Hindu Business Line

JK Lakshmi Cement to invest Rs 2,000 cr in capacity addition

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Industry expects govt to kickstart infra spending to boost demand: Vinita Singhania

INTERVIEW

Suresh P. Iyengar
Mumbai, Oct. 31

Most cement companies posted encouraging financial performance in the September quarter despite challenging economic environment.

Though the lower base last year helped companies, most of them had done well considering rising operational cost and slowing demand. The industry has built huge capacity in anticipation of demand from largescale government projects.

However, the economic slowdown has put the brakes not only on government projects but also on private sector spending.

The cement industry capacity utilisation hovers around 75 per cent. Vinita Singhania, Managing Director, JK Lakshmi Cement, spoke to *Business Line* on the road ahead for the industry and the company.

What are the main drivers for better profits in the September quarter?

We have managed to keep our cost under control by improving efficiencies across our plants. Our power consumption has come down in the last two quarters. Besides, demand was strong in the northern region due to the delay in the onset of monsoon this year. We were able to sell more cement in the market with stabilisation of our grinding unit in Haryana.

Has cement demand picked up post-monsoon?

Cement demand was alright in the second quarter of this fiscal.

There is no great turnaround in demand in October, as projects are being delayed due to *shradh* (an inauspicious occasion to start new projects) observed in the northern region. We expect demand for cement to pick up in November or post-Diwali.

With slowing demand, do you think cement companies will lose pricing power?

Even today, cement companies are not able to pass on the entire cost increase to consumers.

It is partially absorbed by companies. It is set-off by improving operational efficiencies and tight cost control. With the government unfolding economic reforms, the sentiments have definitely turned better. We hope the planned investments in large infrastructure projects to boost cement demand.

Vinita Singhania, MD, JK Lakshmi Cement

Is there a relief on raw material cost?

Raw material cost has come down from record highs, but is still higher.

Moreover, incidental costs have gone up on all raw materials. For instance, the royalty on limestone and gypsum has increased recently. Railways hiked freight rates by 22 per cent. Similarly, diesel prices were marked up by Rs 5. Lending rates are still on the higher side. Rupee depreciation against the dollar has almost nullified the benefit of a sharp drop in the international coal prices.

However, the only relief was that we had almost received assured coal supply through coal linkages this quarter. Margins are under pressure due to cost increases.

Do you think fresh capacity addition would be delayed?

I do not think there will be any major delay in capacity addition as there is a huge cost involved in each project. Any delay will lead to cost overrun and turn the project itself unviable.

The industry has been on an expansion drive and the overall capacity has touched 310 million tonnes (mt). It will reach 400 mt in two years. The capacity expansion was planned based on the government intent to boost infrastructure spending.

The government announced plans to invest $1 trillion in infrastructure in the next five years. Currently, supply exceeds demand by a huge margin. The industry expects the government to kickstart infrastructure spending in order to boost demand and absorb excess supply.

What about JK Lakshmi Cement's expansion plans?

All our plans are on track. We have plans to invest Rs 2,000 crore over the next three years to take our capacity to nine mt from 5.3 mt. We will soon start work on a 2.7-mt greenfield project at Durg in Chhattisgarh. The plant, which is coming up with an investment of Rs 1,250 crore, is expected to be commissioned by October next.

A debt of Rs 850 crore has already been tied up, while the rest will be through internal accruals. We will restart production at our Udaipur plant which has remained shut for the last 10 years. This will add capacity of 1.3 mt.

We currently have 11 ready mix concrete units and intend to add another nine in the next three years. We plan to venture into production of Aerated Aric Bricks (ACC blocks) in Haryana by December.

This product would help the building industry save on labour cost, reduce time as well as bring down the overall cost of construction.

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