Construction Industry Review

An MMR, Braj Binani Group Publication

VOLUME 2 ● Issue No. 47 ● November 25-December 01, 2013 ● Price : Rs. 100

100 mt cement lying idle; prices under pressure

Despite the beginning of the peak consumption phase, demand for cement remains meagre, leading to 100 million tons capacity, or 30 per cent, lying unused.

Cement prices are subdued after initial rises after monsoon. The sector leaders predict that poor demand will continue, but matters will improve once elections are over.

This time last year the average all-India price was Rs 295 for a 50 kg per bag; at present it is Rs 282 per bag, a fall of 4.5 per cent. Even biggies like ACC, Ambuja and UltraTech, with their all-India presence, have been affected.

H M Bangur, Managing Director, Shree Cement, remarked, "We have no hopes. Nobody wants to spend money. So how would demand rise? Against estimates of 7-8 per cent, the sector is growing 3-4 per cent."

In the north part of the country, a bag is Rs 252, a fall of Rs 5 against September-end's price. In the south, prices have slipped from Rs 318 to Rs 298; and in the east, rates are Rs 315 against Rs 340. The west has seen a lukewarm rise of Rs 2 to Rs 287.

In the country's largest cement consumption market, Mumbai, a 50 kg bag costs Rs 310, a rise of Rs 10. Some analysts believe costs are on the rise. They do not rule out a further price fall of Rs 5-10.

The sector doubled capacity since 2007 from 180 million tons per annum to 360 mt. However, in consumption, it may remain a little less than 250 million tons in the current financial year -- an overcapacity of 110 million tons.

Rating agency Icra said it sees challenging times ahead for the domestic cement industry as demand and rates remain under constraint. It stated that subdued cement prices coupled with rise in input costs is putting pressure on profitability.

"The outlook for the cement industry continues to remain challenging with both demand and prices continuing to remain under pressure. Domestic production grew by a modest 3.9 per cent during H1 FY'14, primarily due to weak demand from end-user industries," stated Icra.

Icra, in its latest quarterly update on the cement industry, said delays in environment clearances for industrial and infrastructure projects and sand unavailability in some states resulted in slow growth.

Sabyasachi Majumdar, Senior Vice President, Icra, remarked, "The demand has continued to remain sluggish during Q2 FY'14 due to a slowdown in construction activities during the monsoon season.

"The impact on construction activities was felt from the beginning of July and both cement demand and prices remained under pressure throughout the second quarter."

The pressure on cement prices coupled with rise in raw materials, domestic coal and freight cost has put strain on the profitability of cement firms, he said, and added that despatches on year-on-year basis remained lethargic in Q1 FY'14, given the lacklustre demand from end-user industries.

Modest volume growth coupled with pricing pressures resulted in y-o-y decline in revenues in Q1 FY14 for most of the cement companies and prices came under pressure during second quarter across most parts of the country due to onset of monsoon and consequent slowdown in construction activities.

Majumdar explained that cement demand and prices were expected to recover. The prices have already started firming up across markets from October 2013 and wholesale prices in regions like Delhi and Chandigarh have almost reached pre-monsoon levels.

1,750 mw solar capacity addition likely in 2014

In 2014 India is likely to see a solar power generation capacity addition of 1,750 mw. Mercom Capital Group which noted that new solar installations so far this year have been around 900 mw, and India is not likely to register any significant year-over-year growth for 2013. However, during this period, global solar market is estimated to see 20 per cent growth.

"Although the projected installation growth looks impressive, it includes 420 mw of CSP (concentrated solar power) projects that did not get installed in 2013," stated Mercom Capital.

Going by estimates, the operational capacity, comprising solar photo voltaic and solar thermal, is little over 2,000 mw. As per Mercom Capital, the domestic solar industry has seen high inflation with about 8 per cent increase in module prices.

To boost solar power generation in the country, the Centre in 2010 had launched the Jawaharlal Nehru National Solar Mission (JNNSM). The programme aims to have 20,000 mw grid-connected solar power by 2022.

India has an overall installed power generation capacity of more than 2,27,000 mw, with renewable sources accounting for over 28,000 mw.

The guidelines and requests for selection have finally been published for phase-2 Batch-1 for 750 mw of PV projects. Unfortunately, India has decided to include domestic content requirements for half (375 mw) of PV projects, which may be enough to cause a trade dispute, but not enough to help domestic manufacturers. It is an unnecessary risk that raises uncertainty with minimal reward.

According to the proposed time line, the 750 mw JNNSM phase-2 projects will not be commissioned until May 2015. Therefore, projects under Indian state schemes are where the action will be in 2014.

The challenges faced by the Indian economy this year also affected solar industry. This year the market has seen high inflation, 8 per cent rise in module prices and 15 per cent rupee depreciation, all of which contributed to overall project costs.

At the same time, reverse auctions in India continue to defy odds and go in the opposite direction with record low bidding, especially in states that have an L1 type bidding mechanism (lowest bid must be matched by all) in place.

Current economic conditions, solar irradiance and off-taker creditworthiness do not look to be reflected in these bids.

With bids fluctuating almost 50 per cent over the year when comparing state-to-state, it is imperative to have deep insight and market intelligence to be successful in this environment.

India is entering election season with state elections in Chhattisgarh, Madhya Pradesh, Mizoram, Rajasthan and Delhi due next month.

According to the guidelines by the Election Commission of India, non-agricultural land transactions cannot be approved by the government during election season without the approval of the Chief Electoral Officer.

This will delay any solar projects that are in the middle of land acquisitions by a few months.

Govt to let go infra investment target this fiscal

With hardly any progress in five of the nine projects identified by the Planning Commission in consultation with the Prime Minister's Office, the Centre will not meet its infrastructure investment target for the current fiscal.

In a meeting with Prime Minister Manmohan Singh, the Commission asked the PMO to review these targets in the wake of dismal performance of some big-ticket projects.

In the past six months, only the ministries of railways and power have been able to set deadlines for their projects. For instance, the Railway Ministry has issued request for qualifications (RfQs) for an electric as well as a diesel locomotive factory in Bihar. Likewise, RfQs has been issued for the ultra-mega power projects in Tamil Nadu and Odisha, and the Power Ministry will come up with RfP in December after which it plans to award the contract in February. These four projects together account for Rs 45,000 crore.

"We have asked PMO (Prime Minister's Office) to review the infrastructure targets set in June based on the progress on each of the identified projects," said a senior government official. The Commission had six months ago identified nine projects worth Rs 1,15,000 crore that could have been awarded this year.

These include the Rs 30,000-crore Mumbai Elevated Rail Corridor, two locomotive projects worth Rs 5,000 crore, a dedicated freight corridor worth Rs 10,000 crore, a port project in West Bengal or Andhra Pradesh involving investments of Rs 10,000 crore, two airport projects worth Rs 20,000 crore and two power and transmission projects worth Rs 40,000 crore.

These targets were set through a detailed process, first in the Planning Commission by its member (infrastructure) and later revised by the PMO. According to a senior Planning Commission official, most of these projects will not happen this year.

"The Mumbai Elevated Rail Corridor, which was the single-largest project, has gone back to the drawing board with the state government saying that it is not financially viable in its present form," said the official.

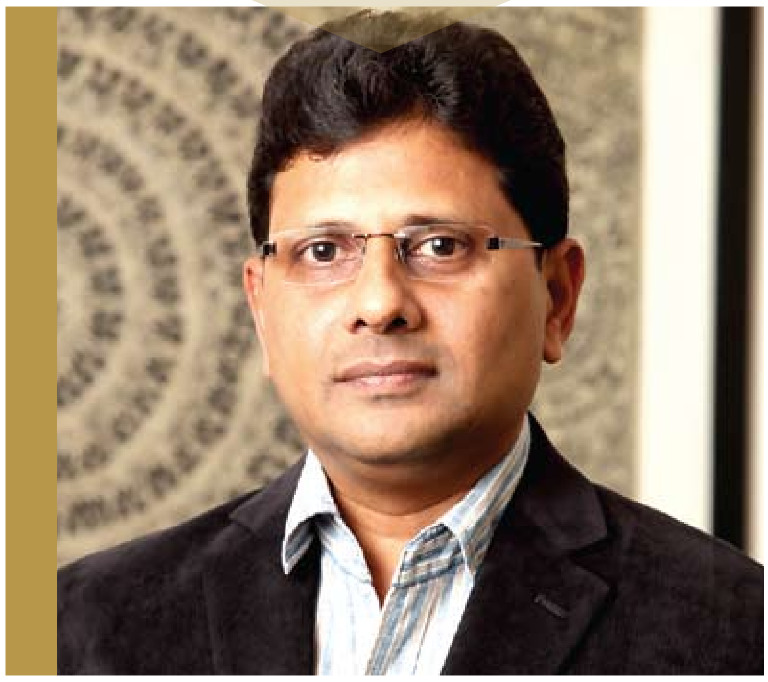
"Likewise, the airport projects and the port projects have got stuck over the model concession agreement and tariff guidelines, respectively. So, despite the intervention of the PMO, the fate of these projects is uncertain," added the official.

Another senior official at the Commission, admitting that the performance of most infrastructure sectors has been dismal, especially the road sector, said there is a need to review the targets set up in June.

"The Planning Commission has reviewed the performance of all the sectors and has submitted the report to the PMO. It is up to them to review and revise the targets," said the official.

'Clear guiding policies needed from the government'

Y Srinivas Reddy, the Founder & Managing Director of Bevcon Wayors Pvt Ltd, is the first-generation entrepreneur who began at age 25 during 1990. Under his able leadership of more than two decades, Bevcon has achieved rapid growth and delivered enterprising engineering solutions to 2,400 global customers. His fervour for design engineering has led to numerous innovations in Bevcon's range of products while ensuring high quality, faster turnaround times and consistently growing its topline from inception and achieved a revenue of Rs 185 crore in the last financial year. Excerpts:



Where does India stand in terms of mining machinery when compared to other developing countries?

In my view India is lagging behind in mechanization of the mining sector which in turn leading to large demand-supply gap. Mechanization cost is so high which is due to total dependence on the imported machinery and their technology, resulting in high cost solutions and pushing most of the miners to go in conventional ways. However, the situation is improving currently with most of foreign mining machinery manufacturers establishing production centres in India and ready to share their technological knowhow. Due to high competition, overall technology and machinery cost is going to come down in due course.

The situation is improving currently with most of the foreign mining machinery manufacturers establishing production centres in India and preparing to share their technological knowhow, says ***Y Srinivas Reddy****, Founder & Managing Director, Bevcon Wayors Pvt Ltd in an interview with* ***Paresh Parmar***

Given the slowdown in most manufacturing activities, what impact have you seen?

Infrastructure development is the backbone of the country's growth and any short falls will definitely have impact on the overall Indian economy. In my view there should be clear and firm policies in place followed by accountability factors to be fixed for the government administration and as well as project developers to fulfil the goals set.

Coming to manufacturing activities, yes there is slowdown, but in my view its momentary, once the clarity evolves on various environmental and mining-related government policy, demand is going to grow up. However, for Bevcon the impact is negligible in terms of order realizations since our presence centred around all bulk material handling industry and vast range product basket keeps us very busy

Is there any shift in demand for mining equipment due to policy issues?

Since the impasse of coal scam issues are still haunting the coal mining industry, definitely there is shift in demand for mining equipment. No business can wait and watch for inconsistently long period. Considering current unstable government policies and general elections in the coming year current situation is still volatile for coal mining industry and for that matter the mining industry altogether.

However, the demand for thermal power is ever-increasing and once the issues are addressed I'm very sure that there is going to be surge in demand for the mining equipment because which will open the flood gates for mining equipment demand for exploration business.

What about the market size of the material handling equipment industry?

Due to the current economic turbulence I feel rather than projecting the size of the material handling industry, talking about opportunities makes sense. As per recent media confirmation there are projects worth about Rs10-12 lakh crore awaiting clearances.

Most of these are infrastructure development projects like cement, steel, power, ports, etc. As per 12th Plan period, that is, 2012-2017, investments in infrastructure is pegged at nearly 10 per cent of the GDP, and if this planned investment is realized, it will propel the Indian economy growth, creating abundant business opportunities, more so for the material handling sector.

How about the technological transformation in domestic bulk material handling sector?

Technological upgradation is mandatory to survive in the present competitive world. We, at Bevcon, strongly believe that future lies in innovation hence we developed two-level strategy to enhance the technological up gradation of the product profile.

One, by self-reliance method, we have in-house engineering research department which develops 8-10 new material handling products each year which makes us absolutely competitive in the market. Second, by collaborating with foreign companies gives us access to advanced technology. As on date we have tied up with DSI from the USA for sandwich belt conveyor; Fleximat from Austria for critical screening applications; Friedrich from Germany for unbalanced motors and exciters for our sizers and feeders; Rollier from Spain for fine screening applications; FMK from Poland for stock yard applications.

From China, we have associations with Bafang for space frame steel structure circular /linear storage sheds and Nanjing for high capacity, high temperature and long distance dense phase pneumatic conveying system.

With demand for higher capacity equipment in mining, power and steel sectors, what will be your strategic plans ahead?

We have drawn a strategy to meet the expected challenges from high capacity conveying systems. We have joined hands with FMK Poland for manufacturing of stockyard equipment stackers and reclaimers and also have technical collaboration with an Atlanta-based company Dos Santos for long distance and high capacity conveyors as well as Sandwich conveyors which has a major role to play in mining, steel and power sectors.

Your outlook on the material handling equipment industry?

The demand for bulk material handling in India is very good and likely to grow at 20 per cent year-on-year over the next five years, in keeping with the overall economic growth.

What are the major challenges confronting the industry? And the measures to overcome them?

With an investment of about $1 trillion planned in the next five years in the infrastructure sector, the growth potential in material handling equipment sector can be envisaged. Considering the momentum in the infrastructure sector particularly in power, ports, mining and cement, a steady growth rate of 15-20 per cent can be seen in the bulk material handling sector for the next five years.

Great scope lies ahead for the material handling industry. There is vast mining opportunity waiting to be tapped and once the government comes out with clearly defined guidelines with regards to environmental clearances, land acquisitions and awarding contracts in a fair and transparent manner, the mining equipment makers will have a roller coaster ride.

Brief us about your business model. What are your expansion plans?

Our strategy is to cater to the needs of the client in all respects from concept to commissioning by manufacturing almost all equipment which are needed in a project so that we have total control on timeline commitments, cost and quality.

It is always advantageous for a customer to source all equipment from under one roof which Bevcon provides which will help us in fixing clear responsibility and accountability that we always prefer. To meet the above challenges we have three verticals in the organization such as: ITP (integrated turnkey projects), MHE (material handling equipment) and AFD (manufacturing of dust control and pneumatic conveying systems).

As part of our expansion plans we have put up a manufacturing unit at strategically located place in Raipur in this financial year and are going ahead to create exclusive manufacturing place for idlers and pulleys in Hyderabad.