For the cement industry, these duties amount to around Rs 20 per tonne. These are not being compensated. The industry has been pleading to find a way to get compensation for the same. When we talk of exports, we are competing in the international markets where such duties do not exist. Therefore, the producers are at disadvantage in the global market. The argument, which the government gives, is that there is no way they can compensate it. Therefore, the cement industry made a suggestion that instead of increasing the drawback on coal, the industry be allowed an increase in the import of duty-free coal. Instead of being allowed 0.2 tonnes of coal per ton of cement, if we are allowed 0.4 tonnes of coal per tonnes of cement exported, it would be an indirect way of compensating the industry for the duties imposed at the state level.

Q: How is ready mix concrete (RMC) doing as a concept?

AKJ: As a concept, RMC is very welcome. It is both an improvement in quality and also speeds up construction. However, the growth rate of the industry has been substantially affected primarily because of the sales tax, which is imposed by the state government. The competition of RMC is with site-mix concrete, which has neither taxes nor duties. Therefore, other things remaining same, RMC automatically costs 15 percent more. Only contractors, who are either very quality conscious or need to do fast-pace work, will use it. The experience worldwide has been that if you look at RMC only on a commercial basis, then it will run into the problems that we are running into.

You have to look at RMC as a means to upgrade the technology of construction, which has so many other benefits. For example, the quality of construction we have in the city of Mumbai is not up to the mark. The local government needs to take steps to make RMC mandatory. This by itself upgrades quality of all constructions in the city of Mumbai. Flyovers in Maharashtra were the only constructions where RMC was made mandatory. Secondly, in large cities, there is also the environment issue, particularly when you are producing concrete locally. A lot of dust and other associated problems are there. This is one of the main reasons why many large cities do not allow site-mix concrete and therefore make RMC compulsory. Such measures are required. In many cities in China, you have to pay a penalty to produce site-mix concrete. This forces people to opt for RMC.

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Q: Do you see a change in legislation to this effect?

AKJ: Such legislation will considerably accelerate the process. Our purpose is not to support RMC but rather to get better quality construction. If you want better quality construction then you need to insist on the use of RMC. For example, the BMC has made it compulsory now to make concrete roads. Till now, the contractor had the freedom to either make the concrete himself or buy RMC. This is the first time that instead of concrete, the BMC will insist on RMC. The immediate benefit is that good quality is assured.

Q: How is pre-fab doing?

AKJ: It has not really taken off because pre-fab works best where speed is of great importance. If there is no premium on time, then the pre-fab does not work. The amount of cement that goes into pre-fab is totally insignificant.

Q: The proportion of sea transport in India is very low. Road transport seems viable for around 250 km only. Tell us about the transport scenario as far as cement is concerned?

AKJ: If you want movement by waterways or by sea then you need cement plants, which are near to the shore. Unfortunately, most of the raw materials for cement in our country are inland. It is only in the state of Gujarat that you have limestone near the shore. There are a few plants, which are near the shore. Moreover, inland waterways are not developed in our country. Therefore, there is no movement at all by sea. The percentage of sea transport is therefore very insignificant.

Coming to transport by road, cement is transported even where distances are well around 500 km. Even in long distance, road freights are competing with rail freights. For example, if rail freight costs around 80 paise per tonne per km, the charges by road are almost the same. Moreover, road transport has many other advantages and benefits. The delivery is directly to the destination whereas by rail there is the loading and unloading factor too. This results in additional costs. Therefore, road freights are emerging as fairly competitive in our country.

Q: How is the rural development scene as far as CMA sees it? What are the triggers, which could boost growth?

AKJ: We find the demand from the rural sector very good. As far as rural demand is concerned, one thing that helped housing is the financing. The number of measures, which have been taken in last couple of years, has made housing finance much easier and cheaper today. The housing sector has shown a remarkable growth in the last few years. This was however, confined to urban areas. The rural areas had not at all benefitted through this. Therefore, we have been telling the government to look at ways through which the same easy and cheap finance can be made available to the rural areas. If this happens, the demand for housing in rural areas will also grow much faster. About 70-80 percent of the demand comes from housing. Here again 60-70 percent demand is from rural areas.

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Q: **Are there any changes in demand-supply outlook?**

AKJ: The demand-supply gap is narrowing. The situation is different from region to region depending on where capacity addition takes place. During the last few years, most of the capacity additions in the industry has been taking place in South India and Maharashtra. The rest of India has not seen much capacity addition. Demand-supply balance is maintained much higher in East, North and Central India. This will take a little longer in the South and West.

Q: **Do you see more expansions coming up in future? What is your view on mergers and acquisitions in the sector?**

AKJ: There are no expansions in the pipeline. Everybody is expecting to see more mergers and acquisitions to take place. The long-term view is that consolidation is good for the industry. Today, cement industry is much more fragmented than desired. Fewer the players, the better it is. Players with a long-term business interest should remain. MNCs too are welcome.

Q: **What is attracting MNCs to India?**

AKJ: It is a long-term view that India is a high growth market. There are very few growth markets for cement in the world and India is one of them. Therefore MNCs are eyeing India.

Q: **Small players sometimes indulge in reducing prices. What are your views?**

AKJ: The problem here is because of the lenders. If the lenders don't insist that they want their money back from these small players, the latter continue to operate at variable costs. If they don't have to return the loan, or don't pay sometimes even the interests on their loans, they can afford to operate at variable costs and bring down prices.

Q: **What are your views on the cartelisation in the cement industry?**

AKJ: Let me clarify. I think it's a misconception. If you see the level of fragmentation in this industry, there are 55 companies and over 110 plants. In every region you have anything from 6-20 suppliers of cement. Cartels don't work because of the level of fragmentation. However, it gives an impression that there is a cartel in terms of prices. Cement behaves just like a commodity. So the prices of all producers more or less move together. It is not possible for one producer to have a very high price and another to have a very low price. So if one producer raises prices, everybody else also increases prices and vice-versa. Therefore, it gives an impression that someone is sitting somewhere and controlling the prices. If such a thing were possible, the industry wouldn't face the existing problems.

Q: **What are your views on the current cement prices? What do you think is the ideal price?**

AKJ: If you wish to get a fair return, then depending on where your plant is located and what markets you are serving, the prices need to be in excess of Rs 140 and probably up to Rs 200. Anything between Rs 140 to Rs 200 is the price where you can expect a fair return on your investment.

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