Challenges Before Cement Industry In India

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Cement is one of the basic construction material for house, infrastructure, industry or any developmental activity. After decontrol in 1989, there has been healthy growth in capacities. It has also kept a pace with latest technological development in the world. As a result of which, the modern plants are highly efficient in terms of power and fuel consumption. Over all quality has also improved a lot.

So as to conserve mineral resources, India has switched over to blended cement like PPC, PSC etc.; those are eco-friendly. However, average blending ratio in the country as a whole is still below 30%; that must be increased to 40% and above. For which, industry should spend on the research and development. We should also manufacture masonry cement, which doesn't need high initial strength. This will improve the blending ratio; for which, BIS standards may be suitably modified. Besides fly ash and slag, new blending materials should be identified so that, production of OPC is almost eliminated. By this, we will not only conserve limestone, but also cut GHG emission and consume solid pollutants of other industries.

Per capita consumption of cement in India is far behind the world average. This is an important indicator revealing the prosperity of the Nation. Hence, it must be increased by multiple steps. As it is we are having infrastructure deficit in the country and therefore, infra spending may be increased. This will give compounding benefit on the cement consumption growth. We must target to bring cement consumption at par with world average in next 5-10 years.

High cost of cement at consumer's end is also a disincentive. By and large, cement industry is cost effective. The instance of high profiteering in this sector is rarely noticed. On the contrary, medium and small companies are under stress. This does not give any scope for the price reduction from manufacturer's side. However, most of the inputs are under direct or indirect control of the government and those inputs are highly priced; that needs a level playing field. On top of it, the taxation structure on cement industry is indeed amazing. It is in the line with luxury goods and not with mass consuming goods, which needs a re-visit.

Cost of domestic coal in terms of Rupees per Kcal in India is higher on PMV basis. On top of it, the production is not adequate and industry is compelled to import sizeable quantity at high cost. Therefore, coal sector needs structural reforms by ending the monopoly so as to boost production, cut import and improve quality and cost efficiency. Delivery infrastructure also needs improvement. Cost of electricity in India is not comparable with any of the peer country. On top of it, the industrial consumers are bearing the burden of cross subsidy. Captive power plant is not feasible for smaller companies and the fuel supply is also uncertain. Hence, high cost of coal and electricity is pushing the cost of cement upward, which needs policy initiatives.

The logistic cost component for raw material and finished goods is about 30% of the ex-works selling price. This is mainly due to inadequate capacity in railway. Additionally, goods tariff is loaded with cross subsidy for passenger traffic. More than 50% transportation is done through road transport even for the longer distance, which pushes the delivery cost of cement. India must spend heavily on logistic infrastructure particularly, the Railway, that will pay fabulous dividend to the consumers and the economy as well.

In general, Cement industry is a capital intensive industry. The turn over vis-à-vis capital asset ratio is not favorable. Hence the component of interest cost is sizeable. On top of it, the interest cost in India is too high and that needs reduction by minimum 2-3%.

Most surprising is that, tax component on cement industry is almost 55-60% on ex-works selling price. Such high taxation for mass consuming item like cement is not logical. It must be reviewed. Cement must be brought under "declared goods" like steel and there should be uniform VAT rate @ 4%. Excise duty should be applicable on the ex-works selling price instead of MRP and special duty @ Rs.120/- per MT must be removed. This will give lot of relief to the consumer and also help in increasing the demand.

Due to slow down in the economy, demand growth is not encouraging. Average capacity utilization of the cement industry as a whole might be around 75%. Smaller plants are operating still at lower capacity. I do not envisage any spurt in the private investment in any of the sector. It is high time that, government and PSUs give a kick start to the sagging economy by making investment in infrastructure. Even fiscal expansion should be opted for this purpose. Once government initiates, then private investment will follow the pursuit, may be with some time lag.

If the basic inputs costs are available at reasonable price then, the cost will reduce benefiting the consumer. In such event, demand will pick up. Alternatively, we have to wait for the up-turn of economic cycle or revival of the investment cycle. No doubt, several promises have been done by the new government, but its impact is yet to be seen at ground level. Despite all such odds, there are all such indications that, we will be back on the growth track by December, 2015. But we must focus on reducing the cost considering affordability of the consumer.

This article has been authored by Mr R P Gupta, CMD, Shiva Cement Ltd. He has authored a book 'Turn Around India: Thru Inclusive Governance & Team spirit'. Mr Gupta has got 42 years of rich experience, out of which he has spent 29 years in cement manufacturing sector.