CEMENT INDUSTRY IS ALWAYS ON THE FOREFRONT IN ADOPTING SUSTAINABLE BUSINESS

The cement industry has been on a volume growth path led by several government initiatives and has bright prospects for coming few years, observes, Dharmender Tuteja, CFO, Dalmia Bharat Ltd. and Dalmia Cement (Bharat) Ltd.

What is your observation on the overall cement industry in India?

India is world's second largest producer of Cement and has low per-capita cement consumption of about 200~250 kg which is about half of world's per capita cement consumption and way below China's per capital consumption of about 1650~1750 kg.

The installed capacity of cement in the country is about 535-540 mn mts while production in FY'22 is likely to be about 320 mn MTs with capacity utilisation of about 63%. It is an oligopolistic industry where few large players control major share of the market.

The fortunes of cement industry are linked to Real Estate and Construction industry in the country which, after agriculture, is the largest employment generator in the country. With Govt. of India fully committed to boost country's economic growth, we are hopeful that the construction and infrastructure sectors will get due priority in allocation of resources. The last few budgets of Central Govt. have amply demonstrated this. Currently, measures to boost economic growth are primarily investment-driven rather than consumption-driven. This has advantage of multiplier effect of investments driven spending and the increase in economic growth is sustained over longer term. We see this as very beneficial for the growth of the cement industry growth in the future. From a technology perspective, we've not found any cost effective viable substitute yet. Hence, cement sector will continue to play an important role and benefit from India's economic growth story.

How has been the business for the company in the last 2 years, post-pandemic?

Last year when the pandemic struck, everybody was worried as to the effects and the impacts of the multiple Covid waves on lives, livelihood and business growth. Amidst this turbulence, our whole team consolidated their efforts to tighten costs so that we could gear up for any uncertainties that might unfold. As soon as the economy started opening up, we were amongst the first to commence operations and boost our sales. Last year, in spite of a fall in the overall cement sector demand to about 7% negative – due to the Pandemic – we were still able to show an increase of 7% in our sales volume. Our EBIDTA margins at 26% were also among the best in the industry. We were able to bounce back very quickly despite COVID-related issues. In the current year, there have also been several challenges. On the cost front, energy prices touched unprecedented heights and the rise was very steep and cement companies have not yet been successful to fully pass on the increased costs to customers leading to margins compression. On the demand side, because of uncertainties caused by COVID, new project launches especially in the organized segment had suffered. Additionally, the rural economy in the current year has been impacted more compared to last year leading to slower demand growth in this segment. However, these impacts seem to be temporary blips. Overall, things have started looking favourable once again with COVID hopefully behind us and we look forward to a very strong revival of demand in the coming year.

How has been the business for the cement industry in the trade segment (Retail) and non-trade segment (Infra)?

In the current year, the infrastructure segment growth has been strong because of government spending as well as the overall economic progress. As I mentioned earlier, the organised retail segment was impacted because of fresh projects being delayed in the last one year. But as the inventory pipeline has been reduced, the new project launches have now commenced.

The trade segment, last year was quite strong. But in the current year the proportion of the trade segment has fallen relative to non-trade segment because of the adverse impact on the rural economy and rural incomes being slightly lower. The urbanisation trend, increasing income levels of households, need for bigger houses in work from home environment and low interest rates augur well for boom in housing demand and, therefore, we expect that trade segment will bounce back in the coming years.

India has seen spur in the construction and infrastructure activities, the cement sector how does it view?

The cement industry has been on a volume growth path led by several government initiatives and has bright prospects for coming few years. The government's spending on construction and infrastructure projects such as the Bharatmala project and affordable housing schemes such as the Pradhan Mantri Awas Yojana (PMAY) with enhanced budgetary allocations will be the primary drivers of growth for the cement industry.

As India has a high quantity and quality of limestone deposits through-out the country, the cement industry promises huge potential for growth. Your take on this?

In India the Limestone deposits are widely distributed across states and the most important thing is these deposits are unique by their mode of origin, deposition, structure, quantity and quality. Both quantity and quality of limestone is critical for cement manufacturing. Cement industry operates with stringent environment guidelines with respect to quality of raw material. Cement industry is always on the forefront in adopting sustainable business solutions and technologies in their operations.

Coming to the reserves and resources, with respect to the mineral yearbook data as published by Indian Bureau of Mines, the total reserves/resources of limestone of all categories and grades as per National Mineral Inventory (NMI) database based on UNFC system as on 1.4.2015 has been estimated at 2,03,224 million tonnes, of which 16,336 million tonnes (8%) are placed under Reserves category and 1,86,889 million tonnes (92%) are under Remaining Resources category. Karnataka is the leading State having 27% of the total resources followed by Andhra Pradesh & Rajasthan (12% each), Gujarat (10%), Meghalaya (9%), Telangana (8%) and Chhattisgarh & Madhya Pradesh (5% each). The remaining 12% is shared by other states. Grade-wise, Cement grade (Portland) has leading share of about 70% followed by Unclassified grades (12%) and

BF grade (7%). The remaining 11% is shared by various other grades.

So, focus on converting the 92% resources into reserves is most important. This can be done only through detailed exploration program and Govt of India is keen towards exploring the potentials through National Mineral Exploration Trust (NMET) and other modes.

During recent years and post 2015 after major amendments were brought in by Government of India to Mines and Minerals Development & regulation Act (MMDR), more than 50 new Limestone Mineral blocks of having 3000+ Mio.t reserves has been awarded though auction in various states. This shows how Industry is ready to meet the future demand by securing Limestone raw materials.

Private equity investments in real estate surged 24% YoY to US$ 477 million between July 2021 to September 2021.The impact on the cement industry.

Real Estate Industry has had difficulties relying on conventional debt finance from Banks since land acquisition is not financed by Banks and the Real Estate projects do not get financing unless the required set of approvals have been obtained. Hence, reliance on Private Equity increases for financing need of Real Estate industry. The surge of Private Equity in Real Estate augurs well for cement industry as it provides vital seed capital to Real Estate companies to invest and grow. With greater transparency and returns, the inflow of funds in Real Estate sector is expected to continue to increase. With SEBI permitting Real Estate Investment Trust (REIT) platform, there is avenue for all types of investors to invest in Real Estate. Govt. has also allowed 100% FDI for Township and settlements development projects. All such financing avenues for Real Estate Sector will help to boost growth of this sector and augur very well for cement sector.

Over the years what initiatives by the government have given a boost to cement sectors? How will it impact the overall cement business?

Several initiatives taken by Govt of India in recent years like Make in India, Pradhan Mantri Awas Yojna, Smart Cities Mission, Infrastructure status to Affordable Housing, FDI in Real Estate and Organised Retail, reducing tax burden on capital gains on housing and Interest subsidy and tax incentives for housing have helped provide strong demand push to growth of Real Estate and Construction sectors and thereby demand for cement.

Initiatives like RERA, Demonestisation, Benami Transactions (Prohibition) Act amendments etc. have helped bring greater transparency and helped attract flow of capital in Real Estate sector besides other initiatives like 100% FDI, REITs etc. thereby assuring strong growth of this sector and for cement demand as a corollary.

Latest initiative of PM Gati Shakti National Master Plan will not only give demand boost to cement sector but also help address logistics infrastructure and cost issues of Cement industry in the long run.

What are the business plans for the company going forward?

We do believe in the India growth story and are preparing ourselves to expand our business and capacities. Currently, our capacity is 35.9 million tonnes. We aim to take it to 48.5 million tonnes by March 2024 and plan to take it to 110~130 Million tonnes by FY 2031. We've come out with a capital allocation policy, which is the first in this industry. We want to be Pan India pure-play cement player and will be growing keeping our Net Debt to EBIDTA ratio lower than 2:1.