

Stimulus withdrawal may impact cement sector in the short term

INTERVIEW

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The Government's stimulus package helped the cement industry ride over the challenges smoothly in 2009. But how will the coming year be? Will the new capacity additions hit price upsides and margins for the players? Ms Vinita Singhania, President, Cement Manufacturers Association (CMA) and Managing Director JK Lakshmi Cement, spoke to *Business Line* on the issues and outlook for the sector.

Cement despatches have reported an over 8 per cent growth in 2008-09. What will be the annualised growth over the next five years?

The growth in cement demand in 2008-09, as reflected

by cement despatches, was at 8 per cent. However, this has to be viewed in the context of the overall recession which the economy faced consequent to the global meltdown. The cement industry was one of the few core industries which managed a growth rate of 8 per cent even in the troubled times, which surely is commendable.

Things have, however, started looking up and with the boost to the infrastructure development accorded by the Government, the growth in the cement consumption is expected to be over 10 per cent this year. I am quite confident that given the needs of our economy and the trajectory on which it is moving, a growth of over 9 per cent or even a double-digit growth in the next five years is quite likely.

What do you think is buttressing cement demand? Do you think there will be a lull after the Government's stimulus is withdrawn?

Infrastructure and housing are the key drivers of growth. Going ahead, hopefully our GDP would once again move on 8 per cent plus path and consequently the cement consumption too would grow with multiplier co-efficient of 1.2 to 1.3 over GDP, about 10 per cent.

The stimulus definitely provided the much needed momentum after the lull seen in the previous two years. Therefore an adverse impact in the short term, in case of withdrawal of stimulus, cannot be ruled out.

The industry's current capacity utilisation rate is 77 per cent, down from 84 per cent in the previ-



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ous year. Do you see this falling further in the coming years?

The cement industry's capacity utilisation is dependent on the supply-demand situation. Though the demand this year has been good, close to 12 per cent in the first seven months, the available capacity has increased with

the coming of new capacities in the last 2-3 years, leading to an overall excess supply in most of the regions. More capacities are on the anvil and therefore further slip in the capacity utilisation is possible.

For more than a year now over-capacity issues in the cement industry

have been worrying investors in the market, when do you think supplies will be significantly more than demand given the current pace of capacity additions?

We were apprehending the supplies to be on the surplus side even in the previous year. Fortunately the demand tempo has picked up and there have also been some delays in the stabilisation of the new capacities. If the demand tempo continues to be good in the remaining months of the year, that would help the surplus capacities to be absorbed in the system.

Which region in the country is showing strong demand growth and holds the potential in the short- and medium-term for posting higher than the industry's average growth?

In the first half of the current year, Central, North and East markets have shown considerable growth in the cement consumption. The West and South comparatively grew at a lower pace. Consumption in the North is likely to be good for the next year or so backed by the Commonwealth Games-related construction activities as well as other infrastructure projects which are moving at a good pace.

However, I believe, the other infrastructure activities, especially relating to highways are spread all over the country.

What is your outlook on cement prices? How do you think the railway wagon shortage problem can be handled?

Cement prices are a direct off-shoot of the demand-supply situation and market

forces determine the prices in a particular market at a particular time. Even short-term surplus and deficit in a particular market can affect the prices there.

The logistics today play a very important role. Of late, in some of the markets, railway wagon availability has been a key concern. Railways definitely need to accord more priority to cement loading, it being a core industry.

It has been our experience that though cement is one of their largest contributors of revenue, the sector's interests are sidelined compared to many other goods.

I am sure many cement players would come forward for the Liberalised Wagon Investment scheme if it is modified and made more customer-friendly taking into account the interests of the cement industry.