

Road projects, the real stimulus package

The growth of cement demand in south India has been in single digits for the last five years. Ever an optimist, N. Srinivasan, vice-chairman and MD of The India Cements, however, is convinced that the industry is on the cusp of a positive change. In an interview, he hinted at better times for the industry, what with the Centre announcing a mega stimulus package. Read in tandem with its already announced focus on providing affordable housing, the prognosis appears to be good for the industry. Excerpts:

There has been a prolonged 'down' cycle in cement demand. What has caused this?

It is a fact that we have not seen a sharp increase in demand in the recent past... 2010-11 was the year in which we had double-digit growth. In the last phase of UPA II (United Progressive Alliance), several issues took centre stage. And, development was not there. There is a huge expectation that by the time the first Narendra Modi term is over, the economy would have bounced back.

When we look at the economy, it is not just the Centre that contributes. All the states also have to pull their weight. If you look at the south ... for more than a year now, there [has been] confusion in Tamil Nadu. In Karnataka, the confusion is [there] to a lesser extent. Andhra and Telangana are only now slowly settling down as separate states. If you take this year, the demand for cement has grown sharply by 8% in central zone, by 10-12% in eastern zone and de-grown in the north, the west and the south. In the last few months, we have seen a slow but sure revival of demand in Andhra and Telangana due to various housing and irrigation schemes. The non-availability of sand has stifled cement demand in Tamil Nadu. Maharashtra has seen increased demand on the back of various road and infrastructure projects that have been announced. The revival would been faster but for the very heavy rains in these states. In Andhra and Telangana, a lot of orders were placed. But cement could not be delivered because sites were flooded.

What is the scenario in terms of capacity use?

The total cement capacity in India is 410 million tonnes. The demand is 280 million tonnes. If I break this further down, 150 million tonnes of capacity is in the south. The demand in the south is 66 million tonnes. If I take out 66 million tonnes out of 280 million tonnes, the demand in the rest of India is 214 million tonnes... versus a capacity of 260 million tonnes.

This means over 80% capacity utilisation in the rest of the country. In the south, the demand is 66 million tonnes as against a production capacity of 150 million tonnes. If I break it down further, the capacity in the west is 52 million tonnes and the demand 77% [of that].

If I take the east, the capacity is 58 million tonnes and the demand 48 million tonnes. In the central zone, the capacity is 54 million tonnes and the demand 44 million tonnes. In the north, the demand is 71 million versus a capacity of 86 million tonnes.

With such a muted scene in the south, how do you see demand shaping up?

No doubt demand growth has been slightly slow. Once the recently announced road projects kick-starts, it will give a big boost to demand along with the affordable housing thrust. Once these projects kick off, other zones will run out of capacity and then the cement has to move from the south to other parts. There will be always more capacity in the south ... more than 25% of limestone reserves are in Andhra Pradesh and Telangana. For instance, The India Cements is sitting on a limestone reserve of 2.2 billion tonnes and can produce cement well into future. There

is no constraint, and I can choose when to expand.

Why was growth muted in the last five years? Is excess capacity a reason?

The cement industry always produces capacity ahead of demand. And in India, we consume all the cement we make. India has the biggest cement capacity after China, which has more than 1.5 billion tonnes. Next to us is America which has a cement capacity of 75 million tonnes.

The gap between us and the next [country] is very large. But we consume all of it. We have left behind many countries in cement demand. Even today, without large infrastructure projects, there has been a demand for 280 million tonnes... primarily due to housing projects. We keep saying growth is not there. In 2008-09, we were at 175 million tonnes. Now, we are at 410 million tonnes.

We have not grown to the extent we have created capacity. You have created capacity ahead of demand. That is always the case. If that is not done, there would have been times when you would have had cement shortage.

Cement industry is not given credit for having created the capacity which enabled you to fulfil all the demand. Cement is the largest contributor to exchequer, paying more than Rs. 50,000 crore in taxes. In the GST regime, we are in the highest tax bracket.

When do you expect the just-announced road projects to take shape?

To me, road projects are the real stimulus package. I am hoping that these take shape in the next six months. I see this having a similar impact like the golden quadrilateral project implemented under the leadership of former prime minister Atal Bihari Vajpayee. Not only the cement industry would benefit but it will also create big [opportunities for] employment. More importantly, the recent road project announcement will encompass the whole country.

Road projects tend to have a significant multiplier effect of over eight times. Also, the affordable housing initiative is itself going to consume millions of tonnes of cement. If these projects are implemented well, the cement demand would be boosted.

India Cements can produce cement well into future. There is no constraint

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