

Trends in risk management | Cement

Part of the sector-wise risk management series by MGC Global

In our recent webinar on industry specific risks and mitigating measures (*current & emerging*), we were fortunate to have **Mr. Surath Mukherjee (Head Internal Audit & Investigations, ACC Ltd)** provide his perspectives on specific risks relating to the cement industry that were outlined by our experts. The ensuing paragraphs provide an overview of the same.

Context

Acting as the backbone of development, the cement industry in India is mainly driven by a consequential number of construction activities, with recent surges in demand (*a lion's share of which has emanated from the requirements for urbanization and transitioning of settlements into planned cities and high-functioning complexes*) setting a positive tone.

A holistic view of the production pie-share shows that India is currently the second largest producer of cement worldwide with over 7% of the global installed capacity. However, the onset of the pandemic followed by its consequent waves had hampered cement production capacity due to intermittent lockdowns and mobility restrictions.

On a positive note, the ongoing growth in infrastructure and the real estate sector is augmenting the demand for cement in the post pandemic realm. With increasing demand in various sectors such as housing, commercial and industrial construction, the cement industry is expected to add ~80 million tonnes of capacity by 2024 to reach 550 to 600 million tonnes per annum by 2025.

The fillip to this trend is the large number of foreign players, who are also expected to enter and taste the soil of the Indian cement sector, as a consequence of the lucrativeness of profit margins and relatively steady demand.

Main risks

- a) **Import dependency, a growth deterrent** | With the production capacity of ingredients for cement manufacturing currently lagging behind demand, India is reliant on imports. Consequently, an increase in the costs of imports or disruption of cross-country flows can further accentuate the complexities of supply chain and cause abrupt delays. Case in point: it should be noted that cement companies use crude-derived petroleum coke (*petcoke*) and imported coal as key inputs.

Prices of these commodities were already elevated, but the ongoing conflict between Russia and Ukraine could place further upward pressure on supply. Best practices for mitigation entail enhancing the resilience of supply chains by identifying alternatives to address the over-reliance on specific countries for imports.



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Main risks (cont...)

- b) **Delayed digitization** | Hesitation or sluggish adoption in terms of technology up-gradation is a growth deterrent. Over 90% of the total capacity is currently based entirely on the modern dry process, which is considered more environment-friendly. The remainder use old wet and semi-dry process technology. According to experts, digitized supply chains can accelerate efficiency gains north of 4% annually and this aspect showcases the merits of building digital-first integrated ecosystems for cement companies.
- c) **Prevention of stock-outs or overstocking** | Companies are facing unprecedented challenges in inventory management. Systemic and technology integration within the domestic supply chain (including directly with vendors) can address 'out-of-stock' contingencies.
- d) **Dependence on construction industry** | Demand for cement, particularly in the residential and non-residential construction markets could decline if companies and consumers are unable to obtain credit for construction projects or if the slow pace of economic activity results in delays or cancellations of capital projects. With a rise in public-private partnerships for infrastructural and development projects, the state of the economy could vastly improve, not just on paper but on the map too.

- e) **Driver of sustainable growth** | Being at the forefront of sustainable growth in terms of infrastructure, it is imperative for the cement industry to maintain a dual focus of:

- (i) adequately meeting the demand forecast (*both current and future*); &
- (ii) safely disposing chemical waste.

There is also a vast scope of waste heat recovery in the cement plants, reducing the emission level and improving the environment.

While statistically, Indian cement companies are amongst the globe's 'greenest' manufacturers, sustaining this legacy with close monitoring and ongoing adoption of best practices for environmental checks is of utmost importance.



Contact us

Should you wish to discuss any of these and other risks specific to your organization, please do not hesitate to contact us at contactus@mgcglobal.co.in.

About MGC Global

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MGC Global provides services in the areas of enterprise-wide risk management, control assessments (*SOC, IFCR & SOX*), internal audits, process re-engineering, governance frameworks, IT advisory, GDPR & data protection readiness, cyber security, CxO transformation and forensic services. Our Firm has the capabilities to service its clients through its offices in Bengaluru, Mumbai, NCR; and has service arrangements with its associates in all major cities in India.

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