Interview by David Perilli, Global Cement Magazine

In discussion - Alok Sanghi, Sanghi Cement

The Indian cement industry faces many unique challenges and opportunities in 2014 and beyond. Here we ask Alok Sanghi, the director of the independent Sanghi Cement, one of the world's largest single-stream cement operators, about his experiences and perspectives on producing cement in one of the world's largest cement markets.

Above: Alok Sanghi.

Global Cement (GC): **Can you provide a quick history of Sanghi Cement?**

Alok Sanghi (AS): Our plant was established in 2003 in Sanghipuram, Abdasa Taluka, Gujarat. It's a single-stream operation with almost 3Mt of clinker production capacity and an equivalent grinding capacity.

We produce 53 Grade OPC and PPC cement at the plant and have several firsts to our credit. We were the first plant in India to install a cross belt analyser for chemical analysis of limestone to ensure consistent superior quality of cement, the first plant in the country to have 100% robotic control systems to ensure consistency and quality of operations and the first company in India to have fully fledged infrastructure, from day one, including a 63MW power plant, our own jetty to cater for the needs of sea route transportation, a desalination plant and road network.

GC: **Has your plant's production capacity changed since you started operation?**

AS: Originally it was a 2.6Mt/yr plant in 2003. Then, through debottlenecking some of the preheater sections, we were able to upgrade the capacity from a 7500t/day plant to 9800t/day. That's how we were able to get to nearly 3Mt/yr of clinker production.

GC: **What is the current capacity utilisation rate?**

AS: India has a significant oversupply and the overall industry capacity utilisations rate is around 72%. Our plant has been out-performing our competitors, however, and over the last two years we have averaged a rate above 85%. In the peak of 2007-2009 our capacity utilisation rate was 92-93%.

GC: **Has Sanghi changed the types of cement that it produces since it began production?**

AS: When we entered the market in India in 2003 we were new entrants to the cement business. Our original background is from textiles. At that time the Indian market was predominantly OPC-driven and the blended cement market constituted 15%.

Today that situation has reversed. Almost 60% of the Indian market is blended cement depending

Right: The Sanghi Cement plant in Gujarat was commissioned in 2003. It has an FLSmidth kiln and Loesche mills.

on the availability of additives. For example, in the western region of India, the availability of fly ash is very high and therefore almost 60% of the market is blended cement. On the eastern coast of India availability of blast furnace slag is quite high and supply of coal fly ash is very low. Therefore the eastern region is predominantly a slag cement market.

***GC:* Do you have any plans to change your type of cement at the moment?**

AS: No, but one of the focuses of the Indian government is to increase the blended cement ratio to conserve limestone and be more sustainable. We believe that the ratio of blended cements to OPC will keep rising and hopefully India will become an exclusively-blended cement market in the next five years. We are also planning to look at various other grades of cement such as a masonry cement.

***GC:* Are there any planned production changes?**

AS: We are expanding our capacity by 1Mt/yr. For this we are investing around US$19m over next 15 months. De-bottlenecking is also undertaken on an ongoing basis at the plant.

We are also focusing more and more on logistics. We have started moving a lot of our cements from road transportation to coastal shipping. So major investments in the company are going in that direction.

***GC:* Where are the plant's raw materials sourced?**

AS: Our plant has been given a licence by the government of Gujarat to mine limestone at a 1540 hectare site that is within 3km of the plant. It's a very high-grade limestone and we have almost 800Mt in reserve. The other raw materials, laterite, clay and gypsum, are all available within 50km of our plant. We have captive mines for clay and laterite.

As of now we are trucking the limestone down from the quarry to the plant. However, because the distance is about 3-4km, the company is looking at the construction of a belt conveyor system. We may do so in the near term.

***GC:* Where does the plant source its fuels from?**

"The rare thing about our company is that we are just one of a handful of plants in India that are located on the coast and thus have the option to export."

AS: The company has an established 63MW thermal captive power plant, which is enough for our current cement capacity. For this we source coal from Indonesia and Africa. We also blend lignite to reduce power costs. Although the cost of imported coal has gone up over the last few years, the company has reduced energy costs by around 10-12% through its thermal power plant.

The plant is also designed to operate on 100% lignite. Therefore, we have a high degree of flexibility for our fuel sourcing.

***GC:* Are there any plans to change that fuel balance?**

AS: There is a lot of focus by the government for cement companies to operate more sustainably. There are some experiments going on in partnership with the government of Gujarat to use alternative fuels. We are currently experimenting with liquid alternative fuels and wastes.

***GC:* What environmental controls are there?**

AS: Our plant is equipped with all the latest pollution control systems available. We have some of the lowest SO_x and NO_x levels in India.

Stringent internal environmental measures are adopted, adhered to and maintained to run the plant operations in an eco-efficient manner. Some of these measures include; Kiln inlet modification resulting in waste generation reduction by 50%; Designing processes and cleaner technologies to minimise adverse environmental impacts; Optimising resource efficiency in plant operations to minimise waste while maximising treatment of inevitable wastes in an environmentally compatible manner. An environmental audit has been conducted over the past few years to ensure compliance to and improving on the environmental standards adopted at the plant.

***GC:* Where does Sanghi Cement see itself in the local market?**

AS: We focus on four markets in India: Gujarat, Rajasthan, Maharashtra and Kerala. Currently our market share stands at 10-12% in Gujarat and we have a sales net-

Plant Profile: Sanghi Cement

Location: Sanghipuram, Abdasa Taluka, Gujarat, India

Founded: 2003

Kilns: One - FLSmidth

Capacity: 9800t/day, (~3Mt/yr)

work of around 1400 dealers. We also export to the Middle East, Africa and Sri Lanka.

The rare thing about our company is that we are just one of a handful of plants in India that are located on the coast and thus have the option to export. We are able to use sea transportation for the domestic market as well as our export markets.

***GC:* Gujarat shares a border with Sindh, do you export any cement to Pakistan?**

AS: We do not export cement to Pakistan and it does not export cement to Gujarat. However, Pakistan does export minor quantities to Mumbai, Cochin and Chennai. Some cement is imported though the Wagah Border in Punjab as well.

***GC:* Who is Sanghi Cement's typical customer?**

AS: If you want to remain a credible player in India you need to ensure that you service all the market segments. India is divided into three segments. One is the individual housebuilder who builds his own house and who is typically a more rural customer.

On the urban side we see governments that are building roads or bridges for local municipalities. The third segment is large infrastructure and industrial projects. We are equally split between the three segments but it can vary between the different geographical markets. For example, in Gujarat the housebuilder segment is higher. In Maharashtra the infrastructure and the industrial segment is higher. In Rajasthan we see more government projects.

***GC:* Are you expecting these ratios to change?**

AS: With the advent of more appartments in Gujarat we are seeing a shift from the housebuilder segment to more real estate developers and infrastructure companies building appartments, condominiums and villas. Demand is shifting away from retail. At the same time we are seeing a shift in markets like Mumbai from bagged cement to bulk cement.

***GC:* Does Sanghi sell cement in bulk and bags?**

AS: Currently almost 80% of our production is sold in bags but the ratio of bulk cement is increasing rapidly. Bulk cement sales are picking up in India but it is not a major consumption model right now. India is still predominantly a bagged cement market.

***GC:* You mention Sanghi's coastal position. Can you expand on its terminals and the distribution of its marine terminals?**

AS: We have developed bulk cement sea-terminals at Navlakhi, Rajkot district in Gujarat and Dharamtar, Mumbai. As of now we charter shipping vessels from the market but in the future we may be acquiring some of them and building our own shipping fleet.

We are planning to set up two more terminals in Gujarat and another one in the south of India. The second terminal in Gujarat may happen sometime in the next 15-20 months but the southern terminal may take more time. Once these are built our ratio of roads versus sea transport will totally change.

***GC:* What targets do you have for 2014?**

AS: There is a significant overcapacity in India. Even worldwide there seems to be sluggishness in terms of demand. We are focusing more and more on improving operational efficiency. The three areas that we are targeting are energy conservation and cost reduction, focusing on logistics and product diversification from OPC to blended cement. We will need to make some changes to the plant to achieve these. In 2014, however, our focus is mainly on consolidation.

"We are currently experimenting with liquid alternative fuels and wastes but nothing is at a commercial stage yet."

***GC:* Has Sanghi been affected by the recent ACC/Ambuja restructuring by Holcim in India?**

AS: Not really. The markets in which we operate always had just one Holcim brand. Gujarat, for example, was served by Ambuja but not ACC. Similarly in Rajasthan ACC was a supplier but Ambuja was not very prominent. Mumbai is the only market where both brands operate. With the Holcim restructuring

Right: The plant's stacker-reclaimer for raw materials.

Right: Sanghi Cement at night.

we are not likely to see any change in this strategy.

***GC:* Would Sanghi care to comment on the accusations of cartel-like behaviour in India by the Competition Commission of India?**

AS: As a market operator we believe that it is unlikely to be a cartel because there are more than 50 players with more than 150 cement plants across India. To try and establish a cartel you would need some sort of pricing power and you need fewer players. Both of these conditions do not seem to exist.

Also, if there was pricing power in the industry then producers would not be posting the very low margins that they do at the moment.

***GC:* According to news reports Sanghi is planning to build a new cement plant in Andhra Pradesh. Could you tell us more about this exciting expansion project?**

AS: We have a licence to set up a cement plant in Guntur, Andhra Pradesh but the south Indian market is currently operating at 50% capacity with significant overcapacity and infrastructure challenges. Therefore, we have no plans to build the plant as of now.

***GC:* How are increasing prices for fuel and transport impacting your plant's day-to-day operations?**

AS: This is a structural issue in India. Energy used to be heavily subsidised by the government. With worsening balance sheets, it started to reduce subsidies on energy and started passing costs to the consumer. The trouble is that increasing energy costs will lead to an inflationary pressure on all commodities. The input costs for all producers and vendors are increasing and they are trying to pass these to consumers.

Due to hugh inflation, the government has increased interest rates to try and reduce the effect of it. Therefore, we are also being impacted by the increase in the interest rates by the banks.

Ultimately all of this is causing an increase in the total production costs for companies. At the same time there is low demand and prices come under pressure. We are stuck in a double-whammy - There is an increase in production costs but we are not able to pass this on to the end consumer.

Fortunately for us, Gujarat is in a better position than the rest of India. There are fewer cement plants, fewer producers and less overcapacity compared to the south or east of India. This has helped us maintain some balance between supply and demand.

***GC:* Are you worried about the prospects of increased mergers and acquisitions in the Indian cement industry in the coming years?**

AS: I think it is great thing that this is happening. We have 50-60 producers across India. With increased merger and acquisition activity some of them are likely to exit and that is likely to bring some pricing power back to the producer. Overall it should benefit all of the producers whether they are part of the mergers and acquisitions or not.

***GC:* What do you think will happen to cement prices in Gujarat and India in 2014?**

AS: Cement prices have declined by around 10-15% in the last two quarters owing to subdued demand growth and increase in supply. Going forward, the prices are expected to improve across Gujarat and India as we expect demand to improve from government spend ahead of the general election.

***GC:* What one change to the Indian cement industry would help you 'sleep easier'?**

AS: The cement industry is one of the most taxed industries in India. The excise duty on steel is just 4% whereas for cement it is 12%. We believe the government really needs to focus on how they can reduce the cost of cement, either by reducing the royalties or reducing excise duty.

***GC:* Thank you for your time.**

AS: You are very welcome.