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Cementing A Growth Path

Shiva Cement's strategic alliance with ACC and the current cement deficit in its marketing territory has spurred Shiva Cement into kick-starting a capacity expansion plan that will be implemented in two phases. This is most likely to give a fillip to its revenues and profits. Excerpts from the interview:

R P Gupta
Managing Director
Shiva Cement

What is your view on the short and long-term outlook of the Indian cement industry?

The Indian economy has already entered into the NTD (next trillion dollar) economy era. Now, it will generate demand for non-food items like house construction, FMCG and automobiles. Infrastructure spending in the 12th Five Year Plan (2012-17) is likely to be USD 1,000 billion as against USD 500 billion in the earlier one. Hence, the growth in the demand for cement is bound to remain around 11-12 per cent CGAR in the next 5-7 years except for temporary hiccups. As such, the medium and long-term outlook is excellent beyond doubt.

This may create pressure on the selling price and capacity utilisation. It implies that the short-term outlook is not favourable. This current situation is due to the bunching of capacity additions over the past two years and will be absorbed in CY12. Post FY12 the capacity additions will be very few. New capacity creation requires minimum five years' gestation time considering delays in land acquisitions, environment clearances, etc. Hence we are of the firm view that the industry is going to witness a bull run in CY13. However, at present there is a temporary supply overhang.

Which is your marketing territory and what is the demand-supply situation there?

Our marketing territory is Odisha, West Bengal and Bihar (undivided). This is historically in deficit due to the non-availability of large limestone deposits. The deficit is likely to widen to about 20 million tonnes by 2013 as per our in-house estimate. Due to this reason the prices in this region are relatively stable. Further, massive industrialisation and infrastructure spending in this region are the key drivers for the growth in demand.

Could you elaborate about your expansion plans?

After entering into an alliance with ACC in the year 2007, we have been working to expand the plant capacity to above 2 million tonnes in two phases. This includes obtaining statutory approvals, land acquisition, additional mines, and so on. Our phase I capacity was originally designed for 0.66 million tonnes with an investment of Rs 163.5 crore. The project was approved by the IDBI, the loans were sanctioned and the land was acquired. Part equity was also brought in.

In the meantime, we entered into a MOU with the Government of Odisha on April 27, 2011 and also obtained environment clearance from the MoEF for 1.0 million tonnes. However, acting on the advice of ACC, the project has been revised and re-submitted to IDBI Bank. We expect the financial closure by September 2011. This means that we would be in a position to commence commercial production by March or April 2013. The phase II expansion of up to 2.0/2.3 million tonnes shall be taken up within a year's time for which the process of approvals has already been initiated.

What is the total investment for both the phases and how are you going to raise the funds?

The first phase project cost is Rs 248 crore. A loan of Rs 80 crore has already been tied up and another loan of Rs 70 crore is under consideration. Our promoters have already subscribed for 20 million share warrants totalling Rs 22 crore and equity of Rs 68 crore shall be infused as per the project's requirement. The balance will be from internal accruals. In view of an increase in the project cost, we have requested ACC for part funding of equity. It is under their consideration. The cost for the second phase has been envisaged at Rs 450 crore as per the revised estimate. The means of funding will be firmed up only after the completion of the first phase.

The proposed project cost of Rs 248 crore for phase I appears to be low for building 1 million tonnes' capacity. Are you compromising on the equipment?

The project cost appears to be low due to surplus capacity in the core equipment up to the kiln stage and surplus infrastructure. Further, keeping such expansion plans in view, we have been implementing capex continuously in the last 3-4 years for plant upgradation. The total capex from FY08 to FY11 was Rs 43.5 crore. This has helped to economise the project cost for the first phase. We have short-listed cement grinding equipment from reputed suppliers like Loesche (Germany), Ube (Japan) and Pfiffer (France).

The infusion of Rs 90 crore through equity funds may dilute the shareholders' interest. How are you going to protect them?

Following the first phase, the equity will expand 1.35 times while the EBIDTA may grow ten times. Hence, the shareholders' interest will not be diluted but will be enhanced.

What is your present revenue and profits and what additions are you envisaging after the two phases of expansion?

The company's present revenue is Rs 55-60 crore and EBIDTA is Rs 10-11 crore. After the first phase of expansion our revenue shall grow to Rs 340 crore and EBIDTA will exceed Rs 100 crore as per the financial estimates submitted to our bankers. However, we have not yet worked out the estimated revenue and profits after the second phase of expansion.

When will these revenue and profit be realised?

As per our implementation plan, commercial production shall commence from March or April 2013 and hence the stream of revenue and additional profits shall be seen only from FY13-14 onwards.

Do you plan to set up a power plant too?

Looking at the present coal supply situation, it has been temporarily deferred.

What have been the thrust areas for Shiva Cement in recent years?

Post ACC alliance in the year 2007, our focus has been to increase volumes clubbed with cost efficiency. From our 25 years' experience in the cement industry, we have concluded that reduction of clinker consumption is the key factor to achieving cost efficiency because it also leads to a reduction in the consumption of power and fuel. We have therefore selected the latest technology of separate grinding of slag and clinkers in vertical roller mills instead of the conventional inter-mix grinding in a ball mill. This will reduce clinker consumption from 55 per cent to 38 per cent. Cost efficiency is very important in a competitive environment besides volume growth.

What are the risks and challenges that lie ahead for the company?

Even while taking two high jumps of capacity expansions, the risk and challenges may be confined to the normal parameters. The risk factors have been mitigated through meticulous planning and elaborate working from 2007 onwards. The alliance with ACC was a part of this strategy to achieve our goals. The marketing risk of higher volumes is also over because of this collaboration. Now the focus is on the execution of our plans.

How you are creating value for your investors?

The idle assets of the company in terms of surplus capacity in core equipment, surplus infrastructure and surplus mining reserve will be fully utilised to generate revenue after capacity expansion. Hence our investors' value will obviously be unlocked to a great extent. The strategic location of the plant with higher volume and better efficiency will definitely create additional value.

Do you want to give any message to your Investors ?

Yes, our Country needs growth rate above 9% for next one decade to improve income level of BPL population and to create employment/self employment opportunities for the large young population. High growth rate is also essential for the country to increase Govt. revenue to facilitate infrastructure & social sector spending as well as to command respect in global fraternity. Obviously, manufacturing sector is the key driver to achieve high growth rate for Indian economy. It is therefore, prime duty of the company and the investor to contribute and participate in the growth process of entire nation. I feel, this is the best service to Nation. Management is to ensure that all stake-holders of the company grow together with optimum utilization of natural resources and to build strong foundation for the future generation.

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