

# GROUND VIEW

**GV EXCLUSIVE 'THOUGHT-LEADERS' AND NEXTGEN INTERVIEWS**

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# CEMENT

## WEIGHING THE IMPORTANCE OF

# SUPPLY-CHAIN

## BUSINESS PRACTICES

~~CAPACITY UTILISATION~~

~~DEMAND~~

~~CEMENT PRICES~~

~~OPERATING COSTS~~

MARKETING EFFICIENCIES

OUTWARD LOGISTICS EFFICIENCIES

# THE SUPPLY-CHAIN THESIS

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PhillipCapital (India) Private Limited. No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400 013

phillipcapitalindiainstitutionresearch@phillipcapital.in

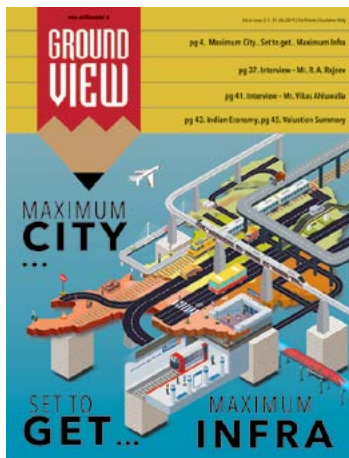
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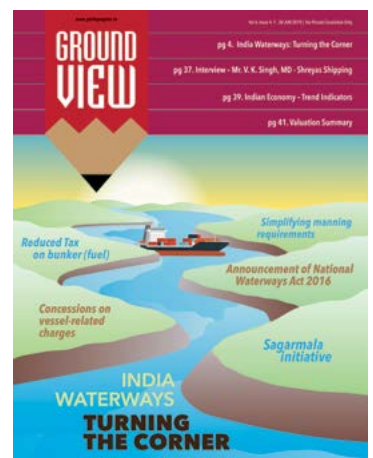
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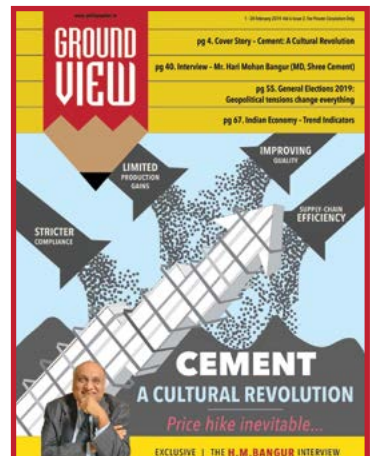
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1<sup>st</sup> February 2019 Vol 6. Issue 2



## Letter from the MD

The cement sector is presumed to be a well-researched one by *Dalal Street*. It is a core sector of the economy and its growth is usually correlated with the country's GDP growth. To track this sector, it is standard to look at the publicly available data such as industry capacity, market demand, capacity utilisations, industry's operating costs and cement prices. However, in his last Ground View (GV) in February 2019, our analyst Vaibhav Agarwal argued that some of the critical elements in the supply-chain equation of the sector have missed our attention. Consequently, they have not gained the importance that they should have, as they were not being tracked.

While marketing our earlier GV to institutional clients, there was obvious excitement among many of them to understand the quantitative impact of supply-chain mismanagement in greater detail. Most were keen to know the earnings impact and whether these inefficiencies were measurable, beyond being a qualitative deficiency in the sector's business practices. This pushed Vaibhav to deep dive into this subject.

When he did this, during his second-level analysis, while examining the reported earnings of cement companies, Vaibhav was able to observe many deviations and identify flaws; this also helped him understand the plug points more holistically and provide answers to the queries of many institutional investors. He also got an opportunity to interact on this subject intensely with many industry stalwarts, and I am very happy to share that these interactions were very well appreciated by all of them. The industry leaders have taken cognizance and acknowledged the existence of these inefficiencies in the sector. Correcting these is now on their wish list.

In this GV, Vaibhav has laid out his supply-chain thesis with detailed explanations about the qualitative and quantitative aspects of supply-chain inefficiencies. He got an opportunity to exhaustively interview few of the industry promoters, stalwarts and thought leaders (to whom he presented his supply-chain thesis). This GV is also one of our first attempts to bring to you a collective industry perspective by interviewing seven industry leaders from five different cement companies. In most cases, these individuals also form a part of the *Next Generation* leaders of the industry.

I hope you enjoy reading one of our unique and most comprehensive GVs covering several dimensions and nuances of the cement sector!

Best Wishes,

**Vineet Bhatnagar**

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# CEMENT

## Weighing the Importance of Supply-Chain Business Practices

*Cultural revolution to gain better momentum*

### COVER STORY

BY VAIBHAV AGARWAL

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Last year, in *February 2019*, Ground View (GV) wrote about the rising importance of supply-chain efficiencies in the cement sector. Though cement supply-chain is a vast topic, in this GV, it pertains to the industry's business practices in *outward logistics* and *marketing*. Supply-chain efficiencies will be a long-term fundamental 'game-changer' for the industry and in the after effects of the COVID-19 pandemic, the industry will have to re-look at related business practices in greater depth and improve them. So, the pandemic is in fact a *blessing in disguise* and provides a golden opportunity to the industry to structurally change the culture and behaviour of the on-the-ground participants – as highlighted in the previous edition of GV titled "[Cement: A Cultural Revolution](#)" ([click to read](#)).

## The Hypothesis

- Existence of five cement companies – Alpha, Bravo, Charlie, Delta, and Echo – that differ in size, scale and area of operations.
- These five companies account for over 51% of the industry's current capacity and are therefore a fair representation of what is happening in the industry.
- These companies are also among the leading cement manufacturers of the country.

**Alpha** A large company and country-wide player with a presence across all regions. It has a very strong brand, but is misplaced in terms of supply-chain practices.

**Bravo** A large company, smaller than Alpha, with a presence across select regions, but has a say on Alpha's operations and has a strong brand too.

**Charlie** A very large country-wide company with a presence across all regions and a very strong brand built over many years. Charlie is extremely vigilant on supply-chain practices and gearing up for execution of better business policies.

**Delta** A multi-regional leader with a spread of operations in select regions with a core focus on branding.

**Echo** A multi-regional leader with a spread of operations in select regions and known to push volumes. It has the largest opportunity to improve its earnings profile by way of implementing better supply-chain practices.

### Disclaimer

- This report is based on a hypothesis that showcases the impact of supply-chain and on-the-ground business practices on operating numbers of cement companies.
- The hypothesis is derived from real industry happenings.
- There were challenges in building a hypothesis before to Q1FY11 and after Q3FY20. So, the hypothesis has been built for only 39 quarters, but referred to as 'decade' in this GV.
- Any similarity in data points of the hypothesis to any company is purely coincidental and completely unintentional.

## Background

It is widely believed that understanding the cement industry is about analysing demand, prices, and operating costs. If the demand is adequate, costs are low, and cement prices are high, it is believed that the sector or a company is well placed in terms of its earnings; and this is largely true.

The reality is that over the last 10-15 years, almost all cement manufacturers have worked extremely hard on improving plant efficiencies. They have done this by making them more power efficient, installing waste-heat-recovery power plants, lessening heat consumption by reducing kcal/kg of clinker production, increasing overall fuel consumption parameters, improving blending ratios, upgrading production technologies regularly, debottlenecking, etc. Over this period, cement prices increased largely in-line with cost inflation, though they were at times volatile. But then, the final net realisations and operating costs of cement manufacturers are highly dependent on their individual supply-chain efficiencies.

Despite the sector improving its cost efficiencies and cement prices rising in this period, the underlying profitability of cement companies in terms of EBITDA/tonne was almost stagnant; rather it contracted at times. Adjusting for the time-value of money for the past 10-15 years, profitability has diminished, implying the efficiency improvements at the plant level have not delivered desired results. Most times, the blame falls on cement prices – that they haven't risen enough. However, regions where cement prices are the highest, delivered the lowest profitability, and regions where cement prices remained relatively low have been stable, sustainable, and better off in terms of profit matrix.

These discrepancies raise questions about missing elements to improve operating earnings that have not drawn the desired attention of cement makers, over the past many years. Production cost for the industry stands at c.42% of total realisation structure (inclusive of Goods & Services Tax (GST)) and the balance c.58% falls under supply-chain – marketing and outward logistics. This forms a significant cost



for the industry and needs greater attention from cement manufacturers to improve operating earnings, which has unfortunately not been a case in the past for all.

### Indicative cost matrix in the hypothesis over the last decade (cumulative of 5 companies)

	₹/tonne
Weighted average net realisation	4,571
GST component @ 28%	1,777
<b>Market realisation</b>	<b>6,348</b>
Weighted average raw material cost	654
Weighted average power & fuel costs	934
Weighted average employee cost ( <i>inclusive</i> of marketing, sales and logistics staff cost, which is supply-chain cost, as a ballpark 15-25% of employees are in these functions)	273
Packing cost (at an average of ₹20/bag)	400
Other production related costs like stores & spares, repairs & maintenance etc. (an <i>assumption</i> drawn on basis of industry interactions)	400
<b>Total production cost</b>	<b>2,662</b>
% of market realisation	42%
<b>Rest - which is essentially part of supply-chain*</b>	<b>58%</b>

\*inclusive of profit

## Reasons for increasing importance of supply-chain efficiencies

### Looking for an earnings delta beyond production is now a natural move

The last GV highlighted that stricter production compliance would lead to very limited incremental production gains. Be it limestone mining procedures, monitoring of trucks and other transport vehicles at plant operations, emission and environmental norms, social responsibilities, regulations and stringent monitoring mechanisms by state and central governments would make it very difficult for cement

## Stricter production compliance will make earnings delta from plant operations more challenging.

manufacturers to get an additional earnings delta from plant operations.

Because of this, cement manufacturers would naturally search for earnings delta beyond production efficiencies. The obvious answer is that it can only come from better cement prices, but this is only *partially true*. Cement manufacturers are always looking to increase cement prices, with or without an improvement in demand, to capture an additional delta for their operating earnings. The blame game among cement manufacturers over price wars is an additional negative for the sector.

Therefore, the key underlying to estimate and track operating earnings is always largely price increases or rollback announcements. Coincidentally, one of the arguments presented in this supply-chain thesis is also that some cement companies with the lowest cement realisations, have the highest EBITDA. Conversely, some companies with very high realisations, have dismal EBITDA.

## Supply-chain efficiencies are internal business practice improvements, independent of quoted cement prices and market forces.

### Getting better on supply-chain is a matter of individual choice

The best part about supply-chain efficiencies is that they are more dependent on internal improvements in ongoing business practices of companies, and less dependent on market forces. At a constant market price, how can a company improve its EBITDA/tonne? This earnings delta (which is immense) can come from improvements in supply-chain efficiencies and it is a directional journey. It can be driven by 'desire' or 'intent' on the part of the company through better *vigilance* and *execution*.

# Supply-chain and its inherent challenges

Though improving supply-chain efficiencies is very good in theory, its implementation is not easy; the most difficult part is its 'machinery'. To clarify, it is far easier to derive efficiencies from plant operations than from the supply-chain, because the former is driven by efficiency improvements of physical machinery at the plant but in the latter, the 'machinery' is the human mind – so it is a big challenge! Human minds are smart, capable of dodging plug points faster than can be anticipated. Therefore, capturing 100% delta with supply-chain is IMPOSSIBLE; even touching 60-70% is like a dream come true! But achieving 10% delta is definitely manageable, and maybe an additional 5%. Better supply-chain or on-the-ground practices trickle down to the business. It is a directional journey, not a one-time process.

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***When a cement company works on supply-chain improvements, the outcomes are only visible in the form of higher net realisations or lower total costs; there is no third outcome. This is a key reason as to why the question of tracking any other parameter beyond volumes, costs, and cement price never arose in the past.***

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**To identify the supply-chain delta individually is a challenging task**

Supply-chain inefficiencies are born when companies want to push more volumes than peers. Conversely, when any cement manufacturer works on improving its supply-chain efficiencies, its volumes could take a short-term marginal hit. The outcomes of these improvements are visible (vs. peers) under two heads – *better realisations, lower costs*. The street generally believes that earnings would have improved because of higher cement prices or better cost-management,

but this may not be necessarily true. The increase in realisation or better cost trend for the company may be a result of some internal tweaks in business policies and not necessarily a market-driven aspect. The generic management commentary that comes out with such better performance is always that lower volumes helped garnered better realisations or cost optimization led to reduction in costs etc; in-depth investigation for such improvements are hardly made and the outcomes are not seen in totality by the street, most times.

Getting better on supply-chain is all about correcting the faulty on-the-ground practices and directionally bettering oneself on overall operating performance, *structurally* and *sustainably*. Because analysts and investors have never looked at the sector in great depth, and they generally track quoted cement prices and other fluctuating variables such as cost of raw materials, fuel, etc., supply-chain efficiencies have not yet gained any standalone importance. The after-effects of supply-chain improvements are diluted by the overall improvements in realisation or better-cost performances of individual companies.

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## Price discipline in the cement sector is a myth!

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**Individual company behaviour drives price stability**

It is widely believed that there is price-discipline in the cement sector, which ensures that prices remain stable or rise. The Competition Commission has also levied heavy penalties on select cement manufacturers because of allegations of cartelization. But looking at this with the perspective of supply-chain efficiencies and operating earnings of cement manufacturers, it appears that price-discipline is a *complete myth* because regions with best market-quoted cement prices have among the lowest



profit margins and vice-versa. More so, just a few years ago, when the demand was very good, the sector didn't make enough money. There was a belief of a price war then, but (now), when the demand is substantially low the sector is making enough money with an assumption of a price discipline. It is on-the-ground business-practice discipline of individual companies that drives the long-term stability of their realisation retention curve, and hence earnings for the sector too. Companies who have better internal supply-chain policies tend to outperform peers; this is one of the key reasons why companies that have low realisations have been able to deliver better profit matrices than peers.

### **Getting carried away by price hike announcements**

It is quite common for people tracking the sector to get carried away by announcements of an increase in cement prices. But what is generally missed out is that a lot of these increases may not be sustainable and ultimately become 'roll-backs'. The roll-backs or unsustainable impact of artificial or manipulated price increases may not necessarily be passed on to the channel partners in the same quarter; it may have a lag effect of a couple or even more quarters when cement companies pass on extra discounts in different form of credit notes to channel partners, and that too without reversing the GST impact. The impact of high cement prices is also neutralized when cement companies either inflate operating costs through practices such as back-loading. Similarly, in the case of forward-loading practices on the ground, companies do not benefit from higher net realisations because on-the-ground participants prevent them from doing so (discussed in detail in later sections). Interestingly, in books of accounts, all these practices are 100% compliant to various accounting norms.

### **Market cement prices and net realisations of companies are not the same**

Because of defective supply-chain practices, the market quoted price of cement loses its importance. This explains why a region could have an inferior profit matrix despite having the highest quoted cement prices in the country, and why regions with low prices manage better

and sustainable earnings profiles. In cement price hike announcements, *how much is sustainable and real?* Real implies the part that is not passed on in the form of higher freight, channel discounts, incentives, etc., – which inflates the costs of logistics and marketing in the profit & loss account of cement manufacturers.

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## Supply-chain and brand premiums: A perspective

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### **The truth behind the success of premium products**

Brand premiumisation is the 'new-think' of the cement sector – as various cement manufacturers have launched premium products intensely over the last decade. Despite this, the earnings curve has not moved uniformly for all. Only a few companies that launched premium products have been somewhat successful. Premium products (being expensive) open the window wider for faulty on-the-ground practices, implying that the brand premium is just an *artificial number* in the books, which gets reversed in the profit and loss account – either by way of inflated channel discounts or higher-than-actual logistics costs.

### **Direct correlation: Success of premium products and supply-chain efficiencies**

Manufacturers who remain inefficient on supply-chain parameters, but have a bouquet of premium products, have been the worst performers. On the other hand, manufacturers who have even positioned their products in an inferior category have been long-time winners because of better on-the-ground practices vs. the former. Latecomers in the premium segment, who remain committed to bettering supply-chain practices, have structurally redefined their earnings curve. Inefficient manufacturers have not been able to do this, despite being early entrants to the premium segment.

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# The rise of supply-chain inefficiencies

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## Over-estimating demand projections

Historically, cement demand and capacity in the country in the early 2000s, or even the late 90s, used to be quite low. As per data sources, capacity at the end of FY90 was just about 56mn tonnes p.a. and it rose to 144mn tonnes p.a. at end of FY04. Demand was 43mn in FY90, which rose to 118mn tonnes in FY04. This was probably the first time the cement industry began to think about future capacity expansions, as it had seen consistent capacity utilisations of 77-87% in FY90-04. In FY04, long-term average capacity CAGR was 7% and demand was 7.5%.

The industry assumed that demand would grow at a similar pace indefinitely; it did not consider base-effect while planning future capacities. Its calculations played out until the end of FY10, because creation of announced capacity took time to be commissioned and stabilize (many were greenfield expansions). Though the base had increased even then vs. the past, in absolute terms, it was still too small a number to support higher percentage growth.

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***Disproportionate increase in the size of the kiln is the core underlying concern – it led to the industry’s capacity becoming inflexible to demand.***

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## Core concern: Disproportionate increase in the size of kilns

The *kiln* is called the heart of a cement plant, but it is not just that; *it is the heart of the entire cement industry*. The size of a kiln is measured in terms of tonnes per day of production capacity (tpd). It is extremely difficult to operate kilns at lower capacity utilisations vs. optimum levels because of the following reasons:

- Clinkerisation is the only manufacturing process at a cement plant that is truly a continuous process activity.

- Clinker is produced from kilns at a temperature of c.1450° Celsius. To achieve and maintain this temperature within the kiln shell, adequate amount of fuel has to be fired consistently. The manufacturer has to fire the maximum appropriate quantity of raw meal in the kiln to maximize clinker output and achieve the best economies of scale.
- The moment a cement manufacturer tweaks this equilibrium of input and output, the cost matrix is bound to be disturbed, and production cost will rise significantly.
- Shutdown and restart of the kiln is not easy and has its own cost implications. During the restart process, achieving a continuous temperature of 1450° C consumes fuel that goes waste with no clinker production. Also, refractories of the kiln could need alignments or changes because of frequent kiln shutdowns.

Therefore, it is in the interest of cement manufacturers to continue running the kiln as far as possible, and maximize clinker production when a kiln is operational. At 60% capacity utilisation, the kilns operate at near 100%; the 60% figure refers to the utilisations while grinding, or despatches as a percentage of rated capacity. The capacity utilisations of kiln operations are always noted in terms of the numbers of days it operates in a month. A cement manufacturer decides on how many days he will operate a kiln taking into consideration the demand scenario, available inventory storage facilities - silos, clinker needs of split-grinding stations associated with the plant (if any), and the material evacuation mechanism available at the plant.

## The core problem is – working capital mismatch

When the industry planned fresh capex in 2004, kiln sizes increased multi-fold. Before that, the industry used to operate with kiln capacities of 1,500-3,000 tpd, which rose to 4,000-5,000 tpd, then to 6,500-7,500 tpd, and eventually as high as 10,000-12,000 tpd. It is not that such large sizes were not installed before 2004, but earlier, it was only manufacturers who had a wide presence across regions and strong balance-sheet support that could support the working capital needs of running such large kiln capacities, would have them.



When a 10,000 tpd kiln is put into production, irrespective of the demand scenario (whether it supports a 10,000 tpd production cycle or not), the fuel and raw meal inputs have to be in sync with the potential production capacity of the kiln, to maximize the output of clinker and achieve the best economies of scale. This results in a much larger scale of working capital requirement at the plant, which could be higher than a company's prevailing cash flow at existing demand levels. With larger kilns, capacities become more inflexible to demand, as companies are bound to produce clinker to their near-rated capacity. This adds multiple business-related pressures on the manufacturers, especially when the demand is not growing at an equivalent pace to their higher kiln sizes. In fact, almost all recent failures in the cement industry are from manufacturers that could not pull off smooth operations because they put up very large kiln capacities (over 10,000 tpd), which led to stretched and mismatched working capital cycle. Many were ultimately forced to sell.

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***As volume push was the ultimate goal to support working capital cycle - attention to logistics and marketing never gained the importance that it should have!***

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#### **Mismatch in demand and kiln capacity leads to supply-chain inefficiencies**

With rising kiln sizes and not an equally intensive investment in storage facilities and material evacuation mechanisms, cement makers started feeling the pain of rising inventories at plants, which they then began to evacuate, irrespective of the cost. As they did not want their working capital cycle to become stressed, they ensured that kiln production days and despatches from plants were maximized.

On-the-ground participants provided constant feedback to production teams of companies – that the markets were unable to absorb the enormous supplies, and that demand was not growing in line with production. However, these participants were pressured by senior management personnel to sell cement to reduce inventory problems at the plant. The companies wanted

to maximize production output at their plants to ensure a smooth working-capital cycle. On-the-ground participants were to do 'what they like' to push sales. Deviation from good business practices became inevitable for these participants – to ensure that their cement was sold before the competition's.

Today, most successful cement companies have flexible kiln capacities. Smaller kilns in multiple or same locations, rather than one large kiln in a single location, is a key reason for their operational success. Such kilns are flexible enough to adapt to the market's demand conditions. Not that these manufacturers haven't increased their kiln sizes (to very large kilns too), but they did this only when they had balance-sheet support to fund the resulting rising working capital requirements, and then play it to their respective advantage.

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***Problems arise when a new manufacturer or one with a weak balance-sheet decides to install a very large capacity kiln, say 10,000-tpd.***

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When the seasoned players of the industry started increasing kiln capacities with an assumed demand CAGR of over 7% forever, they ignored the base effect. Copying them, to compete, even newcomers wanted to debut in the industry with a very large-sized kilns. Because the base effect in demand calculations was never considered, or rather misjudged, such decisions to add very large sized kilns were bound to lead to supply-chain inefficiencies – because an environment was created where all manufacturers wanted to maximize volumes. The logistics and marketing teams were/are given 'liberties' for maximising sales and supporting the production outputs at plants. In all this, the bandwidth of most senior management remained tied up in maximising production and optimizing plant-related efficiencies.

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***Lack of attention at the ground level created personal interests that were not aligned with broader corporate goals.***

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# Bifurcation of supply-chain inefficiencies

Supply-chain, as referred to in this GV, and its inefficiencies can be broadly categorized into two verticals. While both are broadly distinct, they are also inter-dependent:

1. Marketing
2. Logistics (mainly outward)

### MARKETING-RELATED SUPPLY-CHAIN INEFFICIENCIES

## Invoicing and discounting practices

The discount structure provided by cement manufacturers constitutes key earnings of ground-level participants, especially channel partners. Almost always, invoices that are billed to a cement distributor by cement manufacturers are overpriced (marked up) vs. the committed net payment of purchase of cement from such a distributor or channel partner to the company. For example: the invoice price of cement may be ₹300 per bag but this would include an inbuilt discount structure of ₹50 per bag in various formats (explained in detail later). The maximum retail prices (MRPs) mentioned on the cement bags are generally even higher than the invoice value - in most cases a *showpiece price tag* to lure consumer mindset (consumer believes higher the MRP better would be the cement quality). But from channel partners perspective, cement makers want to keep quoted prices (on invoices) higher so that they appear leaders in the market vs. peers. Most manufacturers also presume that if they showcase their discount structure transparently on an invoice to a channel partner, competition can poach their partners by offering better incentives or discount structures – but this is more of a misconception than reality.

All such discounts or incentive structures, which come

in various formats, can be classified under two heads - 'disclosed' and 'un-disclosed'. They are ultimately reversed in the books of cement manufacturers and given back to the channel partners in the form of various credit notes at the end of a defined or an undefined period. Though such discounts seem fair in terms of business practice, the implications to the profitability of companies is HUGE, especially undisclosed discounts or those that aren't accounted for in a predefined period. The accounting treatment of such undisclosed discounts could be postponed by many quarters, sometimes even longer than a year.

### Different types of discount or incentive structures

Price discount schemes given to channel partners or distributors have different terminologies or references.

#### DISCLOSED DISCOUNTS

**Quantity discount:** Incentive provided to the ground on achieving specific volume-based targets.

**Rate difference:** Difference between the invoice value to the distributor (by the company) and the actual price charged by the distributor from its customers. This is later compensated by the cement manufacturer to the distributor.

**Spurt discount:** A special short-term scheme rolled out by manufacturers, where the channel is given an additional incentive if they are able to achieve a volume target within a very short span, say 2-3 days. Quite normal in 'pre-billing scenarios' (discussed later).

**Nil-balance discount:** A specific incentive given by cement manufacturers to channel partners if they are able to clear outstanding balances in the company's books of accounts within a specified period. For example, maximum discount if outstanding is cleared between 0-2 days of sale,

progressively lower (3-9), with no discount thereafter.

**Tour discount:** Almost all cement manufacturers have this component – a specified amount on per tonne of sales (say ₹2-5) given to dealer partners in kind; not in cash. For example, if a dealer accumulates ₹1,00,000 as tour discount, the company will compensate by taking him/her on a foreign trip (usually a group trip for all its distributors). Charges incurred by cement manufacturers, including airfare, hotel stay, sight-seeing, etc., are adjusted against the accumulated discount under this head.

SPURT	11
QD	3.5
TARGET	8
NIL	1
TOUR DISCOUNT	2.5
ANNUAL	4
EXCLUSIVE	2
RETAILER	4
SECONDARY	8.5
	44.5
BILLING	245

A channel partner discloses the communication about discount structure received from a cement manufacturer.

However, many dealers feel demoralised because they believe their tour-discount accumulation is larger than the actual cost the company incurs for them on such tours; most would prefer discounts in cash rather in kind. A few companies who want to be more transparent allow dealers to take benefits in cash and remain ahead of the curve in winning dealer loyalty.

**Other discounts in kind:** This may either form part of 'disclosed' or 'undisclosed' structures. These could be in the form of gold coins or gift items which are showcased as gifts, but ultimately most times, this is a tactic by cement manufacturers to compensate the

ground for their written and oral commitments.

**Annual discount:** Provided in kind or cash regularly at the end of the financial year on the basis of sales achieved.

**Exclusive discount:** Incentives earned by channel partners or distributors for having an exclusive relationship with a company. This implies they will not take up sales for other manufacturers.

**Retailer discount:** This is an added discount provided by the cement company to its distributors or dealers who pass it on to retailers. In cases the dealers are also the retailers, they pocket this discount.

**Secondary freight:** This is a compensation (ideally intended to be a reimbursement of actual expenses) to Carrying and Forwarding agents (CFA) for the secondary freight they incur to provide uninterrupted and smooth services to the company's dealers, retailers and customers from company's warehouses / godowns / depots. However, when the CFA bypasses the defined protocols and directly routes the cement to the final destination from the factory itself, the CFA pockets this and it becomes an extra earning. Many times, because of conflict of interest - the sales promoter, CFA and dealer is the same entity (these aspects are explained in greater detail in later parts of the GV).

**UNDISCLOSED DISCOUNTS – also called 'price discounts' or 'price difference', among other terms – are a key damager!**

The basic problem in the cement industry is that the targets or Key Responsibility Areas (KRAs) of all marketing heads, zonal heads, sales officers, and on-the-ground participants are generally volume-based. While quality parameters differentiate product offerings, cement is a commodity and is treated as such. Therefore, on-the-ground participants believe the higher volumes they sell, better are their earnings. Given this mentality, and because most of their targets are only volume based, sales officers have no option but to commit 'additional' incentives to on-the-ground participants, for achieving targets. These officers worry that if these participants do not achieve volume targets, their own incentives and appraisals would take a hit. Because of this, they commit unwritten extra incentive or discount and then, to fulfil these additional commitments, they push their superiors to loosen the company's purse strings.



## On-the-ground participants take advantage

Because this is the way the industry has functioned over the past many years, the participants on-the-ground know that they can push sales officer for extra incentives. If large distributors can push up their average run-rates sustainably, they know that they can push sales officers for higher undisclosed incentives.

There is another negative practice – if dealers have the go-ahead to sell cement from a company at say, ₹300 per bag, and if they know that they can push better sale volumes at ₹280, they may not hesitate to do so. Once they sell at lower prices than what they were authorised to do, they go to the company's sales officer with a request for compensating not only the ₹20 per bag 'loss' but an additional per bag added incentive, say ₹5, for achieving 'additional' volume targets.

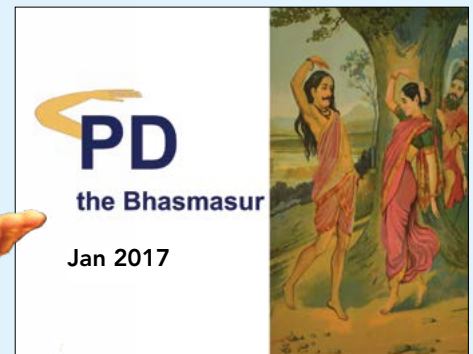
Dealers' financial strength decides how much additional discount they can pass on to customers, which they later negotiate with the sales officer. The higher the

volume targets they can achieve, better is their standing with company sales officers. However, this deepens the risk to the company's profit & loss account, as the company is forced to pass on higher discount structures that are 'non-committed', or undisclosed discount structures, to such large dealers, at a later stage.

**Mr. Jamshed Naval Cooper, Managing Director, India Operations, HeidelbergCement (HeidelbergCement is the world's second largest cement producer – excluding China) appealed to all his company teammates in India in January 2017 through an internal presentation to relook at these PDs (price difference or price discounts). During this presentation, PDs were termed as 'the Bhasmasur' (demon in Hindu mythology) by Mr. Cooper because he discovered that PDs doled out to channel partners amounted to as high as ₹60 per bag! To put this in perspective, this is almost twice the amount of EBITDA cement companies earn per bag in many regions. Therefore, it is absolutely necessary to get rid of this 'demon' for the cement industry, which has literally made the dealers of the industry the final price deciders to customers, rather than the manufacturers themselves.**



## PD – the Bhasmasur



### PD - Price Difference

**Price:** We have some idea of it.

**Difference:** We have no idea what exactly the difference is.

**Never will there be a consensus on what this difference could be !**

1


### PD – the biggest price de-railer

- The amount doled out as PD is not known to the channel.
- The companies doling it out decide on its quantum based on some presumptive, un-validated, hearsay, market info.
- Since channel is unsure of the value of PD, the price discounting done by each one varies. The daring ones undercut more compared to the conservative ones.
- The price variation among channel members gives rise to speculation and intra-brand competition. This speculation becomes an input for competition to interpret the landed cost of a brand and decide as to what PD it should consider giving.

2

**We have literally given the power to Dealers to decide the price of our cement**

3

<p>Has anyone ever benefited from PD ?</p> <ul style="list-style-type: none"> <li>The channel partners say that: "whatever we get as PD its passed on to customers".</li> <li>Cement Manufacturer says: "we pay Excise Duty and VAT on the PD and do not get its refund"</li> <li>The Tax Authorities say that PD is an income and not a trade discount.</li> <li>Cement Co says: "PD is to keep the dealer in good humour. It does not help increase sales"</li> </ul> <p><b>Isn't it a lose - lose situation for all ?</b></p>	<p>Professed Logic for allowing PD</p> <ul style="list-style-type: none"> <li>No competitor will ever be able to claim that PD has helped it increase its sales. (because it is kept hidden)</li> <li>However its widely believed that it helps in retaining channel partners.</li> </ul> <p>Sales team will say :  <i>"Sir, if we don't give PD, we will lose our dealers to competition"</i>  You ask sales team to disclose the PD amount:  <i>"Sir, if we disclose the amount, competition will know our true price and then they will further drop their price"</i></p> <p><b>Has any sales person ever given any logic other than the above to get PD approvals ??</b></p>	<p>A belief that we only make come true</p> <p>PD is given on the pretext of sustaining channels profitability.</p> <p>If we don't, we will lose our channel partners to competition</p>
4	5	6
<p>What does PD cost the industry annually</p> <p><b>~Rs. 3400 crores</b> of this <b>~Rs. 1000 crores</b> go towards unwarranted taxes</p> <ul style="list-style-type: none"> <li>South annual volume 60 MioT</li> <li>Trade annual volume 36 MioT @90% trade</li> <li>PD on trade volume avg. @ Rs.40/ bag =Rs.800t</li> <li>PD on non trade volume avg. @ Rs.10/ bag =Rs.200t</li> </ul> <ul style="list-style-type: none"> <li>Annual PD value <ul style="list-style-type: none"> <li>On Trade volume Rs. 2880 crores</li> <li>On NT volume Rs. 480 crores</li> <li>Total Rs. 3360 crores</li> </ul> </li> </ul>	<p>∴ PD is ....</p> <p><b>P = Phaltu (useless)</b> <b>D = Discount</b></p> 	<p>Now let's take a look at how we decide prices of our cement</p>
7	8	9
<p><b>WE DECIDE OUR PRICES</b> BASED ON <b>COMPETITORS</b> <b>WSP</b></p>	<p>WSP - an animal which no one has ever seen.</p> <ul style="list-style-type: none"> <li>Sales Teams often refer to Wholesale Prices (WSP)</li> <li>Has anyone of us ever seen a single documentary evidence of a Wholesale price ?</li> <li>Answer is – NO. Because WSP is always hearsay. It is put into the ears of our sales team by channel partners.</li> <li>Even if there is an evidence of WSP, by the time it is available, its too late and will never reach the management because by then PDs would have been dolled out far more than required limits.</li> <li>Dealer or Retailer will always communicate a lower WSP of competition to us. The reasons are obvious and it would be demeaning to list them given the wisdom of the industry leaders.</li> </ul>	<p>the Grey area</p> <p><b>WSP</b> <b>WRONG SILLY PRICING</b></p>
10	11	12
<p><b>Is there a way to stop being frightened of this imaginary WSP dragon ?</b></p> <p><b>Yes.</b></p> <p><b>We need to change our outlook and start looking at RSP instead of WSP.</b></p>	<p>Cement Pricing and Channel Profitability</p> <ul style="list-style-type: none"> <li>What according to us is a fair estimate of Retailers profit ?</li> </ul> <p>Rs. 8 per bag ?  Rs. 10 per bag ?  Rs. 15 per bag ?  Rs. 20 per bag ?  Rs. 25 per bag .....</p>	<p>Cement Pricing and Channel Profitability</p> <ul style="list-style-type: none"> <li>For the sake of discussion lets agree that the retailers margin is Rs.15 per bag.</li> <li>Now if we find that cement is being sold by the retailer @ Rs 350 per bag.</li> <li>What should the WSP be ?</li> </ul> <p>Rs. 340 per bag ?  <b>Rs. 335 per bag ?</b>  Rs. 300 per bag.....</p> <p><b>The answer is obvious</b></p>
13	14	15
<p>So where is the need for PD ?</p> <ul style="list-style-type: none"> <li>In other regions of the country, the max ever heard of PD is Rs.15 per bag.</li> <li>Cement Industry of South has earned the dubious distinction of allowing PDs that are beyond imagination.</li> <li>PDs in South range from Rs.20 per bag to Rs.60 per bag.</li> </ul> <p><b>Has South reached its limits or is there room for more ?</b></p>	<p>Ensuing GST regime and the need for change</p> <ul style="list-style-type: none"> <li>The forces of GST will compel the Cement Industry to review the way it has been pricing its products</li> <li>Very big values of PD are unlikely to be treated as trade discounts and tax authorities could compel the channel partners to levy GST on the same.</li> <li>Income Tax authorities may harden their stand on way PD has been accounted so far and decline to accept it as a trade discount.</li> </ul> <p><b>The envisaged changes will compel Industry to change its pricing pattern</b></p>	<p>Food for thought</p> <ul style="list-style-type: none"> <li>PDs dolled out range from Rs.400 to Rs. 1200 per tonne of cement.</li> <li>For most cement companies these values far exceed the per tonne EBITDA earned by them.</li> </ul> <p><b>Is this the cost Industry is prepared to incur to appease its channel partners ?</b></p>
16	17	END OF PRESENTATION   18

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# Non-reversal of GST on credit notes / price discounts notes

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GST reversal is an inherent delta that is sitting on the books of cement companies. However, many companies cannot reverse this because of technical reasons. There are two pre-defined conditions by GST regulatory authorities for reversal of GST on discount structures, whenever a company passes on a discount to on-the-ground participants:

1. The discount amount on which such a GST reversal will be made on a future date has to be disclosed at the time of billing – *totally and transparently*.
2. Every GST reversal in a credit note has to be linked to the original invoice.

The discount structures that cement companies provide dealers are disclosed and/or undisclosed. Even for disclosed structures, many times, manufacturers do not know how much they would be actually able to pass on to channel partners, because a lot depends on how many of the set targets these partners achieve.

So, if a company's discount structure has 10 components, they could be certain of only 4, and would therefore reverse GST credits for only those 4 (partial reversal of GST credits). For undisclosed discount structures, reversing GST is out of the question, as these are passed in lump-sum and on an ad-hoc basis to channel partners. The channel partners keep on appealing to and reminding the company's officers about their unwritten commitments to them. Because of this, on the discretion of the ground officers' bandwidth and driven by the recurring demands of channel partners to encash the undisclosed discount structures, the company officers push their seniors for approvals citing various reasons. Such undisclosed discount structures are passed on to channel partners with a debit to the profit and loss account (without a GST reversal, as the two pre-requisite conditions are not met), thus impacting earnings.

## A practical example:

When the company invoices cement to its distributors it pays GST on the invoice amount and deposits this money in the government kitty, but it fails to fully reverse the GST credit on discount structures to the dealers. The excess GST payments sit as cost in the books of the company and credit in the ledgers of the distributor – in the books of GST authorities.

- The invoice price is ₹300/bag and GST is 28%. This adds up to ₹84/bag, which the company will deposit in the government's GST kitty.
- The dealer will sell cement at a lower price of ₹250/bag plus GST to its customers, because there is an inherent discount structure (from the company to the dealer) of ₹50/bag.
- The dealer will only claim an input credit to GST authorities on ₹250, which is ₹70/bag at 28% GST.
- Ideally, when the company reverses the entries in the dealers' ledger accounts and issues them a credit note, such credit notes should include the dealers' GSTINs so that the dealers can also claim the input credit of the extra ₹14/bag of GST (assuming full GST reversal).
- But the companies are unable to do so, because they are not following the two basic protocols essential for reversal of GST credits.

These non-reversals are huge amounts of sitting delta in the books of accounts of many cement companies, which, if captured, can provide a sustainable boost to EBITDA/tonne, irrespective of quoted market cement price movements. Only for a few companies are compliance standards very important, and they don't mind disclosing discount structures to on-the-ground participants at the onset. Better transparency is exactly why they can reverse GST credits to a great extent on their credit notes and structurally move up vs. peers on the earnings curve.

The underlying principle of the concept of GST is to add commercial value in the supply-chain rather than discount it. 2019-20 was the first full assessment year for GST and many channel partners have already received



notices from GST authorities to explain why excess credit is lying against their names in the ledger balances. Tax authorities act on both excess credits or deficit tax payments. In some cases, when GST authorities haven't received satisfactory explanations, they have passed on information to the Income Tax department, which in turn has sent demand notices to dealers, assuming ₹250/bag is the amount they have received in white payments and the rest in cash.

Invoice price of ₹300 and selling price of ₹250 is against the basic principle of GST and authorities have issued circulars and notifications, requesting companies not to deposit GST on discount structures or non-cash components. Eventually, cement manufacturers are going to have to adapt to better practices of incorporating GST credits and GSTIN of channel partners on all credit notes.

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## Pre-billing and post-billing practices

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KRAs of almost every company sales person is driven by volume-based targets. Dealers and channel partners are more inclined to sell when they receive maximum discounts, because this maximises their earnings. Some of the on-the-ground practices, which are illegal and unfair, are called pre-billing and post-billing, aligned to achieve volume agendas.

Here is an example. A sales officer has achieved only 80% of his monthly volume target (happens quite often). To achieve his full-month target and to ensure that his incentives do not suffer, he may put in a request to the channel partner to bill in his name officially and buy the unmet 20% on the last day of the month or in the last 2-3 days of a calendar month. This way, the sales person meets his target. In return, the sales officer may commit an undisclosed incentive or discount structure to the channel partner.

In pre-billing, the company gets access to extra working capital in its books of accounts, as the authorised limit of such a channel partner is blocked. Because the channel partner has already billed extra cement in his name (without actually taking deliveries of the order) in the last 2-3 days of the month, he is

free to lift despatches from the warehouse over the following calendar month, as and when he gets orders from customers.

In post-billing, the channel is advised not to bill material on the current date. This happens when dealers' off-take is reasonably good but sales officers have not lived up to commitments of the undisclosed incentive structure they promised. Or when there is pressure from dealers on sales officer for an approval of an extra undisclosed extra incentive because those dealers have sold more than their targets.

Though the volume has already been lifted from the warehouse in such cases, because it is not yet billed, sales officers would communicate to their superiors about slow sales and seek approvals for extra undisclosed discount structures to motivate these on-the-ground participants.

Though the real off-take continues from warehouses, in the books of accounts, it shows up as no sale or a very minimal sale for a number of days as cement is not being billed on a real-time basis as and when the sale is happening. Once the sales officer receives approval of the extra discount structure, the entire sales are booked on a single day or in 2-3 days. Channel partners are then given extra discount structures, because the approvals are in place, and the sales officer's commitment (of an undisclosed discount structure) would now be delivered.

Another example of post-billing is when dealers are short of funds, but sales officers are under pressure to achieve volume targets. In such cases, officers will request dealers to pick up material on the current date, so it helps them achieve volume targets. The despatches from the warehouse will physically be taken and shown as advances lying in the dealer's ledger account, but the bills would be drawn on a later date when the dealers have the required funding.

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***Post-billing is done less often than pre-billing, but both practices are equally harmful to the health of the cement industry.***

## The impact of faulty billing practices

Many times, dealers are made aware of price increase announcements towards the end of a month; these increases are usually effective from the beginning of the next month. This results in book-stocking by many dealers, as the cement has already been billed to dealers, though it may not have yet been lifted from the warehouse. But, because most material has already been pre-billed, the expected price increases in the market may not stabilize, because there will be pressure on such dealers, who have pre-booked, to liquidate their stock positions sooner or later. Liquidating stocks becomes cumbersome when demand conditions are not favourable, which ultimately shakes the stability of proposed price increases, and they are then termed 'roll-backs'.

In many cases, pre-billing and post-billing adjustments are interdependent. An example – there could be one dealer who has pre-billed the cement and there could be another who lacks funds but has a relevant order. In this case, with an internal adjustment, the cement that has been pre-billed to one dealer gets diverted to the second one, who lacks funds. But only when the second dealer realises the payment from his/her client, the bill is then raised in his/her name. Internal adjustments are subsequently made at the warehouses to divert the quantity of the second dealer to the first dealer, to tally the book entries and physical stock movement. This way, the orders are not lost for the cement manufacturer and these tactics help the company officers to support channel partners in times of liquidity crisis, which is quite often the case. But these are only some examples, *the real mess on the ground with pre-billing and post-billing practices is much more intense.*

Because of unfair business practices, a number of warehouses in many regions of the country were raided by GST authorities very recently, because they could not reconcile how the spread of sales could be so uneven within a small span or within the same month, despite the business environment being normal.

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## Unfair practices such as sale of fake bills, pilferage, moving non-trade to trade...

**Sale of fake bills:** Many on the ground are not just dealers or channel partners in cement, but they deal in a variety of building products. Many of these products may be a part of the unorganised sector (sand, bricks, etc). Because of this, most of them have plenty of opportunities to deal in cash, make book entry adjustments as per customers' needs, and provide fake bills to people. With GST, they are in a position to enable people for claiming extra GST input credit.

The customer set of such dealers and distributors is varied – Individual House Builders (IHBs), private contractors, government contractors, or corporate customers. The organised buyers always need more bills for cost inflation. Therefore, practices such as 'sale of fake bills' are quite common.

Many IHB buyers do not need bills or invoices, so dealers or retailers quote two separate rates to them – rate 'with bill' or 'without bill'. The 'with bill' rates are higher. Since most IHBs do not really need a bill and want to reduce their construction cost, they choose not to take bills. Such unwritten bills become underlying book inventory for distributors or retailers. Since they have lifted materials from the warehouse, sale has to be shown 'in white' at some point, and for that they need 'book customers'. Since real customers have already lifted physical delivery, a natural book inventory is created, which is unsold in the books of channel partners.

These dealers sell such bills to government contractors or corporate customers who purchase them to submit them as a proof of obtaining raw material for work done. However, the buyers of fake bills do not really purchase any raw material or even if they do, it is usually of an inferior quality (thus cheaper). These fake bills help contractors claim their tender amount from government/other institutional entities and/or inflate the cost of construction to lower taxable profits. The purchasers then issue cheques to these dealers and the dealers return their money in cash after deducting their margin. Large institutional buyers also do this to fulfil their cash needs. What the dealers give away in the form of discounts to IHB customers for not taking bills, they make twice as much via sale of bills (or even higher) to institutional customers. The ultimate beneficiary (who purchases such a bill) has an advantage of full market price (or invoice price) of cement (to inflate costs in their

profit & loss account, reduce taxable profits, plus claim the GST input credit benefits). *The only cost is the cost price of purchasing such a fake bill.*

These unfair trade practices ultimately spoil the market price positioning of cement and their brands. This is because the revenue from these bills encourages channel partners and dealers to give discounts in addition to what they are authorized to, because they see another inflow of income through the sale of these fake bills. There is more to this *saga*. Such practices add strength to the negotiation skills of the channel partners for undisclosed discount structures with company sales officers because they are able to do well and achieve reasonably good volume targets, so sales officers are happy! The additional compensation (extra discount structure) is a *windfall gain* for such dealers, channel partners, and distributors, but at the cost of brand positioning and earnings of cement manufacturers.

But then these practices are not good for dealers, too, in the longer term. The sales officers may keep shuffling, but the dealers don't. The dealers of a particular brand who indulge in these practices will lose more in the longer run because when they are noticed and caught by vigilance officers of the company, they lose their goodwill in the eyes of the company, which may ultimately impact their incentive structures.

### **Moving non-trade cement to trade**

The movement of material from non-trade to trade can either happen by on-the-ground participants or via customers, especially institutional customers and government contractors. This practice happens even when company officers who deal with trade and non-trade are distinct and *it is one of the most damaging business practices.*

- **On-the-ground participants:** Credit risk at the distributor level is generally much higher than for the company and they are usually always in need of funds. When distributors face a liquidity crunch, they arrange material from the non-trade segment and divert it to trade. They do this via their access to different sales officers and other ground participants. Generally, the non-trade prices are ₹20-30/bag cheaper than trade prices; sometimes ₹50-60/bag.

By doing this, distributors offer cheaper non-trade

cement to their trade customers (at a discount), so customers are willing to pay money immediately. Dealers usually ask for 2-3 days advance payment or spot payment. Dealers rotate their credit cycle with this money. This practice significantly dents the sustainability of prevailing trade cement prices.

- **Customers:** Many institutional customers (large corporates, government contractors) have direct access to non-trade sales. They book quantities in addition to what they actually need and pay through banks. However, they sell the extra quantity of cement they have purchased by adding some margin to the non-trade rates they received, which is still lower than the prevailing trade rates. By doing this, they get input GST credit (a significant amount), they are able to inflate their costs in their profit and loss accounts and reduce taxable profits, and make some extra margins (even if they are thin) by collecting payments for the cement they sell in cash – which helps them for future business liaising or related needs.

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## Conflict of interest in the sales channel of a company

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The basic hierarchy of a normal sales channel is:

- Sales promoter, sometimes referred to as 'super-stockist'
- CFA
- Dealer
- Retailer

Many times, there is no distinction in this hierarchy. Sales promoters could be CFAs or dealers, or even retailers. Every layer in this hierarchy has access to a distinct incentive or discount structure from the company. But when the same individual gets access to multiple layers, they receive multiple, better and higher incentives. Such individuals then become capable of offering better discount structures and push volumes, which every sales officer desires.

The sales promoter's job is to appoint dealers and the dealer's job is to sell cement and also appoint retailers. The sales promoters are generally paid royalty for every



sale they make to dealers and the dealers earn in the form of discount structures. When sales promoters step into the shoes of dealers or retailers, they become a threat to the brand and price positioning in the market, because they sell at subsidised market rates vs. their own dealers, or retailers. Thus, cement manufacturers pay a heavy price for assigning a variety of roles to a single individual.

#### LOGISTICS-RELATED SUPPLY-CHAIN INEFFICIENCIES

## Pilferage of material

Pilferage is another practice where on-the-ground participants indulge in making money for themselves at the cost of the earnings or brand positioning of a cement manufacturer.

### A couple of examples:

- It is a common practice at cement plants to measure empty truck weight loads and loaded truck weights at the time of entry and exit of trucks, to and from the plant. Most trucks have an empty open compartment above the driver's cabin. In pilferage practices, this compartment is loaded with heavy stones when the truck enters the plant. Once it passes the entry weigh bridge, drivers or cleaners throw these stones away so that they can carry an equivalent number of extra bags of packed cement while loading the truck. The required arrangements at the plant would be well in place and the packer can easily claim reasons such as 'bag bursting' to explain the extra bags while loading the truck. Truck operators would sell the extra cement bags in the market to make a few thousand rupees for themselves.
- In bulk cement sales, it is quite common to tag bulkers (vehicles carrying such cement) with tamperproof seals. The customer is told to accept delivery only if the bulker has a seal. However, customers are unable to verify if the seal is actually the one that was tagged at the plant. Freight operators who bring such bulker trucks with loose cement out of the plant premises, break the seal, unload (say a quarter or half a tonne of bulk cement), and tag a new seal (locally tamperproof seals are easily available).

Customers end up losing faith in the cement manufacturer's quality parameters; this is because customers measure the still-sealed bulker while receiving delivery and find the quantity short. They then pay the company less for receiving lesser than the invoiced quantity and this difference goes into dispute with the transporter, but sits as a cost on the profit & loss account of the cement manufacturer. Because these are minuscule amounts, in the larger scheme of things, very few manufacturers really go the extra mile to figure out the reasons for the differences, but they are directionally damaging practices.

## Back-loading of trucks

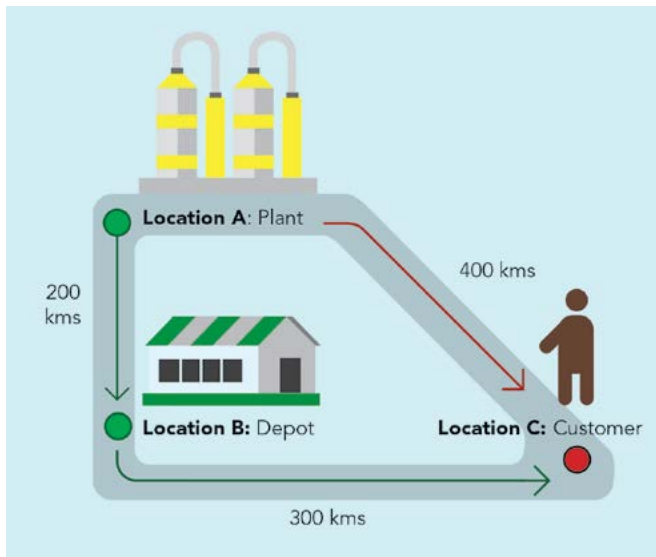
Back-loading is a term used for an on-the-ground practice in which the cost of freight in the books of accounts is inflated. Once it is curtailed, the industry can significantly reduce its freight costs in the books of accounts. Cement manufacturers are trying to optimize logistics costs and the numbers (savings) they generally talk about are not small (+₹50-100/tonne). It is difficult to reduce logistics costs because: 1. The truck-loading compliance norms have only become stricter, 2. Prices of fuel have generally been on a rising trend, and 3. Lead distances have really not changed much, barring benefits derived on rationalizing raw material freight cost of fly ash, gypsum, etc., through a split-grinding structure.

### BACK-LOADING CAN HAPPEN IN VARIOUS FORMATS

#### Cement is booked through depots, but trucks are sent directly from plants to the destination

The traditional practice of delivering cement to customers is through warehouses or local depots. The plant first despatches cement to its warehouse from where it is invoiced in the name of the customer through a dealer.

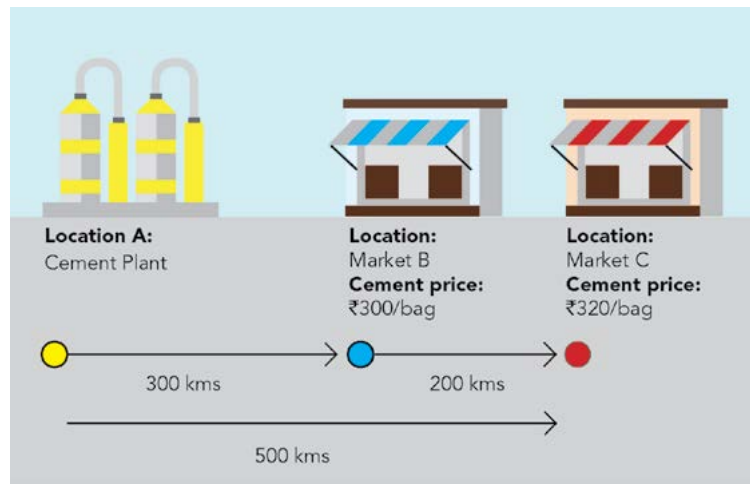
**For example:** The plant is at location A, depot at B, and customer at C. The freight incurred from the plant to the depot (A to B, 200kms) is termed *primary freight*, from depot to customer (B to C, 300kms) is called *secondary freight*. In this format, distributors will book cement from the plant, and route it through the depot on paper, but



**Because of such back-loading practices, many cement manufacturers are now inclined to increase the proportion of direct customer despatches and remove warehouses from the despatch equation.**

### Back-loading by booking orders for longer lead distance destinations

Another common on-the-ground practice is booking material for longer lead distances and unloading material at shorter distances.



**Example:** Plant is at location A. There are two markets. Market B – 300 kms from the plant with a prevailing cement price of ₹300/bag. Market C – 500 kms, ₹320/bag. Orders will be booked at the plant for location C and the freight will be charged to the cement maker for 500 kms (say ₹1,500 at ₹3 per tonne per km) and paid to the transporter. The truck will stop at B and unload. The excess freight charge paid to the transporter becomes an ability of the dealer or channel partner (as in most cases a dealer is also a transporter – explained in conflict of interest) to sell the cement at a discount – in this case  $200\text{kms} * ₹3 = ₹600/\text{tonne}$  or a possible discount of ₹30/bag, which is more likely to be ₹15, considering interests of both customers and on-the-ground people. Cement thus offered (even with a small discount) is sold immediately, as it is a commodity.

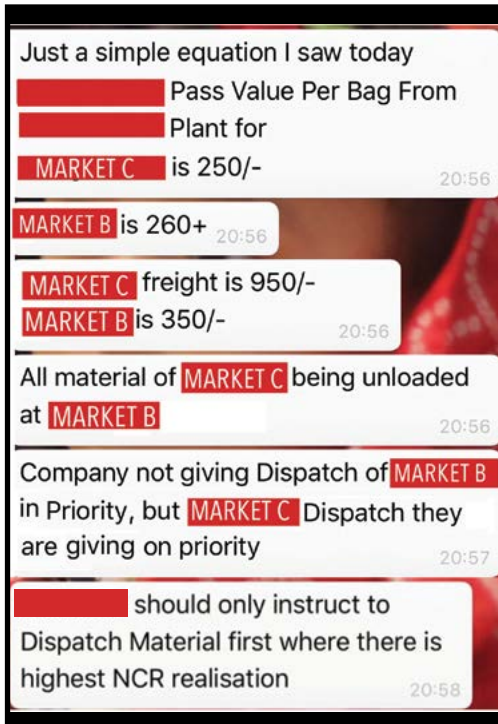
Also, the freight cost charged by the transporter will disproportionately be higher than the realisation benefit to the company. Beyond this, with a view to gain market share, most times manufacturers offer extra incentives

in reality, the truck will go directly to the customer from the plant itself. The distributor will charge the company for both primary and secondary freight, which in this case is 500 kms, but in reality, the cost incurred on the ground is only 400 kms.

The extra cost of 100 kms, which is actually not a real freight cost incurred by the ground, becomes an unwanted debit to the profit & loss account of the company. The transporter is paid in full even for this extra 100 kms of freight which is actually not a real cost. When this gets noticed and when a cement manufacturer wants to intentionally address this with a plug point, this loophole gets incorporated as a potential improvement in the *freight optimization strategy* of the cement manufacturer.

If the charge per km of freight is say, ₹3, a distance of 100kms would give distributors  $₹100 * 3 = ₹300$  per tonne, which they can use as an easy marketing tool to offer extra discounts to customers and maximize volume share. They are more interested in selling maximum absolute volumes, as this is directly proportional to their earnings; price is not a consideration. It is also not a question of whether one truck is back-loaded or one hundred trucks are back-loaded, as ultimately, cement is a commodity product and even if one bag of cement is back-loaded it will have an impact on market price equilibrium and the impact can be really damaging, directionally. Therefore, even if one bag of cement is sold at a price that is lower than the prevailing market price, the overall fundamentals of price sustainability and stability are negatively impacted.

like plant/factory discount (a cost to company and an additional benefit to ground) for booking long lead distance orders. This is done to encourage them to get more orders and compensate them to travel long lead distances. Given the competitive intensity, it is also quite possible that the market realisations for longer leads can be lower vs. nearby market - in such case it is a *double whammy* for cement companies by having a higher freight cost and lower price realisation but since they don't want to lose on market share, they don't mind a compromise.



Snapshot of a WhatsApp chat with one of the large channel partners where intentional booking of orders for longer lead distance destinations is highlighted by the channel partner.

### Inflated transport costs for same destinations driven by the unity of the ground

In this, people on the ground bid for freight costs at a plant for two destinations – A and B – at disproportionately higher levels vs. the distance. If the distance between A and B is 100kms, at ₹3/km, the freight difference should be ₹300/tonne. But the people on the ground unite and bid for ₹500/tonne difference. Faced with such unity, cement manufacturers are then left with no choice but to accept, because the company wants its product to reach all its target destinations and is afraid of losing market share.

## Front-loading or 'forward-loading' or just forwarding

Front-loading technically cannot be termed as unfair, especially after the implementation GST, as one of the basic underlying principles of GST is that goods should be allowed to move freely across the country from one state to another. However, from the cement manufacturers' perspective front-loading defies the underlying agreement that the ground has with the cement manufacturer – not to enter the jurisdiction of another territory or state.

Some regions of the country that are densely-populated production zones have a perennial problem of low cement prices; one of the key reasons for this is, the front-loading activities in such states.

**For example:** Cement price in State A is ₹250/bag and B is ₹400. The cost of taking cement from State A to B is ₹50/bag. Even after incurring the cost of ₹50/bag, the ground will have the ability to generate up to ₹100/bag delta. Therefore, people on the ground will book maximum cement in State A, and once the cement is delivered in State A at their depots, godowns, or warehouses, they will transport it to State B and sell it there for lower than prevalent prices (say ₹370/bag). Because cement is a commodity, the moment the ground discounts the price, the cement is sold instantly.

In some cases, given the *nexus* on the ground, material is forwarded directly from the plant to the destination (circumventing depots), so even the *primary freight to the warehouse is saved*.

### The damages caused by forward-loading:

1. The prevailing cement price of the forwarded market is bound to drop, as the price equilibrium gets spoiled.
2. The prevailing market prices of the state which indulges in forwarding the cement is also at risk, because many times, the ground will book quantities



in excess of the required quantity (or the quantities which they can forward) and these excess quantities put pressure on the prevailing prices of the origin state as it is at risk of over-supply. Because cement is ultimately a perishable commodity, the ground can dump excess cement any day in the origin state.

3. The realisation delta, which should ideally have been retained by the cement manufacturer, gets lost to the ground. Better vigilance can add significant sustainable delta to cement makers' realisations. Front-loading is the reason why few states in the country constantly show high demand and volume numbers while others constantly show muted demand.

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### ***Absence of compliance measures by cement manufacturers (or ignoring them) towards freight operators, allows them a free hand.***

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#### **It's high time for manufacturers to realise what they lose with absence of vigilance**

While some cement manufacturers remain more vigilant than others in scrutinising freight operators, many continue to remain ignorant, because for many, even today, the primary goal is to maximize volumes, even at the cost of back-loading or front-loading. In some cases, manufacturers do not even demand a 'Proof of Delivery' (POD) from freight operators. In some cases, manufacturers do not want to push for better compliance because they know that if they do so, they may not get the best freight rates or bids from transporters.

Many cement manufacturers believe that they are able to attract better freight rates from freight operators because they are lenient and allow them these relaxations. *Such freight-rate discounts these manufacturers receive are more valuable to them than the stability of market prices.* Freight operators may offer cheaper freight rates, but they compensate themselves by indulging in unfair ground practices.

The real gains for cement manufacturers lie in getting higher net realisations by curtailing these unfair practices and ensuring better compliance; **such gains will be disproportionately higher than the savings**

**they make in terms of freight costs by getting discounted freight rates.**

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## Background checks are absent and conflict of interest plays a damaging role here too!

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Just like marketing practices, where there is a hierarchy, in logistics too, some basic protocols are generally recommended:

#### **A dealer is also a transporter**

At most cement plants, dealer's trucks are allowed to enter plant premises. When this happens, dealers have a free hand to divert trucks. While some companies (like Charlie) attempt to remain more vigilant by practicing protocols such as stamping invoices with "Owned Truck" (OT) for dealer trucks. Anyone who sees such invoices can pinpoint the destination booked and kilometres that the dealer has claimed vs. the actual distance the truck has travelled. For any breach of protocols, the dealer can be made directly liable, because the invoice is stamped as *OT* so it is very easy for the manufacturer to identify the malefactor. But all manufacturers do not have the same checks and balances in place. When a sales promoter is also a CFA and a transporter, the loss of control for a cement manufacturer is even higher. *Conflict of interest should be avoided in logistics, as it should be for marketing.*

#### **Detailed background checks of ground participants are generally absent**

In most cases, when a dealer or transporter is appointed, no in-depth background checks are conducted or are overlooked. Conversely, some companies have stringent checks including conflict of interest terms – dealers' distant family members or relatives are not allowed to have related business interest. In general, there should be a distinct bifurcation between a dealer, a transporter, or a warehouse / depot operator, and a thorough background check of all parties needs to be done to ensure that there is no conflict of interest.

# Indicative quantification of supply-chain gains

Though it is good to know the theoretical aspects of supply-chain inefficiencies, it is equally important to understand what the monetary gains to any cement manufacturer (who wants to move towards better supply-chain efficiencies) can be.

**Table 1.0: Indicative quantification of potential gains**

Practice	Quantum (₹/bag)	Impact
Back-loading losses through fabricated depot despatches.	10-20	Inflates freight cost and inclines channel to offer extra discounts.
Back-loading losses because of lead distance manipulation.	15-30	Net retention gets impacted as freight cost is disproportionately inflated.
Front-loading / forward-loading or forwarding and playing on price arbitrage.	20-100	Company loses the realisation benefit to the ground and it keeps prices in the local market very low. In other words, the ground benefits at the cost of company.
Price discounting / offering rate difference / quantity discount / cash discounts/ price equalization etc.	10-40	Inflates expenses in Profit & Loss account or deflates net realisations. The impact may be immediate or it may be a deferred impact of one or more or several quarters.
Moving cement from non-trade to trade segment.	10-30	Dilutes the trade segment prices severely.
Channel making money by way of sale of bills (building bill books and selling them separately).	5-20	Inclines channel to offer discounts to customers who don't need bill. In turn these bills are sold to large or institutional customers. It dampens the trade segment prices and also increases the demand of Price Discounts or Price Difference from Channel to the Company.
'Pre-billing' & 'Post-billing' practices.	3-10	Disturbs the price stability and aggravates volume push war on ground. It is also one of those practices which are non-compliant and hence invites legal troubles like raids from GST or other regulatory authorities.
Not incorporating Channel or Dealer GSTIN on credit notes.	5-15	Increases unnecessary GST outgo of manufacturers just because they are hesitant to disclose their discount structures in full transparency to the ground. The Channel Partners or Dealers will feel the pain as and when they receive notices to explain the legal authorities about the excess credit balance in their GST ledger accounts.
Large customers/Contractors leaking cement from non-trade to trade segment.	20-50	Impacts market stability of cement prices immensely.
Median of the lower end	10	
Median of the upper end	30	
<i>Minimum possible gain per tonne (lower end) - ₹/tonne</i>	200	
<b><i>Adjusted for GST - net gain to EBITDA - ₹/tonne</i></b>	<b>144</b>	

The table lists the potential and probable indicative gains with different aspects of supply-chain improvements. It is obviously not necessary for each of these inefficiencies to be present in every company. Since these inefficiencies are not necessarily dependent on each other, looking at the average gain can be misleading. Looking at the median of the potential gain

can give a truer picture and a better flavour. The median of the lower end (of possible delta gain with supply-chain improvements) is at ₹10/bag while the upper end is at ₹30/bag. Even if the cement industry achieves the lower median, **it is an enormous number**. Once any gain is sustainable, the directional journey towards better supply-chain management will begin.

But, when gains are being talked about with regards being efficient on supply-chain practices, it is also very important to note and reiterate again here that it is “absolutely IMPOSSIBLE” to capture the whole of these delta gains because supply-chain improvements are human-mind-driven efficiencies. *What is more important is to begin the structural directional journey of discovering these newer and better efficiencies with an aim to deliver sustainable improvement in the earnings curve.*

### **Supply-chain efficiencies are not just about delta gains ...**

Though a broad quantification of the delta can be made, as shown in table 1.0, the most important benefit for the cement industry is achieving ‘better natural pricing power’. For example, when forward-loading between two states stops, prices in both states get better because people on the ground eventually realise that only by supporting cement manufacturers in earning higher realisations can they make better money for themselves. This is because when forward-loading stops, it will lead to a natural price increase in both markets (and this delta can be truly enormous for cement manufacturers). The channel partners will learn to live with lower volume offtakes at individual levels but when the company will earn higher money in form of better realisations, it will lead to a better, fair and transparent incentive structure improvement for all the ground participants of the said manufacturer. It will lead to a *culture change* for the ground.

**Because supply-chain practices are internal and systemic improvements, cement manufacturers may not necessarily depend on each other to achieve these efficiencies. They are improvements independent of the broader market forces and the outcome will be either an improvement in their net realisations or lower and better-off costs vs. the peers.**

***But the most important gain for any cement manufacturer by going on the supply-chain-efficiency path is the qualitative one, in terms of***

***gaining natural pricing power that would ultimately improve net EBITDA/tonne enormously.***

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## Correlating ‘intent’ and supply-chain efficiencies

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To monitor supply-chain inefficiencies, creating a fear of being surveyed is the biggest qualitative tool, in addition to quantitative tools using technology. Manufacturers need to use their own bargaining power to the best way possible to ensure to tell the sales promoters, transporters, dealers, retailers, channel partners and all those present on the ground that their business practices are being closely observed. One such company in our hypothesis (Charlie) does this. Also, bonding within the organisation’s teams needs to be created (a qualitative parameter).

So, if a company has multiple cement plants in a region or state (Plant A and B), and Plant A can garner better earnings by selling cement in a particular district, Plant B should be willing to compromise. In the cement industry, often, a plant of a company operates with the mind-set of a company; so, it may remain unwilling to sacrifice or compromise for another plant within the company (which it perceives as a competitor instead of a compatriot). This is because plant heads take it as a given that all incentives are driven by their individual plant-production targets.

The manufacturers need to make people on the ground realise (including plant managers) that they all are working for one corporate entity and that when the corporate entity benefits, everyone associated with that entity will automatically benefit. This has not happened yet on a large scale within the industry because every plant has been treated like a corporate entity in itself and the communication from corporate offices of many manufacturers to individual plants are generally very individualistic and not cohesive.

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***Surveillance is the key measure for better supply-chain practices (fear of being constantly watched). The words 'supply-chain efficiencies' and 'intent' are very closely associated; 'vigilance' and 'execution', though, are separate factors, but they are inter-dependent and correlated in the long run.***

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Similarly, a common myth held by many manufacturers is that if they constantly increase the number of brands, they will capture volume share. Many cement manufacturers launch new brands to capture extra market share. For this, they generally appoint distinct marketing and sales teams, but thus they create competition within their own company employees. The executives of two brands within the same company compete (by getting into a discounts war) and the company ends up losing money. So, it is necessary to pass on correct communication and guidelines to people on the ground, not just externally, but also within the organisation. This creates a bonded momentum within the organisation to look at overall earnings for the company and also for all company executives to move forward together in the journey of discovering better supply-chain efficiencies.

**Getting better on supply-chain practices is driven by individual choice**

*Moving ahead on the supply-chain-efficiency curve is closely correlated to the resolve and intent of the manufacturers.* Because supply-chain inefficiencies are largely human-mind-driven inefficiencies, most times, senior management is not even fully aware of these – as they are obviously not highlighted by the ones lower in the hierarchy since many ground-level participants have personal interests involved in these inefficiencies. Cement manufacturers need to find a balance between volume and market positioning because when a company is inefficient

in terms of its supply-chain, the ultimate damage is done to all of its operating parameters, including long-term volume trends, brand standing, and price positioning in the market.

*Likewise, vigilance and execution are two separate aspects but they are interdependent in the long run.* In the upcoming hypothesis, though Charlie is extremely vigilant about practices, and has been successful in creating fear of surveillance, there are umpteen numbers of practices where Charlie can directionally improve. Echo is very weak on vigilance, but some of the execution capabilities of Echo on the ground are phenomenal, because of its transparency. But for both, Charlie and Echo, significant opportunities exist where they can become better in terms of supply-chain practices by improving *execution* and *vigilance*, respectively, in the long run.

**The success mantra in supply-chain efficiency in the long-run is that all three – *intent, vigilance and execution* – are paramount. They remain correlated to each other, because only when there is intent, can there be vigilance, and then execution of corrective measures. And once corrective measures have been executed, it remains equally necessary to continue to remain vigilant and reinforce intent, so that the ground does not deviate from good practices.**



# Hypothesis: Proving the impact of supply-chain efficiency

In the hypothesis, there are five companies (descriptions have been given at the beginning of this article). The analysis of each section of the hypothesis will be divided in two parts: 1. Analysis of all large and very large companies and 2. Analysis of multi-regional players in addition to large and very large companies. Each material aspect of business – at the realisation, costs, and EBITDA front – will be discussed in great detail and a relative comparison will be done to derive conclusive observations and findings. *Can the resolve of being supply-chain efficient make a visible difference?*

Y-Axis on all the charts is ₹/tonne except where otherwise mentioned

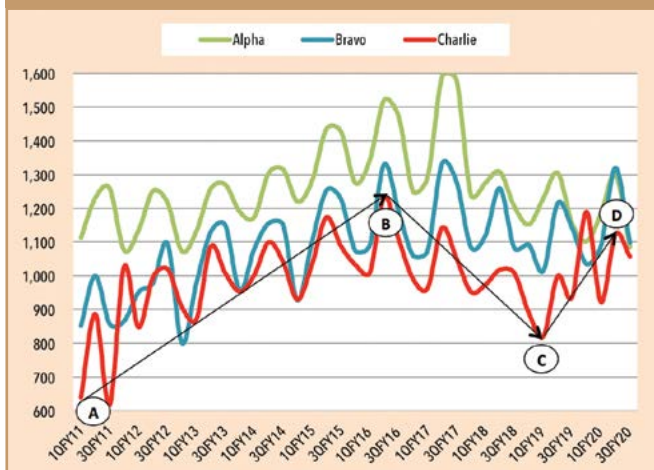
## Other costs/tonne

Other costs accounts for nearly 29% of total weighted average cost over the past decade for the companies in hypothesis. By looking at other costs/tonne, it can be judged how the industry is moving forward on certain costs that are not defined but still account for a huge proportion of total costs.

### DEFINITION OF OTHER COSTS PER TONNE

Generally, a 'dump yard' of costs for all cement manufacturers. For this hypothesis purpose, it is = total opex/tonne (-) raw material (inclusive of stock adjustment and purchase of finished goods) (-) power & fuel costs (-) freight costs.

### Other costs per tonne of large companies

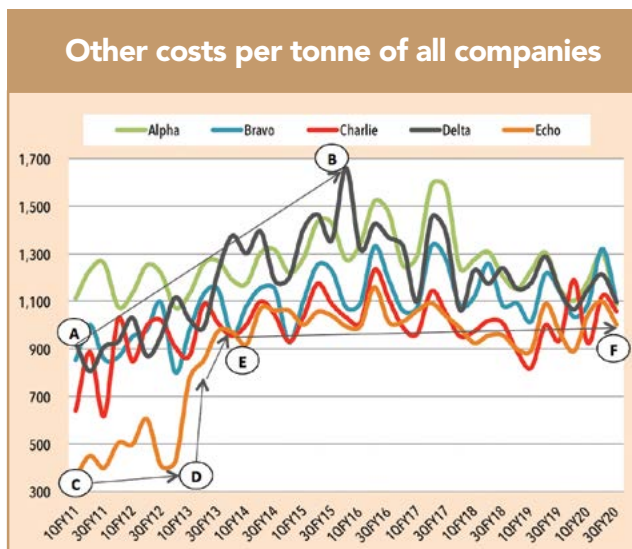


## Observations

- At any given point over the last decade, the line chart moves in the same pattern and in tandem. Though this is purely a coincidence (as it just the plotting of actualities in the hypothesis), because the line movement is in a similar pattern, it indicates that *goals and intent* of all three manufacturers at any given point were similar. Because these companies were doing the same thing, their lines moved in tandem. If Alpha was fighting for better volumes, so were Bravo and Charlie. If Alpha was spending money at building brands through better branding exercises or similar initiatives, so were Bravo and Charlie. The only difference was the means of achieving the outcomes.
- Charlie's other costs/tonne rose from point A to B, but from point B to C, despite it being on an acquisition and capacity growth spree (driven by its inherent nature) *it was able to lower its other cost/tonne curve vs. peers* because of strong vigilance and better execution in terms of monitoring its on-the-ground practices.
- At about point C, Charlie once again consolidated few of the highly inefficient capacities in the country in its books, which resulted in a sudden spike in its other cost/tonne from point C till D. Acquiring inefficient capacities had an immediate negative impact on its supply-chain. But given Charlie's determination

to be better on its on-the-ground practices, its constant vigilance should help it to bring down its costs vs. peers, to once again, sustainable lower levels in future quarters, on the trend line.

- It is also a coincidence that Charlie had few important leadership changes around point B, just when its journey towards betterment began. This indicates that the **characteristic and intent of senior leadership makes a huge difference** to overall company objectives and supply-chain management.
- **Alpha / Bravo:** No significant pattern changes are visible indicating weaker resolve, vigilance, and execution compared to Charlie.



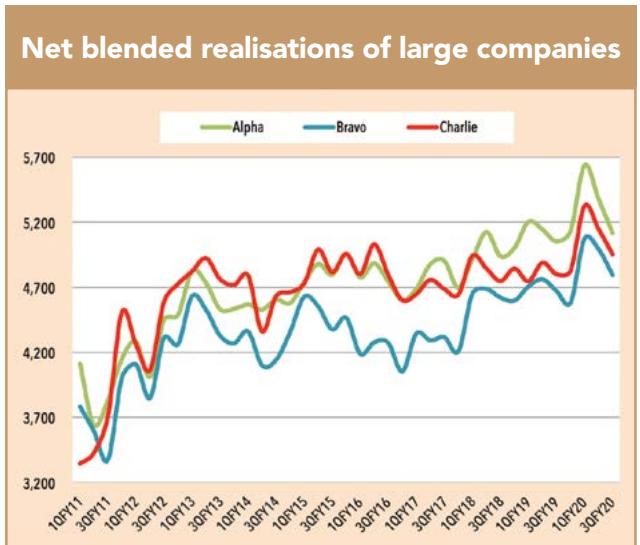
### Observations

- Delta’s other costs/tonne were badly hit from point A to point B, *more badly vs. Alpha’s*. Delta continues to be among the highest spenders in other costs/tonne, but this is not a bad thing (discussed later).
- Echo’s costs were almost stagnant from point C to D and then spiked from D to E in two phases. This is because at around point D, Echo entered a new region and offered higher discounts vs. peers to capture volume and market share in two phases, in the newer region, which structurally dampened its cost curve.
- From point E to F, Echo’s line chart is stagnant. It continues to offer a better discount structure

to the ground and this is its biggest advantage too – because of its transparency standards – the ground has full faith in Echo. If it wants to reduce its other cost/tonne, it now can.

## Net blended realisation/tonne

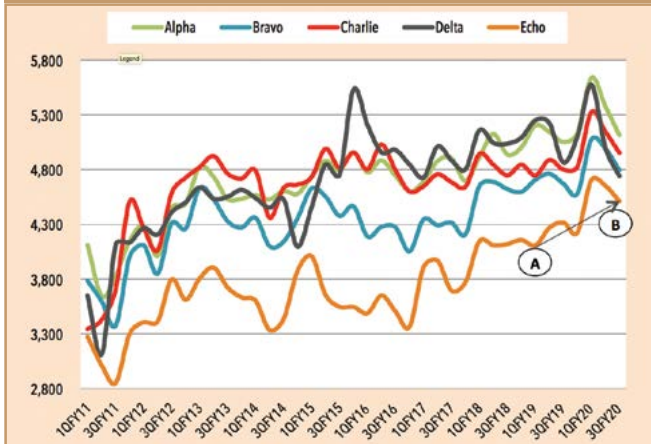
Net blended realisation/tonne are the reported blended realisations of cement manufacturers. They are a depiction of the brand personas of individual companies and it is quite easy to get carried away and say that the company that has the highest net blended realisation is the #1 brand and vice-versa.



### Observations

- All three manufacturers are almost at par. They all are large or very large and all/multi-region so command a reasonably good net realisation and their realisation charts broadly move in tandem.
- They all believe that they command the top brand positioning in the market and all three have a reasonably strong brand value on the ground (*at least that is the belief*) – but when these realisations are looked at in conjunction with cost trends in other graphs, this belief can be dismissed; it is proven that a lot of these realisation increases, especially for companies like Alpha, are misreported and artificial increases. They do not translate to real gains for the company in terms of profit.

## Net blended realisations of all companies

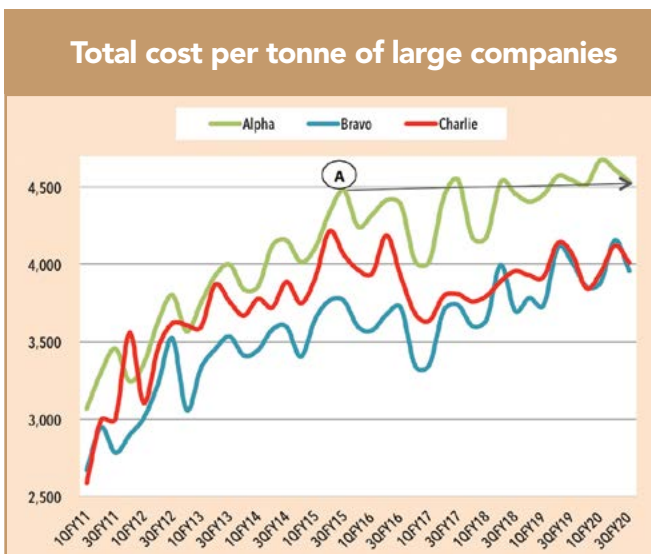


### Observations

- When Delta started improving its other costs/tonne parameter, its net blended realisations gained momentum (and sustained) with a lag effect of a few quarters. This is a key reason why a hike in other costs per tonne is not a bad thing for Delta.
- Echo remains at the lowest end of realisations, but it had caught reasonable momentum from point A till B. This is a potential window of opportunity for Echo for further sustainable improvement. But this would be a very tough task!

## Total costs/tonne

Total costs/tonne is the total reported operating cost to produce every tonne of cement. This depicts the placement of individual manufactures on their respective operating cost curves and how differently they are positioned. Ultimately, Net Blended Realisations (-) Total costs/tonne = EBITDA/tonne. **Therefore, to outperform on EBITDA/tonne, any manufacturer has to outperform either on realisations or on costs, or on both.**

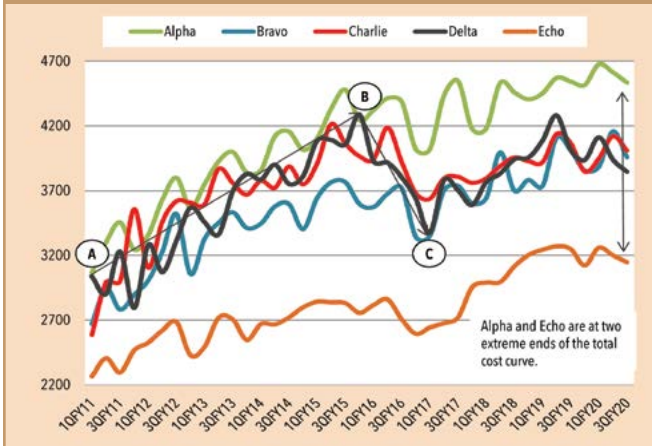


Point A is a turnaround point in the recent history of Alpha, when it commissioned few new state of the art technology plants and that should have helped Alpha control its total cost, but this is not happening! On the contrary, its total cost entered a new trajectory of rising costs post commissioning of these new plants.

### Observations

- Alpha's total cost/tonne is disproportionately higher than Bravo and Charlie, especially after point A.
- Alpha has had heritage bottlenecks and legacy issues at its plants – a key reason for its higher cost structure (is what the belief is).
- Point A was a turnaround point in Alpha's recent history, because around this time, it commissioned few very large new capacities that were state of the art. This should have helped Alpha bring down its total cost curve, but that didn't happen. On the contrary, after point A, Alpha's cost curve entered a new trajectory altogether (rising trend) because with the commissioning of new capacity, ironically, its primary goal became to push volumes. To achieve this, all supply-chain efficiencies and on-the-ground practices were ignored and its expense curve increased exponentially (probably because of a very inflated discount structure) vs. its peer matrix.
- Alpha's positioning as a premium brand is also to an extent untrue. This is because, though it has been able to make the best in terms of realisation gains, a lot of these gains are subsequently booked as costs in the form of discounts, with non-reversal of GST credits, and weak vigilance of logistics. It is not a 'real' realisation gain, just a book entry.
- Bravo and Charlie are definitely much better placed vs. Alpha as far as total costs/tonne are concerned.
- Notably, a lot of Charlie's acquisitions (since point A on Alpha's trend line) have been highly inefficient, with low plant efficiencies and they are sizeable capacities, but its total cost curve is under much better control vs. Alpha.

## Total costs per tonne of all companies



### Observations

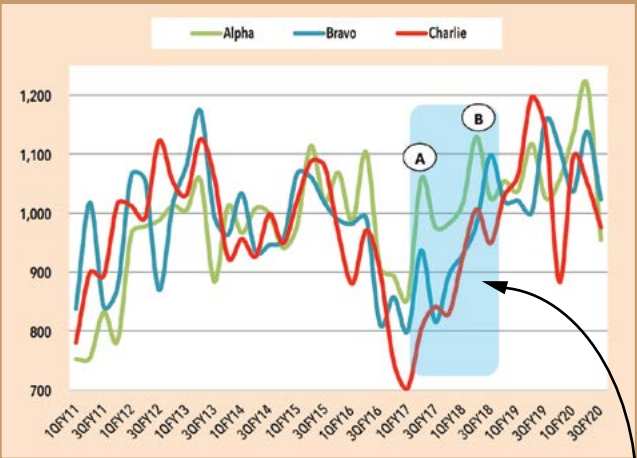
- Delta's total cost/tonne was rising from point A until point B, and in this journey, Delta acquired some of the most inefficient capacities of the sector; rather capacities that were really *junk* or highly inefficient.
- But despite this, from point B till point C, Delta was able to bring down its costs curve significantly and match it to Bravo and Charlie. This is quite *amazing* and proves that **acquiring inefficient capacities can be manageable**, and cost curves can still fall, unlike Alpha's case, where despite it commissioning a state-of-art relatively new capacity, its total cost curve saw an exponential jump.
- Echo's cost curve is unmatched and remains its biggest competitive advantage. In the whole of last decade, none of the peers came close to Echo's total cost/tonne line chart – which depicts Echo's clear advantage over them.
- Delta has proven that all expenses are not really bad expenses. With an increase in expenses, there could be a possibility of net gain in realisation (discussed in detail later). Therefore, Echo has an unmatched competitive advantage for raising a few of its expenses such as branding, advertisements and rewards for loyal dealers in a further more transparent manner, to help it improve its brand positioning and raise its net realisations closer to its peers. The gap in total expenses between Echo and peers is huge and this is something that Echo can definitely capitalise upon, *structurally*, in the long-term.
- Alpha and Echo are at two extreme ends on total costs/tonne and this reflects in the forthcoming charts of EBITDA/tonne.

## Cost break-up in detail

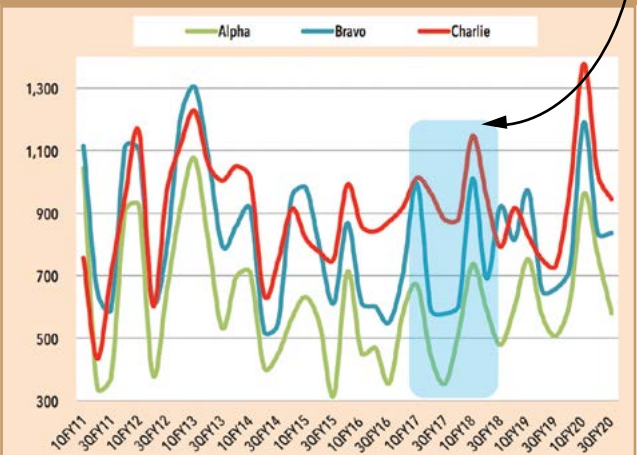
### Rejecting the defence of legacy issues at plants by manufacturers who have high opex/tonne

Weighted average power and fuel costs for all five companies in the hypothesis -25% of total cost over past decade.

### Power & fuel costs of large companies



### EBITDA/tonne of large companies



### Observations

- All three companies have moved in tandem in terms of power & fuel costs. Minor variations are there, probably because of differences in costs of fuel inventories used.
- On the contrary to Alpha's defence and as a counter to Alpha's argument of plant legacies for higher power &

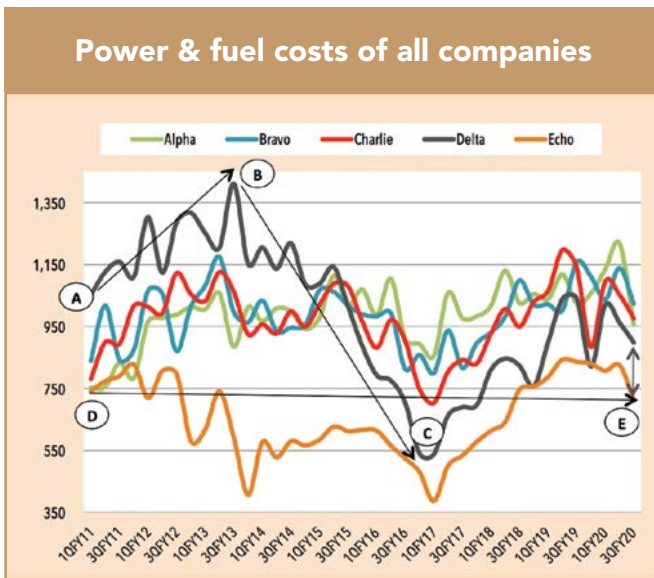


fuel costs, which leads its low EBITDA/tonne, many times, Alpha's fuel costs have been lower than Bravo's and Charlie's.

- Point A and B was when Alpha's fuel cost per tonne were visibly higher than Bravo's and Charlie's. However, this was also when Alpha's EBITDA per tonne performance was not very poor (as the trend line continued to move in tandem), if we look at this chart in conjunction with the EBITDA/tonne chart.
- There is still a common belief that Alpha's operating performance remains dismal because of higher power & fuel consumption parameters – an assumption this hypothesis rejects completely because all large or very large players are mostly equally well-placed on this cost.

is possible with a few right moves (addressing plant inefficiencies) even with the poorest capacities. Though Delta was the worst performer on power and fuel cost front, now it is amongst the best.

- Echo has the most flexible capacity in the industry with more kilns vs. peers. Its power & fuel cost curve is the lowest in the industry. Though Echo added larger kilns recently, it did so when its balance sheet support was very strong. From point D till E, Echo's power & fuel costs was always below industry peers – a huge competitive advantage of nearly ₹300 per tonne on an average. This will probably stay, and reiterates how kiln flexibility can lead to huge structural cost advantages.



### Observations

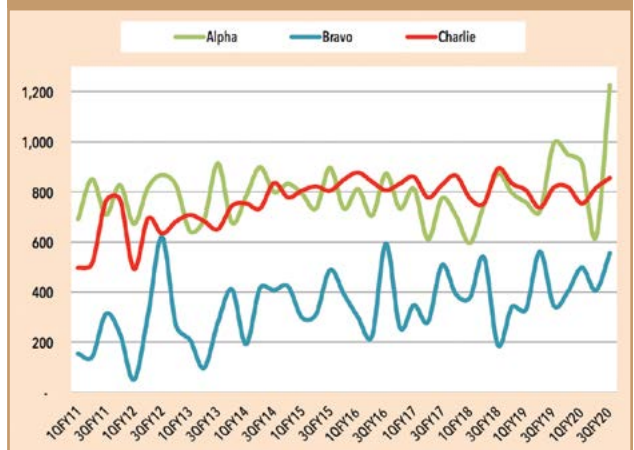
- Delta's power & fuel costs were worst placed vs. peers from point A to B. In this period, Delta acquired many inefficient and *junk* capacities and grew inorganically. Its acquisitions had smaller kilns. Despite these inefficient and *junk* capacity acquisitions, from B to C, Delta's drop in power & fuel costs was commendable, which reiterates the importance of being *flexible* on kiln operations (that it is ok to have a number of kilns that are small), which leads to a better cost curve.
- From point C onwards, Delta's power & fuel costs increased, but remained largely in line with industry trends and better off than Alpha, Bravo and Charlie.
- Delta's trends prove that managing power & fuel cost

## Raw material costs

**WEIGHTED AVERAGE OVER THE PAST DECADE**  
- 18% OF TOTAL COST

- Different cement companies have different methodologies as inclusions under the head raw materials; this may make their absolute numbers look little different. But the trend lines will not show a false picture and such aberrations will be reflected in total cost/tonne charts (discussed earlier).
- However, from a raw material/tonne cost perspective, Bravo and Echo have clear advantages on raw material costs vs. other peers.

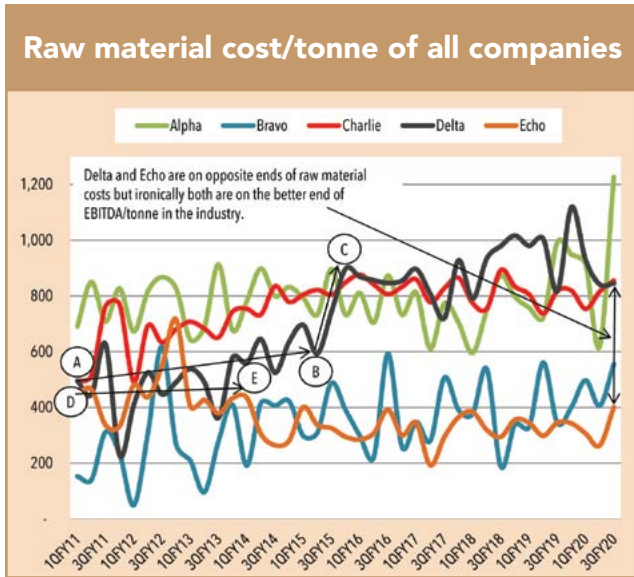
### Raw material cost/tonne of large companies



### Observations

- As a long-term trend, raw material costs/tonne for all three manufacturers are on a similar path. Alpha and Charlie are almost matching, while Bravo remains the lowest consistently.

- However, despite this, their EBITDA/tonne matrices are quite different. So, the conclusion is, it seems unlikely that raw material cost/tonne is the reason for the difference in EBITDA/tonne charts.



#### Observations

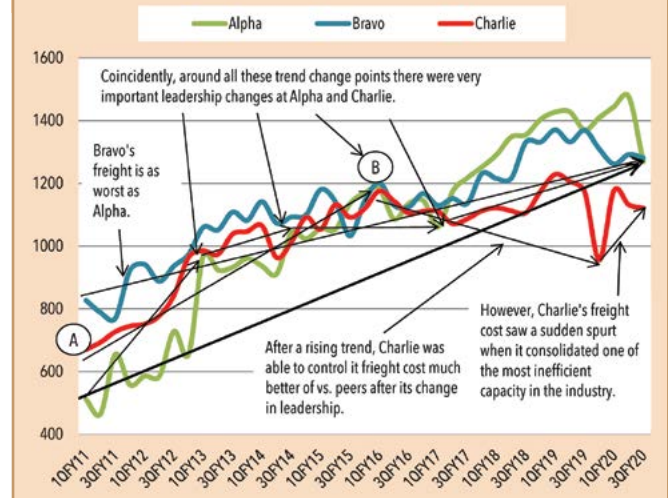
- Delta's raw material costs/tonne were between the low and high from point A till point B. However, from point B, they started rising, reaching point C; from here Delta's raw material costs have been consistently amongst the highest. Its rising raw material costs coincide with its premium and super-premium products launches.
- Likewise, for Echo, raw material cost in the initial phase was almost in the middle of the low and high (depicted at point D). But at point E, the trend broke, and then it remained the lowest amongst peers. The point at which the trend broke was around when Echo ventured into a new region and probably because of its aggressive volume push strategy, product quality parameters was not a great focus then for Echo, which resulted in lower raw material costs.
- While Delta and Echo are at the opposite ends of raw material costs (Delta highest, Echo lowest), on EBITDA/tonne both consistently outperform Alpha, Bravo and Charlie, which shows that raw material costs do not have a significant effect on EBITDA/tonne.

## Freight cost/tonne - Here lies the answer – not probably, but certainly...

### WEIGHTED AVERAGE OVER PAST DECADE – 28% OF TOTAL COST

- The reasons for deviations in total operating costs which are visually evident still do not remain well-explained by either deviation in raw material costs or power & fuel costs. But the reasons are certainly better explained when we look at the charts of freight cost/tonne.
- Freight cost/tonne is the only cost head where structural deviations are apparently visible in the peer comparison.

### Freight cost per tonne for large companies



#### Observations

- Alpha's freight cost per tonne has seen the highest structural increase with a variation of nearly ₹1,000/tonne between the minimum and maximum values of freight cost/tonne over the last decade. This variation is on an average 1.7x vs. the variation of the peer set.
- This chart clearly negates the argument that the key reason for low earnings of any manufacturer is because of plant legacy issues. Interestingly, to reiterate, the structural shift in Alpha's freight cost is more visible in the second half of the graph and this coincides with Alpha's new state-of-art capacity commissioning.

Because Alpha urgently needed to push volumes with the commissioning of its new large capacity, its vigilance on supply-chain practices was probably lower, which led to the huge increase in its freight cost.

- Bravo’s case is similar; it almost matches Alpha on freight cost in absolute terms.
- Charlie’s freight cost was rising from point A till point B, but it has done a phenomenal job by keeping these costs under great control from point B till date, despite its mammoth inorganic growth in the past few years. Notably, most of the capacities Charlie has acquired over the past few years are misplaced on the supply-chain front. The outcomes of Charlie’s on-the-ground vigilance is evident from the movement of its freight cost, especially post point B.
- **Coincidentally, and very interestingly, in all three companies, at all points where the trend breaks in the lines of freight cost/tonne - near such points of trend changes there have also been some important senior leadership changes within the organisation. Though it is a coincidence, it is also an interesting concurrence and observation.**

- Delta has been an outperformer throughout on freight cost/tonne, indicative of its execution of better on-the-ground practices among its peer set.
- Echo’s freight cost has been stagnant mostly. But at point A, it saw a structural jump because of the government’s stricter truck-loading compliance norms.

### Absolute lows & highs in freight costs over the last decade – self-explanatory evidence!

Freight (₹/tonne)	Minimum value in last decade	Maximum value in last decade	Maximum: Minimum
Alpha	466	1,477	3.2
Bravo	770	1,370	1.8
Charlie	670	1,228	1.8
Delta	523	1,031	2.0
Echo	699	1,219	1.7

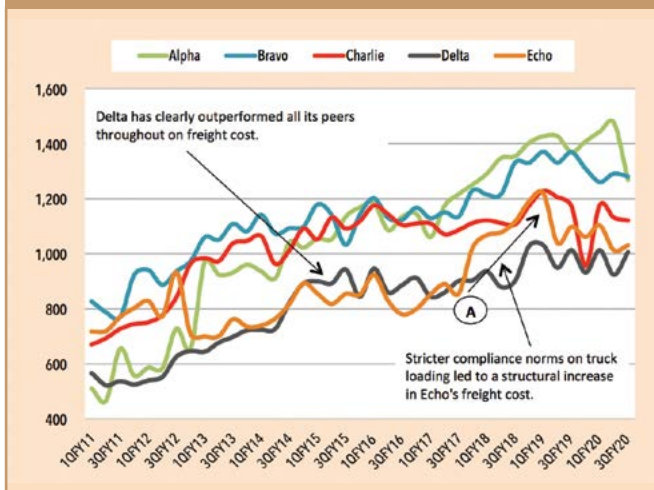
*Thus, freight cost/tonne and other costs/tonne account for c.57% of total costs and create a more visible difference in cost curves of cement manufacturers vs. production costs.*

### Absolute production and supply-chain costs

#### 10-YEAR (LAST 39 QUARTERS) AND 5-YEAR (LAST 18 QUARTERS) WEIGHTED AVERAGE PRODUCTION AND SUPPLY-CHAIN COSTS

- Though trend lines are quite interesting from the above charts, just to remove any confusion, let us also look at how overall absolute production and supply-chain cost numbers look.
- It is quite evident that most of the charts are breaking-off in the midst of the current decade (referred to as break-off point) and therefore it will be a good idea to look at the absolute number charts from both a 10-year and 5-year perspective.

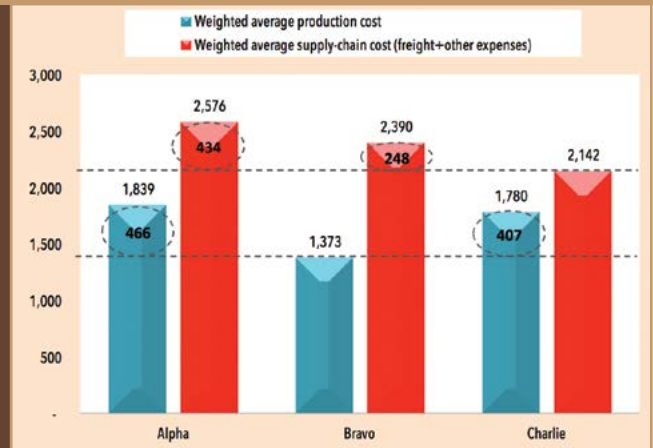
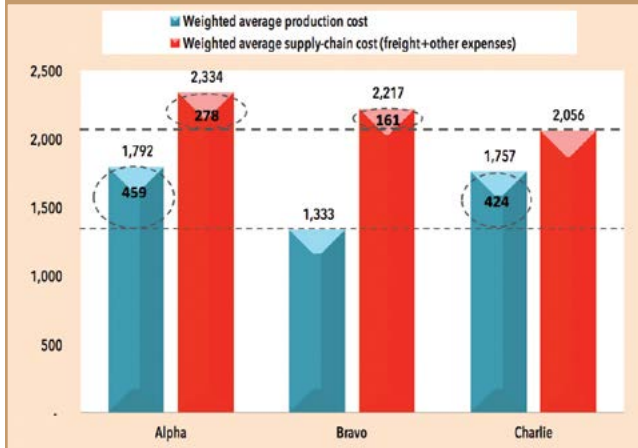
### Freight cost per tonne for all companies



#### Observations

- Alpha and Bravo are clear outliers on freight cost/tonne (more easily visible in the forthcoming resultant EBITDA/tonne charts), despite being all/multi-region players with a better reach – other smaller multi-regional leaders have clearly outperformed them.

## 10 and 5-year absolute production and supply-chain costs for large companies

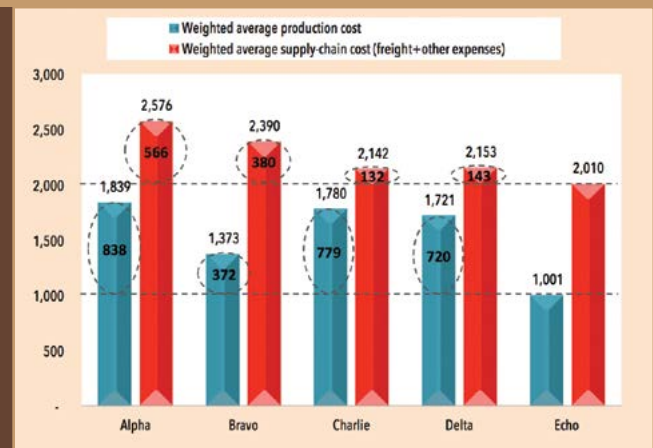
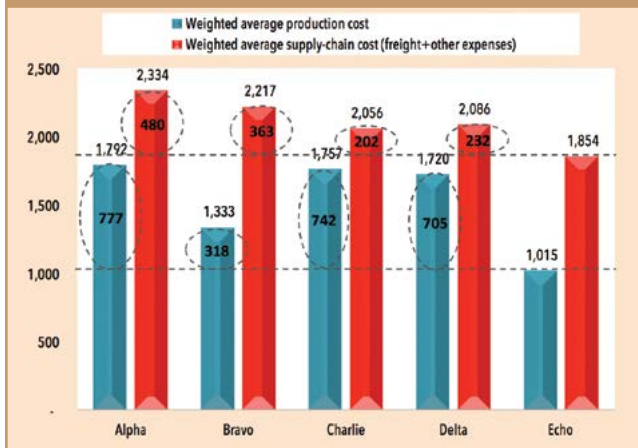


### Observations

- On both 10-year and 5-year weighted average charts, it is quite evident that all three manufacturers are fairly well placed. Charlie and Alpha are almost equal in terms of production costs while Bravo has a production cost advantage of over ₹400/tonne in both time frames.
- Alpha's defence of high production cost vs. peers does not seem to play out, as it is virtually the same as Charlie on both charts.

- However, it is only in supply-chain costs that Alpha and Bravo are not as well placed at Charlie. This is what gets captured in subsequent EBITDA/tonne charts too and a key reason for the EBITDA/tonne deviation.
- Interestingly, the gap in supply-chain costs (increase) from the break-off point for both Alpha and Bravo vs. Charlie is 1.6x. This implies significant emergence of supply-chain inefficiencies in both Alpha and Bravo, especially after the break-off point.

## 10 and 5-year absolute production and supply-chain costs for all companies



### Observations

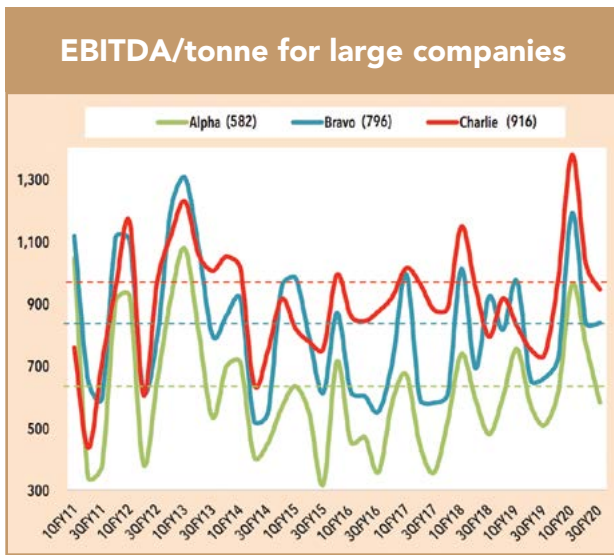
- Delta's production costs are as good as Alpha or Charlie; Echo's and Bravo's advantage clearly visible.
- For Echo this translates to better EBITDA/tonne, not so much for Bravo.
- It is once again only the supply-chain cost where Alpha and Bravo are worst placed. The graphs once again negate the defence of high production cost, especially for Alpha for its lower EBITDA/tonne.

- While Echo is best placed on absolute supply-chain costs, there is an opportunity to reduce other cost/tonne (which has been almost stagnant for many years, since it entered a new region) because it has better confidence and it has now earned the loyalty of the ground with its very transparent business policies. This is a huge competitive advantage for Echo, if it capitalises on the confidence of the ground and executes initiatives that lead to a reduction in its other cost/tonne directionally, which has been almost stagnant.



## EBITDA/tonne: Conclusive charts

Median EBITDA/tonne value is mentioned in the brackets- The median value indicates the relative outperformance in 20 out of past 39 quarters.

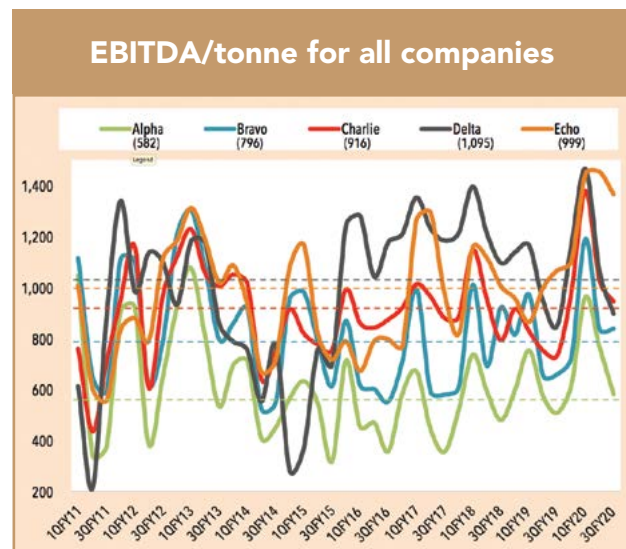


### Observations

- Despite Alpha is on the better end of net realisations, a lot of such realisation gains are only artificial, fudged and *unreal* gains in the books of accounts. Alpha loses a large part of such realisation gains in various supply-chain inefficiencies (as discussed earlier).
- Bravo loses a lot in supply-chain inefficiencies too. Despite it having better production costs, its EBITDA/tonne is far inferior to Charlie.
- Alpha's median EBITDA/tonne over the decade at ₹582 is substantially lower than Charlie's ₹916 and Bravo's ₹796.
- However, despite Bravo being better in production costs by over ₹400/tonne vs. Alpha and Charlie, its median EBITDA gain vs. Alpha is just over ₹200/tonne better, indicating that even production efficiencies for Bravo are getting lost in supply-chain inefficiencies.

### Observations

- Alpha and Bravo remain worst performers on this parameter, despite having the best and almost in-line realisation performance to Charlie and Delta.
- Delta leads the median EBITDA/tonne performance at ₹1,095, which is largely driven by its *real* gain in blended realisations. Alpha's and Bravo's artificial and fudged gains in realisations are subsequently lost in various supply-chain inefficiencies, either higher channel discounts or inflated freight costs.
- Echo is the second highest on median EBITDA/tonne at ₹999, but it has the biggest opportunity because its blended realisations are much lower than peers (₹500-1,000/tonne lower). Because Echo is also the most transparent player on the ground when it comes to various aspects of supply-chain efficiencies – such as invoicing practices, communicating discount structure to channel etc., – it is fair to assume that Echo's gain in realisation will be real. Though Echo is the best in execution, it needs a little more *vigilance* on the ground,

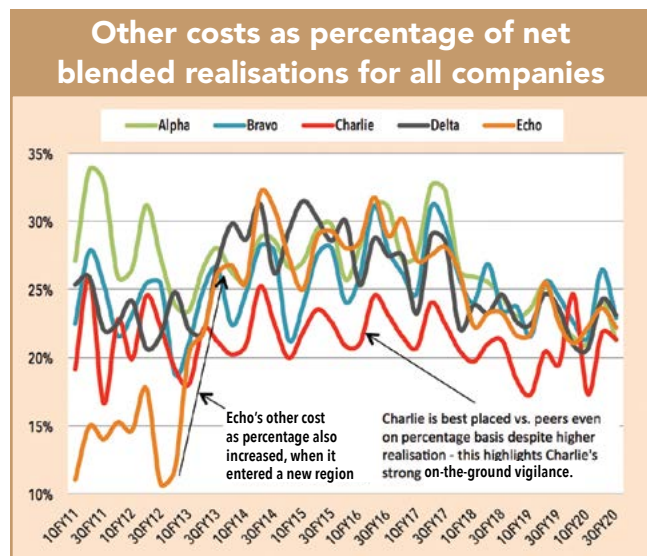


especially on logistics, which would help it to gain natural and better pricing power by controlling activities such as back-loading and forward-loading. It has an unmatched advantage of lowest production cost so when it becomes more supply-chain efficient, **it will see windfall gains in terms of EBITDA/tonne.**

**All these charts and trend lines bust the myth that cement manufacturers can be distinguished in terms of production costs (except for companies like Echo). It is mainly the supply-chain ground practices that make the underlying difference to their earnings profile – EBITDA/tonne is the underlying conclusion to draw judgments on how every individual manufacturer is placed on its earnings profile and nothing can beat that! EBITDA per tonne is also a fair reflection as to how an individual manufacturer would be placed on its business policies when it comes to various aspects of supply-chain.**

## A big mistake people often commit is that they tend to look at percentages more and therefore, the importance of absolute numbers is overlooked!

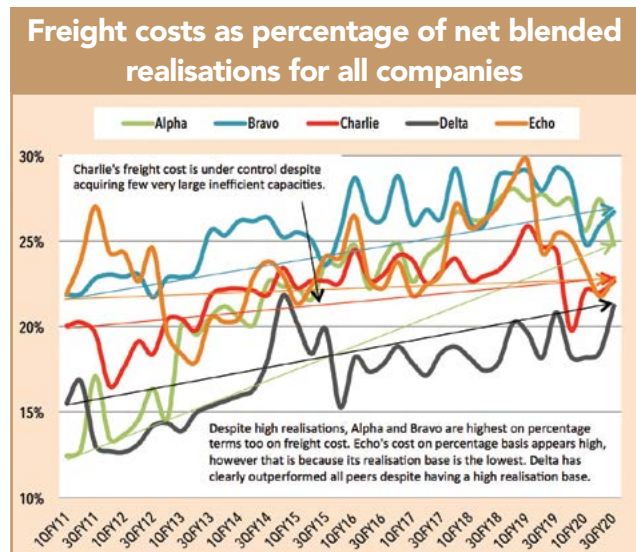
Though understanding percentages is important, conclusions from looking at percentages can be misleading and deceptive at times.



### Observations

- This parameter increased for Echo when it entered a new region. For all other manufacturers, it moved almost in tandem throughout. Alpha's cost saw marginal dips vs. peer trends in the initial phase of the graph.
- But then, there is a flaw in this observation – the base of realisations of all five manufacturers are very different. Therefore, though the lines move in tandem in percentages, Alpha and Bravo remain completely misplaced vs. others because their realisation base is among the highest and even at same percentages the absolute number of their other cost/tonne will be much higher vs. peers. Charlie appears to be the best-placed, being the lowest in percentage terms and despite similar realisation trends vs. Alpha and Bravo.
- Echo remains best-placed in absolute terms and while it's higher than Charlie in percentage terms, its absolute blended realisations are the lowest of all.

- Delta remains at par with Alpha and Bravo on percentage terms, which reflects in its absolute other costs too, but then, the impact of higher other costs/tonne gets negated, as this helps Delta inch up its net realisations, which translates to better EBITDA/tonne for the company.



### Observations

- Alpha is clearly underperforming all peers, even on percentage terms. Despite realisations rising, its percentage freight costs are among the highest vs. peers (constantly rising), hence worrying. This is due to vast inefficiencies in Alpha's freight management.
- Bravo's freight cost percentage trend remains high despite its high realisation (just like Alpha).
- Charlie appears better off than Alpha and Bravo, despite similar net realisations.
- Echo's realisation base is the lowest, so percentages are bound to be higher; so, looking at Echo as an underperformer would not be correct. In fact, it has performed better than Alpha and Bravo, considering its low net realisation base.
- Delta is undoubtedly the best performer. Its realisations base is better than peers, but percentage of freight cost is the lowest. Similar readings were seen in Delta's absolute freight cost.

# Brand consolidation and effect on supply-chain efficiency

Though it is important to be brand conscious in the cement industry, it is also a myth that having multiple brands can help push volumes and gain market share. On the contrary, if on-the-ground vigilance and execution is not very strong, having many brands can have a damaging effect, as it may increase the competition within the officers of the same company. Most companies just launch newer brands because they believe it helps them add market share as every new brand would generally have a new marketing and sales channel – so when a new brand is launched, a brand new parallel distribution channel also gets created (generally), which helps garner a few additional percentage points market-share gains.

***Some of the branding models that cement manufacturers follow are based on their past experience, so the assumption is: What happened in the past will also happen in the future.***

The table below elaborates the brand positioning of all five companies in the hypothesis, but beyond these five, there are also few more companies in the sector – ‘other cement manufacturers’ – which though not a part of the core hypothesis, are also an important element in the overall sector. The companies in the core hypothesis comfortably account for over 51% of sector capacity and the rest is accounted by these ‘other cement manufacturers’.

## Brand strategy and beliefs OF THE COMPANIES IN THE HYPOTHESIS

**Alpha:** A strong rural brand.

**Bravo:** A strong urban brand.

**Charlie:** A nationwide strong brand. Consistently consolidating other brands with itself. Has made some very large inorganic acquisitions.

**Delta:** Among the first few to initiate the concept of premium and super-premium brands.

**Echo:** A volume-push company that didn't believe in branding in the past, but does so now. Was among the first few to have three brands with separate sales and marketing channels for each brand; this helped Echo gain market share substantially in the past.

## What made ‘other cement manufacturers’ launch multiple brands?

Echo was extremely successful with its multiple brand and sales channel strategy. This propagated the myth that all cement manufacturers can gain market share in this manner. However, additional brands mean additional cost burden for manufacturers, because every brand needs a separate sales and branding budget. Echo was successful because at that time, demand was quite favourable and the industry had really not added very large kilns or capacities like it has today. The market was able to absorb all three brands as capacity utilisation was quite high and whatever was being produced was sold easily. This is not the case today.

There is fierce competition on the ground, and in this scenario, it is more important to consolidate brands and rationalize marketing costs, rather than pushing more brands. While it is quite ok to have brands at different price points for different sets of customers, having multiple brands at the same price point is just an additional cost burden, and increases competition within the organisation.

## It is unfair to expect the ground to support brand consolidation

Company officers wouldn't want to initiate brand consolidation because that would lead to rationalization of the sales and marketing task force and their incentives and perks. It is also very unlikely for the ground to support brand consolidation because:

- Each brand has its independent discount structure with bonus incentives on achieving certain benchmarks and targets. So, higher number of brands the ground can sell, the more it can earn.
- With a greater number of brands, on-the-ground

vigilance of any manufacturer is likely to weaken. Due to many brands, on-the-ground participants can have several and multiple excuses, reasons and justifications for their individual non-performance. This weakens the manufacturer's focus on necessary corrective actions, as it has to digest, analyse, and absorb too many inbound defences from various ground personnel for the non-performance of its brands. It just becomes too confusing and complex for respective manufacturers to correct their course of action with a large number of brands.

- Participants on the ground usually scout for business opportunities with different brand officers. Dealing in multiple brands is helpful for them. *As brands consolidate, people on the ground start losing their bargaining power to negotiate with company officers of cement manufacturers for better discount structures and which they do not appreciate.*
- Existence of multiple brands helps the participants on the ground generate concrete evidence, substantiate their argument to company officers for better incentive structures, and negotiate for relaxations in business practices (At times such negotiations are also on hearsay basis). Because they are dealing in multiple brands, it becomes easy for them to show the evidence (in the form of other brands' bank statements, credit notes, discount structures, etc.) to company officers and win arguments. On top of this, the individual behaviour of every company officers differs, in terms of how much they abide by vigilance practices. The ground participants understand this well, and with many brands, they can easily deviate from good business practices based on the slackness of company officers. They then indulge in unfair practices such as back-loading, front-loading, extra discounting, etc., to achieve higher volumes and surpass their individual targets. When they do this, it becomes a benchmark that they subsequently showcase to pressure company officers of other brands who are possibly stricter and will not allow them relaxations. Therefore, having multiple brands is always an advantage for ground participants and adds to their negotiation skillsets, but then, *it hurts the earnings of cement manufacturers*, if the requisite ground vigilance is absent.

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## The Charlie perspective: Strong decision towards brand consolidation

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- One of those few cement manufacturers who want to do business on its own terms and conditions; it really does not concern itself about how the ground will react if it consolidates brands.
- Made some very large inorganic acquisitions in its history, and grown much faster than many of its peers. Charlie's birth was an outcome of a very large inorganic transaction in the cement industry.
- **Brand Charlie:** Not very old compared to peers Alpha and Bravo or even Delta and Echo. The brand Charlie was created when a transaction took place in the early 2000s which led to the creation of the company. Right from the start, (nearly two decades ago), *Charlie consolidated six brands into itself and renamed them Charlie.* This was supported by its resolve to develop its brand as a unified identity supported by dedicated senior management bandwidth.
- Charlie also recognised the substantial cost savings that it could accrue on successful brand consolidation; this would help rationalise sales, marketing, and distribution costs.
- Today, Charlie is one of the most successful brands in the country, but it has faced some very intense on-the-ground reactions in the process of brand consolidation. Many times, various dealers, channel partners, transporters, etc., have presented their reservations and expressed concerns to Charlie over potential loss of business due to its brand-consolidation strategy. The ground was not really happy initially with what Charlie was doing, but the company ignored these reactions and continued to consolidate its brands.

### **How did Charlie manage a very successful brand consolidation?**



## Nearly 58% of the market realisation of cement manufacturers is supply-chain costs, so it is a huge sitting opportunity for them.

- It sent out a pretty message to on-the-ground participants – “If you want to work with this company, you have to accept its policies, else there are a number of other people who will”. The participants were compelled to accept policy decisions, as everyone on the ground (distributors, depot operators, clearing and forwarding agents, dealers, retailers, etc.) wanted to work with Charlie, as it is one of largest manufacturers.

**A huge opportunity is underway for Alpha and Bravo too** - if they consolidate their brands and move towards uniting and rationalizing their sales and distribution channels. When they do this, it will help them rationalise their overall cost structures and they will gain structurally as well. *But do they intend to address their internal supply-chain inefficiencies and move to better ground practices, like Charlie?*

## Branding vs. volume growth: A Debate

**‘Real’ premium brands sell faster:** Cement manufacturers often also believe that moving a step forward on the brand-positioning curve can dampen volume performance; they suppose that if they want to outperform in terms of volumes than they cannot move up in realisations, and if they want to inch up on brand premiums and realisations than they cannot move up the volume curve.

### Charlie, Delta and Echo: Decade performance

Company	VQAVG	CQAVG	Variance	MEDIAN EBITDA/tn	Min	Max	Max:Min	Min Q	Max Q	QRAVG	Min	Max	Max:Min	AVG LT	Gain
Charlie	3.9%	4.4%	104%	916	5.4	25.6	4.8	Q1FY11	Q4FY19	1.0%	3,343	5,324	1.59	4,730	42%
Delta	4.5%	2.8%	138%	1,095	1.0	5.6	5.4	Q1FY11	Q4FY19	0.7%	3,112	5,576	1.79	4,872	57%
Echo	2.6%	3.7%	77%	999	2.3	7.3	3.2	Q2FY11	Q4FY19	0.8%	2,851	4,703	1.65	3,877	36%

### Definition of table headers:

**VQAVG** - Volume run-rate on quarterly basis.

**CQAVG** - Capacity growth run-rate on a quarterly basis.

**Variance** - The growth ratio for maximum volume over median volume (volume in million tonnes), over the quarters of last decade. **Min** - Absolute minimum volumes (million tonnes) / Minimum net blended realisations (₹/tonne), over the quarters of last decade. **Max** - Absolute maximum volumes (million tonnes) / Maximum net blended realisations (₹/tonne), over the quarters of last decade.

**QRAVG** - Net blended realisation run-rate on quarterly basis.

**AVG LT** - Weighted average realisation over the decade.

**Gain** - Growth of AVG LT over minimum realisation.

### The basic premise of discussion points

- Alpha and Bravo are excluded because they have not delivered in terms of both volume and brand over the last decade. Comparison is between Charlie, Delta, and Echo.
- Charlie is a very large cement major with a presence across all regions and believes in pushing volumes and building a brand.
- Delta believes more in building brands and then volume push.
- Echo historically believed in volume-push, and it did not believe in building brands. However, recently, Echo changed tracks and it now wants to build brands.

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# Explanation of the table

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- The greens are the best performances and the reds are the worst. Delta has the maximum greens and Echo has the maximum reds. Charlie is in the middle.
- Despite Delta being a 'brand push' company, it has clearly outperformed both Charlie and Echo on almost all operating parameters – from volume performance to realisation performance. Its median EBITDA/tonne is also the highest, which would capture any *aberrations*. The argument of higher capacity growth and therefore highest volume run-rate does not hold for Delta, as it has the lowest capacity run-rate and Charlie has the highest.
- Charlie's performance is in the middle. Though it is inferior to Delta on a few parameters, it is all right, because Charlie has been quite successful in building a very strong brand and in becoming a very large country-wide cement manufacturer.
- Despite being a volume-push company, Echo has underperformed both Charlie and Delta on all operating parameters, especially volume growth parameters. But that is Echo's biggest opportunity too. Echo is a player that is loved by the ground for its transparent policies and smooth business transactions. Its *execution* is already quite good. It only needs better *vigilance*, and once that happens, it has the opportunity to convert all its reds into green. *The best part is that it has already accepted that moving up the branding curve is important and it has taken necessary steps to launch premium brands.*
- Notably, though regional profiles of all three manufacturers are fundamentally different, they all have delivered their minimum and maximum absolute volume performances over the last

decade in exactly the same quarters, barring minor variations. This means though cement business is considered to be a regional play, *in reality it is not just a regional play*. All regions are inter-dependent and the performance of one region cascades on to another; for example, forward-loading leads to transfer of material from one region to another by a channel partner without the knowledge or official approval from the company, but these acts won't get captured in regional analysis. Therefore, a holistic approach, beyond analysing individual regional performances, is important.

## Conclusion to the branding vs. volume debate

- Though volumes are important, only manufacturers who are consciously focused on moving up the brand curve and gain 'real' realisations will win the volume war. In other words, better volume growth is an outcome of better ground policies.
- Volume-push strategy may have a dampening effect on both volume as well as realisation performance.
- Customers are willing to buy expensive products. Higher priced cement definitely has a 'pull' effect for customers and they tend to believe that such products are of a better quality. This results in better volume growth for such companies. In simpler words, better-priced products in the cement industry have a better brand perception.
- **Most important is supply-chain vigilance and execution.** Headline gains in realisations should be real and not fabricated, which are passed on to ground participants in the form of higher costs (by way of inflated freight costs or higher discounts etc.) in the profit and loss account, either immediately or with a *deferred effect*. Thus, studying long-term trends brings the best conclusive evidence.

# Supply-chain efficiencies: Effect on stock valuations

Getting on the path of supply-chain efficiencies is not just about bettering oneself on earnings profile or profit matrix. Ultimately, such improvements are visible in the stock valuations too. Charlie was a loss-making company initially, and its valuations were among the lowest in the industry. Then, Alpha and Bravo commanded nearly 3-4x Charlie's valuations. But, over time, as Charlie began to grow and better its on-the-ground practices, its valuations shot up to 2-3x Alpha and Bravo's. Likewise, 'other cement manufacturers' who are much smaller in size, have moved 2-3x their historical stock valuations due to intense efforts on the supply-chain front, and some of them now trade at near par valuations to Alpha and Bravo.

Historically, one of the key parameters beyond earnings for assigning target multiples has been the size of capacity and the number of regions a manufacturer is present in. While these parameters make a material difference to business dynamics and an individual manufacturer's business strategy, from an investor perspective, the most important parameter remains – how a company is placed in terms of supply-chain efficiencies because this is where it would be able to create a distinct and sustainable earnings delta for itself vs. its peers.

**Trend-lines of stock valuations prove that supply-chain efficiencies are not just about bettering earnings, but also stock valuations. A single-region manufacturer whose capacity is 10% of a very large manufacturer present in all-regions can potentially trade at similar stock valuations. The capacity really does not matter much. Companies such as Alpha and Bravo, who were historically trading at higher valuations, could structurally de-rate themselves to trade at valuations closer to some of the smaller and inefficient manufacturers. Therefore, companies focused on improving their on-the-ground practices will have a sustainable winning edge in the longer term, not just on business earnings but also on stock valuations, and they can trade in line with the best of the peers (irrespective of their size).**

**Why the Alphas and Bravos of the industry are a grave problem for all?** Companies such as Alpha and Bravo are large manufacturers with a presence in almost all regions of the country. Their on-the-ground practices become a

standard for everyone else. It is very easy for people on the ground to demand better incentives / discount structures or relaxations in various ground practices – if Alpha and Bravo propagate them. Thus, the officers of other companies that want to be on the right track, face a very hard time because the practices of Alpha and Bravo become a comparative benchmark for them.

***Despite being on the right track, companies waver on the supply-chain efficiency front because of the inefficient practices of some of the larger peers.***

**Supply-chain inefficiencies exists in all companies, scale is different:** Supply-chain inefficiency is such a vast subject that it is 'impossible' for any manufacturer not to have these inefficiencies. However, their scale differs from company to company. The good part about discovering supply-chain inefficiencies and improving them is that it has a *trickledown effect*. Once 5-10% of inefficiencies are discovered, it motivates the whole system to automatically discover the next 5-10% – and that is where structural recovery happens for a company. When all companies move on the same path, sector-wide supply-chain inefficiencies will reduce.

**On-the-ground participants are not happy with inefficient ground practices:** PhillipCapital India's cement analyst Vaibhav Agarwal discovered inefficiencies in cement supply-chain because the ground was open to talking about these. The reason it was open to discussing these inefficiencies – participants are *fed-up* with day-to-day hassles caused by these inefficiencies and the *never-ending discussions* with various company officers to claim their outstanding incentive structures. **It is untrue that the ground indulges in these faulty business practices only with a view to maximize their earnings.**

The volume war on the ground is so fierce that all the extra money and earnings are ultimately passed on to final customers in the form of extra discounts, who become the only winners of such inefficiencies; *the cement manufacturer pays the price*. Volumes have become the

underlying goalpost for the industry, and to reach it, the sector goes to 'extremes!' Participants on the ground are actually unhappy with the daily headaches of ground wars and of negotiations and renegotiations on various business practices – which take place with a key aim to maximize volume offtake. The ground realises that the real sustainable earnings will flow in with more ethical and better transparent business transactions. It also knows that the rising *compliance standards* of the country would push it to become more efficient and lawful in terms of business, *if not by choice then by force* – and it is always better to adapt by choice rather than by force. Having said that, there would definitely be a few exceptions who may not agree with the thought process of being more transparent and ethical, but they may not constitute beyond 10-20% of the on-the-ground participants. 80-90% of the people on the ground are now in favour of business practices becoming more compliant, streamlined and efficient.

### **Inefficiencies have become endemic**

The earlier GV was titled "Cement: A Cultural Revolution" because stakeholders expressed a clear need to change the culture on the ground. Inefficiencies have become ingrained; they are just like habits, and *changing habits is a transition journey and not a single turnaround point* - be it in business or personal life. The good part is that the journey has begun, and it should now catch momentum. Though the ground is smart enough to know how to *arm-twist* cement manufacturers and make them pay what they want, as highlighted earlier, the task is becoming harder for the ground. Participants are *fed-up* with the everyday fight to do this. Here are some interesting inputs from the ground in relation to supply-chain inefficiencies. *This is only some of the feedback* and indicates that on-the-ground participants are willing to transition to better business practices if manufacturers desire this. **But who would initiate this change, when would it happen, and what would its intensity be?**

- Manufacturers delay credit of discounts in dealers' accounts, by days or even months, but if there is even a single day's delay in clearing the company's outstanding, the cash discount disappears and the company raises a debit note.
- Dealers are becoming inclined to become traders because they believe it is easier to receive money from customers rather than from cement manufacturers, especially in a few specific cases.
- Manufacturers are very stringent and cautious in releasing discount structures to on-the-ground participants, and even for the smallest variation, it is quite easy for any manufacturer to *lapse* a particular discount structure.
- Commitments of sales officers have become very hard to believe, because, to achieve individual sales volume targets they can go to any extent of *miscommunication* to the ground by committing an undisclosed discount structure which the sales officers also know would be extremely difficult to get approved in a timely manner, and to get the requisite credit done to the channel partner's ledger within the committed timeframe.
- *As the month comes to an end, all supply-chain efficiencies go for a complete toss* because everyone realises that they may be quite distant from their respective volume targets. There is generally immense pressure on a sales officers to achieve volume targets. This is where practices such as pre-billing take place. Pre-billing nuances (as explained earlier) in many cases are interlinked with post-billing ground practices, and all of this happens with the knowledge and authority of the respective sales officer, as his/her core agenda remains to achieve the monthly volume target.
- Pre-billing practices have also become quite common with many manufacturers, especially to fund their working capital needs.
- Loyal dealers and distributors are forced to follow incorrect business practices of disloyal people on the ground; 80-90% of the on-the-ground participants now want to become more structured, ethical and transparent in their business practices. But because of a few people (who indulge in faulty business practices) they are also forced to follow corrupt customs, so as to remain competent in their respective business. Beyond a loss of potential sustainable earnings, loyal dealers and distributors also end up paying a price by losing their credibility when vigilance officers of the company detect their misbehaviour on the ground.
- Companies CAN correct incorrect practices, but they fear loss of volumes and hence ignore them. They also deliberately ignore conflict of interest amongst various ground participants in the distribution hierarchy, because they fear that if they don't allow conflict of interest, their volumes would take a hit.



# Better supply-chain vigilance/execution – how?

How does one achieve goals of being better placed on supply-chain efficiencies? While solutions are plenty, and this remains a vast topic in itself, lets discuss some of the obvious business practices that are being followed (or could be) on the ground:

**Maximize ex-factory sales:** The biggest problem with the cement business is that it is a *regional* one, and every city and district of every region is at a different price point because of freight variances. The best way to get rid of on-the-ground deviations with differentiated freight and distances is to maximize sales on an ex-factory basis. This way, a company receives the net realisation it desires, and practices such as back-loading and forward-loading are avoided.

**Create a fear of being watched on the ground; act on deviations:** The best tool is *surveillance*; the only long-term sustainable one that can deliver results. For example, every manufacturer has a policy of implementing Global Positioning System (GPS) on all their trucks, but then there are hundreds and thousands of trucks travelling in the field. It is practically impossible to keep physical track of the truck movements in the GPS tracking room. By using technology, deviations need to pop-up automatically on systems so that remedial actions may be taken. Cement manufacturers need to act on the outcomes of such devices and need to execute corrective measures; it should not just remain a 'showpiece' vigilance tool.

**Keeping a watchdog/doing background checks to avoid conflict of interest:** Hierarchies on the ground must be clearly defined in terms of jobs and responsibilities. For example: Charlie has a practice of appointing a *Commercial Carrying & Forwarding Agent (CCFA)* over and above the regular CFA. The job profile of the CCFA is just to watch over the CFA; to ensure that the CFA is sincerely performing all duties and obligations. Charlie incentivizes the CCFA for *pointing out discrepancies* – the more deviations the CCFA points out, higher is its remuneration and incentives. Likewise, thorough background checks of various business

associates on the ground is required at regular intervals to avoid conflict of interest.

**Transparent disclosure of on-the-ground policies:** It is a myth that when ground policies are not disclosed transparently, it provides a secret competitive advantage to the manufacturer. Echo is a *classic example* of how transparency can help – despite having the lowest blended realisations, its EBITDA/tonne is among the highest. *Echo's transparency is its unmatched competitive advantage* and it helps it to remain more efficient than any of its peers. Everyone on the ground wants to do business with this company, and is happy to be associated with it. Being transparent on the ground helps winning the ground loyalty in the long-term. Rather, more opaque the policies, higher is the frustration on the ground.

**KRAs of officers need not be just volume-based:** A key reason inefficiencies begin is – company officers are only taught to push volumes; they are not educated about the impact of better net realisation or greater net retentions on a company's overall profitability and therefore their potential remuneration increments and bonuses. Because incentives are based only on volume targets, officers try all possible tactics on the ground to push volumes, at whatever cost they can. Very few manufacturers make its sales officers 'entrepreneurs', by making them understand the importance of realisations and its impact on profitability, and therefore on their commissions, bonuses, and salary increments during performance appraisals. More people need to take this approach and KRAs of every on-the-ground officer should also incorporate the EBITDA, they can bring to the company beyond the regular volume targets.

**False promises to the ground must be avoided:** A key reason for indulging in supply-chain inefficiencies is the general belief that most promises to transporters, channel partners, sales promoters, dealers, etc. by the company's officers are *dodgy*. The ground-level participants believe that company officers deliberately misguide them for achieving their individual volume targets; these officers

promise various stakeholders on the ground extra incentives and discounts, but do not fairly compensate them in the end. The participants have to literally follow up and 'beg' these officers to make sure they receive what they were promised.

Ultimately, they lose hope and search for alternate avenues to continue *churning their liquidity and working-capital cycle*. The ground participants are also broadly aware that they will not make a single extra rupee sustainably in the long run because of unhealthy business practices, but given the *need of the hour* to keep the business going and cash flows coming in, they are forced to deviate from standard business procedures. If the company's officers avoid false promises, the industry would discover better supply-chain efficiencies faster.

**Taking away bargaining power from the ground/ streamlining through automatic checkpoints:** For a cement manufacturer, the ground is *its bread and butter*, and no manufacturer can afford to keep the ground unhappy in the long run. Manufacturers are bound to deliver all promises made to on-the-ground participants, either immediately, or deferred by few or many quarters, or even years. The duration to fulfil commitments to the ground can be substantially large because many of these commitments are driven by fulfilment of certain *terms and conditions*. Usually, these can be conclusively evaluated only at the end of a *financial year* or when the dealers or channel partners achieve certain *benchmarks* (such as annual discounts).

Many times, when it comes to undisclosed discount structures, sales officers have to really work hard to get necessary approvals from superiors, which can take longer than anticipated. Also, passing on discount structures to the ground depends on the cash flow position of a company. In tough market conditions, when payments from customers are getting delayed, the commitments of cement manufacturers to ground participants are also delayed, and fulfilled only when the cash flow situation of the cement manufacturers improve.

Because of these systemic issues, the bargaining power of on-the-ground participants is now larger than that of cement manufacturers. Many of the supply-chain inefficiencies come about because these participants have very strong negotiation skills as they know that

they will be 'heard' and the manufacturers will be forced to fulfil their promises, either immediately, or with a deferred timeline. They also know that they have become very important in the overall scheme of things for manufacturers, and that their demands cannot just be ignored. It thus becomes necessary to address these challenges.

Manufacturers such as Charlie are recently trying to ensure that the powers of larger on-the-ground participants are curtailed. It is trying to distribute powers to a larger set of participants. For this, it is trying to maximise its dealers, distributors, and channel partners. Its aim is to have one retailer at every *nukkad* and *naka* (street corner). This is a *deliberate strategy* to weaken on-the-ground participants' bargaining power and set up some automatic checkpoints.

When such a structure develops, on-the-ground participants become fearful and more aware of being observed/reported by their peers if they deviate from set and defined protocols. In such a structure, all participants become potential *whistle-blowers*. Evenly distributed powers would help Charlie to address many of these supply-chain inefficiencies automatically in the long run.

**Not indulging in practices such as 'pre-billing' and 'post-billing':** These practices are a big missed opportunity for cement manufacturers' earnings, because they do not allow the market to stabilize cement prices at better levels. Also, these practices result in higher discount structures being passed on to the ground. Both practices ultimately impact profit margins of cement manufacturers. **Charlie takes an extremely strong objection to these practices and ensures that inventory at any channel-partner warehouse or depot or shop does not deviate from the average.** It practices strong vigilance to ensure that supplies to channel partners are only equivalent to the actual demand of consumers; that they are not *artificially skewed*. It takes very strict action against an on-the-ground participant for practices such as pre-billing or post-billing. Charlie's inventory reconciliation is far better than many of its peers – strong vigilance is a key to move ahead in brand premiumisation, too, as watchfulness leads to supply-chain efficiencies and that translates to better realisations, which can also be called '*brand premium*'. They are all directly correlated.

## Intent to completely dismantle the non-trade

**segment:** A large portion of such supply-chain inefficiencies is driven by the non-trade segment. Many cement manufacturers have a strong wish to completely dismantle the non-trade segment and only sell their products in the trade segment. This is not an easy passage, as a lot here is dependent on the customer profile and habits, but the intent is visible.

## A 'Trump Card' that can help the sector to win an earnings jackpot!

The biggest opportunity for the sector will emerge when players such as Alpha and Bravo change tracks and follow the path of better supply-chain efficiencies. Their practices become a benchmark for many others in the sector and push others, too, to also become inefficient on ground-level practices by indulging in various supply-chain inefficiencies.

The practices adopted by Alpha and Bravo become an excuse for the ground officers of other companies and they approach their superiors requesting various unfair business practice approvals citing examples of Alpha and Bravo's practices. Because, Alpha is a large country-wide player and Bravo is a large multi-region leader, the superiors are under pressure to look at these requests of their ground officers and they are forced to approve business practices which may not be fair. Because the idea is to remain competent in their businesses, they allow their subordinates, too, to indulge in various formats of supply-chain inefficiencies. When Alpha and Bravo get better on their ground practices, it is bound to lead to a 'Jackpot win' not just for them but also for the sector at large.

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## First-mover advantage will play out in supply-chain efficiencies

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The first-mover advantage is very important in various aspects of life and business. So also, being a first-mover in discovering better supply-chain efficiencies in the cement industry will provide advantages in terms of earnings profile for manufacturers who choose this path.

## Reasons:

- Feedback on the ground suggests that the *compliance environment* is undergoing a big change; not just production compliance, but also logistics and all other practices (including invoicing).
- With *commoditisation of technology*, any lapses on the ground are becoming easier to detect. For example, it is now easier to track truck movement because of initiatives such as e-way bill. GST in itself is a huge automated compliance protocol. The whole concept of GST is based on the underlying that tax compliances are better streamlined and tax vigilance becomes automated and authentic.
- Participants on-the-ground feel more comfortable when they deal with companies that are *transparent* and *compliant*. Companies that move ahead on the path of bettering themselves in supply-chain efficiencies will therefore have an added advantage of winning the ground loyalty ahead of the peers.
- On-the-ground participants do not mind earning a few pennies less, but they want their payment cycles to be '*smoother*'. They firmly believe that they lose more money than they earn because of supply-chain inefficiencies, as their credit cycles are becoming elongated. Non-fulfilment of commitments on time by cement manufacturers for crediting their discount structures and incentives is increasing the need of capital infusion by the ground in their respective businesses. This is only making their condition worse, and they find it very tough to sustain their individual businesses. Therefore, they are constantly in need of funds for their working-capital cycles. Companies that understand such pain points of the ground faster, will garner their confidence ahead of peers.
- Because of constantly expanding and more elongated credit cycles than the past, there is a definite need for cement manufacturers to convert business models to 'Cash and Carry' - companies who understand this first, will have more sustainable earning performance vs. peers.

# Next-generation taking charge of the sector

The new generation (NextGen) is taking charge and the way it looks at the sector is quite different from their predecessors' methods. There are exceptional leaders from the older generation who have been 'thought leaders' for their companies and the sector, but overall, there is bound to be a *sea change* in business policies ahead, because the vision of most NextGen leaders is different and unique.

Different promoter generations look at the cement sector and business policies of their own companies quite differently. The older generation grew capacity, increased the industry size, and made the sector's footprint much larger in the country's economy. However, it also tolerated many risky practices because it suited their style of functioning.

## **Thought process towards bettering business practices has already begun....**

*GV's interview series of NextGen leaders prove this...*

In a series of extremely detailed interviews (in the next section of this edition) with new-generation leaders of the industry, and one veteran, there was an acknowledgement of the presence of various supply-chain inefficiencies in the cement distribution system. They all accepted that this is potentially a huge opportunity for the industry to directionally improve its earnings profile. Their companies

whose leaders were interviewed cumulatively represent c.22% of the industry's capacity and provide a fair indication of how the *new commanders* of the industry are thinking and in what direction the industry is moving. The way they look at the sector is very different from how their *predecessors* did.

Each of the five interviews was unique. The interviewees talked about:

- Importance of *compliance*.
- Building the right 'culture' within an organisation.
- How important it was to NOT be driven by only profit numbers and stock valuations, but to also ensure that their companies were best placed in technical performance parameters.
- Significant long-term *advantages of scale*.
- How companies that have suffered in the past because of '*heritage bottlenecks*' can still emerge winners and have earnings profiles that are *similar* to the best of the industry.

Here are some excerpts detailing how these NextGen leaders or promoters look at the supply-chain aspect of the sector, and also their individual businesses.

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***"Compliance for us is top most priority. We believe that all our business practices should remain technically correct and we should follow the right path. We can happily tolerate over-compliance but at no cost will under-comply."***

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***"Cement prices have been, and will remain, a function of demand and supply. However, net realization of a company will remain a function of their own on-the-ground business practices."***

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***"On strong foundations stand sustainable structures. Similarly, for an organization to succeed and grow, its business principles have to stand on foundations made of strong values. In our company we keep a close watch on such things and if detected (supply-chain inefficiencies), person responsible for it is penalized severely."***

- Mr. Jamshed Naval Cooper, Managing Director, HeidelbergCement (Indian operations)



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*“Supply-chain inefficiencies exist in every company whether it be in greater or lesser degree.”*

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*“The amount of effort and rigor that is brought to plant costs whether variable costs or fixed costs, the same amount of intensity and rigor is sometimes not brought to the supply-chain.”*

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*“There is also lack of transparency in the supply-chain because it is all a local business.”*

- Mr. Puneet Yadu Dalmia, Promoter & Joint Managing Director, Dalmia Bharat Limited

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*“Supply-chain, as a subject is under-penetrated and people don't realize the value. It is a hugely underdeveloped subject and underdeveloped science in India and I can see a huge opportunity here.”*

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*“The whole ecosystem needs to be developed when it comes to supply-chain.”*

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*“Supply-chain efficiencies will be sustainable for sure. If you follow a good practice and you continue with it than obviously, the delta remains sustainable.”*

- Mr. Prashant Bangur, Promoter & Joint Managing Director, Shree Cement Limited

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*“There is no end to the journey of discovering new efficiencies in supply-chain.”*

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*“In the cement industry, there are so many customers and so many vendors that we have to deal with, and because of few people who do not implement good systems, it puts undesirable pressure on producers that run with good practices (to either compensate for those losses or give higher margins to vendors or channel partners).”*

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*“With commoditisation of technology, a lot of systems can be put in place at a very low cost, which will result in more vigilant monitoring. We are a big proponent of this, and have been investing a lot of money*

*in improving our systems fundamentally, by use of technology.”*

- Mr. Aditya Sanghi & Mr. Alok Sanghi, Promoters & Whole-time Directors, Sanghi Industries Limited

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*“Compliance will be one of the major challenges that everyone will try to overcome, and the only way to overcome them is by complying with such compliances.”*

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*“There are still aspects on the cost side that everyone is working on, but there aren't those many cost levers left in the industry.”*

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*“For the industry as a whole, there are definitely a lot of supply-chain improvement possibilities, and which the industry at large can address. If it addresses it, there is definitely a huge delta gain, which the whole industry can expect.”*

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- Mr. Raghavpat Singhania & Mr. Madhav Krishna Singhania, Members of Promoter family & Chief Operating Officers (White & Grey Cement, respectively), JK Cement Limited

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## The COVID-19 pandemic is a 'blessing in disguise'

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COVID-19 has thrown some unprecedented challenges at the sector, especially for companies with high debt. If the volume crisis (as an outcome of the pandemic) is deep for the sector, and demand remains structurally low for a long period, it will become a question of survival for many such debt-ridden manufacturers. When normalcy is regained and utilisations are ramped up, the 'real' pricing curve may remain volatile because of immediate variations in practices on the ground and different business policies of manufacturers.

All companies would be inclined to push as much volume as possible since most manufacturers believe volumes and market share take precedence over everything else. This would be done at any cost – for example by giving a free hand to back-loading, forward-loading, committing to enormous undisclosed future discounts if the channel partners push their own individual brands, etc. – without considering long-term effects.

When this volume-push strategy would get coupled with disruption in on-the-ground practices, manufacturers would realise that the strategy is backfiring. Few manufacturers could burn more money (vs. the past) in the long run, if not immediately, as a lot of commitments to the ground may remain deferred. Therefore, in the medium to long run, cement manufacturers will automatically be forced to look at other avenues to improve their profitability beyond volume push.

Structurally weak demand would also mean a volume loss trend, which implies that fixed-cost apportionment will increase disproportionately on a smaller volume base, directionally, at least for the rest of FY21.

Players lacking production flexibility are bound to suffer the most, as for them, it would mean a higher rise in costs vs. peers.

Many regions in the country are already extremely misplaced in terms of business practices – such as enormous price discounts, huge market credit outstanding, elongated working capital cycle etc. The demanding needs of the ground would be an added challenge and fierce volume competition will only make business dynamics tougher.

Ultimately, smart companies will realise that the only way to emerge from the after-effects of the pandemic is by rebuilding balance-sheet strength and regaining sustainable earnings momentum. This can be done by better on-the-ground and supply-chain practices. This is the only business aspect where manufacturers don't depend on external forces; they can improve their profitability and cash flows via internal tweaks.

When more companies adapt to better business policies, it would bring about a long-term trend change and directionally better supply-chain efficiencies for the sector. Though the pandemic is an extremely unfortunate event, from the supply-chain and ground practices front for the cement industry, it is probably a 'blessing in disguise'. The pandemic would mean that the supply-chain efficiency journey is now accelerated, because this is the only key area where cement manufacturers can make significant additional money without being dependent on the constant variables that are generally tracked by everyone – capacity utilisations, volumes, operating costs and cement prices!

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***The sector has to be looked at beyond volumes, costs and cement prices by investors – understanding holistic business aspects and ground practices are a must!***

### How can investors help the sector improve its supply-chain practices?

Generally, in most interactions of investors with cement manufacturers' managements or even on the ground, it is quite common for a majority of the questions to be about common aspects – demand, supply, volumes, costs and cement prices. Undoubtedly, these are also important to understand the immediate earnings potential for the sector's companies. However, the most important aspect to make a directional judgment on earnings potential is to see how each company is placed in the sector in terms of on-the-ground policies and supply-chain. The below mentioned questions are just an indicative set that could help investors improve their understanding of the sector dynamics more holistically in the long-run:

- What practices or systems are adopted to monitor the movement of trucks? Just having a GPS device installed in a truck may not necessarily give desired results, and often, such GPS devices are only a *showpiece*. It is important to understand how quickly deviations in truck movements are identified. The blind acceptance of having a GPS in a truck as a fool proof control can give misleading conclusion many times because in reality the truck may have a GPS installed but then what is more important to know is whether the manufacturer is really able to derive any *conclusive* findings with the GPS and whether the GPS really enables the manufacturer to identify deviations and helps

in implementation of corrective measures.

- What are the penalty clauses or course of action if activities such as back-loading are identified? What are the systems in place to ensure that the ground does not indulge in forward-loading or front-loading?

• **Compliance and vigilance on freight management and discounting policies:**

Understanding the steps adopted on 'paperwork compliance' of cement manufacturers when it comes to logistics and to understand how they ensure that transporters do their job in the most diligent way. It is also equally important to know what steps a manufacturer takes to ensure that its liability towards undisclosed discount structure to the ground is minimised. This could be done by various means, say by way of a vigilance mechanism that auto red-flags the sales officers who are constantly in need of a higher discount structure.

- Is there an incentive policy or discount policy in place?
- How fairly and transparently are discount structures communicated to the ground? Within discounts, how much is 'known or disclosed' and how much is 'unknown or undisclosed'?
- Are GST credits being reversed on every line item of the discount structure? Most manufacturers reverse these credits only on the headline discount but in many of the micro discount components,

GST entries are not reversed because two basic necessities of GST reversals are not in place (disclosure of discount structure with full transparency and a linkage of all credit note GST reversals to original invoice – discussed earlier in greater detail).

- What are the measures initiated to ensure that *conflict of interest* of various participants on the ground is minimised?
- How frequently do individual cement manufacturers conduct *profile* and *background checks* on various on-the-ground participants?
- What are the vigilance measures in place for *real-time stock audits* at company warehouses, depots, and godowns of channel partners? This will help control practices such as *pre-billing* and *post-billing*.
- What are the measures adopted to ensure that practices such as *sale of fake bills* are minimised? On this subject, an interesting innovation was discussed. Just like the *Swachh Bharat Mission*, which helped the nation understand the importance of cleanliness, why can't simple measures – such as putting up posters at shops of dealers and distributors – be in place that urge customers to take bills, even if they don't need them?

In most cases, IHB customers forego bills and a large chunk of the cement demand in the country comes from them. Such customers can also be incentivized (to take bills) in

various forms such as lucky draws through bill numbers, customers with maximum invoice value receiving benefits on future purchases, or gifts etc. Such measures would help change, not only the *culture* of the ground, but also the *buying behaviour* of customers; not immediately, but in the longer term.

- What are the measures in place to ensure that the movement of cement from the non-trade segment is not *diverted* to the trade segment?
- What are the measures in place to remain vigilant about customers (*especially institutional*)? - so that they don't divert cement from the non-trade to trade segments to enjoy GST benefits and earn a few extra rupees.
- What are the measures in place to ensure that loose cement or bulk cement sales are free from *pilferage*?
- When premium cement initiatives are discussed with cement manufacturers, every manufacturer believes or says it is among the top brands in the market, but their operating numbers differ. It needs to be reiterated that the manufacturer that is among the cheapest sellers of cement on the ground, also has the maximum profitability! How is it possible? The '*artificial premium*', that is passed back to channel partners in the form of discount structure (etc.) needs to be looked at in greater detail; the more important aspect is '*real premium*' in terms of net retention for such premium products.

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# The Conclusions...

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- Most supply-chain inefficiencies are controllable.
- The three must haves for bettering the supply-chain curve are:
  1. Intent
  2. Vigilance
  3. Execution
  - All three are very different from each other, but also interdependent. Without intent, it is impossible to have vigilance; without vigilance, execution of better ground practices is ruled out, as one is not aware of the necessary plug points.
  - All three are must haves for manufacturers to emerge long-term winners on the supply-chain front.
- Though volumes, costs and cement prices are important, earnings of cement manufacturers are more dependent on their individual ground practices and how they place themselves on the supply-chain curve.
- 'Price discipline' in the cement industry is a *fallacy*; there is no such thing. It is ultimately the discipline of ground practices and supply-chain behaviour that shapes up the realisation curve of individual manufacturers (and also its *sustainability*), which is called price-discipline.
- Headline gains or reported increase in realisation is also a *myth* – more important, it is the real gain in terms of retention, and that too sustainable retention, which is not reversed in the profit & loss account in the form of inflated freight costs or an extra discount!
- The success of premium brand is directly correlated to supply-chain efficiencies. 'Real' branding and volume growth is directly correlated to each other, especially in the long run.
- Quality and brand have a winning edge in the long run, and on most occasions, customers are definitely conscious about the quality of cement that they purchase. Better priced cement has a better brand perception and they tend to sell faster than non-premium branded products. But then again, from the company's perspective, such premium products can translate to net earnings only if the incremental brand premiums are real and not a myth or just a book entry for where the credit has a *corresponding* debit to profit and loss account.
- When a manufacturer compromises on ground practices (*deliberately*, on many occasions), no one really wins – neither the manufacturer nor the ground. These inefficiencies are ultimately entirely passed on to the customer in the form of discounts, and it *destabilizes* the sustainability of cement prices.
- *Having high expenses is not a bad thing*, but those higher expenses should translate to better real earnings in the form of higher sustainable and retainable realisations, and thus better EBITDA/tonne.
- The operating curves of plants are not necessarily very different, even for manufacturers who are believed to have plant *legacy* issues. Covering up with arguments of plant legacies and heritage bottlenecks are *not acceptable* excuses in the long run. The worst of the plants in the past have delivered reasonably good profitability; therefore, plant dynamics are a manageable concern. *The only area where manufacturers tend to be visibly different is on non-production costs.*
- The *urge* to push volumes with increasing kiln sizes is the biggest detriment to discover better supply-chain efficiencies.
- When the Alphas and Bravos of the industry get better in terms of supply-chains, it is a *jackpot* for the industry.
- The Echos have unmatched opportunities to re-rate their earnings curve with a structural increase, which is *sustainable* too!
- Manufacturers like Charlie are leading the industry's vigilance practices on supply-chain and this will sooner or later convert to better execution.
- The Deltas of the industry have done much better vs. peers in their earnings curve because of the real brand premium that they have garnered vs. the artificial brand premium for many.
- The pandemic COVID-19 will leave no other option for the industry and the only way forward will be to improve internal practices and better the on-ground and supply-chain practices, as market forces of demand and 'real' cement price curves may remain volatile.

**It is ONLY and ONLY, UNCOMPROMISING POLICIES about GROUND PRACTISES and SUPPLY-CHAIN – that can help a cement manufacturer differentiate itself vs. peers in the long run. Bettering supply-chain efficiencies is the only TRUMP CARD that will always win the game!**



# The NextGen and Thought Leaders

BY VAIBHAV AGARWAL

Interview Support and Assistance  
- Dhaval Somaiya

GV interviewed seven leaders from five different cement companies in five different interviews. Each interview lasted for at least *three hours*. These companies are among the better ones in terms of supply-chain and on-the-ground practices, though each of them still has definite substantial incremental opportunities. These individuals in most cases represent the *NextGen* of the industry. There is one exception, an old generation leader whose thoughts are as new as can be.

The whole idea of interviewing these select individuals was to bring into perspective the 'differentiated' thought process of all these leaders and to estimate what lies in the future of the industry, especially when the industry gets directionally better placed on the track of supply-chain efficiencies. The cumulative capacities of companies these leaders represent is c.22% of the industry's capacity.

*The chronology of the interviews flows in the descending order of age and experience.*

## Jamshed Naval Cooper

60+, Managing Director,  
(India Operations)  
HeidelbergCement  
*Interview date: 20<sup>th</sup> February 2020*

Mr. Cooper is a stalwart of the industry with an experience of over 3.5 decades in the cement industry. He leads the operations at HeidelbergCement India Limited & Zuari Cement Limited. He is one of the old generation leaders whose thoughts are as new as any of the NextGen leaders. The focus Mr. Cooper places on being compliant in business and ground practices is one of the key reasons for the turnaround that he has been able to drive in his companies.

## Puneet Yadu Dalmia

46, Promoter & Joint Managing Director, Dalmia Bharat Limited  
*Interview date: 20<sup>th</sup> February 2020*

Mr. Puneet Dalmia is the son of Mr. Yadu Hari Dalmia. He has played a critical role in the revamp of Dalmia Bharat Limited over the last 2 decades. Beyond being the backbone of the company's sizeable capacity growth, Mr. Puneet Dalmia is also the pillar of the brand premiumisation journey at Dalmia Bharat Limited.

## Prashant Bangur

40, Promoter & Joint Managing Director, Shree Cement Limited  
*Interview date: 30<sup>th</sup> January 2020*

Mr. Prashant Bangur, son of Mr. Hari Mohan Bangur, has been a strong support to his father for the enormous capacity growth at Shree Cement Limited over the last 1.5-decades, and also a backbone for most of the company's technology-driven initiatives. His core agenda is to ensure Shree Cement is best placed in all efficiency parameters; he firmly believes that being efficient is the core reason for his company being able to redefine transparency benchmarks in the industry.

## Aditya Sanghi

37, Promoter & Whole-time Director

## Alok Sanghi

36, Promoter & Whole-time Director  
Sanghi Industries Limited  
*Interview date: 19<sup>th</sup> February 2020*

Mr. Aditya and Mr. Alok are sons of Mr. Ravi Sanghi, the Founder Promoter of Sanghi Industries Limited. Though Sanghi Industries is relatively smaller than many others in the industry, both brothers have taken up the initiative to double their capacity. They have jointly started multiple technology driven projects at Sanghi Industries on the supply-chain front, the subject of this edition of Ground View.

## Raghavpat Singhania

35, Member of the Promoter Family, Chief Operating Officer\*  
- White Cement

## Madhav Krishna Singhania

31, Member of the Promoter Family, Chief Operating Officer\*  
- Grey Cement  
JK Cement Limited  
*Interview date: 21<sup>st</sup> February 2020*

Mr. Raghavpat and Mr. Madhav Krishna are nephews of Mr. Yadupati Singhania, the Founder Promoter of JK Cement Limited. They are real brothers and have been a key contributor to the turnaround story of JK Cement, besides being a strong support to their tauti, Mr. Yadupati Singhania. Under their leadership, JK Cement has been able to address many of their heritage issues and that has resulted in the company's earnings curve structurally coming closer to the best in the industry. They also place immense importance on improving JK Cement's on-the-ground business practices and supply-chain efficiencies.

*\*The profile and designations of the respective leader is as on the date of interview.*



**INTERVIEW - Jamshed Naval Cooper**  
Managing Director, HeidelbergCement India Limited  
and Zuari Cement Limited (Indian entities of the  
HeidelbergCement Group, Germany)





A tree plantation being done by Mr. Cooper on 29<sup>th</sup> January 2019 outside the company's plant premises in India, in-line to goals of Mr. Cooper & HeidelbergCement Group to contribute towards Environment Sustainability.

**Q. Mr. Cooper, though the theme of my interviews is to cover the thought process of new generation industry leaders and with yourself now having just crossed the 60's, you may theoretically not be a part of the new generation but your thoughts are as fresh as the thoughts of any new generation leader would be. Can you tell me how do you gather such differentiated thoughts vs. your fellow industry colleagues who represent your generation?**

a. My fundamental belief is always in 'sustainability'. I don't like to see seesaw kind of curves where there are peaks and then lows. I always tell my team that it doesn't matter if the incremental delta is small, but let us work for a delta, which is sustainable. An organization is just like a fully loaded truck climbing up a steep hill. If the truck is unable to climb through it's own engine power, the cleaner of the truck helps the driver by placing a Gulla (heavy block) behind the tyres to ensure that the truck doesn't slip back, and it helps to keep the motion of the tuck forward. This way the driver and cleaner together make sure that the forward momentum to the truck is sustained and it is able to climb the steep slope. The same is true for any leader of an organization. The leader has to make sure that the trajectory of the movement is positive, doesn't matter even if the journey is covered in small steps. It is upto the leader to take a stance and deliver on a strategy, which takes into account the broader economic outlook, industry's position at that point of time, and the ground realities, but the outcome of all this should always be positive. I don't know whether my thoughts are different vs. my fellow industry colleagues, but my goal always remains to deliver sustainable results. I may not frequently take big and long jumps, but I am happy to run a race at a consistent pace so as to ensure that, we don't run out of stamina.

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***My fundamental belief is always in 'sustainability'. I don't like to see seesaw kind of curves where there are peaks and then lows. I always tell my team that it doesn't matter if the incremental delta is small, but let us work for a delta, which is sustainable.***

**Q. That is inspiring to hear, but why do you feel that the journey has to be slow and steady and the peaks on the curve can be unsustainable. Tell me more about your thoughts on these aspects?**

a. Cement falls under the brick and mortar industry. Many people in the world would never physically touch cement in its raw form and won't know as to what it feels like. The key point before the industry is how to differentiate in the market and how to move from commodity to a brand. All manufacturers have invested huge sums of money in branding. However, as I see it, the industry has only been able to reach somewhere in the middle of its journey, transitioning from commodity to brand. There is still a large percentage of customers who come asking for "cement" and not a specific brand. The big question still remains, whether the amount spent on branding could be termed as a long-term investment, or merely an expenditure in the Profit & Loss account. One should remember that ultimately cement is an industrial product. Although today the common man could be convinced by generic arguments by a manufacturer that their product is of a superior quality, this will not hold good when it comes to evaluation by an industrial buyer. We have seen that the consumer mindset in the Metros and Tier I cities has already converged to that of an industrial buyer, but India still has a big share of the rural economy and therefore it may take a little longer for the consumer mindset in Tier II and Tier III cities to change to that of an industrial buyer. In Tier III and IV cities, house making still has a lot of personal involvement of the people who buy cement, and hence generic branding initiatives continue to be the flavour of the day. Having said that, this too will change gradually. The biggest differentiator for any industrial product comes from product specifications that are proven by figures, durability and capabilities of the manufacturer to produce products of higher technical standards. It is expected that India will surpass the population of China by 2030. Fast track infrastructure creation in India to support the growing needs of its population is eminent, and it will happen over the next

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***The biggest differentiator for any industrial product comes from product specifications that are proven by figures, durability and capabilities of the manufacturer to produce products of higher technical standards.***

### **'CADS' FOR AUTHORIZED DEALERS**

Heidelberg cement—known for its "mycem" brand—is taking proactive steps to safeguard the interest of the customers by launching 'Channel Authorization Digital Signage' (CADS) scheme. The initiative aims at protecting the customers from non-standard cement often sold by local outlets. CADS will



deliver customized information applicable to every cement outlet. The digital communication will be streamed directly to the CADS and attached to a specific dealer so that others can't use the same, informed the Bhopal spokesman of Heidelberg at M.P. Nagar, adding that CADS will also cover a certificate of authorization for each authorized dealer.

A newspaper report highlighting initiatives of Heidelberg Cement towards building its own vigilance which helps it safeguard its customer's interest; the initiatives were in-line to Mr. Cooper's goal of ensuring his customers don't receive spurious cement and the cement they receive from Heidelberg Cement is of the best quality and highest technical standards.

25 years. I am seeing this story unwinding from now until 2045. Though housing will remain a key demand driver in the medium term, infrastructure will also step up. The consumer mindset and behavior will slowly converge to that of an industrial buyer. Currently, I am working to reinforce the foundations of both our companies to meet the emerging challenges in the next 25 years. The focus is on building customer confidence in our capabilities, to be able to deliver products that are technically superior to those that are likely to be available in the future. The demand during the short term is likely to be slow, but it will be steady. Forecasts of demand made on short-term peaks are unlikely to sustain.

**Q. It is very far away, but since you can visualise until 2045, how do you see this journey for the industry beyond 2045?**

a. By 2045, it will be a changed world, and India too would be a changed country. The world population may start de-growing like what has happened in many other countries. The literacy levels of the population in India would have risen significantly, and the population growth is likely to enter a phase of stagnancy, as Indians become more conscious of



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***Indian cement industry will require more civil engineers in selling, rather than commercial acumen to retain customers, as the customer needs would have shifted towards technical services.***

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family size. The quality of life will improve. When it comes to cement, the market dynamics would be very different. Digitization and automation of the construction industry would by then have changed the basic configuration, propelling it into a different environment than what exists today. More or less, the housing demand would have been met, and house construction will be fulfilling more of a replacement demand. Infrastructure would become a bigger demand driver. As we move forward, the industry will undergo a change in its mindset and reorient itself, from manpower intensive to low manpower structure, but high on technical skills. Indian cement industry will require more civil engineers in selling, rather than commercial acumen to retain customers, as the customer needs would have shifted towards technical services.

**Q. Mr. Cooper, you are a 1983 graduate from Indore Institute of Management with a specialization in Marketing. Since then, the ground practices adopted by the industry have seen material changes, though the core fundamentals of marketing remain the same. How do you keep reinventing yourself because even today, you are amongst the most efficient marketing leaders of the industry?**

a. Thank you for the compliment; that is encouraging to hear. When I joined the cement industry in 1984, it was under partial de-control. Since then, it has traversed a long way. Those days, buyers used to come with a work order from a cement controller of the government and the whole process of selling cement was more or less a well-defined one. The industry was always in a sold-out situation, and customers

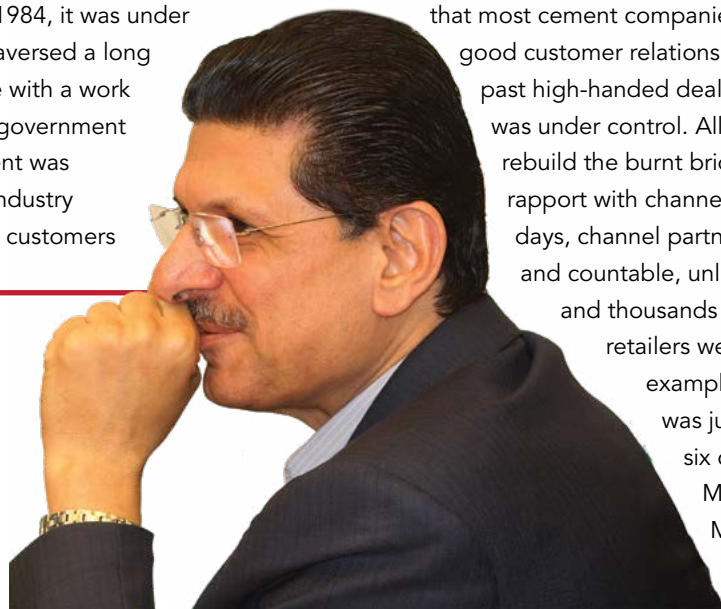
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***Observing the industry from within, I witnessed that some companies continued their operations in their traditional ways, oblivious of what was coming!***

were coming to the company's doorstep to buy cement. Brands were not that important and cement of prominent companies got sold almost automatically. This made many companies believe that they were the *lords and masters* of their destiny. Coming from a consumer durables background, when I joined the cement industry, early in my career I could sense the incoming risks. It was eminent that those who do not change would perish in the future. This approach helped me tremendously. Because of low profitability in the industry, capacity expansion was not a priority for any management. Although I was a proponent of adding capacity ahead of demand, it was contrary to the belief that the industry already had excess capacity and that cement demand growth would not support such investments. Many cement companies did not foresee the possibility of a full de-control era. Observing the industry from within, I witnessed that some companies continued their operations in their traditional ways, oblivious of what was coming! It was just like the driver of a car who does not care to look in the rear view mirror and then suddenly realizes that someone has overtaken them. Ultimately, full decontrol happened. The challenges for the industry doubled in one go. Demand started seeing an uptick because of various government policy initiatives. Smaller players got marginalized, as they remained behind on the capacity curve. The new challenge for the industry was selling in an optimum manner, where freight would no longer be subsidized. It called for augmenting the cement industry's efficiencies in selling and marketing, besides process optimization. In these fast-changing times, I somehow managed to remain ahead on the curve, because after joining the industry, I had realized

that most cement companies did not enjoy good customer relationships due to their past high-handed dealings, when cement was under control. All I had to do is rebuild the burnt bridges and establish rapport with channel partners. Those days, channel partners were limited and countable, unlike the hundreds and thousands of dealers and retailers we have today. For

example: in Bombay, it was just about say five or six channel partners. M/s. Sharad D Muni, Harjivandas Mohandas,



Thakkar Popatlal Velji, Tandur Shahbad, S Jamshedji, and Manahordas Gopalji were few of the prominent names. These channel partners also barely realized the changing times, as their exposure and interaction with the industry grass root, too, was limited. When I use to visit markets, many of my industry colleagues criticized me. They used to tell me that dealers should come to meet us, not vice-versa. I remember having a travel schedule of almost 22 days a month covering various markets to understand the grass roots, and the concerns of channel partners. It helped me gain insights into the channel psyche. When I was

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able to address their issues, their confidence in the company grew, and so did their loyalty. There is a saying "The thirsty have to go to the river, the river won't come to the thirsty". Same was the case of the cement industry. Now I hope you understand the reason behind my success. It has to do with the approach I took right from day one of my career in this industry, and of course, the grace of God was and will always be there!

**Q. Tell me something about your childhood days. How were you as a kid? Did you excel in studies in your academic career?**



a. As a kid, I was quite mischievous and well known for my naughty acts in my group. I was born and brought up in MHOW (an abbreviation of Military Headquarters Of War), near Indore. I belonged to a business family and my father had a dairy business. Observing my father's business, I was able to grasp some understanding about business psychologies, cash flows, and business lifecycles. The normal 9 to 5 mindset never overtook me. I was always more of a professional entrepreneur who did not look at the clock when a task was in hand. I won't say that I was an excellent student, but probably I was among the better percentiles throughout. There were brilliant batch mates for whom the top positions were always reserved. However, I did reasonably

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***I was always more of a professional entrepreneur who did not look at the clock when a task was in hand.***

well when I enrolled for Management Studies, which was a part-time evening class, while I was working for Godrej & Boyce Manufacturing Co. Ltd., a consumer durable company. I was privileged to have access to the best of both worlds, in my personal life as well as academics.

**Q. Tell me about your work experience before joining the cement industry?**

a. I initiated my professional career with a pharma company – a partnership venture of Cyanamid, USA, and Lederle Laboratories. That was a small stint. My real career started with Godrej & Boyce Manufacturing Co. Ltd. where I worked for nearly six years. I was instrumental in setting up their Indore and Bhopal branches in Madhya Pradesh. I then had a small stint with Forbes Campbell & Co. Ltd. After this, I joined the cement industry and worked for The Associated Cement Companies Ltd. (ACC).



**Opposite Page Top:** Mr. Cooper along with his school friends during a School Reunion. **Opposite Page Below:** A picture by Mr. Cooper of his school teachers on one of his recent School Reunions. He fondly remembers them as Singhal Sir, Shehri Sir, Mittal Sir and Paul Sir (L to R) **Top:** Mr. Cooper (centre) along with his colleagues at Godrej & Boyce Manufacturing Co. Ltd.

**Q. I hear you had varied experiences at ACC, tell me more about this?**

a. Though I have been managing Sales & Marketing activities, but at ACC, I had the opportunity to work on various other projects such as float glass manufacturing with Asahi Glass Co. Ltd. I was also involved in the initial phases of its joint venture with Bridgestone during the 90s. I did a market study for setting up of Automotive Glass Division for Asahi Float Glass Co. I also did extensive liasoning with the State Government of Himachal Pradesh for their Gagal plant. While working for ACC, I had the fortune to acquire varied experiences encompassing Sales & Marketing and Projects too.

**Q. What was the trigger for you to move in to cement industry from a different industry?**

a. Interesting! In 1984, when I was working for Godrej and Boyce Manufacturing Co. Ltd., ACC was looking to hire Sales & Marketing professionals. Mr. Anil Kaul, who was the branch manager at Indore, took my interview. Post that, Mr. S. M. Jayarao, Controller, based out of Cement House, interviewed and recruited me. Since I was to be posted at Indore, it was somewhat to my liking, and since then I began my career with the cement industry. Mr. S.M. Jayarao was a visionary who later on moved on to Gujarat Ambuja Cement Ltd.

**Q. Was it a difficult move for you to join the cement industry?**

a. No, not at all! It was quite easy. As I said, the cement industry was in its nascent stage of decontrol. The industry had virtually no concept of Sales & Marketing. Hence, for me, it was quite easy. But interestingly, even today, where our industry stands, I still see lots of opportunities and significant room for improvements to do new things (smiles mischievously). Cement industry has really been a wonderful place to work. Every day, some or the other new idea comes up. Let me tell you that sometimes I wonder when I would be able to bring them to fruition (keeps smiling).

**Q. Please share with me some of the key learnings from your other industry experiences in the past, which you implemented in the cement industry?**

a. Learning is everywhere for me. Even when I have a cup of tea with my dealer or even if I interact with my driver, both have something to teach me. Everyone comes from different background and experiences and I firmly believe a lifetime is not enough for me to learn everything. Take for example, the Internet, it has changed the way of life for the world. When I browse the virtual Google Devta, I realize that I know nothing. Such introspection helps me keep my feet firmly on the ground, and at the same time, it enthruses me to seek details and gain knowledge.

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***Moving to cement industry was quite easy. The cement industry was in its nascent stage of decontrol and it had virtually no concept of Sales & Marketing. Even today, where our industry stands, I still see lots of opportunities and significant room for improvements to do new things.***



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***Everyone comes from different background and experiences and I firmly believe a lifetime is not enough for me to learn everything.***

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But yes, the consumer durables industry taught me the language the customer understands best. It improved my ability to understand customer needs and how these change with the times and circumstances. One of the key learnings from my experience with the consumer durables industry, which I implemented in the cement industry, was 'After Sales Service'. Pre and post service was not that pronounced in the cement industry. Even today, services diminish once the sales have happened, or at best, till such time that cement solidifies into concrete. My experience in the consumer durable industry still keeps reminding me of how important it is, not just to sell and install the product, but also continue to hand-hold the customer after the sale is done. The consumer durables industry taught me the importance of remaining engaged

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***My experience in the consumer durable industry still keeps reminding me of how important it is, not just to sell and install the product, but also continue to hand-hold the customer after the sale is done.***

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with a customer, nurture the relationship throughout the lifecycle of the product, and make customers our brand ambassadors – who then bring in new business leads. Today, I guide my team to initiate activities that would create lasting impressions on the minds of our customers, and keep our brand as top of mind recall. We aim to provide our customers a fantastic product with the lowest life-cycle cost. My customers should feel delighted having used our products, and the experience they get should become their reaffirmation of having taken the right decision by choosing our products. In the Indian context, building a house has lots of emotions attached to it. Making houses is just about a good civil engineering job, but it's the people who live in it that make it a Home. As a building-material manufacturer, we are able to connect to the value system of these people. The house is an asset, which is passed on for generations to come. I remember when I started my career over 40 years ago; having a scooter was a real dream for people. It was a

matter of pride to have a scooter. The same was also the case while building a house. Today, owning a two-wheeler or even a four-wheeler may not be as much a matter of pride, but building or owning a home still is! I would not like my customers to see their house developing cracks or seepages. We will do everything possible to ensure that our customers are guided on the best construction practices. Having borrowed loans to build houses, I would not want my customers to borrow more after a few years to attend to uncalled for and untimely costly repairs. I put emphasis on training masons, so that they not only build durable houses but also cumulatively build a strong nation. Before joining the industry, I did not even know the difference between Ordinary Portland Cement (OPC) and Blended Cement. I had the fortune to learn cement by availing of the vast repository of knowledge at ACC's Research & Development facility at Thane. My interactions with the concrete experts there helped me understand the importance of good construction practices. I got opportunities to attend trainings and learn from people like Dr. Chatterjee, Mr. Cursetji, and Mr. BVB. Pai, who were then known as masters of Cement Technology and Concrete - "I learnt to respect Concrete". On numerous occasions when I met masons and tried to guide them to adopt good construction practices, I often heard them say "Sir, there is no rocket science in making concrete, just make a pile of sand and aggregates and to it add cement and water and mix it, and the concrete 'masala' is ready". They refused to believe that adding excess water would reduce the strength of the ultimate concrete. Such interactions at the ground level helped me design training programs for them. I encourage my Customer Service Team to find ways to teach best construction practices using easy examples that are easy to understand and remember, so that not only do we ensure that our customers realize their value for money, but also collectively contribute towards building a strong durable nation.

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***The house is an asset, which is passed on for generations to come. 40 years ago, having a scooter was a real dream and a matter of pride and so was the case while building a house. Today, owning a two-wheeler or even a four-wheeler may not be as much a matter of pride, but building or owning a home still is!***





A picture of railway station at MHOW, the hometown of Mr. Cooper.

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**Q. Before joining HeidelbergCement, you had an experience of 22 years with ACC. Tell me more about your journey at ACC?**

a. I joined ACC as a sales officer at Indore. I then moved to Uttar Pradesh as an Assistant Branch Manager. From there, I moved to Himachal Pradesh to attend to the liaisoning work for Gagal unit and also managed Sales & Marketing. Thereafter, I was moved to ACC's Head Quarters at Mumbai. Here, I got some exposure in managing exports. I also worked as an Executive Assistant to one of the Directors. Then I got involved with the assignments of Asahi Float Glass and Bridgestone. Intermittently, I was also officiating for a Regional Marketing Office. I also recollect my early days when I was called upon to station myself at a white cement plant in Madhya Pradesh, and was given the assignment to increase its dispatches. During my stint at Mumbai, I also managed the Bulk Cement terminal operations at Kalamboli, and was given responsibility to develop the sales volumes from there. Launching bulk cement and venturing into retailing were very satisfying assignments. In 2002, I moved to Uttar Pradesh to take charge of Sales & Marketing activities and then moved to Delhi as in-charge of Northern Zone Sales & Marketing.

**Q. Any learning at ACC that you implemented at HeidelbergCement?**

a. ACC was one of the oldest cement companies, and therefore, it became the learning ground for many. Even today, you will find someone somewhere in every cement company who was once associated with ACC.

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***My experience with ACC not only taught me what to do, but also what not to do. This is not something that one learns easily.***

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During my time there, the learning opportunities at ACC were good, and if anyone wanted to take on any other responsibility beyond their current role, it was never denied. My experience with ACC not only taught me what to do, but also what not to do. This is not something that one learns easily. ACC was once the brand with the highest market share, which, unfortunately, it could not sustain. There are learnings from its history. During my times, the brands of ACC was among the top few brands of the country. Therefore, nobody would give you any brownie points for selling this brand. It was somewhat believed that the brand sells by itself. Nevertheless, for me, it was a good platform and opportunity. It gave me an opportunity to be different from my industry colleagues, which ultimately helped me evolve in my career. I learnt that changing the thought process of your colleagues was one of the biggest challenges. It gave me the opportunity to interact with people across management hierarchy. It was a long journey, and I whole-heartedly acknowledge the fantastic learning I got from ACC. These learnings helped me think out of the box and come up with innovative business practices.

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***During my times, ACC was among the top few brands of the country - nobody would give you any brownie points for selling ACC brand. At ACC, I also learnt that changing the thought process of your colleagues was one of the biggest challenges.***

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**Q. In 2006, when you decided to leave an established player like ACC Ltd., HeidelbergCement group had just made an entry mark in India through acquisition of majority stakes in Mysore Cements, Cochin Cements and as well as the Indorama Cement joint venture (which was later converted into a full acquisition in 2008). More so, when you stepped in at HeidelbergCement, it was just about 2mn tonnes p.a. capacity and ACC was sizeable at nearly 20mn. A bold step of leaving a well-established player and joining HeidelbergCement in India must have had some concrete reasons. What were they? Did you also take your colleagues along?**

a. My last assignment at ACC was as a Head of North Zone (Sales & Marketing). I felt I had reached a stage where the journey forward would be slow and could also be limited. I always believed, and even today I feel the same way, that this industry has immense potential for changing its dynamics. When I received an offer from HeidelbergCement, I said to myself – “Boy! If you have been able to bring about the changes in the markets, you have operated for this company, why not at HeidelbergCement and why not even better”. HeidelbergCement offered me a platform to prove my

***When I received an offer from HeidelbergCement, I said to myself – “Boy! If you have been able to bring about the changes in the markets, you have operated for this company, why not at HeidelbergCement and why not even better”.***

professional talent and I believe that I have not let them down. I was familiar with Diamond Cement (the brand HeidelbergCement acquired in India) as they were also operating in the same markets where I was selling ACC’s products. HeidelbergCement India Ltd. had acquired the company that was not doing well and I also knew what I was getting into. I took it as a challenge to turnaround the market and breathe life into their brand. I remember, in first interview at HeidelbergCement, when I was asked as to what I think about Diamond brand and how the market perceived it, I jokingly said that it’s the No.1 brand of the region (smiles). AC Nielson had done a market study in Central India where one of the studies pertained to relative positioning of

***The Group philosophy of HeidelbergCement is one of the best I have ever seen, and the management at the group level has been extremely supportive, transparent, honest, and credible.***

the brands in the market. During my second meeting, I showed the survey page where the brand was at the bottom of the pyramid. On seeing this, the interviewer said – here the Diamond brand is at the bottom (asks with a smile) and to that I smiled and replied, “Please turn the paper upside down” – you will see it as the No. 1 brand (smiles). I am happy that the Group philosophy of HeidelbergCement is one of the best I have ever seen, and the management at the group level has been extremely supportive, transparent, honest, and credible. The delegation is complete, and I feel supported and confident with the vast pool of technical expertise the group has, that is available to us round the clock. While moving on, I never thought that I would bring along some of the people from there to HeidelbergCement, but

some of them in Sales & Marketing at ACC did catch up to fill the positions that were created during restructuring at this end. Having said that, during those days, attrition at ACC was rare. As far as I recall, prior to my quitting, the time difference between me and the earlier person who left at similar designation was almost seven or nine years.

**Q. Your well-wishers supported you or were they against your move to join HeidelbergCement, as you were leaving an established player?**

a. There were two parts to it. Working for a company for 22 years and then leaving it was painful. Let me openly acknowledge that. I had some very good relationships and mentors there. There were many who persuaded me to rethink my decision. There were many who cared for me, not only on a personal level, but also on professional grounds. But then it was rather late; I had already given a word to Mr. Daniel Gauthier (ex-Member of Vorstand at HeidelbergCement; in Germany Managing Board is called Vorstand). Coming from a business family, a verbal commitment is no less than a written document. *Mere liye zaban ki keemat sabse zyada hai!* I can give a



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***Mere liye zaban ki keemat sabse zyada hai! I can give a credit of ₹100mn to a dealer without any written commitment from him if I know that he is a man of his word, and he will do anything to keep his commitment.***

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credit of ₹100mn to a dealer without any written commitment from him if I know that he is a man of his word, and he will do anything to keep his commitment. I also remember typing on my laptop my resignation letter sometime around 11 PM. My wife asked me what was I busy with, and I replied, "typing my resignation". She asked me to show it to her once I am done. It took me nearly an hour to type the letter because it was loaded with emotions. Mr. M.L. Narula (ACC's ex-Managing Director) had been a great mentor to me. I had very good relationships with many other senior leaders in the company like Mr. Anil Kaul, Mr. Rajesh Sheth and a lot of others. After my wife read the letter, she just broke down. She said, "You should reconsider your decision and stay back; there are so many people who not only like you, but love you". Probably, my letter was very emotional. But then, I explained to her that I have to move forward in life and I do not foresee ever becoming the Managing Director in the next ten years because all senior positions were not going to fall vacant until the occupants retire.

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***I had to move forward in life and I do not foresee ever becoming the Managing Director in the next ten years at ACC because all senior positions were not going to fall vacant until the occupants retire.***

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Mr. Cooper on one of his recent business trips to Germany to visit HeidelbergCement's global headquarters.

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***I firmly believe, "means of achievement are more important than the achievement by itself". If means are not going to be fair, then sustainability of the achievements and further growth will remain a question mark.***

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**Q. When you decided to move on, given the backdrop that ACC too was controlled by a European major, is it fair to presume that your good work was already noticed by HeidelbergCement and you were referred to them by some of the Europeans at your erstwhile global parent?**

a. I was operating in a market, which was common, and probably my name was picked by Cornerstone (a placement consulting firm) and referred to the HeidelbergCement India management. The selection process was exhaustive and many candidates were interviewed. Probably my experience in the common markets could have given me some edge over others. Probably I was also lucky to get selected. I may have had a couple of interview rounds with Mr. Ashish Guha (ex-Managing Director of HeidelbergCement India Ltd.). But after my meeting with Mr. Daniel Gauthier, I was convinced that the group was progressive, and it was appropriate for me to join them. The top management of the

group has a strong value system. I too firmly believe that, "means of achievement are more important than the achievement by itself". If means are not going to be fair, then sustainability of the achievements and further growth will remain a question mark. My subsequent interactions with other Vorstand members and especially Dr. Bernd Scheifele, Managing Board Chairman, reassured me that my decision to join HeidelbergCement was a good one.

**Q. Since HeidelbergCement entered India, they were just about able to make some profits, say until the end of CY17. But with almost the same setup, and just some minor rectifications and modifications at the operations level, you have been able to turnaround the company within a span of three years. HeidelbergCement India today is one of the few rare cement manufacturers to have the most sustainable set of operating numbers, irrespective of external market forces. What is your magic mantra?**



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***People can do marvellous things if they are given an opportunity. In the formative years, micromanagement may be necessary, but once policies and systems are in place and things start moving, delegation becomes the “fuel” that will power the system.***

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a. Teamwork, belief in your people, and self. People can do marvellous things if they are given an opportunity. In the formative years, micromanagement may be necessary, but once policies and systems are in place and things start moving, delegation becomes the “fuel” that will power the system. If an entrepreneur wants to build an industrial empire, belief in the professional system needs to be inculcated. History stands testimony to the fact that professionalization of a system brings in faster and sustainable growth. Having said that, the Vision and Mission with broad guidelines should also be in place, but more important is that it should be understood by everyone. Today, when I interact with my Technical Director, Human Resources (HR) Director, Finance Director, Procurement Director or any other team member, it always occurs to me that we are all in sync with the objectives of our business. The foundations of HeidelbergCement’s Indian operations have been built over the years. During the past few years, we did more right things compared to mistakes. But we also learnt from the latter, each time accepting our weaknesses and the need for reinforcements. That is what has happened. I just made sure that we carry forward the good value systems and shun some of the past practices, which I felt were too myopic and would not stand the test of time. Achieving success is a never-ending journey – *Abhi to manzil door hai!* (the destination is still distant).

**Q. But how did you manage to change the track and achieve transformation and perfection?**

a. “In life you can never reach perfection” and I am a firm believer of this. Striving for perfection is a continuous journey. You will find all sorts of people in an organisation. Some prefer to go for short cuts and faster gains, others will work with either a medium-term or long-term vision.

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***“In life you can never reach perfection” and I am a firm believer of this. Striving for perfection is a continuous journey.***

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Organizations need both. For the short-term aspirants, one needs to serve a fast food platter and those who are going to run the marathon, we need to pair their goals with that of our organization’s vision. It is also true that the ones with short-term goals get nervous when you talk too futuristic and they start feeling that the organization has very little to offer them to fulfill their aspirations. In my first letter to the team, I laid the broad outline and vision for the organization. I had discussions with various members over lunch and tea sessions to understand their thoughts and the roles they would like to play in the organization. The idea was to understand whether my team believes in the road map I have for our organization. If they disagreed, they had the freedom to express their



Mr. Cooper during one of those initial discussions with his colleagues (when he took charge as Managing Director) over lunch in an outbound training programme to understand their thoughts and the roles they would like to play in the organization.

concerns and debate with me. If their arguments were more logical and if they were able to provide convincing reasons that would be acceptable to the majority, I very happily accepted them and changed my course. It is pertinent to note here that when I took the leadership charge, I was a colleague to many and one fine day they started reporting to me. It was important for me to gain their acceptance as a leader and revitalize the existing platform for a distinguished beginning. We set course on

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*It is pertinent to note that when I took the leadership charge, I was a colleague to many and one fine day they started reporting to me. It was important for me to gain their acceptance as a leader and revitalize the existing platform for a distinguished beginning.*

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a voyage that would first attend to reorienting the basics of our business platform. It is quite common for the top management to miss out on on-the-ground realities. We identified several deviations and made it incumbent on ourselves that we don't miss out on any one of them.



My Sales & Marketing background had taught me to appreciate the importance of building a strong foundation and for that, one has to start from the ground. Just like a bamboo plant grows slowly in the initial stages, but later, it suddenly starts growing very fast, it took us a couple of years to fill in the missing gaps, but the results gained momentum very fast. Once our people saw the results and success coming, they felt motivated to do better and better. I only cheered them, and that is all I did to bring about what you refer to as 'transformation'.

**Q. Any contribution from your global parent to your companies, which you recollect helped you in the turnaround journey?**

a. Yes! Every success requires a Story Board and an "Environment". Our Group provided me the Story Board and gave me the liberty to build the required conducive environment. Our Group has an initiative known as Continuous Improvement Programme (CIP). This is a unique initiative where the local country teams and task forces are given the freedom to pick up the smallest of elements at the shop floor or the markets and work on them to amplify its output. The teams that identify, improve and implement improvements are called 'Self Managed Teams'. They are asked to create their own targets and ambitions. They assess the ground elements and come up with ideas, which are capable of being computed in revenue terms. The ideas can be either strategic or technical in nature. We have been able to implement many such ideas, which were a result of the CIP exercise, and later broadcasted them for implementation to other countries as well. Till now, we have generated close to ₹400mn of perpetual annual savings from this exercise. With over 146 years of experience in cement manufacturing, we are fortunate to get expert advice from our Group and we have been able to improve our processes in a big way. The Group's contributions have helped us improve our consumption parameters and achieve cost reductions.

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*With over 146 years of experience in cement manufacturing, we are fortunate to get expert advice from our Group and we have been able to improve our processes in a big way.*

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**Q. HeidelbergCement operations in Central India have inherited manufacturing units, which are at split locations. Distance from mines to clinker unit is c.20 kilometres and from clinker unit to two separate grinding units is yet another c.20 kilometres and c.300 kilometres. If these bottlenecks were not present, how much delta it could have added to your current profitability?**

a. It would have added an EBITDA/tonne of ₹150-200.

**Q. "mycem" brand is your brainchild. Tell me how you made it possible?**

a. When HeidelbergCement Group took over in 2006, the team appeared to be demotivated. The company was not doing well and fear lurked among employees of



losing their jobs. I had some understanding of the background of Diamond Cement. The options before me were limited. Either I change the people, or train and motivate the existing ones to bring about a change in them. The business practices, too, had to be changed. Bit by bit we put the misplaced pieces to complete the jigsaw puzzle. I set up the Sales & Marketing drawing board with cost reduction as the prime target.

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***Bit by bit we put the misplaced pieces to complete the jigsaw puzzle. I set up the Sales & Marketing drawing board with cost reduction as the prime target***

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Starting with a review of agreements between the company and its business associates (carry & forwarding agents and transporters) going all the way to reduce credits and improving cash flows. The outcome was rewarding since we were able to rationalize quite a few distribution costs and contain the debtors list. Once this battle was won, I moved on to the branding exercise. The brand then "Diamond Cement" had a mixed market response. In no market was it on the top of the pyramid. It was clear to me that continuing with this brand would be akin to flogging a dead horse. So, if it was not to be Diamond, then what should the new brand name be? Mysore Cements was the company that we had acquired. Abbreviating the company's name, I came up with the brand name "mycem" and also started to believe that this would be an ideal choice. Initially, our email domain name too was 'mycem.com'. I then sought the views of my team on changing our brand name to "mycem". Many expressed reservations and a few even objected to this name. They advised me against use of word 'cem'. According to them, hearing this name, people would get an impression that we are selling cement paint, citing the example of Snowcem, which was then a renowned exterior cement-based paint. They felt that the impression of cement-based paint was something like "chuna" and therefore the mycem name was in total contrast to the image of strength that people associate cement

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***For me it was a tough internal sell, as I had to first make my team unlearn and relearn.***



**Mr. Cooper trying his hands with cooking and serving his colleagues during an offsite, a demonstration of his humble and modest attitude which helps him quite a lot to keep his teams bonded and grounded.**

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with. However, I went ahead with my conviction. For me it was a tough internal sell, as I had to first make my team unlearn and relearn. I spent hours building the confidence of my team and motivating them by saying that "beta, tu hi kar sakta hai" implying "you are the only one who can do it". It was important for me to handhold them and make them lead the change. My objective was to eradicate their fears and help them realize their hidden potential. They had to start feeling that we were amongst the best companies in the world and we were the 'Kings in the making'. After many deliberations, finally, I succeeded in getting a majority of them to accept "mycem" as our new brand. 'My Cement or Mera Cement', in a Hindi speaking area of Central India was easy for the customer to connect and remember. In the State of Uttar Pradesh, it is 'Hamar Cement'. Having finalized the brand name, then came a still tougher task of launching it, since our budgets were extremely miniscule. Nevertheless, we had not many choices, and finally, we launched 'mycem' on 7<sup>th</sup> March 2007 in the Cochin market, and then moved on to Central India markets.

**Q. Did your marketing experiences at ACC also help you identify the branding potential with mycem?**



***My experiences at ACC while launching and promoting their blended cement brands did help me at HeidelbergCement.***

a. Yes indeed! My experiences while launching and promoting their blended cement brands did help. I have always believed that blended cements are, and will be the future, not OPC. I recollect, in 1996, blended cement sales used to be almost negligible in a metro like Mumbai. Customers preferred OPC, as they believed that Pozzolana Portland Cement (PPC), because of fly ash addition, was a diluted version of OPC. It called for creating awareness about the technical superiority of PPC and to change the mindset of the user. It was a steep uphill climb and therefore not many in our industry were willing to put effort into promoting blended cement. I recall the effort that me and one of my colleagues, Mr. Ashish Patil, had to put in to educate customers. Week after week, after office hours, we used to conduct meetings with architects and engineers to explain to them the technical superiority of blended cement and the benefits of using it. It took us nearly nine months to achieve a monthly volume as small as 600 tonnes. Our perseverance finally started paying dividends. Many memories come back as I talk to you. Every experience of mine has deep-rooted learnings and continues to serve as a repository of knowledge in every decision and action of mine.

***For everything, our group has well defined policies and systems.***

**Q. When you joined HeidelbergCement India in December 2006, you were designated Director – Sales & Marketing, and now you are the Managing Director of the whole Indian operations of the group? Tell me about this journey.**

a. Between 2006 and until July 2014, when I was Head of Sales for our Indian operations, my contributions were by way of improving the top line and bring in stability to the volatile sales graph. Sometime in the beginning of 2014, our Group leadership decided to make changes in our Indian operations. For everything, our group has well defined policies and systems. Respecting the same, the group triggered an executive search to fill up the position of Managing Director. An internal job portal was activated and executive search firms were hired to seek Curriculum Vitae from prospective incumbents. The philosophy of our Group towards filling up vacancies is to check the best available talent, both from within and outside. Based on the internal job posting, I too had applied for the position. I must acknowledge the objectivity with which the interview and selection process was conducted. I was the last one to be interviewed by Dr. Bernd Scheifele, Group Chairman, Dr. Albert Scheuer, Asia Pacific Head and a senior panel. They considered me worthy to lead their India operations and gave me the opportunity for which I remain thankful to them and the group. Yet another testimony to our group, when it comes to the selection of people, was visible in 2016 when the Group acquired Italcementi operations. Once again, they initiated the process to select the Country Head and the Functional Heads who would lead both Indian entities. Let me tell you that the selection process may have



Mr. Cooper (second from left) enjoying with his colleagues at a beach during an offsite of HeidelbergCement in India.



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***At HeidelbergCement's Indian operations, I have set a policy that we do not rehire those who have left the company. We will stand by every one of our people who have been loyal to the company and will give them the first opportunity to grow in the company.***

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upset many of us, but what needs to be appreciated is that the process was loaded with objectivity and was transparent and professional. This is the real beauty of the HeidelbergCement Group. For our India operations, when it comes to filling up a vacancy, I have set a policy to first look for people internally, and only if we do not find the right fit, we look from outside. I prefer to reward loyalty, because this is a rare virtue. Competency is something we can always build through trainings. At HeidelbergCement's Indian operations, I have set a policy that we do not rehire those who have left the company. We will stand by every one of our people who have been loyal to the company and will give them the first opportunity to grow in the company.

**Q. The global acquisition of Italcementi in second half of 2016, gave you an added responsibility of Zuari Cement. From managing 5mn tonnes p.a. capacity, you were managing yet another 7mn. Was it a challenge?**

***The only challenge in merger of Heidelberg Cement and Italcementi was to integrate the culture at both these companies, and the speed with which it had to be done.***

a. It was a challenge, but not something that was unmanageable. The operations of both entities were distinct, and there were hardly any overlapping markets. It was a bigger canvas to paint on. The only challenge was to integrate the culture at both these companies, and the speed with which it had to be done. It was necessary for me to align the employees of Zuari Cement with the overall thinking of the group. HeidelbergCement India Ltd. is a listed entity, whereas Zuari Cement is an unlisted entity. At the operational level, there were many differences in the day-to-day business methodologies. Both entities were operating at different levels of efficiencies and this brought to the table a good amount of synergies to be harnessed and best practices to be exchanged between them. Looking back, I am happy to say that we emerged successful and we were able to



Mr. Jamshed Naval Cooper addressing his employees at the HeidelbergCement Indian operations Long Service Awards, 2017 at the ITC Gardenia, Bengaluru. This event is in-line with Mr. Cooper's goal of awarding, rewarding and promoting loyal employees ahead of outsiders.

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harness close to EUR 22mn of sustainable synergies.

**Q. You have said in all your public commentaries that a potential merger of operations of Zuari Cement with HeidelbergCement India operations is something, that you cannot comment on. Hypothetically, assuming your group bestowed you with the decision-making powers, would you do so?**

a. My personal view is that unless it adds value to the shareholders, there is no logic to merging the two. Given the current statutory framework, a merger most likely would erode value. Being the Managing Director for both the entities, and some function heads being common, the overall philosophy driving both entities remains consistent, which has brought about alignment of processes and policies, thus yielding maximum synergies.

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***My personal view is that unless it adds value to the shareholders, there is no logic to merging the two.***



**Q. What have been your key learnings from all your different zones of operations? Do you feel this way of doing business is different in south & central India?**

a. Markets in the south are more competitive than central India, and hence, the business challenges in both regions are very different. Volatility in business is much more in the south. In central, you can say that most of the cement companies operating could be classified as industry leaders or thought-leaders, but in the south, because of the very number of operators, business practices are very different. Benchmarking of best business practices in the south are extremely difficult, as most companies there are perceived leaders and have their own styles of business. While cement production technology remains consistent across the country, sales & marketing differ from region to region. Hence, functioning of business is very different in both these geographies. Some companies in the south have the capabilities to set higher business standards for others to emulate, but the intense competition keeps grounding them.

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***Volatility in business is much more in the south. Benchmarking of best business practices in the south are extremely difficult, as most companies there are perceived leaders and have their own styles of business.***

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***The biggest struggle of all is to make people shun the "chalta hai" attitude.***

**Q. As you were always more of a marketing guru, was the move to become a Managing Director challenging? Was it difficult to sync with production operations? Can you talk about some of the key challenges, as you took charge as Managing Director?**

a. Being in the cement industry, if you have not gained knowledge about production, it is something difficult to fathom. I do not know the micro process of manufacturing, but I have gained fair knowledge about the overall process, I understand the working of quite a few equipment, and appreciate their importance and vulnerability factors. It is not very difficult to understand the basics of cement production. But you are right, after becoming the Managing Director, it was imperative for me to enhance my knowledge. Every Monthly Review Meeting

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***Anyone who works for HeidelbergCement's Indian operations comes here to fulfil their passion and deliver results that generate a feeling of pride in them, and their families too.***

(MRM) is an occasion for me to learn something or the other. More than acquiring technical knowledge, I had to inculcate a visionary approach that would contribute towards preparing our organization for the next five or ten years. The biggest struggle of all is to make people shun the "chalta hai (its ok to do less than your best)" attitude.

**Q. I believe you are as attached to the operations of both your companies as a promoter would be. Is this what helps you to get the energy to do better every day?**

a. Though I insist on my team to have a professional approach to work, it is my constant endeavour to keep invoking their entrepreneurial instincts too. HeidelbergCement's Indian companies are not the place where one comes to earn a living, which they anyway can do anywhere else in a normal 9 to 5 job. Anyone who works for HeidelbergCement's Indian operations comes here to fulfil their passion and deliver results that generate a feeling of pride in them, and their families too. To be successful is one thing, and to excel is another, and the later calls for ownership and passion. This holds good



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***“If you don’t want to own what you do, please don’t do it” this is what I always tell my people. Trust me, ownership is addictive!***

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for every employee, be it a managing director, functional heads, managers, clerks, workmen, peons, drivers and every business associate of our company. This is what I desire, and we all work towards this goal. To make my point more clear, let me give you few examples – beginning with my driver; if my driver has a feeling of ownership of the car he drives, only then would he make sure that it is cleaned, that it keeps shining daily, and serviced periodically without fail. Similarly, when my technical team develops attachment to the machinery they use, only then would they not flog it, and attend to preventive maintenance schedules religiously. This aspect of ownership and attachment is an attribute that forms the very core of entrepreneurship. This also minimizes the blame game. “If you don’t want to own what you do, please don’t do it” this is what I always tell my people. Trust me, ownership is addictive!

**Q. I have always learned from you about what I call the best practices on the supply-chain efficiency front. Given your on-the-ground experience, you have been ahead in the industry identifying these plug points, and hence took corrective measures. It highlights your ability to think differently. How do you make this possible?**

a. “On strong foundations stand durable and sustainable structures”. Similarly, for an organization to succeed and grow, its business principles have to stand on foundations made of strong values. I recall my discussions with our channel partners who often have this common complaint that the benefits offered to them by our company are inferior to ones they receive from competitor companies. On probing further, some suggest that officers of other companies are giving them material from non-trade to be sold in trade, which comes at a low price and therefore, we too should allow them this benefit. Some say that they are invoiced for the furthest distance and given the benefit of freight. In my view these are easy ways of doing business that gradually destroy the value system of an organization and erode its

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***“On strong foundations stand durable and sustainable structures”. In my view, being inefficient on supply-chain practices are easy ways of doing business but they gradually destroy the value system of an organization and erode its foundation. In our company, we keep a close watch on supply-chain practices, and if detected, the person responsible is severely penalized.***



Mr. Cooper moderating some of the team building activities at an offsite of HeidelbergCement.

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***It is a myth that by adopting such practices one will be able to increase their market share. The downsides of such actions are far more than the gains.***

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foundation. In our company, we keep a close watch on such things, and if detected, the person responsible is severely penalized. It is a myth that by adopting such practices one will be able to increase their market share. The downsides of such actions are far more than the gains. For example, if I was to allow the above stated ill practices, I may at best be able to appease 5-15% of my channel, and it’s not that the remaining 85% won’t know about this; these 85% will gradually disown me. Sustainable growth comes through fair means and for that, one must provide equal opportunities to all. For me, a dealer selling 10 tonnes and the one selling 5,000 tonnes should be provided with equal opportunities and each one will scale up or down based on the competencies they bring to the business.





Both will have tea with me and the one who arrives earlier will have the first right to come to my cabin. I strongly detest it if any of my people show preferences in selecting individuals. Our discount schemes are fully transparent. We are the only cement company that issues, at the beginning of every year, a written document announcing our full year's discount schemes to dealers. It is all of these, and many more such initiatives that we implement, which go into building a resilient corporate culture, making us capable of continuing our growth trajectory. We also persuade our dealers and business associates to pursue the values we practice, to adopt these in their business too, and shun opportunism.

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***I do not want our company to remain engaged with dealers that are not loyal.***

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**Q. Can you please elaborate how you shun opportunism?**

a. Ok, let me explain. Say if I have a network of 700 dealers, of which 300 are engaged with me round the year but the rest 400 come to me only when there is good demand. I tell my team, please return the security deposits of all these 400 dealers, along with a box of sweets, a *nariyal* (coconut) and a thank you letter, wishing

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***I always remember the loyalty of the people towards our organization, and the sacrifices they make. Therefore, I also remember to reward them when opportunities come.***

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them the best for all their future endeavours. I do not want our company to remain engaged with dealers that are not loyal. We managed to survive with the loyal ones during difficult times. Now, when the demand turns favourable, we are obliged to serve the increased demand to our loyal dealers and not start sharing their rightfully earned pie with the undeserving others. It is the good demand months that allow our smaller dealers to get the opportunity to grow their business, and if at that point, we do not give them cement, we would not be doing justice to them. You ask any of our dealers, who have been associated with us for years, and they will tell you that they admire our fair dealings and transparent policies, and that they have grown with us. Be it employees or our business associates, I always remember the loyalty of the people towards our organization, and the sacrifices they make. Therefore, I also remember to reward them when opportunities come. Establishing fairness and transparency to a great extent has also helped us in times when we faced headwinds.

**Q. This is interesting! Can you tell me how you communicate such thoughts to your team?**

a. "A snowball gains momentum as it gains size". The same is true for an organization too. Let us take an example of the buying behaviour of a cement customer. Most of them are not aware about the quality parameters, nor do they know much about the manufacturer. In such a condition, superiority of the quality is often perceived by the customer based on the price tag of the cement bag. It is said "Everything is fair in love and war", but in our industry, we need to add the word marketing to this phrase. "Everything is fair in love, war and CEMENT MARKETING!" (laughs). Business practices adopted by the industry are sure to make the best of the marketing *gurus* go crazy with disbelief! I often tell our people that in our industry, achieving results is no big deal, but achieving it

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***"Everything is fair in love, war and CEMENT MARKETING!". Business practices adopted by the industry are sure to make the best of the marketing gurus go crazy with disbelief!***

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using the right means is indeed a big one! In the sales & marketing war rooms, our strategies and tactical moves never lose sight of business ethics. There are lessons to learn from the house of Tatas. The immense respect they command in the market is because of the character they have built based on strong ethical values. This is what ultimately the generation next would look up to, and HeidelbergCement India should become the torch bearer in our industry – this is what I keep reminding my team of.

**Q. You always remain realistic when it comes to reacting to any news flow on cement pricing. Your assessments are bang-on – like most of the hikes would be unsustainable, most companies will give credit notes or discount structures at the end of the month or quarter. How did you develop these skills?**

a. There is no skill involved in predicting such things. It's just common sense. Unfortunately, it's also the most uncommon! (smiles). Our industry has bouts of good and bad demand periods. When demand is poor, prices slump and then many of us are just about able to survive. Therefore, at the very first visible sight of a green shoot coming up, we see a rush to make the best out of it, and this results in steep price increases. Steep falls are acceptable to the customer, but steep increases are not. It is common sense that a customer buying cement today at ₹250 a bag is unlikely to buy it tomorrow at ₹300 a bag. When this happens, and the stocks of the dealers stop moving, the companies are compelled to issue credit notes to dealers. Based on the size of the credit notes issued by each company, volatility sets in to the wholesale and retail prices.

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***There is no skill involved in predicting industry reactions. It's just common sense. Unfortunately, it's also the most uncommon!***

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**Q. In March 2019, you had told me about the imminent threat to dealers receiving notices from Goods & Service Tax (GST) authorities because cement manufacturers were not reversing the GST component on the Price Difference and Other Incentives Credit Notes. Your assessment proved correct and the notices did arrive to many dealers and channel partners. Though your company was issuing credit notes with GST reversals and you were also following up with the dealers to reverse the same, this is a sitting delta for the industry to improve profitability. Why did**

**the industry miss such an obvious loophole and how did you identify it earlier than many of your colleagues?**

a. Compliance for us is top most priority. We believe that all our business practices should remain technically correct, and we should follow the right path. We can happily tolerate over-compliance, but at no cost will we under-comply. This very philosophy



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***Compliance for us is top most priority. We can happily tolerate over-compliance, but at no cost will we under-comply.***

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dwells across our company and my Chief Finance Officer and his team constantly deliberate on various tax matters to ensure that we remain fully compliant. We perform an end-to-end exercise and understand the impact and repercussions of doing and not doing things. We also take advice from expert tax consultants wherever we have doubts in interpreting provisions of the law. It is because of our cautious approach to tax matters that I was able to foresee the situation.

**Q. You were a thought-leader in the industry when sometime in early 2017 you advised your team in the south to stop the practice of giving price discounts (PDs) and termed PDs as 'the Bhasmasur' Why did you feel this way and why did you not allow your team to flow with the industry practice of allowing PDs. Please share your experiences.**

a. Having watched the market for a few months after we acquired Zuari Cement, I was certain that the so-called PD or Price Equalisation (PE) was the ultimate element responsible for destabilizing our prices and adding volatility to the market. What I observed was that the quantum of PDs doled out in the markets was not small, but ranging from ₹20-80 a bag. This left a big arbitrage in the hands of the dealers. A smaller dealer who often is a retailer would pass on a smaller amount of this PD,

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***High PDs also lead to unfair business practices and promote inequality in the trade channel and are not in consumer's interest either.***

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say ₹20 a bag and retain the balance ₹60, while the wholesalers may have to pass on c.₹50 a bag to their retailers. This would inject a price variance of almost ₹30 a bag at the retail counters, which for a commodity like cement is difficult to find consumer acceptance. Such high PDs also lead to unfair business practices and promote inequality in the trade channel and are not in consumer's interest either. These price variations are read by competing brands differently and incorrect inferences get drawn. I hope that industry players will soon realize the ill effects of giving PDs and make their invoices on realistic market-driven prices.



**Q. Was acquiring Zuari Cement a key reason for you to delve deep into the concept of PDs?**

a. Before acquiring Zuari Cement, we had a small exposure to the south markets because of our capacity at Ammasandra, Karnataka. I was aware to some extent of the sales and marketing practices of the industry. I do

acknowledge that once the 7mn tonnes Zuari Cement capacity came to my fold, I had to take a closer look at the market. Besides the practice of giving PDs, I noticed that that the south dealers were dealing in a large number of brands and the incentive structures offered by the industry was huge and lacked transparency. Initially, I devoted a lot of time to understand the ground reality and picked up many insights while visiting the dealers and retailers. The learnings continue and are unlikely to ever end (smiles).

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***Post Zuari acquisition, besides the practice of giving PDs, I noticed that that the south dealers were dealing in a large number of brands and the incentive structures offered by the industry was huge and lacked transparency.***

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**Q. Industry interactions suggest that Zuari Cement now operates on something called as "The Cooper Theory". When I researched this further, this theory coincidentally coincides with my investment thesis published in August 2018, where I too argued that cement prices are more sustainable when they rise in line with inflationary trends, and they are more volatile otherwise. Why do you think cement prices necessarily need to follow inflationary trends?**

a. Cement prices have been and will remain a function of demand and supply. However, the net realization of a company will remain a function of its own on-the-ground business practices. Cement, like any other commodity, is bound to see its prices remaining volatile. Having said that, it is my responsibility to contain the volatility for our brands to the extent possible, more from the view of protecting my consumer's interest. One of my bosses in my earlier company, the late Mr. Bhattacharya, used to tell me "cement prices can never remain stable. They either will go up or come down". I believe that in a product like cement, where margins of manufacturers are small, it is prudent that cost increases, as and when they happen, are passed on to the market, even if it is as small as ₹1 a bag, rather than wait for the demand tide to come and push up prices. I have practiced this as a religion.

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***"Cement prices can never remain stable. They either will go up or come down".***

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**Q. Recently, you had mentioned to me about a phase in the early 2000s when there used to be close to 25 different cement prices in Uttar Pradesh state, which you were able to prune down to 3-5 prices without impacting the sales volume, and this pricing pattern remained steady for years thereafter. Do you think that the industry today can address price volatility and see a similar phase of steady cement pricing?**

a. During the levy days, when cement prices were controlled, there were just a few cement prices; you can say, it was almost like having one price across the country. There was a freight subsidy pool managed by the Cement Controller, which ensured that cement landed at all places at almost the same price that was fixed by the government. In today's competitive scenario, market forces determine the price of cement and it varies from company to company, depending on the brand pull each one has. There is no brand in our industry that



is a price leader across the country. We have regional brand excellence stories and therefore, the price variations will continue to exist in our industry, which remains highly fragmented; major consolidation here remains a distant dream!

**Price variations will continue to exist in our industry, which remains highly fragmented; major consolidation here remains a distant dream!**

**Q. It is understandable when you say that being fair and transparent in business policies is extremely important. But what made you feel the need to have a 'written' detailed "Incentive Scheme" in an industry where competition wants to avoid such things?**

a. I have practiced this for the past several years. Just put yourself in the dealer's shoes. As a cement dealer, won't you desire that the company you are dealing with should be transparent and give you things in writing, and more so for those that have financial relevance? Further, what are we trying to hide and from whom? As an honest business associate, I am simply fulfilling the needs of my dealers, at the same time, we fulfil our commitment of remaining transparent in our business dealings. Way back

**By communicating in writing with a detailed "Incentive Scheme", as an honest business associate, I am simply fulfilling the needs of my dealers, at the same time, we fulfil our commitment of remaining transparent in our business dealings.**

in 2005 when I decided to issue our discount policy in writing to the dealers, there was lot of resistance from my sales team. Most felt that we would lose our competitive edge because competition would just top up the discounts and lure our dealers and then we would lose sales. None of their fears came true. On the contrary, our sales kept increasing at a faster pace than the industry growth. The other blessing that

**With better transparency, our sales kept increasing at a faster pace than the industry growth.**

01.01.2019

**Zuari Cement**  
HEIDELBERGCEMENT Group

**Zuari Cement Limited**  
2nd floor, Rayala Tech Park,  
144/7 Rajiv Gandhi Salai (OMR),  
Kottivakkam,  
Chennai - 600041, India  
Tel.: +91 44 42935100-101  
Fax: +91 44 41935108  
www.zuaricements.com

CHENNAI - 600041  
TAMIL NADU

**Sub: 2019 Incentive Scheme**

Dear Dealer,

We wish you and your Family a very Happy and Prosperous New Year 2019. With elections due in 2019, we are very hopeful of good cement demand thus supporting improvement in prices. We would therefore like to see you as our business associate to remain prepared and harness the due share of prosperity as we grow together.

HeidelbergCement believes that transparency is the key for sustainable progress of business. Continuing our tradition of 2018, we are presenting you our Incentive Scheme for 2019. You will appreciate that such written disclosure of incentive schemes is not a common practice in our industry. However, we do this to facilitate you conduct your business more judiciously and remove any ambiguity or dilemma while deciding your onward selling prices.

Our competition may match all the incentives we have offered and verbally promise even more. However, we trust you believe that you prefer to have greater transparency and thereby prefer to increase your share of business with our company.

The details of incentives being offered to you are as follows>

**Cash Discount (CD)**

- The billing date is considered as day "0". CD entitlement shall be as follows.

Payment Day	CD as % of FOR Price
Day 1	1.25%
Day 2 - 4	0.75%
Day 5 - 15	0.35%

- All payments made by RTGS will be eligible for 0.25% incentive, which will be disbursed by way of credit entry in dealer trading account at month end. For e.g. if a dealer makes payment of Rs. 1000/- by cheque and Rs. 3000/- by RTGS, the RTGS incentive would be Rs. 7.50/- (3000 x 0.25%).
- In addition, we will allow Rs.15/t CD for month end zero / credit balance. This incentive shall be allowed on total sales during the month.
- Payments delayed beyond 30 days, will attract interest @1.5% per month.


**Quantity Discount (QD - Monthly volume Slabs)**

- This incentive is applicable on the volumes purchased every month. The volume linked incentives are as follows:
- Any dealer who sells >2000 Mt in the month, he will be entitled for additional Rs.40 /t
- This incentive shall be disbursed during the following month by way of credit entry in dealer trading account.

Monthly Volume (t)	Rs/t
30-50	35
51-100	40
101-200	50
201-300	60
301-500	75
501-750	90
751-1000	100
1001-2000	115

Registered Office:  
Krishna Nagar - 516 311  
Yerraguntla, Dist - Kadapa,  
Andhra Pradesh, India  
Tel: +91-85 65-27 51 52 / 07 / 08 / 95  
Fax: +91-85 65-27 51 54

Corporate Identity Number (CIN):  
U28942AP2000PLC050415



Page 1 of the detailed Incentive Scheme of HeidelbergCement which was circulated to all of its dealers. The text highlighted showcases the importance HeidelbergCement places to remain transparent on the ground with its stakeholders.

came with it was - the sales teams of our competitors who were inflating our discounts and misleading their seniors to sanction a higher discount were unable to do so. No senior in any company would like to give a discount that is higher than what competition is giving. This exposed the inefficiencies in quite a few competitors' sales teams. The dealers were quick to appreciate the transparency that we brought in the business, as they felt assured of receiving the dues promised by us, which was not the case in their dealing with other brands.



**Q. I also understand that you are running a pilot project of doing “Transactional Analysis on Invoicing Practices”. Please tell me something more about it?**

a. Yes. We are trying that. We are in a nascent stage of doing data analysis. It could be a tough call implementing it since we are not having the requisite size to be able to influence the current industry practices. However, we will still make attempts to adopt best business practices. I am confident that as the new generation takes on the leadership roles in the cement industry, there are bound to be changes in the business models, given the advent of new technologies. The Individual House Builders (IHBs) customer segment may deplete, as cement transits to becoming an industrial product. Compliances will also get stringent as we approach 2025. It could become a very different ball game. We are just preparing ourselves for the future. There seems to me a good potential upside here.

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***I am confident that as the new generation takes on the leadership roles in the cement industry, there are bound to be changes in the business models, given the advent of new technologies.***

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**Q. You have said that disclosure norms are going to get stricter for the cement industry across the globe. You mentioned that just like food-product labels, our industry may be called upon to display product specifications, including details about energy consumption, CO2 emissions, natural resources consumed, etc. Why do you think these evolutions are a given?**

a. *Generation Next* is going to be more aware and sensitive to environment-related issues. They will not prefer to buy products made by organizations that are insensitive to the environment and non-compliant. We are seeing all of this already happening when it comes to food-processing industry. The labels on packaging are becoming more and more detailed each year. We are noticing the concerns raised by activists working on environment and animal life preservation, including deployment of child labour. Similarly, in the cement industry too, it's just a matter of time when similar compliances would become a must. Cement that is produced in an environment friendly manner will be preferred by consumers – after all *“Consumer is the*

*king”*. Our industry would have to rejig investments to be made in production using advanced technologies with higher degree of automation. My aim is to ensure that our products remain the preferred choice of customers, and therefore at HeidelbergCement, we are working towards better disclosures and that is in line with our goals of sustainability.

**Q. When I got the opportunity to show you my presentation on supply-chain, you mentioned concerns for the industry on the continuity aspect. Can you elaborate your thoughts please?**

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***Generation Next is going to be more aware and sensitive to environment-related issues. They will not prefer to buy products made by organizations that are insensitive to the environment and non-compliant.***



a. Business continuity should be the prime concern of the top management. My job as Managing Director is to ensure that business interruptions arising from whatsoever aspects are minimized in the foreseeable future. For example, today our operations are compliant, but going forward, as the norms become stringent, we may be called upon to do more. It is therefore necessary that we anticipate the changes now, and prepare for them. It could happen that we may be ahead of the curve on compliance, but it's better than bringing operations to a standstill when compliance norms come into force. Some would always take shortcuts, but I will not blame anyone for it. Probably, many of us have no option and could be fighting for survival, given the severe competitiveness of our industry. With cement producers having optimized their production processes to a large extent, they now have very little room for improving their earnings. Incremental earnings delta will come mostly

from the market. Regulatory compliances come at a cost and it also takes time to implement. But, in a way it is good, because such enforcements improve the standards of the industry, and at the same time, prepare a level playing field for all players. We, at HeidelbergCement, aim to achieve prosperity without compromising on sustainability. We keep raising the bar for our performance year after year so that we remain ahead of the curve.

**Q. Can you highlight some of the initiatives by the government, which you see as transformational by nature? Specifically, on the supply-chain front, do you anticipate that stricter regulatory guidelines can**

*With cement producers having optimized their production processes to a large extent, they now have very little room for improving their earnings. Incremental earnings delta will come mostly from the market.*



15<sup>th</sup> October 2019, New Delhi: Mr. Cooper receiving the Construction World Award 2019 for the Third Fastest Growing Cement Company (Medium Category) from Mr. Dineshchandra Agrawal, Chairman & Managing Director, Dineshchandra R. Agrawal Infracon Pvt. Ltd. in presence of Mr. Sumit Banerjee (extreme left), Chairman, ASAPP Info Global Group & Ex-Managing Director & Chief Executive Officer of ACC Ltd.

**push a lot of these inefficiencies to be addressed forcefully, if not by choice, for the industry at large?**

a. Initiatives like GST implementation, electronic billing (E-Billing) are transformational in nature and will change the way business is done in the long term, not just in

*The regulations that would come may not be limited to taxation, but also for environmental compliance, and this is what will change the face and pace of the Indian industry forever.*

the cement industry, but each and every industry. The government has taken phenomenal initiatives to bring transparency in logistics operations. The sheer number of trucks deployed in transporting cement and steel would be the largest in our country, and I don't think any other industry does it on this scale. I am confident that the initiatives of the present government, which are transparent and logical, would boost our economy in the long run. Genuine transactions and efficient monitoring using logistics as a source of control will add a good amount of money to the exchequer's kitty in the long term. The need of the hour is that the government should come up with policies for honest corporate taxpayers, which are friendly and provides flexibility in accounting for input tax credits. The corporate citizens should not be questioned, as often as they are being subjected to. If the integrity of the taxpayer gets questioned time and again, then it tends to become a showstopper. All said and done, the regulations that would come may not be limited to taxation, but also for environmental compliance, and this is what will change the face and pace of the Indian industry forever.

**Q. How would you rank the different regions in India in terms of efficacy on supply-chain front?**

a. We are primarily operating in two regions of the country - Central and South India. Zuari Cement came to our fold because of the global takeover of Italcementi by HeidelbergCement Group. Since then, we have tried to align operations at Zuari Cement with the overall objectivity set out for our Indian operations. I believe our logistics costs today are one of the best in the industry across our operations. Given our experiences in the two different geographies, I can safely say that the work culture and practices on the ground are still quite different. There are regional factors that induce such

*The structural dynamics of south India are very different compared to central India, and hence limit one's ability to replicate the best practices across regions.*

differences and it will take time to reach an equilibrium. For example, in Kerala, there is a practice of paying the headload workmen extra costs, whether they work or not. Yesterday, I returned from Hyderabad after conducting our review meeting to reduce the logistics cost. With great effort, we could manage a reduction of ₹2 per tonne. There are market forces (unions) in south, which limit your ability to derive efficiencies. The structural dynamics of south India are very different compared to central India, and hence limit one's ability to replicate the best practices across regions. If I was to comment on an overall basis on the supply-chain front, I can confidently say that central India and west India are better placed than the rest of the regions. The way of doing business is better in these regions, and this is my personal assessment based on the ground realities I have seen.

**Q. You have said a lot about the importance of being transparent on the ground, but what do you do within the organization to achieve similar transparency levels?**

a. I practice an 'Open Door' policy, and anybody can come to my office and talk to me. We also have well-defined policies and leadership principles from our Group. In order to support our Group's commitment to comply with applicable laws and universally accepted ethical standards, our group has made it mandatory for its operation across the globe to follow the guidelines set by them. For example, to ensure transparency and equal opportunity for all, our group has implemented a web-based platform "SpeakUp" for its employees and its vendors, where they can report concerns and any

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***I practice an 'Open Door' policy, and anybody can come to my office and talk to me.***

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acts, which according to them could be unlawful, or are violations against the interest of the organization and the law. Whistle-blowers have the option to register complaints by declaring their name or they can choose to remain anonymous. The best part of this is – people feel assured of the organization being transparent, where their voices are being heard in a proactive manner. People prefer to build careers with organizations that are transparent and such measures of our group facilitate us to attract and retain talent. Our being transparent has added to building employee loyalty too. If there is a company on this planet where a junior is able to question and

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***If there is a company on this planet where a junior is able to question and reason the decision of a senior, it is at HeidelbergCement. I believe that every employee – be it white-collared or workmen, would have my mobile number.***

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reason the decision of a senior, it is at HeidelbergCement. I believe that every employee – be it white-collared or workmen, would have my mobile number. At times people may remain hesitant to call me, but *jab paani sar ke upar nikal jaata hai* (situations turns intolerable), they do call and brief me. My Functional Directors and I jointly look into the increments and promotion of almost every employee above the level of Manager and deliberate it, to ensure that the deserving ones are adequately rewarded and the average performers are supported to do better.

**Q. Which other companies you think is directionally getting better on business practices beyond those managed by HeidelbergCement? Do you believe that more inclusive participation can change the direction for whole industry?**

a. I am not privy to the business practices, culture and ethos of other companies. All I know about them is through their publicly reported numbers, which unfortunately fail to reveal many of the qualitative aspect driving their businesses. The other source of information is from the market – *The Supreme Judge*. If one hears good things from the market about any company, it is certain that the company will do well. The market commentaries, which I receive, suggest that those companies that are consciously promoting good business practices are the ones seen growing too. As the regulatory framework keeps tightening, it is just a matter of a few years when we will see winners surfacing. Today I find that many have started to think on those lines, some are quick and some are slow, but the trend is clearly visible. There are quite a few very well-managed companies in our industry and each one of them is good in their own way. Let's leave this here, and wait for the time to crown winners.

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***The market is The Supreme Judge. If one hears good things from the market about any company, it is certain that the company will do well.***

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Mr. Cooper trying his hands at Billiards - one of his hobbies.

**Q. Though you are unable to comment on the qualitative business practices of your peers, which is the company in the Indian cement industry that you admire beyond your two babies?**

a. I admire Shree Cement because of the cost structure they have been able to manage. I commend the visionary approach of its promoter, Mr. Hari Mohan Bangur, whom I have known for many years. The way he has expanded and shaped up his company is great! I am sure that his son Mr. Prashant Bangur, too, is a chip of the old block. I am sure that he too would keep up their growth trajectory and continue to contribute towards society and building our nation. As I said, when it comes to cost parameters, I often quote the example of Shree Cement to my team and motivate them to benchmark our costs with them.

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***I often quote the example of Shree Cement to my team and motivate them to benchmark our costs with them.***

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**Q. Investors are often concerned about HeidelbergCement's listed Indian operations with respect to its capacity constraints. It was partially addressed recently on 30<sup>th</sup> March 2020, when you completed debottlenecking projects at your central India locations. The capacity was increased by c.20% (1.05 million tonnes p.a.), but, this was a concern for many years and hence what took so long for you to identify it. More so, the capex was less than US\$ 3 per tonne, which is unheard of. How did you manage this? What is the vision forward on the capex front?**

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***Given the current market dynamics, central India remains a preferred investment destination for us and this is because of the synergies we would be able to derive in this region. Though we are also exploring to expand in other regions.***

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a. You have rightly pointed out that we are almost sold out in central India and we need more capacity. Given the current market dynamics, central India remains a preferred investment destination for us and this is because of the synergies we would be able to derive in this region. 'mycem' is a well-accepted and leading brand with reasonable level of market prominence. All of this goes in favour of attracting additional capital investments in this region by our company. Therefore, we are in constant search for limestone reserves and we will take a call to invest further if our existing limestone reserves support expansion or if we are able to find new ones. We are also exploring to expand in other regions. As I had mentioned to you earlier, we remain engaged in exploring the untapped potential through our Continuous Improvement Programme and we have been doing improvements over past few years to support our debottlenecking initiatives. The reason why the capex for this expanded capacity looks small is because of the consistent improvements we have made to achieve this stage of readiness. All that was remaining in this capex was to get the equipment and get its installation done, which we were able to execute within a few weeks of taking a shutdown. We installed the latest technology separators and upgraded our cement-grinding mills. With the completion of this project, we have a breather for the next three years. But we will simultaneously prepare ourselves over the next five years for either a greenfield or a brownfield investment and we look forward to add another 5-7 million capacity p.a. to our bouquet.

**Q. Is it fair to say that Mr. Cooper's ultimate goal is to be on industry's better end in terms of return ratios and profit margins? Size and scale of operations though important, remains secondary in the overall scheme.**

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***Over the next five years we look forward to add another 5-7 million capacity p.a. to our bouquet.***

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a. Excluding China, on the global platform, HeidelbergCement is the second-largest cement producer. If you look at it closely, in terms of global ranking, HeidelbergCement Group is No.1 in Aggregates, No.2 in Cement, and No.3 in Ready-mix Concrete. The Group's vision about India is positive. Dr. Bernd Scheifele, Ex-Chairman of the Managing Board who retired in January 2020, has been a strong believer in the India's future. His contributions to our India operations have been phenomenal. Now Dr. Dominik von Achten, has taken over as Group Chief Executive Officer, and is equally supportive of the development plans of our India operations. I report to Mr. Kevin Gluskie, Chief Executive Officer – Asia Pacific region, who too is extremely supportive of our plans to grow the business. The standards for excellence set by our Group are benchmarks by themselves, and make me strive to achieve this for our Indian operations too. I feel assured of the support from the group and it gives me the confidence to take our business to greater heights. What matters to me is not the size of our operations, but how

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***The standards for excellence set by our Group are benchmarks by themselves, and make me strive to achieve this for our Indian operations too.***

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can we become the 'best-in-class' in the Indian cement industry. What EBITDA/tonne we deliver compared to our industry colleagues is important, but more than that, the means of achieving it and its sustainability are closer to my heart. I often repeat to my team that excellence in financial performance is given, but we must pay equal attention, if not more, to parameters of sustainability, compliances, social accountability, and values, to be able to make our organization "good to great". We should score 10/10 on each of these and no less would make me feel happy. My pursuit remains to make HeidelbergCement's Indian companies the best-managed cement companies in the Indian cement industry. My group has invested in our India operations, and as an entrepreneur, my role is to provide direction, and perform the role of a mentor to my "Team India". I remain conscious of the guiding principle of my group and I responsibly carry on my shoulders the responsibilities given to me by the group.

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***We should score 10/10 on parameters of sustainability, compliances, social accountability, and values and no less would make me feel happy.***

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**Q. You have very well explained your ambition to be the 'best-in-class'. I think the investor community has missed absorbing these thoughts, why do you think this would have happened? What according to you is the most important necessity to reach your desired driving objective so that your dream is accomplished?**

a. What is visible to the investor community is just about our financial performance, based on which they stay invested in our company and this is understandable. But, to achieve the financial performance, and more so to sustain it, the organization has to go way beyond, and this part of the journey is something that is not visible

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***No one comes to work at HeidelbergCement Indian operations to earn a living. We all come here to fulfil our passion and deliver like entrepreneurs do.***

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to a general investor. All of it begins with people, and as I said, no one comes to work at HeidelbergCement Indian operations to earn a living. We all come here to fulfil our passion and deliver like entrepreneurs do. My team enjoys delivering results and then basks in the glory of the pride that we share together. The KPIs (Key Performance Indicators) we set for ourselves are not low hanging fruits to earn our performance bonuses, they are targets that keep staring in our face throughout the year and keep telling us, "Hey! Test your limits". Nevertheless, achieving the KPIs is not impossible if one puts in his/her efforts honestly.

**Q. From a stock-market perspective, your listed entity used to trade at throwaway valuations just a few years ago and it now trades at near par valuations to some of India's largest capacities. Therefore, in line with our supply-chain thesis, do you buy the argument that capacity has a limited role to play when it comes to re-rate stock valuations?**

a. The stock market has appreciated our performance and respected the consistency of our results. Markets have rewarded consistent performers in comparison to companies with erratic track records. Markets recognise companies having a visionary approach with capabilities to execute futuristic growth plans. Although our valuations are now comparable to that of some of the larger cement companies, we could get

rated better if I am able to add say, another 10 million tonnes capacity. Having delivered consistently good financial results would then be more recognized and then our valuations could probably come closer to the best-valued Indian cement companies. In the Indian cement space, market gives thumbs up for higher capacity.

**Q. Recently, you launched an initiative “Friends of Earth” where you are targeting to achieve a 2° Celsius temperature reduction in plants vs. 1 km away from the plant which is a step forward towards building Environment Sustainability. You said the progress of such initiatives will be available online for any stakeholder to check. What is the X factor that keeps you on your toes when it comes to Environment Sustainability?**

a. Irrespective of geographies, there is a need to preserve and protect the human race on this planet. Our generation has exploited the resources of this planet far more than our ancestors did. The uncontrolled manner in which we all have consumed resources has literally exposed the civilization to grave dangers of survival. It’s now time for the people of our generation to plough back. Conserving the environment is also something of a selfish interest I have, because after all, all generations, yours and mine too need to survive in future on this planet earth. Our ancestors gave us this earth as a gift, which was supposed to be cherished and not consumed. It was meant for safekeeping and conserving life as we transit our journey of life and thereafter *hand it over as an heirloom to Generation Next*. We are mere custodians, and have no right to deplete it and leave it in a deplorable state. It is time to begin the restoration work before it’s too late. With God’s grace, I am fortunate to be in a position where I can do something, and hence, this initiative of “Friends of Earth” occurred to me. I feel obliged personally to contribute, whereas my group has been doing a lot more for the cause of environment

***Irrespective of geographies, there is a need to preserve and protect the human race on this planet. I feel obliged personally to contribute, whereas my group has been doing a lot more for the cause of environment conservation. “Friends of Earth” will add a feather in the cap of my group and I feel proud being a part of it.***

conservation. “Friends of Earth” will add a feather in the cap of my group and I feel proud being a part of it. The initiatives of our group on environment conservation have been phenomenal, but many won’t know about them because the group believes more in action than just talking, as it is not hungry for publicity. Having witnessed the amount of work my group has done, I can vouch about the noble intentions that drive their initiatives. To name a few, initiatives – “Bird Life” and “Quarry Life” are just wonderful, and have become a source of motivation for me too.

**Q. Safety and zero tolerance to accidents is also an element that is very close to your heart. You recently said on your Q3 earnings call that you target for CY20 is for it to be a ‘Zero Accident’ and ‘scratch free’ year. Your public stand on your employee causes appears very distinct and intense vs. peers. How did such thoughts emerge?**

a. We inherit the philosophy of ‘Safety’ from our group. If anyone acts unsafe, it is our duty to prevent them from risking their life and others’ lives as well. Our “Friends of Earth” initiative, too, is in the direction of providing a safe and healthy environment to the citizens of the world. Our slogan: ‘Safety is our foremost priority’ is put into practice both in letter and spirit. They are not just words. Let’s appreciate that no one sends their family member to a work-place that’s risky and unsafe. Everyone wants their loved ones to return home safe and happy. Human



When lockdown was announced – at the beginning of the COVID-19 pandemic – HeidelbergCement’s Indian operations launched a 21 day social media campaign to spread awareness about ‘Social Distancing’, simultaneously emphasizing that the Nation remains bonded as ‘One’, apart from saluting the bravery of COVID-19 warriors. Mr. Cooper personally supervised and contributed his creative energies to this campaign.



“someone’s waiting  
for you at home”

*drive safely*

We encourage responsible behavior

**mycem**  
cement



**Zuari Cement**

The HeidelbergCement poster used by Traffic Police to stress the importance of Safe Driving.

### ***'Safety is our foremost priority' is put into practice both in letter and spirit.***

Life is most precious to us. We want all our employees to keep smiling and therefore we also work towards improving the “Happiness Quotient”. To promote the culture of safety, we have a ‘Golden Helmet Safety Star’ award. I personally visit the plant and put the Golden Helmet on the head of the workman who scores well. My involvement supports my team and fosters the safety culture. We want our employees to act safe not just for themselves, but for the sake of their family and their colleagues too. When I took charge, one of my very first initiatives is visible in the slogan **“Someone’s waiting for you at home”**. To reinforce this, recently we launched a poster, which has been used in some cities by Traffic Police also, to stress the importance of Safe Driving.

#### **Q. Truly great initiatives! Can I presume you have had a 100% safety track record across your sites?**

a. Last year we had zero Lost Time Injury (LTI). We are doing regular toolbox briefings and creating a culture where safety is always on the forefront. We have figured out that maximum accidents happen, especially with people who come to work on contract basis and land up with silly lapses. Historic data indicates that

most accidents happen to workmen who are in the experience range of 10-15 years. After gaining few years of experience, workmen become complacent or become overconfident and this makes them less careful. We have initiated a protocol for safety meetings and safety pledges to be taken by employees when they are entering the plants every morning. All said and done, there remains room for improvement given the nature of our industry, which deploys workmen in large numbers, and given their literacy and background, we have miles to go to achieve the safety levels I dream of.

### ***We have miles to go to achieve the safety levels I dream of.***

#### **Q. What is something that you have not changed at HeidelbergCement’s Indian operations?**

a. Hmm, very difficult to answer! Actually, I have put my finger on everything possible (smiles). Whatever is required to be changed, is being, or already rectified. We are now in the stage of incremental improvements. What I would never like to change are the cardinal rules and value systems set by our group. They are the best an organization could inherit. I want these values to be imbibed by one and all in our Indian operations. I want to see our Indian operations become a jewel in



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***Whatever is required to be changed, is being, or already rectified. We are now in the stage of incremental improvements.***

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the crown of the group. I want to see our operations become the best-managed in our industry and also a source of pride for our group. It will always be my endeavour to deliver results that would make our group interested and desirous of investing in India. My team here is doing a great job and this has helped us earn the appreciation of our group, and this is something that should keep changing to become better and better. Sincerity, integrity, transparency, and compliance are the elements of exemplary leadership, which my team is committed to fulfil as we keep charting our progress.

**Q. What do you think your global parent admires about India and their Indian operations? When you represent India in your global boardroom, can you recollect any practice in India that you have passed on to your parent as a better business practice?**

a. The group admires the commitment levels of Indians. They value the efficiencies we deploy to manage our operations. Our group has also always appreciated the complexities of our business, and the results we deliver despite headwinds. Our group provides a variety of platforms where ideas from countries across the world are shared. We have our own social media platform on *Yammer* where everyone is free to showcase the work done by them, and also to seek suggestions. Learning is a two-way process, aided by a repository of technical knowledge, which we can avail any time. Our group has acknowledged the environment conservation work done by us during the past few years. Frankly speaking, our group operations are highly evolved, and risen to the status of a *Guru*, and it is we who learn the most. Nevertheless, we too have built areas of excellence, which I am sure some day could get considered for implementation on the global scale. We just have to keep doing our best!

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***Sincerity, integrity, transparency, and compliance are the elements of exemplary leadership, which my team is committed to fulfil as we keep charting our progress.***

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***Our group admires the commitment levels of Indians. They value the efficiencies we deploy to manage our operations.***

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**Q. Looking back at your journey of 37 years in the cement industry, what do you think were the reasons for your achievements and success?**

a. When I look back, I realize that behind every achievement of mine, there has been someone or the other who gave me ideas. All I did was listen to the voice of the market, and the people around me. All I did was to conceptualise the ideas and put them into action. Some of the most brilliant ideas and innovations emerged while I spoke to people on the ground. I was able to discover the hidden value that others probably missed seeing it. Leaving my comfort zone and embracing change, to me, it seems to have been a big contributor to my achievements. Whenever my employers felt that they needed my services at a particular location, I relocated immediately, knowing well that exigencies if not attended in time, would become blemishes of the future. At the shortest possible notice from my company, I moved bag and baggage. I served in the states of Gujarat, Uttar Pradesh, Himachal Pradesh, and Maharashtra. I recall an instance when Mr. T.M.M. Nambiar (ex-Managing Director of ACC) transferred me to Regional Marketing Office at Mumbai, with a clear directive to reduce the price gap that had got created between a competitor and us. In one of the instances, the company wanted me to take charge of Uttar Pradesh markets citing certain

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***Some of the most brilliant ideas and innovations emerged to me while I spoke to people on the ground.***

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Mr. Cooper: Enjoying flying time



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***Throughout my professional career, along with my team, we managed to implement quite a few unique concepts and transformational business practices successfully, which got noticed and paved the way for success.***

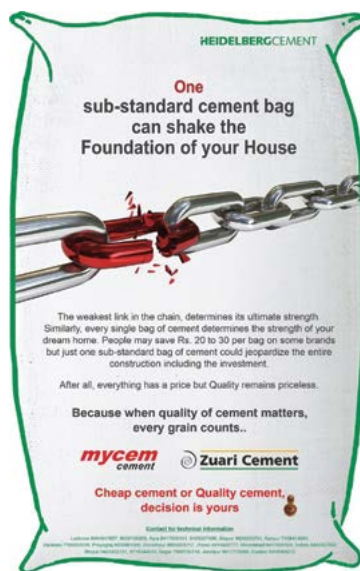
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exigencies, and I complied by relocating to Kanpur in two days. But to answer your question, let me put it like this, throughout my professional career, along with my team, we managed to implement quite a few unique concepts and transformational business practices successfully, which got noticed and paved the way for success.

**Q. But can you recollect any of those initiatives, which you can credit to yourself?**

a. Ok, let me try and recall. One of them was the launch of the 25-kg cement bag in Mumbai (which has now died out though). It so happened that the company had a bulk cement terminal at Kalamboli, which had spare packing capacity. Working in the Mumbai market, we had discovered the need for a smaller packing. I can say that this was a pioneer idea implemented by me along with Mr. Siddhartha Shankar who was heading the Mumbai RMO then. It was not easy to start packing 25-kg bags. Getting Bureau of Indian Standards (BIS) approval was a herculean task. As per the available specifications, one could pack either 10kg, 20kg or 30kg but not 25kg. It was an uphill task convincing the authorities to approve the 25 kg bag. The plea I took was that 25kg was half of the conventional 50kg bag and since masons often make mixes using half bag quantity, a 25kg bag would not cause any confusion to the mason. Whereas if masons were given a 10, 20, or 30 kg packing, they would find it difficult to calculate the proportionate sand and aggregate quantities to make the right concrete mix; if they use a 25 kg pack, they would have to simply halve the sand and aggregate quantities. All of this took almost a year to get approvals and to launch cement in a 25kg bag. As I reminisce, to build brands, I applied lot of emotional advertising campaigns and where complete artworks were done by me single-handedly using Corel and Photoshop software. I recall one of the

posters designed for the Mumbai market, where I had used the slogan “The Engineer’s Choice” for ACC some time in 1996 (much before UltraTech Cement adopted this slogan) and the promotional campaigns to launch PPC in Mumbai market. During the 90s, in the Mumbai market, Gujarat Ambuja Cements Ltd. was enjoying a good market position in the retailing segment. When I was asked to strengthen our foothold in Mumbai, I evaluated various retailing models. A small team of young people led by Mr. Randhir Singh was assembled, who were mentally prepared to take on the competition head-on. The team was very talented, and most of them today are doing well in their careers. They were the ones who were instrumental in



A recent initiative by HeidelbergCement to educate their customers about the importance of quality parameters and technical competency in an industrial product like cement.

giving shape to the innovative ideas. I give 100% credit to them for their unrelenting efforts that translated into improving the brand image and helped gain customer acceptance to raise the retail price point for ACC. Three years later, the company called upon me to replicate the same in Uttar Pradesh. The challenges there were quite different. A more fragmented market spread over a diverse geography with intense competition made channel loyalty expensive. There was brand pull, but not sufficient to neutralize the dependence on wholesalers. The approach to turnaround the market was quite different compared to Mumbai. A multipronged approach encompassing changes in packaging, logistics, sales techniques and accounting was implemented. In three years, a visible premium of ₹22 per bag at the retail level was delivered. Oh, I am reminded of 1996, when I was instrumental in using

SMS (Short Message Service) for booking of orders directly by dealers using their mobile phones. Then, it was the first-ever SMS order booked in the cement industry. For this, I give credit to a team of three young IT entrepreneurs who happened to reach out to me seeking some programming work. We began developing software for our bulk terminal. Around that time, the concept of SMS order booking occurred to me and these three agreed to attempt it. I recall booking the first order using my Siemens S3 mobile phone, and the first order was booked for Papatkaka of Thakkar Papatlal Velji Sales Ltd., Panvel, who was our

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***I never realized that my actions were putting moral pressure on competitor’s sales teams.***

trustworthy dealer. Excited with this achievement, we developed an end-to-end software for the bulk terminal using the Oracle platform. It has been a long journey. I recollect that my team at Mumbai used to be on the field six days a week. Often on Saturdays, I used to be with them in the market, sometimes travelling on a scooter. I never realized that my actions were putting moral pressure on competitor's sales teams. One fine morning, I received a call from one of the competitor, requesting me to stop my team from making market visits on Saturdays, else their teams were being asked to do the same, and since they have a five-day week, it was a matter of unrest among their team members. This also reminds me of the hundreds of hours I used to spend with my field sales team in Uttar Pradesh doing marathon sessions in training and brainstorming. I have wonderful memories of those days. It was a great time when we aligned all with a vision that we shared together and worked to realize our dreams.

**Q. Your best memories?**

a. Recognition coming from the market for our achievements has been the most memorable of all. I was quite young when my team and I made some transformational changes in the market. It had to do with changing the mindset and ways of working. Our conviction paid off as the channel partners joined hands with the field teams and became our extended arms in the market. Those occasions are unforgettable and will be cherished all my life. I have memories of my association with industry colleagues who are no longer working for our industry. Whenever we meet up during social gatherings, it is fun



Enjoying drinks with old industry colleagues. (Clockwise) Mr. Rajesh Seth, Mr. Kamlesh Sharma, Mr. Kuldeep Verma, Mr. Cooper and Mr. Siddhartha Shankar.

***Memories and social occasions facilitate me to rejuvenate and move forward.***

time, reminiscing the things we did and the changes we initiated in our own sphere of responsibilities. Such occasions facilitate me to rejuvenate and move forward.

**Q. Any difficult times worth recollecting?**

a. If difficult times were not there, we would also not know what happiness means. The saddest and difficult times in my professional career were when I had to part with good people in our company; besides this, dealing with teams that have almost given up because of either their own sluggish performance or on account of extraneous factors. Nevertheless, I see "difficulties" as rare "opportunities". When the world feels low, it's time to boost our spirits. It is only during challenging times that I have seen leaders emerge in my team. "When things get tough, the tough get going!" - Most of the permanent solutions I discovered were during challenging times. Difficult times are just like a

spring under tension. The moment pressure is released; it will come back to its original position. I often tell my team, that our efforts must be such that they render a permanent deformation. I often tell my team that if "a problem was to re-occur, it would mean that we have not done enough to find the solution to eradicate the problem permanently".

**Q. Given your age, you could have plans to retire. However, many of your admirers would love to see you continue to work for the industry for longer years. I would love to have your reaction to this?**

***If difficult times were not there, we would also not know what happiness means. It is only during challenging times that I have seen leaders emerge in my team.***

a. I believe that human beings are 'Karm Yogis'. Life is a journey and "retirement" is the name of the junction when the passenger leaves one train and boards the other... but the journey continues! All said

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***I am very much here and continuing to serve the group.***

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and done, from a professional perspective, I am happy to continue giving my services to my organization as long as my group desires to engage me. Although our group thinks global, it acts very local. As of now, I am very much here and continuing to serve the group.

**Q. What are the qualities you want your successor to possess?**

a. I remain in constant search of people who are better than me and love to be surrounded by them. I believe that I have put in my best for the organization and would like the organization to continue prospering until eternity. Given the advent of technology and globalization of businesses, a leadership role would call for innovative thinking and far greater emotional resilience. Positive disposition towards social accountability would be desirable too.

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***I remain in constant search of people who are better than me and love to be surrounded by them.***

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**Q. When I interviewed the other new generation industry leaders for this magazine, and you being the only one who is quite senior to all of them, many said there would be something really great for them to learn from you. What will be your advice to the industry's next-generation leaders?**

a. I am humbled to hear this, and feel that it's too big a responsibility for me

to live up to. I express my heartfelt gratitude and express my thanks to them for their generous words. I will only say to Generation Next leaders that our industry has a massive responsibility of building our Nation. We have to meet the expectations of our stakeholders while conserving the environment. Making a business profitable is one thing, but making it sustainable is what we need to focus on. In the foreseeable future, the demand for environment compliances would grow exponentially, and would call for a change in the mindset of our people. Please do not undermine the power of the consumer, who, in the future, would be taking far more informed decisions than today, and would gradually become lesser compromising. Our industry

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***Making a business profitable is one thing, but making it sustainable is what we need to focus on.***

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avatar calls for a good amount of refurbishing because of the CO2 emissions we make. Close to 7% of the global emissions are attributed to our industry. To me, it is eminent that in the near future, "polluter pays" would become the norm. We should be remembered as people who created something, which is adored by civilizations to come. I would love to see the industry coming together and brainstorming to upgrade business practices. They should also be able to attract the new generation of our business partners too. We also need to attract exceptional talent to join our industry, which in the current context is not happening. Whenever I share with my team any idea of improving business practices, I tell them don't keep it to yourself, share

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***We should be remembered as people who created something, which is adored by civilizations to come. I would love to see the industry coming together and brainstorming to upgrade business practices.***

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them with others too! We carry a load of medieval and stale practices, which stem from the experiences of a handful of people in the industry, who believe that this is the only way to do business. Unless we experiment, we will not even know what we failed to discover. We may be competitors, but as an industry, we have the collective responsibility to build a strong and resilient India. Some of us may progress faster and some slower, but ultimately, our nation grows with us. Ours is an extremely competitive industry and we can't afford to step on each other's toes - I often tell my team. If anyone does it, at best, it could be a short-term tactic, but unsustainable for sure. There are neither perfect nor imperfect competitors. It's just a question of imbalance of available opportunities (men, machine, money, location and time). The ones who are quick at accepting their limitations/weaknesses are the ones to find remedies faster. Sharing best practices should be encouraged. To give you an example, I believe, HeidelbergCement's Indian operations have deployed best-in-class practices when it comes to health and safety. I welcome everyone if they would like to learn from whatever we have done, at the same time, also guide us to adopt any practices that would have

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***Whenever I share with my team any idea of improving business practices, I tell them don't keep it to yourself, share them with others too! We may be competitors, but as an industry, we have the collective responsibility to build a strong and resilient India.***

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missed our attention. As I said, no one is perfect. We have created tonnes of literature on this subject, and we would be more than happy to share it, so that as an industry, we can save precious lives. We will be excited to receive inputs from our industry colleagues on the best practices they have successfully implemented. This is how I would like to see the next generation taking the industry forward.

**Q. Your best friends in cement industry?**

a. Everyone is a good friend. I know most of them and share a reasonably good rapport with most of them. We meet sometimes during the annual conferences or seminars. It is a delighting experience to meet some of them who I have known for years, and some of these were my seniors when I joined the industry. They have far more experience than me. I feel blessed that I still see those faces around and happy to see them serving the industry even today. It is a wonderful feeling to be a part of this industry.

**Q. Any interactions you have had with the newer generation of the industry?**

a. I have not met many of them because there have not been many such occasions to meet. After we declare our quarterly results, I sometimes receive calls from industry colleagues, inquiring as to what we did to achieve such results (smiles). I believe that the new generation entrepreneurs are very competent and blessed with the experience of their parents who have remained the torchbearers of our industry.

**Q. Your best industry colleague who taught you something really worthy?**

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***I believe that the new generation entrepreneurs are very competent and blessed with the experience of their parents who have remained the torchbearers of our industry.***

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a. My entire team is my *guru*. All of them are equal and same for me. They all are my best colleagues. I get to learn from everyone, every day. I enjoy a drink and a dinner with even the junior most person in our organization. I look forward to my plant visits when I am able to meet our workmen and spend quality time with them. My learning continues every day.

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***My entire team is my guru. All of them are equal and same for me. They all are my best colleagues.***

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**Q. This reminds me of the concept of 'Forced Ranking System' that you have stared recently at HeidelbergCement, can you tell me about it?**

a. People are the lifeline of every organization. It therefore becomes

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***The process of 'Forced Ranking System' obliges the department head and each of his or her juniors going down the hierarchy to identify their respective successor.***

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a priority to maintain a consistent stream of people who are in various stages of development and to get them ready to fill the positions in the organization as they keep arising. Every function and department has a reasonably defined hierarchy of jobs and responsibilities. It is from these verticals that we must identify the future successors and if they are not ready, only then should we go for external sourcing. The process of 'Forced Ranking System' obliges the department head and each of his or her juniors going down the hierarchy to identify their respective successor. Development starts with the first opportunity of officiating for the seniors proceeding on leave. Whenever a person goes on leave, he/she should propose to the department head the name of their junior who will hold the fort. Such a practice also tests the leadership qualities of the junior and becomes a good source of feedback to the HR team for updating the competency data of the person and identifies prospective candidates to fill up senior positions as and when they become vacant. It will also reduce the cost of hiring. The process of forced ranking will also bring in transparency. Everyone will know that the one being promoted is because of his or her proven capabilities. It will also aid our succession planning process.

**Q. Over our conversations, I have**



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*I firmly believe that by making sustainable improvements in our India operations, we will not be simply delivering better returns for our stakeholders, but will also enhance the image of India at the global level.*

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**figured out that you are truly an Indian at heart and that you take great pride in your country. How do you ensure that your group also takes pride in working in India?**

a. "If you are not proud of your own country, then better leave the place and settle anywhere that you feel is good enough for you". I am proud to be an Indian citizen. You will find critics everywhere. Many of these critics are because they are either misinformed or have created their own perceptions based on some provocative news items. Whenever and wherever I find such people, I make it a point to correct their perceptions based on ground realities. I believe that India is a land of Billion Plus opportunities. Last year, my group gave me the opportunity to present India during our global conference. It was a matter of pride and honour for me to present India before the dignitaries from across the world. My presentation was titled "India - A land of billion opportunities". Later many people came up to me and said that they never had imagined the potential of India. I firmly believe that by making sustainable improvements in our India operations, we will not be simply delivering better returns for our stakeholders, but will also enhance the image of India at the global level.

**Q. Your message to your investors?**

a. "Thank you for reposing faith in your company, my team, and me". I assure you that we won't let you down and will always perform to the best of our abilities. We have proven ourselves in the past and we will continue to do so in the future.

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*We need to clear the air and be seen by society as contributors to their well-being, and the nation as well.*

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**Q. Your message to your industry colleagues?**

a. The times ahead are challenging and the writing is on the wall. We have a track record of overcoming the worst challenges, and likewise, we will once again evolve to meet the current challenges. Certain situations we won't be able to change much, but we can surely refurbish the image of our industry. The misinformed people and the perceptions created about our industry needs to be dispelled. We need to clear the air and be seen by society as contributors to their well-being, and the nation as well.



Wooden brackets for glass shelves made by Mr. Cooper driven by his hobby of woodworking.



A childhood picture of Mr. Cooper (extreme left) along with his parents and younger brothers.

**Q. Your role model?**

a. My mother – Mrs. Philloo Naval Cooper. Her selfless devotion to the family and the way she nurtured my brothers and me, the values she taught us, have all been great contributions she made. She just did her duty and did it well and therefore she is my role model. Though she is no more in this world, it is because of her, I am what I am today.

**Q. Your hobbies and interest?**

a. I am a digital person and I love to explore technologies, be it any technology. Developing my technical skillset is my favourite hobby. If I get some spare time, I love to do woodworking and listening to music.



A painting by Mr. Cooper showcasing his creative and artistic skills.

**Q. Your favourite pass time?**

a. Whenever I have some time, I prefer to read journals and chat with old friends. I look forward to my Sunday breakfast time, and then chat with family and call up my relatives occasionally. Such occasion have become rare over the past few years, since business needs have been a bit demanding. Digital creativity is yet another area of interest to me and creating advertisements is relaxing and fun (smiles).

**Q. Something about your family?**

a. My hometown is MHOW (Madhya Pradesh) where my father Shri. Naval Jehangirji Cooper stays currently. My wife Rashna is a talented textile designer and a homemaker too. Her commitment to my sons Jehan and Chirrag (aged 30 and 20 years) keeps her occupied at Mumbai. Jehan is a doctor and his wife Diana is a HR professional. My youngest son Chirrag Cooper is yet to find his bearings in life. My younger brother Gev has his business at Mumbai while our youngest brother Zarir has settled in Canada with his family.



A recent family get-together of the Cooper family at MHOW to celebrate the birthday of Mr. Cooper's father.

*My favourite holiday place is my hometown, Mhow, since it provides me the opportunity to meet my father.*

**Q. Do you plan for family unions with your brothers and father as all of you stay separately? What's your favourite holiday place?**

a. My favourite holiday place is my hometown, MHOW, since it provides me the opportunity to meet my father. MHOW is a lovely cantonment and a peaceful place to relax. I believe



that family and friends make a place beautiful. We try and plan a family reunion at least once a year and its fun-time then. I love to travel to places with mountains and flowing water streams, be it anywhere in the world.

**Q. You look younger than your age. What's your mantra to be fit and fine?**

a. I try and keep up with my morning walks with a dash of bending and stretching exercises with occasional light weight training. I used to play tennis, but now I am advised not to run, ever since I developed a knee problem. The mantra to fitness is 'Be happy and enjoy your work'.



An initiative by HeidelbergCement to support the victims of Covid 19 pandemic.





Mr. Cooper  
having some cycling  
fun for his fitness.

Follow a regimental discipline when it comes to food habits and sleep patterns. Try and maintain a healthy work-life balance. Whenever you feel exhausted, just divert your attention and do something that you love to do, and then return rejuvenated to continue from the point where you left.

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***Nation comes first and religion is a state of mind. If you have a choice to make between the two, choose the former.***

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**Q. An advice to the youth of the nation?**

a. Work is worship. Be loyal to the hand that feeds you. Fulfil your responsibilities towards your loved ones faithfully. Dare not waste food. Reuse and recycle as much as you can. Save water and electricity – it does not matter whether you can afford it; these are resources to be conserved for generations to come.

Protect the environment and use environment-friendly products. Nation comes first and religion is a state of mind. If you have a choice to make between the two, *choose the former.*

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***Talking about regrets, in my view, it is akin to putting your creative energy into a dustbin.***

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**Q. Any regrets in life, or working for the cement industry?**

a. It has been a wonderful and delighting experience working for the cement industry. I have had the opportunity to interact with people across the sections of the society and learnt a lot, I feel blessed! Talking about regrets, in my view, it is akin to putting your creative energy into a dustbin. But turning our regrets into learnings is like producing energy from waste!

**Q. Though you will never retire, whenever you quit the industry, how will you like to see HeidelbergCement's India operations and the Indian cement industry in general?**

a. We all are passengers in the journey of life. Someday, I will move on to doing something else. My demitting office is not going to take away my fondness for my company, as I will always continue to wish well for the organization and its people. I firmly believe that the group and our Indian operations will continue

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***I would desire that my successor has an entrepreneurial orientation with an inclination to innovate, automate and be compassionate as well.***

to flourish and reach greater heights than it did during my tenure. I would desire that my successor has an entrepreneurial orientation with an inclination to innovate, automate and be compassionate as well. Concern for environment, health & safety, along with financial objectivity should remain the guiding forces of his or her decision making process.

**Q. That is great to hear! Lastly, if you can tell me what your future plan in life is, and how you wish to remain engaged after you walk out of the cement industry?**

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***I prefer to respect the decision of Almighty and I will continue to remain a karma yogi till my last breath!***

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a. I maintain an "Idea Bank" where I keep listing things that have the potential to become good business start-ups. There are also projects in my idea bank aimed at working for social causes and improving social accountability. Projects that meet commercial needs along with fulfilling social responsibilities are the ones I would prefer, such as dairy and farming associated with rural education. I believe that one must remain engaged in something or the other throughout their life. Let's not forget that two thirds of the day or even a little more, we are awake and doing something or the other, and this makes us *karma yogis*. Had the Almighty desired it to be any different, our lifestyles too would have been tailored accordingly. But since he has not, I prefer to respect his decision and I will continue to remain a *karma yogi* till my last breath!

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Mr. Puneet Dalmia (on right arm of chair) along with his father Mr. Yadu Hari Dalmia (standing), his uncle Mr. Jai Hari Dalmia (sitting) and elder cousin Mr. Gautam Dalmia (on left arm of chair). This picture was clicked on the occasion of celebration of 41 years of togetherness of Mr. Jai Hari Dalmia & Mr. Yadu Hari Dalmia in business.

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**Q. Mr. Dalmia, your second innings with the group began way back in 2004, when the capacity of your company was just about 1.2 million tonnes p.a. Today you are bound to touch 30x the capacity within a time span of nearly 16 years. As I see, your vision in 2004 was quite similar to the vision of India's (current) largest cement manufacturer. You have managed to grow your capacity at amongst the fastest capacity CAGR within the industry. But did you really anticipate that you would actually be able to deliver on your vision? How do you look back at your journey and are you satisfied?**

a. Before I talk about my second innings, let me brief you about my first innings. I started my journey with the company in 1997. At that time, my father told me that we are good in production and production-related efficiencies. But we have to do more work in marketing and sales. We had only one plant then, in Tamil Nadu and we were selling

cement only within a 300-kilometre catchment area in just two states - Tamil Nadu and Kerala. I was deputed as Head of Sales and Marketing and since I could not do anything from my Delhi office, given my job profile, I shifted my base to

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***Unless you have scale, you cannot really grow in this business.***

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Tamil Nadu as I have to be where the action is. I chalked the plan with my team and we launched two new brands. I asked my team if we can get a premium for these two new brands. One was called "Superroof" and the other was called "Super foundation". Superroof did really well, but Super foundation bombed. But we could get a premium of about 10% in Superroof. So, what I realized then is that premium is a very important part of the business. All of that 10% falls straight to the bottom line. But at the same time, scale is a much bigger variable. No matter how much premium you can get, there is a finite amount to absolute earnings. Unless you have scale, you cannot really grow in this business. The reason to think this way is, in boom times, the bigger players make so much money that they have the ability to buy assets in bad times. The bigger players grow faster through inorganic routes, than companies that are only growing organically. Therefore, at that time itself, I thought that we must grow in capacity. I then made a presentation for an expansion, which was costing ₹5bn. My father asked me who is going to lead this project? And I replied that I would. But he told me you have no credibility, and that he cannot put ₹5bn behind me. I asked him, how do I earn credibility? He said - here is ₹20mn and this is my personal money and not the company's money. You do what you want with it, but do something with this money and show me that you can build something. I quit the first innings of my family business to earn my credibility. I started a dotcom company, which was called jobsahead.







**INTERVIEW - Puneet Yadu Dalmia**  
Promoter & Joint Managing Director, Dalmia Bharat Limited

com. I built it along with another co-founder, who was a friend from my engineering school. Once the venture was successful, we then sold it off in 2004, and I came back to play my second innings. When I came back, we were still at 1.2 million tonnes p.a. in capacity, and we had yet not really grown. But 1.2 million tonnes had given us cash flow. We were very low in debt and very high in efficiency. The balance sheet was strong but small. The same project, which I had proposed earlier, was still possible, when I re-joined – at the same cost of say ₹5bn. As the economy was low, project costs had not increased that much. More so, it was a brownfield project, which means low risk, as we would be catering the same market. We discussed the



project yet again. Taking this project was really the turning point in the company because we were able to commission the project in one and a half years. By the time we gave birth to our project and commissioned our brownfield expansion, two acquisitions had already happened in the industry, L&T's Cement division was bought over by UltraTech Cement and The Associated Cement Companies Ltd. (now known as ACC Ltd.) and Gujarat Ambuja Cement Ltd. (now known as Ambuja Cements Ltd.) was bought over by Holcim. This created consolidation. Prices went up by almost 30%. Literally for this new plant there was lot of luck because we invested at the right time. We got back

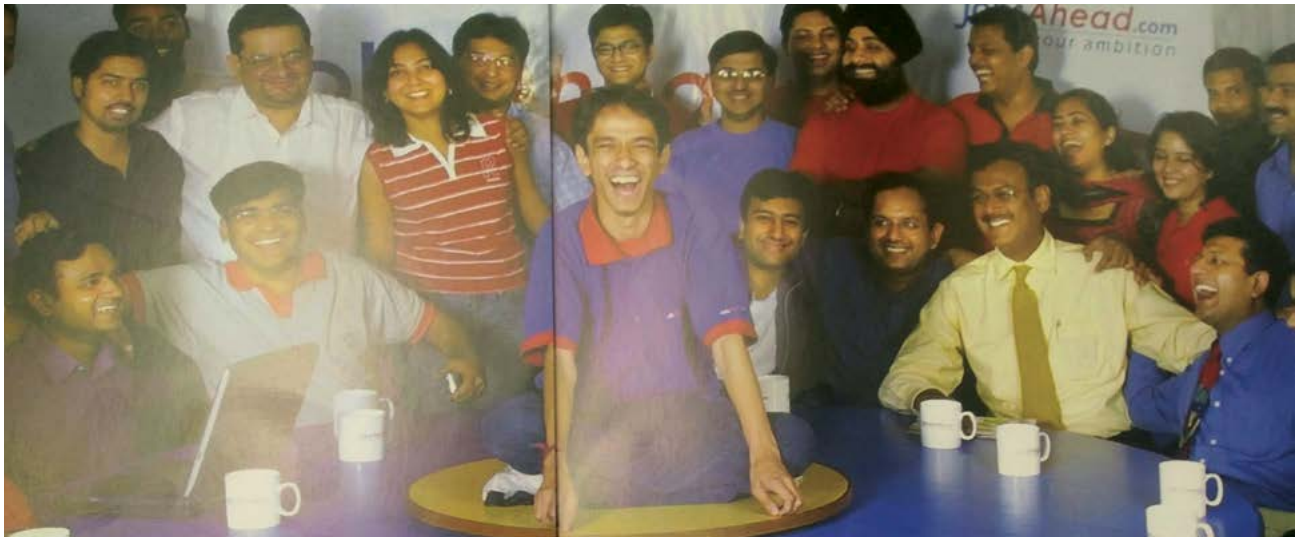
the money in just two years. There were two realisations that I had through these experiences – 1) there is money in branding and 2) there is money in scale. But what really moves the needle is scale. I then did an offsite with our team and I said to them, “look this is 2006-07 and we are at just about 4 million tonnes capacity p.a. and we want to be 10 million tonnes capacity p.a. by 2010”. I still remember, most of the people did not have any idea how we can grow, because we had this notion that this is a business in which one can grow only through internal accruals. It is a slow growth business, and it requires capital. At that time, I decided that we have to professionalize the business. We have to get more people who have better ideas than us, and it is not our role to do everything ourselves. Since then we started the professionalization journey, and we took big bets organically as well as inorganically, and we raised capital along the way when it was required. If I look back, we did not know where we would reach and the number was just a reminder and placeholder to tell the team that we have to build scale and we have to be

***The number was just a reminder and placeholder to tell the team that we have to build scale and we have to be relevant.***

relevant. It was not an absolute number that we had to hit. What I am really happy and proud about today is that we have built a really good management team and we have great depth in the

business. Numbers will come as India is growing. A lot of the performance will be supported by luck; of course, it is hard work, but it is also a lot of luck. It is important to think today – what creates sustainability in an institution? The answer is its people and its culture and on that as I see we have done a reasonably good job. It has been a very satisfying journey and I have been very blessed and fortunate that I have had the company of some great people, some very bright people around me, who have really contributed in a big way to build this institution. We now have a better and stronger platform than what we had in 2004. Using this platform, we can look forward to a bright future for Dalmia Bharat.

**Q. You are a B. Tech from IIT Delhi and a gold medallist from the IIM, Bangalore. Was your academic background the reason you chose an e-commerce venture to prove your skillset and earn credibility in the eyes of your father or was it driven by the booming technology phase?**



Mr. Puneet Dalmia celebrating with his team at jobsahead.com.

a. When I initially showcased an expansion plan to my father in 1999, after leading the sales and marketing vertical, he told me that he just cannot put ₹5bn behind me. He told me, you are capable and you can run sales, but if you want me to take a ₹5bn bet on you, I am sorry I can't take that bet. I need to earn much more credibility to ask for that kind of money. When I asked him how I can earn that credibility he offered me ₹20mn to prove my skillset individually to him. I remember he also told me I can't take a ₹5bn bet on you, but I can definitely take a ₹20mn bet on you. I then discussed this with my friend and the other co-founder of jobsahead.com, Mr. Alok Mittal, who was also my senior from IIT Delhi. Alok was then working with Hughes Software. He quit his job and then we both started jobsahead.com. Before we started, we had no idea of what we are going to do. All we knew is that we had ₹20mn and we will do something with this. As we brainstormed, we thought young people use the internet and hence our venture should be a dotcom venture and more so a youth portal. We thought about what are the preferences of young people and we zeroed down on four channels – which were jobs, fashion, dating and shopping and we launched them. Then, as we were progressing and raising further money from private equity investors for our venture, we saw 70% of the traffic was coming towards jobs. Our investors suggested that since start-ups have limited resources, we should focus only on one area. We should not do four channels but just do one channel – which is jobs. Hence, driven by most of the traffic, the original portal, which was called zipahead.com, was changed to jobsahead.com. It was a big lesson to us even then that you should have a very sharp focus on what you

### *Culture triumphs strategy and size.*

want to do. To tell you a little more about the venture - it was a jobs portal, and basically, we were matching resume and jobs. Our venture provided reach. People in Bokaro could get jobs in Kolkata; people in Madurai could get jobs in Chennai or Bangalore etc. It just opened up more avenues for people. Most of the traffic then came in software. Companies like HCL Technologies, Wipro Ltd., and Tata Consultancy Services, were all growing and recruiting. Also, the year 1999, followed by Y2K, was a very big revolution era in the Indian software and Business Process Outsourcing (BPO) industry. We automated the back office of placement consultants. Earlier, all these placement consultants had resumes that they had to pull out manually. With our venture they could electronically search the resumes. More so, we offered a very good pricing, we charged ₹8,000 for a subscription per month. For a placement agent, even if he could place just one person, he could get payback, so it was less than a one-month payback. Our renewal rates were very high at 95% and because the renewal rates were very high, I can say that having the right price positioning also played an important role for the success of jobsahead.com. We also had ups and downs at Jobsahead.com, but we still managed to remain profitable when we sold off. Positioning oneself right on the price curve was a key learning from this venture, barring the skill sets to raise funds from private equity investors. Then, in 2004 we sold the company at nearly six times earnings. The PAT was at ₹70mn and we sold the company for about ₹400mn. The business growth of jobsahead.com and our competitor Naukri.com was very similar. The business for both of us was doubling every year. In 2007, Naukri.com went public

at 100x earnings, when the business for them had become 8x in size, which, implies 800 times on the valuations front. Jobsahead also grew at 8x in size, but we had sold off. Though jobsahead.com was a good outcome, because we got credibility, another key learning from this venture for me was (in hindsight) never sell a fast-growing business.



Mr. Puneet Dalmia going down memory lane during the interview.

**Q. You had a market share of close to 50%, what made you sell off Jobsahead.com to Monster? You could have easily continued the venture by handing it over to a team of professionals and still join the family business. What is that you carry with yourself from Jobsahead.com?**

a. We sold off because we were scared. We were scared because The Times of India and Monster got into this business. It was our first venture, and as I said, we had seen ups and downs at Jobsahead.com. We thought we have just come out of a loss and we can go back into a loss, as the business is now competitive and the competition has deep pockets to take losses. But I have now learned that don't be scared of large companies and don't be scared of multinationals, because they are very slow. We have seen that Monster was amongst the world's largest companies, Times of India was India's largest newspaper, but Naukri.com is the ultimate winner – because it was fast and it was flexible. Culture triumphs

strategy and size – that is what I carry from here.

**Q. Were you fascinated with the cement business as a child? As a teenager did you plan to join it in the future? Did your father ever discuss business with you then and did you have an opportunity to go and see your plants and offices along with your father when he was in charge of the business?**

a. Yes, when I was young, there was a lot of conversation about business at home on the dining table, on the breakfast table etc. I did a lot of summer projects at our plant. We had just one plant then and I did projects on Material Handling System, Procurement Standard Operating Procedures to name a few. Since I had done these projects, I knew how a cement plant looks like. But during my MBA, I was really fascinated by McKinsey

and I wanted to do a job with McKinsey. I spoke to a lot of people who had worked in McKinsey and I did some research about my aspirations. I did an exchange program in the United States of America during my MBA, so I did explore the opportunities here along the East Coast and West Coast of USA and I was very keen to join McKinsey. But then there was one lady who had been with McKinsey for a long time and she told me that I should not join McKinsey. When I asked her why, she told me *"you are an MBA, so I will give you a two by two matrix. One axis is personal freedom and the second axis is ability to make an impact. On both, McKinsey is low and your family business is high."* She suggested – try to work in the family business – and that changed my mind. I then thought, maybe it's a good idea. Accepting it, from campus I straightaway joined the family business and worked there for two years. In 1999 I quit the family business with an aim to gain credibility as an individual in my father's eyes, and then again, after five years, I re-joined (in 2004).



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*Many times, we get attracted by quick valuations, quick flips, etc. but my father says make money the old-fashioned way – which is hard work. If there is very quick money than the risks are very high.*

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**Q. What was your father's advice when you joined the business? Do you still use this, or do you think with change in time and business dynamics the advice needs alteration and is no longer useful?**

a. He gave me some very valuable advice, which I still remember. Two things he told me: 1) Stay humble, keep learning from people and you should never think that you know everything, 2) This I think is extremely important today – Don't overleverage as we are in a commodity business. Stay within your means, don't bet the house. This is a cyclical business, and there are good and bad times. In cycles you go up and even fall down, so keep the leverage within control. Both these advices are extremely precious and very relevant even today and I continue to keep that in my mind always.

**Q. Today, given that you now have a proven ability to run the show yourself, do you still seek advice from your father at times? If yes, generally on what kind of business matters?**

a. Yes, I do. There is a lot of wisdom in him. He has seen the world much more than I have, and he is a very traditional businessman. Many times, we get attracted by quick valuations, quick flips, etc. but he says make money the old-fashioned way – which is hard work. He says if there is very quick money than there is very high risk; he is quite traditional in that way. The second thing in which he provides a great anchor is 'values'. The old values which are 'durable' and 'time tested' values of integrity, transparency, just staying humble, and not being arrogant about success is something, which he lives his life by. I believe if these three things stay with you, you are bound to create a great institution.

**Q. You are currently the Joint Managing Director and Chief Executive Officer (CEO) of the group along with your elder cousin Mr. Gautam Jai Dalmia. From the stock market perspective, you are generally**

**seen more on the forefront as far as the cement business of the group is concerned. Can you tell me about the family arrangements and mutual understanding each of you brothers have in your individual roles as Joint Managing Directors?**

a. Today, we have fully professionalized the group. First, let me tell you about the structure. In the group, there are three businesses and there is a professional CEO who runs each of these businesses. The Cement business CEO is Mr. Mahendra Singhi, the Sugar business CEO is Mr. Bharat Bhushan Mehta and the Refractory business CEO is Mr. Sameer Nagpal. Also, all these three companies and businesses have three different Balance Sheets. During the journey of Dalmia Bharat, for some time, some of these businesses were together. But now there are three separate companies, three separate Boards, which run individual businesses and companies. At the promoter level, as a promoter and as a shareholder, everybody knows everything about every business. We are all fully aware of what is going on in which business. But there are two axes – one is business and second is functions. From a business axis perspective, the way we have carved out our role is based on our strengths and on what we have spent maximum time in. For example, Gautam Bhaiya knows much more about the sugar business, because he ran it in a very hands-on manner for a long time. Therefore, he supervises the Sugar-business CEO. Since I have spent more time in the cement business during the initial years of my career, I supervise the Cement-business CEO - Mr. Mahendra Singhi - along with the Board. But then in terms of functions, Gautam Bhaiya looks at all projects and procurement in the group. I look after Strategy, Finance, Human Resources and Information Technology. These are the areas in which I am strong and in operations, Gautam Bhaiya is strong. But again, we are absolutely professional people, and there are professionals who take care of individual functions. Gautam Bhaiya and I support functions that we believe are our forte. Our roles are based on each person's individual strength, and we have a very strong team. We spend a lot of time engaging with the Board and thinking about how to build the right culture in the company.

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*At the promoter level, as a promoter and as a shareholder, everybody knows everything about every business.*

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*The only way you can be happy is if you have deep relationships, and loving and trusted relationships with people around you.*

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**Q. You have been born and brought up in a joint family and your family is pretty large. With time passing by and every family growing, all of your cousins with whom you would have grown up, may now be living in different houses. But does the same bonding that was there say 30 years ago still exist among all family members? I also understand that you ensure that all of your family members celebrate important festivals like Holi and Diwali together in any one of the houses. Are you the one who initiates such family bonding events or are they initiated by your elders or other family members as part of the family value system?**

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*The Indian joint family system is a great emotional asset.*

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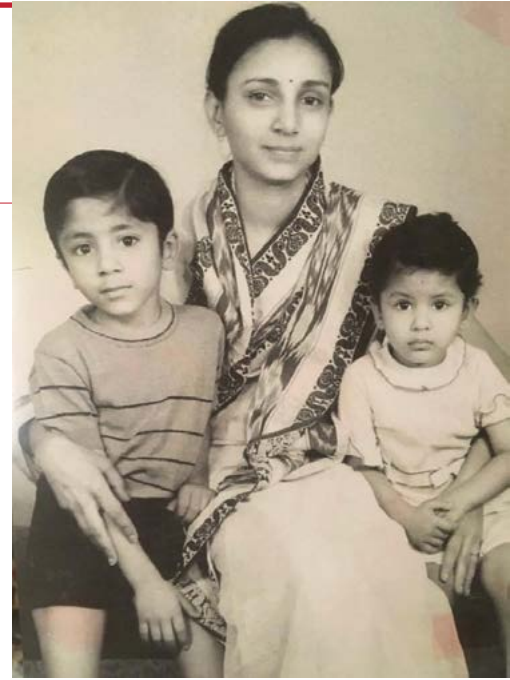
a. I have grown up in a joint family, and there were thirty people living in one house. The first twenty-five years of my life I grew up like that. It was a great happy childhood. With lots of cousins around, you are never bored and you always have friends and family to play games with. The Indian joint family system is a great emotional asset and there are times when everybody goes through ups and downs in life. If you have good relationships with family members, it is a huge emotional security to have. What many people

have done in India is that they have found ways to systematically nurture this ecosystem. Like festivals is one of the ways. There are many other ways in which people do activities to nourish and nurture this ecosystem. Many times, people go to their old village together, sometimes people do charity together, and sometimes people do business together. We all don't live in the same house anymore, but for us, what we have been doing since our grandfather's time, we continue to do even today. Diwali is a time when during all the three days of *Dhanteras, Choti Diwali* and *Badi Diwali* all of us have dinner together, and that ritual still continues. This is one of the rituals that keeps us together. There are weddings in the family that further strengthen our bonds as all family members work together in those weddings. Then there are festivals like Holi, too, but nowadays some people don't like to play Holi because of health issues and as different people have different perceptions. But the fact that we have spent our childhood together creates a certain amount of bonding, which is life-long for all of us. Even though our businesses are not joint anymore, except for we two brothers (Gautam *Bhaiya* and I) are together, all of us do share a

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*There is always a certain amount of trust and certain level of support that we all know is always there amongst all of us.*

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very special bond. Definitely if you are living in the same space, you see each other and meet more often, and share more things. Though it is different if you are living in different houses but at the same time there is a connection which even if you don't meet that often, at least you get to meet each other on such occasions. There is always a certain amount of trust and certain level of support that we all know is always there amongst all of us.

**Q. I also understand from all my interactions with you over the course of the last fourteen years that you place immense importance to family values, cultural values, and human values whenever you evaluate any individual. What is it that you really look for? Whom will you give credit for placing these attributes into your personality?**

a. I don't know whom to give the credit to, but the people who have influenced me the most are my parents. I remember one incident



(Left) Puneet Dalmia as a child along with his mother and sister (Top) along with his family for Diwali Celebrations in 2019.

to share as an example. I lied to my mother on some issue during my childhood. She took me to the bathroom, pulled out my tongue and washed it with soap. I can never forget that incident. I was foaming all over, I was crying and she told me that “you should never lie, else it will make you a very bad human being”. That is one memory, which stood by me in terms of a very hard lesson on being always truthful. The second part of it is when I see my father operate. At all times my father places a lot of importance on not criticizing anybody behind his back. He always tells me “look for good things in people, don’t look for bad things”. Even if, I am talking to him about somebody behind their back, he will never ever entertain the conversation. This is a very important lesson to me from him that everybody has strengths and weaknesses and how do you as a leader bring out the strength of a person rather than focusing

on his or her weakness, and that is what you should look out for. Only if you do this, you can build the best team. And more than that, it also helps build great relationships with people. These are somethings which my parents have lived by and which I have gathered from them. The third thing is that both of my parents have placed a lot of importance on hard work, waking up early in the morning, not wasting your time at night and sleeping

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***The people who have influenced me the most are my parents.***

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late at night; they place a huge importance on waking up early and hard work. This is another aspect of their life, which I have seen that they have lived by and that has also stayed with me. The last thing which I can recollect now and which my parents always tell me is that, “if you and everybody are on a quest for happiness then only you can be

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***Our roles are based on each person’s individual strength, and we have a very strong team.***

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happy and it is the only way you remain happy”. Money cannot buy you happiness; neither status can buy you happiness. The only way you can be happy is if you have deep relationships, and loving and trusted relationships with people around you. If you can invest in a relationship without expecting anything back, it is something that will make you happy. It is not always easily possible to do that, but to the extent it is possible and to the extent one can practice it, one should do it. It is just in your own enlightened self-interest that one should know that you would be happy, if you have deep, loving, trusted relationships without much expectations. I have learned these things through my experience and through my parents and they have influenced me, perhaps the most.



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***In a leader, if he or she has a closed mind, then this is not acceptable to me.***

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**Q. When you evaluate anyone be it a colleague at work, family member or a friend how do you really measure how best that individual is in sync with your desired value system? In your journey of building up the company to 30x capacity vs. what it was when you took charge, I am sure that you must have had interactions with several kind of people within the company and also within the industry. Can you tell me about some of the notable interactions you may have had ?**

a. I can talk about what qualities I look for in people. To me, the most important thing is having an open mind. In a leader, if he or she has a closed mind, then this is not acceptable to me. It is not possible, or rather; it is very difficult to open the mind of a person. But if an individual has an open mind, he or she is open to possibilities, and thinks in a way that ok I don't know how to do this but let me look at what I can do, what I can do differently; to me that is a very important quality in any individual. And after that, of course, the basic qualities of honesty, hard work, and humility. Without honesty I don't think you can build any relationship; without hard work, no matter how bright you are, you can't achieve anything, and without humility, you will stop learning. Arrogance is the beginning of anybody's downfall. It is fair to say that honesty, hard work,

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***The hard skills can be easier to have or hire, and it is easier to train people in the hard skills. But the softer skills to me are core.***

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humility and having an open mind to new possibilities, new ideas is something that I look for and these are a few of the attributes of extreme importance to me. The hard skills can be easier to have or hire, and it is easier to train people in the hard skills. But the softer skills to me are core. It is also core because we want to build a culture that thrives on quick decision-making. The decision-making should be fast and speedy. But at the same time, we also want to build a flexible culture, because we know we are also dealing with a very volatile environment where there is digital disruption, there is disruption on climate change, there is geo-political disruption, and hence it is very difficult to forecast how the world will pan out. In a highly volatile world, you need to have a strategy that is flexible, where you know you will make some mistakes, but

how quickly can you correct these mistakes and change course is also very important. To build a culture that is fast, and a culture that is flexible, is very important to me. I have been blessed, and I have been fortunate as well, that I have worked with a lot of people who have been much better than me, and I continue to work with some of them even today. I will not like to take individual names because though individual contributions do stand out, it is ultimately about teamwork. Eventually, it is about a lot of people contributing a lot of energy to produce similar

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***To build a culture that is fast, and a culture that is flexible, is very important to me.***

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outcomes. Also, at many times, there are some unsung heroes who really have contributed, but are not known. Mr. Narottam Sekhsaria ji (a doyen of the Indian cement industry) once told me that the job of a leader is to get ordinary people to do extraordinary things, and I truly think there are lots of ordinary people who truly do a lot of extraordinary things, because of the environment we are able to create. Ultimately, this is not about one person, this is not about individual relationships, but this is about a culture. This is about a climate that is there in Dalmia, which enables people to come, engage, and perform.

**Q. I recollect our Building Materials conference in January 2009 in an auditorium at the Institution of Civil Engineers, London, where you gave the audience a vision statement that Dalmia would reach 50 million tonnes p.a. capacity by 2025. You were heckled by several investors and other participants on the growth road-map and your ability to reach such an aggressive target; the group was small. I also recollect a discussion with you in 2013 when you raised a concern about the rise in debt, as many investors were cautioning you about it. What kept the fire in you going at all times, not just to think big, but also to make such bold public appearances and share your vision which would have appeared unbelievable to many. As you look back today, do you feel happy that you chose to ignore the debt concerns and continued on your growth road-map? What do you think are your key learnings?**

a. There are many questions here, and there are some really important and very nice questions. First point here is about that bold vision and big dreams. As I said earlier, they are just placeholders to stretch your mind and push





16<sup>th</sup> July 2018: Puneet Dalmia sharing the stage with the Prime Minister of India - Shri Narendra Modi (Centre) at New India Conclave 2018 - 'Ab Bari Hamari'. This event was spearheaded by Y4D Foundation in association with Dalmia Cement, Avanee Foundation - a Non-Governmental Organisation and Aga Khan Rural Support Programme.

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***Bold vision and big dreams are just placeholders to stretch your mind and push you out of the comfort zone.***

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you out of the comfort zone. Because if you stay within your comfort zone, you will stop growing and eventually you will go down. So, when we think 50 million tonnes capacity, or when we think 30 million tonnes capacity, or say 10 million tonnes capacity as we thought in 2006, those are numbers that make us think of new ideas and new possibilities. This is very important for any vibrant organization. Strategically also in this business, unless you have scale, my conviction is that you will grow slower than the rest of the people. Scale brings in a lot of benefit in terms of ability to attract talent, lower cost of talent, better distribution, etc. Because scale was important, and because we wanted to push ourselves out of the comfort zone, we set these targets. So, these are placeholders and we have to be flexible depending upon the environment. For example, we set a big target in 2007, but then in 2008, the world was collapsing. Lehman Brothers crisis happened and nobody knew how it was going to hit India.

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***Our time horizon was much longer than that of stock market investors, and even potentially, private equity investors.***

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We had to change course, we had ordered four plants and we cancelled all four orders. It is very important to say here that I will not just be reckless because I made a statement. We have to be flexible and change course when it looks like there is a necessity to do so. That is one

part of it. Even now we have put a target because we think it will force us to think of new ideas, to innovate, to go out of our comfort zone and find new solutions, which will further strengthen our culture. Now coming to the debt part of your question. When we were of a certain size, we had to take a certain amount of risks to stay relevant. So, to me, then, it was an existential question – whether ten years ahead we would reach a certain size and whether as a promoter it makes sense to allocate capital to this

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***Because scale was important, and because we wanted to push ourselves out of the comfort zone, we set these targets.***

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business. We had known this business for 60-70 years, but we had a choice – whether keep this capital invested or sell the business and invest somewhere else, because India is a growing economy so this (business) was not the only option. At that time, we had to take risk. Our time horizon was much longer than that of stock market investors, and even potentially, private equity investors. I have seen and experienced this in jobsahead.com; after five years, private equity investors get impatient. Likewise, after 2-3 years, stock market investors get impatient. Since our time horizon was longer, and it was in our mind an existential issue, we had to take a certain amount of risk. But we also found a way to mitigate that risk by long-term financing. Our debt maturity was more than 10 years, and because of that, we thought that the risk was mitigated. Even though the cement cycle remains low for time being, after some point, the cycle will see an uptrend. So, may be on a year on year basis, we would underperform on Return on Capital Employed (ROCE), but if you look at a

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***Though I was not concerned, I was definitely listening to people because they had very wise inputs, they had very rational arguments.***

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five to seven-year number, we will make it up. That was our conviction, which could have been wrong or right, but fortunately it played out. The balance sheet did look a little stretched for a few years when the new construction was not yet fully ramped up and acquisitions were not fully integrated. But once that happened, we could see that how debt came back to manageable levels. It was just a question of how long the time horizon was. Some investors had different time horizons. Though I was not concerned, I was definitely listening to people because they had very wise inputs, they had very rational arguments. But I was also trying to match it with our time horizon and business strategy. Yes, we knew that our business would not give the desired returns or the desired risk profile in two to three years. I knew, it was a different strategy for us, and that strategy would require patience; five to seven years. That is how it played out.

**Q. Given the aggressive way you have added capacities for your company, which was probably a little different from the conservative nature of your elders, did it happen at any time that you were cautioned by any of the elders in your family about the rising debt, and probably because of which you sounded a bit concerned when I met you then?**

a. Yes. I was cautioned and I can tell you that my father was saying to me that I am breaching all norms of prudence driven by what was going on in my mind then. But he was also willing to fully support. We discussed a lot about risks and that's why we said that we would mitigate the risk by longer-term financing. But at the same time, his worry was also whether I would have the execution capability. As you build scale, you also have to build execution. For some time, we were not able to replicate the efficiency we had inherited in our Tamil Nadu plant at Dalmiapuram across our footprints. We did not have the systems; we did not have the quality of people to replicate the same efficiency. But I have to say, after

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***KKR taught us speed and made us realise how intense the M&A process is.***

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Mr. Mahendra Singhi joined us, we were able to replicate these efficiencies very quickly. It took us some time, but it was a phased problem. We first build scale and we then replicated efficiencies. Yes, I was cautioned, but we managed the risk by long-term financing. Execution was something that we were always focused on, and that is also why we kept strengthening the management team.

**Q. In the beginning, when you were in need of funds for growth, you were among the first in the cement industry to take funding from a Private Equity (PE) investor, Kohlberg Kravis Roberts (KKR). You also demolished the erstwhile structure and created a new structure to accommodate KKR and then you again demolished the new structure to provide an exit window to KKR. You also went on a spree of acquiring a lot of small-scale cement assets, which were probably defunct or not very efficient – like Adhunik Cement and Calcom Cement. What gave you the courage and confidence that your money invested will not be lost? There is a belief that a lot of these assets were acquired by you because you were probably pressurized by your PE partner to grow the company in line with the vision you may have shared with them. Since the organic growth opportunities were not feasible, for immediate results, you took the inorganic route. Please tell me more about this – who initiated the idea of engaging a PE investor?**

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***It was our strategy that we will grow inorganically and we also said to KKR that this would require patience, because you really don't know when deals would get done.***

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a. Getting KKR on board was my idea. As I mentioned, the first thing is that you need to have a flexible strategy in a dynamic, volatile world. We saw earlier, in 2007, that a lot of easy credit was available, and just because easy credit was available, a lot of companies started building cement plants. Many new entrants came in – there were textile companies, paper companies, steel companies, oil companies etc. Lots of companies started building cement plants. We thought that it was literally reckless expansion. Once they started building, many people didn't stop it, even if the world has changed. We also ordered four plants in 2007, but then in 2008, we cancelled all four orders. But if you look at others, they still continued to build. In 2009, 2010, and 2011 – a



9<sup>th</sup> December 2019: Mr. Puneet Dalmia receiving the Lakshmi Singhania - IIM, Lucknow National Leadership Award (Young leader - Business category) from the President of India, Shri Ram Nath Kovind (centre) at an award function held at Vigyan Bhavan, New Delhi.

lot of new cement plants came in. We could clearly see a huge oversupply situation in India. This was also the time when the economy had also started coming down and there were clear indications of further deterioration. Hence, we thought that even though our strategy from 2004 to 2010 was of organic growth, it is better now to have inorganic growth. Many of these people who have expanded could potentially trip over and fall as the market situation became tougher because of over-supply. We thought it is better to raise capital and be ready with that kind of an approach. We will wait and see what happens. We have never done acquisitions in the past, but we wanted to be prepared. We did not want to get overleveraged in that situation. This was the time when we started talking to KKR and a few other people. But we found that KKR was most receptive with this kind of strategy. It was our strategy that we will grow inorganically and we also said to KKR that this would require patience, because you really don't know when deals will get done. You also don't know how long it will take to integrate. It will take about 5-7 years to play this out and they were in line with this strategy. There was no pressure from KKR to go for any reckless deals because there is a very rigorous mergers and acquisitions (M&A) process that they follow. From 2010 till 2012, we did no deals. We were sitting on money for nearly 20 months or say a little less than two years. We looked at a lot of options, but we never did a

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***We fundamentally believe that we are a shareholder first and a manager later.***

***As we move into the future more capital will go into those companies that are better governed, more transparent, and those that care about all stakeholders, rather than just shareholders.***

deal. The economy started collapsing even more. And after that, we did one deal every year. In 2012, 2013, 2014, and 2015, in four years, we made four transactions. That taught us a lot. The first deal that we did, we were underperforming the plan that we had shown the Board, and it took us about eighteen months extra to come back to plan. If I look at the subsequent transaction, we had become better at integrating, because we have learnt and our integration process had become much more mature and better streamlined. KKR's partnership has been a pretty phenomenal turning point in our journey and it has been a great partnership. We got tremendous support from them and we both learned from each other. But most importantly, they were masters of M&A, globally. They have seen many industries, many economies, and that helped us setup the M&A process really well. If I had to summarise their approach, they told us one thing, "Whenever you are bringing a transaction there should be two teams – one that argues for the deal and one that argues against it, and both should argue with equal passion, and after that, you decide what you want to do". In this approach, people who are arguing against the deal are looking at risks and people who are arguing for the deal are looking at opportunities. So KKR said let's figure

out if we are comfortable with the opportunity the team is seeing, or are we able to mitigate the risks to the extent possible, and to the extent possible, can we escape those risks. So, putting two teams who argue for the deal and against the deal was a very valuable process. And KKR also taught us speed. I remember the deal with Jaypee Bokaro; we were literally able to finish the deal in fifteen days. KKR also made us realise how intense the M&A process is. It was like literally working weekends, day and night, eighteen-hour workdays. They really taught us that when there is a deal, and when you like it, you should be willing to move fast and make it happen.

**Q. Dalmia Bharat today has also covered a long journey when it comes to corporate governance practices. There is a belief that a lot of these practices were actually an outcome of better corporate governance being compelled by KKR after they invested. Is it true? If not, what are the reasons for the constantly better practices being implemented by Dalmia Bharat on the corporate governance front? What were the other key learnings to you and your company when you were engaged with KKR?**

a. I will share here my take, which is very important to understand. We fundamentally believe that we are a shareholder first and a manager later. If we are a shareholder, we need the best governance in the company. We are absolutely convinced that as we move into the future more capital will go into those companies that are better governed, more transparent, and those that care about all stakeholders rather than just shareholders. Companies that

care about the impact they have on the environment and the community will have the leading edge. This is a firm conviction and it is not just a statement but this is something that is also a part of our mainstream and corporate strategy. And if I look at it, we have tremendously benefited from it as shareholders. Earlier it was all family managed. All family members were Strategic Business Unit heads; one was running cement, one was

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***It is very important in a relationship whether or not, if you can have a very frank conversation.***



running sugar and one was running refractory. Now we are saying a 'No' to this methodology. A professional should run it. We should pick people on merit as opposed to just loyalty and we should also build a very active and strong Board. If you look at our Board Members, we have an independent Chairman much before Securities and Exchange Board of India (SEBI) mandated it, and they are truly independent. Mr. Ghyanendra Nath Bajpai (ex-Chairman of SEBI and ex-Chairman of Life Insurance Corporation of India) is the Chairman

of our cement operating company, Dalmia Cement (Bharat) Limited. We have Mr. Pradip Kumar Khaitan as the Chairman of our listed company, Dalmia Bharat Limited. Then we have constantly been adding directors with complementary skill sets. In our Cement Board we have Mr. Paul Heinz Hugentobler who brings a global perspective; we have Mrs. Sudha Pillai who brings a perspective from the Government, as she was Secretary for Government of India. If you look at our Board on top at Dalmia Bharat Limited we have just appointed Dr. Niddodi Subrao Rajan who was the Group Chief Human Resources Officer of Tata Sons. We have Mr. Virendra Singh Jain who was the ex-Chairman and Director (Finance) of Steel Authority of India Limited (SAIL). It is fair to say that we have really added complementary skill sets on the Board and we have got outstanding set of Independent Directors who are very active. More than that, we have also got a very professional management team. To us governance is critical as part of our strategy and we will continue to deepen this journey whether it was with KKR or whether it is now when they are no more on board with us. But when KKR was present, we got a further boost in this process. Mr. Sanjay Nayar was on our Board, and he used to spend a lot of time with us. As shareholders, this is core to us. It is also core to us that we should care about our all stakeholders and we should care about our impact on the environment and the community.

**Q. In your journey, there came a stage where you hired a stalwart like Mr. Mahendra Singhi. In our earlier interview of Ground View Magazine on the cement industry with Mr. Hari Mohan**



**Bangur (Promoter and Managing Director, Shree Cement), he has acknowledged that Mr. Mahendra Singhi is one of the persons whom he remembers in his success journey at Shree Cement. I am sure getting him must have been a tough job for you. But tell me about some of your experiences with him when you were interacting with him in 2013 for a leadership role at Dalmia Bharat. What was that which you explained him that made him leave Shree Cement after nearly a two-decade stint and join you?**

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***I can only say that we have been very fortunate that Mr. Mahendra Singhi chose to join us.***

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a. I can only say that we have been very fortunate that Mr. Mahendra Singhi chose to join us. If I had to pick one dream person in the whole industry, it was Mr. Mahendra Singhi. He had choice to anywhere but he chose us and that is something, about which we are really blessed and fortunate. When I was looking at this role, I wanted someone who is far better than me. There was no question that Singhi ji knew cement far better than me and he would manage the show much better. For me, I wanted to get somebody whom we can totally empower and then he can run the business on his own. Having Singhi ji on board really benefited even from a skill set point of view, transferring efficiencies, which we inherited in Dalmiapuram. As I said earlier, we were lagging behind in execution and he did a fabulous job. What stood out in our interaction was that we were able to frankly communicate with each other. It is very important in a relationship whether or not, if you can have a very frank conversation. There was also a big match in the philosophy, with which he looks at life and with which I look at life. He is very focused on the happiness of people, on sustainability, and environment, and a big proponent of being speedy, fast and flexible. Hence there was a real big match in terms of philosophy. Sometimes when people click, magic can happen!

**Q. From a family driven organization, you have today transformed Dalmia Bharat into a completely professionally managed organization with similar culture values and aligned goals amongst everyone. When did you feel that there is such a need to transform the work culture at Dalmia Bharat? Is it true that in the current format of organization structure at Dalmia Bharat your bandwidth is much more**

**relaxed to look at more strategy-oriented decisions and for all regular business-oriented decisions you generally rely on your next in hierarchy? Today, as you look back and introspect on the revamped organization structure do you feel that all things are well in place or do you think you need to do some changes or fine alignments in the organization structure or culture to further improve the outcomes?**

a. For the answer to this, first you have to look at where competitive advantage for the cement industry lied earlier. Pre-1991, India was in a license raj economy and at that time the competitive advantage was operating efficiency. What you used to make was sold, so marketing was not a problem. You were neither the price decider nor had the option to choose your target customers. Distribution and prices were controlled mostly, though there was a minor de-control, but mostly it was really controlled and the government only used to decide the most of it. Hence, operating efficiency was name of the game pre-1991. Post 1991, when India started liberalizing, the game became strategy and capital allocation. If you have disciplined capital allocation and a good strategy,

***As we go further into the future, operating efficiency, capital allocation and strategy are qualifiers; the real differentiator is 'Culture'.***

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that is what you need, and it will really change the game. As we go further into the future, operating efficiency, capital allocation and strategy are qualifiers; the real differentiator is 'Culture'. We want to compete in having a very great management team and creating a very distinctive culture in Dalmia. Now the question is what are the attributes of this distinctive culture that we are trying to create? We believe the fast will beat the slow in the new world, so we want to build a culture which is fast, where we can take quick decisions, also a culture of risk taking, rather balanced risk taking (not reckless) and entrepreneurships. The third part of our culture (beyond having speedy decisions and fast execution) is that we want to be flexible. As I said, there are lots of unpredictable variables in the world – geopolitics, digitalization, climate change etc. Hence you cannot forecast everything, so you have to create flexibility. I want to create and build a distinctive culture in Dalmia, which

***While our operations are good, there is still a huge scope for improvement.***

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is fast, balanced with entrepreneurship, balanced with risk taking, and which is also flexible. For doing this, there are certain behaviours that we are trying to encourage. Open mind, honesty, hard work, humility – these are things which will build this kind of culture. I am very fortunate that we have a great leadership team - Mr. Mahendra Singhi (Chief Executive Officer and Managing Director), Mr. Ujjwal Batria (Chief Operating Officer), Mr. Jayesh Doshi (Chief Finance Officer), Mr. Ajit Menon (Group Head of Human Resources), Mr. Harish Chander Sehgal (Group General Counsel) and a lot of people under them. We have a team of three thousand executives, out of which one hundred fifty people are Executive Directors and above and that is the Core team and then, there is a Middle Management team. Yes, as you rightly pointed out, the important thing is that it has definitely freed up



***The job of a leader is to get ordinary people to do extraordinary things.***

my time from operations, because there are people much better than me running operations. It has given me much more space to think about strategy. But the thing which I own now is, how do we build this culture and how do we create an environment where people can come and realize their potential? As Sekhsaria ji told me, I believe that the job of a leader is to get ordinary people to do extra ordinary things, which means – focus on strength of the people. How do we create an environment where people can take decisions, where people can make mistakes? How can we create an environment where we can support them realizing their true potential? That is something, which I really want to spend a lot more time

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***Premium brands were something that I started my career with, and I thought that it is something that we should continue in my Dalmia 2.0 journey.***

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on. Having said that, any organization has scope for improvement. While our operations are good, there is still a huge scope for improvement. As we are expanding, we have to manage replicating best practices faster; we have to create more empowerment and push decision making down. Those are things that are a constant effort for me. While we are professionals, I do spend time further contributing to this aspect and building this even stronger.

**Q. When the organization structure was very complex and you had multiple companies, which again had multiple brands, you were also amongst the first very few in the industry who decided to consolidate all brands under one roof. What triggered the thought in your mind that consolidating brands will be a useful exercise from a long-term perspective? Dalmia Bharat is also amongst the first few companies, which started conceptualizing about premium brands and then super premium brands. You have taken the concept of branding to the next level in cement industry and successfully so. From where and how did the thought of premium brand initiate in your mind? Though premium brand is understandable, from where did the thought of a super-premium brand emerge?**

a. As I told you, I started my career in sales and marketing. After my graduation from IIM Bangalore, from 1997 to 1999, for two years, I was heading sales. I took a break from 1999 until 2004 to prove my credibility to my father and that is when jobsahead.com happened. 2004 onwards I came back for my Dalmia 2.0 journey. From my initial stint of two years at Dalmia when I launched two brands, one of which succeeded and one of which bombed, I still remembered that having even a 10% premium in a cement business can really impact your profitability hugely. One of the other insights, which I got, was that if you look at the consumer, he looks at this category once in a lifetime. If you look at Indian consumers, many of them still buy steel and cement on their own to build their house, and they don't leave it to the contractor. It is changing in the cities like tier-1 cities and metros. But in tier-2, tier-3 cities and the rural

areas, people still want to buy cement on their own. The reason for this behaviour is that because, the consumers were cheated when there was control in cement industry. Sand used to mix in cement; sometimes even brick powder was mixed, so lot of spurious cement was sold. When they are building a house, people want trust and reassurance. Hence, we thought if people want trust and reassurance, obviously they are willing to pay a premium for this. A 10% premium is not such a large premium, because the total cost of cement is 10% in a house, so it shifts your project costs by just 1%. Premium brands were something that I started my career with, and I thought that it is something that we should continue in my Dalmia 2.0 journey. The super-premium brand idea came from Lafarge. Honestly, if you look at the 'Concreto' brand, it is the pioneer of this exercise and we frankly never thought that it was possible. We have literally copied Lafarge and I have no shame in admitting that what Lafarge has done, we have just copied and we have replicated it. We will learn from everybody, we will not generate all new ideas, ideas can come from anywhere. The human mind is very imaginative. I want to constantly keep scanning what's working and develop great execution capabilities to pull those ideas, whether invented in Dalmia or whether invented outside and absorb them. The consolidation idea came in because we wanted brands at various price points. When we acquired companies, we had 4-5 different companies, and investors don't like too many subsidiaries. Therefore, we had to ultimately put it into one to simplify the structure. So, in that process itself, the brands got consolidated. And basically now, we have a very clear architecture, where we have these three brands or options to connect to the customer at all price points.

**Q. Beyond super-premium brands, you are the only cement company that has also ventured into cement-made lifestyle and architecture products through your venture 'Craft Béton'. Tell me more about it and how this business is currently progressing? Your goals and agenda on these lines?**

a. The experiment with 'Craft Béton', which is our services idea, is around the concept of making people interact with cement more often. People interact with cement only once in a lifetime. They live around cement – walls, roofs, the floor, but they don't interact with this category. So, the question was – how do you make this category more appealing and sexy, and in that context, somebody came up with this idea that let us build



A Chessboard and a Table made from cement, a couple of products from the range of products offered by 'Craft Béton'.

some lifestyle products which people can interact with like chairs, tables, lamps, wash basins etc. So, we have tried that with a few architects. It is more of a learning exercise right now for us. It is something that we are toying with. It is not yet something, which is core and mainstream, but it is something to keep our mind more consumer-friendly and more consumer-centric. The more we do this, the more we interact with consumers. We come back after these interactions and we think. This is something where we are still on the learning curve, but again as I said, we want to keep the organization vibrant and consumer-centric. Being at *Craft Béton* is a very different business. It requires more creativity. It is a service selling and a little bit of product selling also. But the aspects and skill sets required to succeed in this business – that of being able to create designs – are really very different. Just to keep our mind consumer centric, we are trying to experiment with *Craft Béton*.

***Craft Béton is not yet something, which is core and mainstream, but it is something to keep our mind more consumer-friendly and more consumer-centric.***

**Q. Maybe you should keep a couple of chairs in your office for people to have a feel of your cement chairs?**

a. Yes, it is a very good idea! I think we should change all the furniture of our office. We have tried something in our cafeteria downstairs by way of a gallery for employee feedback, exposure, and engagement with Craft Beton. We have a showroom too at the ground floor of our office building. But it is a very good idea to implement for our office furniture too. We will look forward to doing that.

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***It is a part of the Indian DNA, and not just in my family, to teach right from the childhood, "Do not waste resources".***

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**Q. I recollect a discussion on one of Dalmia Bharat's roadshows in London, where there was debate on how can brand premium in cement be made better. To one of the questions by an investor, Mr. Mahendra Singhi replied by saying that the super-premium brand manufactured by Dalmia Bharat is so good and moisture-proof that he even offered the investor to send across one bag of cement from India. He then requested him to submerge this in the Thames River for 15 days. He challenged him saying when he removes the bag out of the river after 15 days, the cement in bag won't have any moisture – it will still be dry – highlighting the packaging capabilities of Dalmia Bharat. How do you read these statements of Mr. Mahendra Singhi? Do you believe this is true or was it just an exaggeration? Do you see any further room in Dalmia or industry in branding for garnering further better price premium may be by way of improving quality, packaging or whatsoever?**

a. Yes, what Singhi *ji* said is true and not an exaggeration! It is always a continuous journey. Consumer preferences will change. Consumers will demand new things and we have to constantly stay in touch with what the consumer preferences are. There is always an opportunity and we will keep discovering them. Some of them we will practice, some of them we will miss, but that's the nature of the game. But we will learn and we will quickly execute. Overall, I personally feel that in this business, branding is a very important aspect and there are two ways to expand margins – (1) be the lowest cost producer which you anyways have to be in a commodity business and (2) get premium brands as much as

possible. So, you will get highest revenue, lowest cost, and that will give you the highest margin. The strategy we are trying to follow is that we want to do both.

**Q. It is also a belief that since Mr. Mahendra Singhi joined Dalmia Bharat from Shree Cement, he has helped Dalmia Bharat with his skills and ability, which has helped Dalmia Bharat to get a volume edge, as Shree Cement is generally known as a volume-push company. Mr. Puneet Dalmia was always more of a brand conscious person, and hence when Mr. Mahendra Singhi joined your organization, it was a perfect blend of volume and price, which made Dalmia Bharat more successful in its journey of pushing volumes as well as garnering brand premium. Do you think this is true?**

a. Yes, that's true. We combined the strength of both people and we created a better strategy.

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***Very soon just like capital markets allocate capital to the most efficient users of capital, society will allocate resources to the most efficient users of resources.***

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**Q. One more reason Dalmia is getting famous, not just within India but also globally, is because you are now the greenest cement company in the world. Your initiatives on sustainability, reducing carbon footprints, etc., have been attracting a mindshare of all stakeholders. You are now ahead on the curve. How did such thoughts emerge? Why do you believe it is important? What can be the implications for the ones who are yet not environmentally friendly companies?**

a. Right from childhood, we were taught that you have to be environmentally conscious. I remember my grandfather using a pencil which was made of wood and he kept using it till it became so small that it didn't even fit the fingers of his hand and he was unable to hold it. But even after that, he used to put a plastic holder to extend its length and use it. I remember asking him why you use it this way. To this, he said trees are cut to make these pencils and paper. As I read, it is a part of the Indian DNA, and not just in my family, to teach right from the childhood, "Do not waste resources". In the new world as consumerism grew unabated, we just lost focus as to how much resources



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***Our daily life revolves around people whom we don't even meet and they all contribute to our success.***

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we were consuming as a human race, putting so much pressure on the planet. Hence, we started measuring our carbon footprints much earlier, even before it became fashionable. We then found that there was very little data. But then there were the top-24 cement companies who reported this data in one of the global forums, and it was called Cement Sustainability Initiative (CSI). This data helped us evaluate our positioning on this subject. We were ourselves shocked that our carbon footprint is the lowest amongst those 24 manufacturers. We thought that since these are the top 24, it is probably the best set to compare with. We got more active in studying it. As we kept on analysing this data, it was by accident that we discovered that we are the lowest in the world. But believe it or not, just like many Indians, we all lacked the confidence of accepting it. We continued to feel that No! It cannot be possible that we are the lowest. Let us verify it again, and we studied it even more. Once we verified it from many sources, we gained the confidence, and we all became very proud of this fact. But now the

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***We are already 5x water positive and by 2025 we want to be 25x water positive.***

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question is how do we stay here? It is not a race for us amongst the top-24 companies. Everybody should try to lower their carbon footprint, because it is a responsibility that we have towards the planet. The real question for us now is not bringing our carbon footprint lower, but to take it down to zero or negative. We have therefore announced that by 2040 we will be carbon negative. We don't have all the answers yet, but the fact that we made this announcement is bringing us so many ideas and making us meet so many new people that we are getting some sense of how it will be made possible. We are continuing on this journey. In this journey, something more also which came up to us is about being water positive. We are already 5x water positive and by 2025 we want to be 25x water positive. I believe every company

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***We have announced that by 2040 we will be carbon negative.***

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in the world has to take this mission seriously and this is open-source information. It is not just about competition but it is about our responsibility. I would say that very soon just like capital markets allocate capital to the most efficient users of capital, society will allocate resources to the most efficient users of resources. There will be societal pressure to not give resources to those people who use it irresponsibly. So, it will become a business imperative. Before you are forced to do something, it is better to do it by choice and by sense of responsibility.



The Board Room of Dalmia Bharat decorated with shades of the Indian Flag & the State Emblem of India, in-line to the patriotic spirit of Dalmia Bharat

**Q. Another observation I have about you is that you are highly patriotic person. When I interact with many other industry leaders, the key difference which I feel is that most other leaders want to make their company or brand name a synonym to cement, but for you, the vision is a bit different, by making Dalmia synonymous to India (or Bharat). You have also adopted great monuments such as Red Fort and Gandikota Fort under the 'Adopt a Heritage' project. Besides these sites being a solid branding platform for you, are these adaptations in sync with your patriotic goals?**

a. First of all, I am grateful and honoured that I was born in India. I have personally got so much from this country, just like everybody else in my family, and in our company. Like so many privileges and rights that we have got from our country being a citizen, it is our responsibility to focus on our duties and contribute back to society. In our success, a lot of people play a role. A farmer somewhere in his field produces the food that we eat, the roads where we drive our cars is built and constructed by some

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***We have to give back to India. We have to support the journey where more people can access and benefit from the growth of India.***

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contractor, the electricity which lights our house and office is generated by someone in their power plant etc. Our daily life revolves around people whom we don't even meet and they all contribute to our success. Therefore, it is our responsibility to give back to society and make sure that we are giving back to people who don't have the same amount of privilege and luck as we have. Only with that there will always remain a balance in society. If I look at the Indian journey, we have moved from semi-socialism to capitalism. The way the last 70 years have been, a miniscule percentage of the population, or say just five hundred to thousand people, have disproportionately benefited from India's growth. I remember in my batch from IIT, Delhi, c.90-95% of the people went overseas. Why do these people have to go out? They have to go out, not because India doesn't have opportunity, but because it is difficult to work in India. There was corruption and the system was gamed! There are some people who cornered resources. Why can the United States of America track this talent and how can these people work there. So really speaking, the question now is, how does one get these opportunities to work in India to a broader set of Indians in the next 20-25 years? For this, all of us have to contribute. We have to support policies, which sometimes are against us with a belief that if India grows, we all will also grow. India should not be an exclusive preserve of a hundred or thousand families but millions of middle-class Indians who have entrepreneurship skills and who are hard working. They should benefit from it. We have seen this happening in the US. That was the American dream, which Americans were living, why can't this be an Indian dream? With the current government, more transparencies are coming in and the governance is improving. This will help make the Indian dream very powerful and it will be a great story. I heard recently that seven unicorns were created last year in India and overall, there are twenty-four unicorns in the world. India has one of the highest shares of unicorns in the world and amongst the top three globally. Clearly, India is offering great opportunity and there are now more than ten thousand start-ups, which

are competing. We have to give back to India. We have to support the journey where more people can access and benefit from the growth of India. In this context, we have taken the Red Fort. It's an iconic monument. I have grown up in Delhi and have been visiting this monument several times. It's a monument that is connected with our story of Independence. All Prime Ministers speak from there; Indian National Army trials were held there. We want to provide the visitors of such monuments a world-class experience. If we go to the *Louvre*, or such other historic monuments around the world, it is a world-class experience for us. Here, we are going to provide some new experiences, which can help the visitors get a better cultural experience at these monuments.

**Q. Is patriotism also a reason why you choose to have the colour of the flags incorporated in the logo of Dalmia Bharat?**

a. Yes. The logo idea of Dalmia Bharat is definitely from the Indian Flag.



A newspaper advertisement of Dalmia Cement in The Times of India on 15<sup>th</sup> August 1947.

**Q. Dalmia Bharat is also amongst one of the oldest cement companies in India and the journey of putting up the plants started way back in late 1930s with the first plant commissioning in 1939. You did lose a couple of your cement plants during the course of partition of India and Pakistan. Is this also a reason that patriotism is deep-seated in many of your family members as it is fair to assume that many of your elders would have been a part of the war of Independence?**

a. Yes, there were many family members who were a part of the freedom struggle. There is deep-seated patriotism in the family culture. It is also true that this company is a pre-independence company and we had plants in Pakistan. Because of the bloodshed during the partition and the war of Independence, we had two plants, which the group lost at the time of Independence.

**Q. I recently got an opportunity to show you a detailed presentation on supply-chain. As per your assessment do you believe that there is credibility to the arguments presented in the said investment thesis?**

a. First of all, I buy the argument that those supply-chain inefficiencies exist in every company whether it be in greater or lesser degree. There is always an opportunity to be more efficient. The amount of effort and rigor that is brought to plant costs whether variable costs or fixed costs, the same amount of intensity and rigor is sometimes not brought to the supply-chain. The reason is because, it is very difficult to say whether it affects sales or not. Sometimes, people say the sales will get affected and this is a black box and let the sales people take decisions. And when the sales people take the requisite decisions, it has to be evaluated whether volumes will take precedence or efficiency will take precedence. Sometimes they don't make efficient trade-offs. There is also lack of transparency in the supply-chain because it is all a local business. With technology, a lot of efficiencies can be introduced in the supply-chain. I do believe the arguments thus presented by you have credibility and great opportunity.

***I buy the argument that supply-chain inefficiencies exist in every company whether it be in greater or lesser degree.***

**Q. Dalmia Bharat is a company that has been build up through lot of assets which were acquired assets and which were highly inefficient at the time of acquisition. My supply-chain thesis proves that Dalmia Bharat has been able to transform a lot of these inefficient assets into efficiency parameters at par to the industry. Dalmia Bharat has done the same consistently with not one but many such acquired assets. How do you read**

**the opportunities available in the supply-chain for Dalmia Bharat? Do you also believe that production efficiencies are manageable and it is mainly supply-chain where the ultimate delta lies?**

a. Yes. Though we have been able to replicate our production efficiencies at most of our plants, supply-chain is something that we at Dalmia Bharat are committed to improving further. I am sure there is lot of opportunity here, which we don't even fully know or understand. It is an area that we are working very sharply towards, and I am sure there will be more juice extracted in this space.

***Supply-chain is something that we at Dalmia Bharat are committed to improving further.***

**Q. My ground checks also tell me that in the recent past, especially past few months you have been getting more directly involved with the ground. Is this to review your supply-chain mechanisms?**

a. No, this is not to review our supply-chain mechanism. It is not about individual supply-chain issues or plant issues. But like I said, what I am deeply involved in is culture and resetting the goal post, and pushing us out of the comfort zone. We have now reached a certain stage, and I believe we have been reasonably successful. As you become successful, and as you reach a certain stage, sometimes complacency sets in. And again, you have to push yourself out of the comfort zone, as there is inertia. I want to reset the goal post. I want to tell my team, yes, we have done a great job but past success is not a determinant of future success, and therefore we have to reset the goal post and push ourselves out of the comfort zone and reimagine how to build Dalmia 2.0. To do that, I want to get involved a bit more deeply to look at culture, how people are thinking, and what kind of talent is there five levels below. This is the exercise I am involved in right now.

***I am deeply involved in building the right culture, resetting the goal post, and pushing us out of the comfort zone.***

**Q. Talking about concerns, it is a generic belief that Dalmia Bharat is all about earning income through incentives. On many of the earnings calls we have been hosting, a lot of the questions keep on rotating around incentives. Many of your competitors too argue that your numbers look high only because of incentives. As a promoter of the company how do you really look at incentives, do you believe the said arguments are true or do you defend it?**

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***The story of incentives cannot be valid forever, and if it valid for ten years than it is a sustainable story.***

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a. I have a very simple answer to this. I don't know what my competitors say and it is their right to say whatever they deem fit. But from my perspective, we don't look at a one-year number. We have looked at ten-year average EBITDA, we have looked at five-year average EBITDA and I am proud and happy to say that on a ten-year average and a five-year average, we are the best in the industry. Our EBITDA/tonne is the highest amongst the top-five cement companies by market capitalization. This story of incentives cannot be valid forever, and if it valid for ten years than it is a sustainable story. To counter argue, I have a very simple question. I just look at my EBITDA/tonne and then I look at sustainability. Now the question is what is the period on which you have to look for sustainability. From my perspective, five years and ten years is a good number to look at, but if you want to look at twenty years, we can look at the twenty-year numbers as well. We have a sustainable story in terms of profitability. We are the most profitable in India in terms of EBITDA/tonne and again I reiterate I don't look at one year or two years. Sometimes prices are better, sometimes some event happens in some region, but it all evens out and averages out over a five-year or ten-year period. When I look at that matrix, we are an outperformer. The question now is – how do we look at the future. As I said, we will continue to deepen this journey of price and cost leadership. On both these areas we have enough scope and we can learn from the best practices of our competitors; we can replicate best practices of one plant in another plant and that is the journey we will undertake.

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***There was no question about Mr. Mahendra Singhi leaving Dalmia Bharat at any point of time.***

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**Q. A rumour that was spread multiple times by your critics is about Mr. Mahendra Singhi retiring or leaving Dalmia Bharat. Was this also a reason that you elevated him to the position of Managing Director & CEO at Dalmia Cement (Bharat) Limited? How will you like to address this concern?**

a. No, not at all! Mr. Mahendra Singhi was already the CEO of the business. There was no question about him leaving Dalmia Bharat at any point of time. If you look at his career, he has been a very stable person. He has been with one company for nearly two decades. He is not going to jump ship. As I told you, we clicked very well philosophically with each other, and that is the reason why he is here. What you have highlighted as a concern or rumour spread by the critics was never an issue. We wanted a Managing Director & Chief Executive Officer once we combined and merged all companies and created one company. Mr. Mahendra Singhi was the natural choice for this post.

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***My father has taught me to be more cautious.***

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**Q. Another concern is of once again making the holding structure at Dalmia Bharat complicated in case you choose to raise equity for any of your expansion plans in the future through private equity or something similar. It is a belief that you may once again break the structure to accommodate your future partner, if any. What is your take on this concern?**

a. Clearly, we don't need capital right now. We are 1.5x debt:EBITDA and all our expansions are not increasing our debt. Profitability is going to grow and the ratio will come down further. This being a commodity business, my father has taught me to be more cautious. Hence, I believe, for now, this should not be a concern.

**Q. You had a legal war for the Binani Cement acquisition with one of the large cement majors. Today when you look back, how do you see this unfortunate war? Is it something you still carry? Will it impact your future business methodologies? Does your pan-India vision stay intact by entering north India, because that is where the 'Bharat' story will be completed in totality?**

a. On Binani Cement, we have moved on. We bid for





Mr. Puneet Dalmia receiving the EY Entrepreneur of the Year - 'Manufacturing category' in 2017.

### ***On Binani Cement, we have moved on.***

the asset but UltraTech Cement ultimately won. You win some, you lose some and that is ok. We will continue to evaluate opportunities that make sense from a risk return perspective. In this business, it is important to choose very carefully diversification vs. strengthening your position in a particular market. Those choices always exist. As of now, we have strengthened our position in the east, with the east expansion. We have pipeline of projects in north, central, south and east India and we would prioritize that portfolio as we will deem fit. It's a question of diversification vs. strengthening the market position and it's a dynamic balance. Over a period of time whatever risk return opportunities come our way, we will look at them carefully and make a choice at that time. So, I am not saying that we will achieve 'X' in 'Y' time frame. What is important to

***What is important to us is to make sure that all moves are sensible, and that they stack well on a risk return trade-off basis.***

us is to make sure that all moves are sensible, and that they stack well on a risk return trade-off basis.

**Q. We read few media reports about you investing your personal wealth in start-ups like 'Prithu'? Is it because of your personal interest that you choose to invest in such start-ups or do you see opportunities here that can later offer synergies with Dalmia Bharat? Tell me more about your interests in such entrepreneurial ventures**

a. I like backing entrepreneurs and I learn from them. Therefore, I have made these investments. I have no role in those ventures other than just being an investor. There are competent people who are running those businesses. It is something that once in a while just keeps me more stimulated and alive as people are thinking of new things. I don't think it has any synergy with Dalmia Bharat.

***I don't think my personal investments have any synergy with Dalmia Bharat.***

**Q. What was the rationale for the investment made into Indian Energy Exchange Limited (IEX) by the group? Why was this investment made, and what is the road forward to it?**

a. Power is a state subject, and it is a big part of the cost structure in the cement industry. Because power availability for cement production was not reliable, cement firms were forced to invest in power plants. We have close to 180 MW of power plants in our portfolio. While we did invest in captive power plants, we thought that it is not the best use of our capital. We then bought a stake in IEX for around ₹4.5bn. We thought that this investment would give us a lot of insight on how the



Mr. Puneet Dalmia participating at Future Collective (FC) - a 'conscious culture design fair'. Sitting left to Mr. Dalmia is Mr. Amitabh Kant (Chief Executive Officer - National Institution for Transforming India (NITI)). The intent of FC is to regenerate Indian design that is cutting-edge and sustainable, created through Indian design's core strengths and traditional learning that addresses the changing consumer needs. FC made its debut at the iconic Bikaner House on 29<sup>th</sup> February 2020.

power markets in each of the states is evolving. It will help us understand the thinking of the power generators and its buyers. Based on these learnings, we can plan our power procurement strategy and optimize our power costs. It will also give us a good understanding of the regulations, which will shape up in the power sector in the future. Fortunately, these thought processes have come true. Our IEX investment has given us immense knowledge on all these aspects, and we are using this knowledge very systematically. It was a very good investment. It is not just giving us capital appreciation, but a yield of c.6% in terms of dividend, as there is a lot of free cash flow in the business. It has benefited on both, from knowledge

as well as the returns perspective. But we have got a feedback from lot of investors on how do we strategically better position ourselves here and these feedbacks are under consideration. We will definitely share our future thoughts on these investments by the end of FY21.

**Q. You have had a very tough and long journey of transforming the corporate governance standards at Dalmia Bharat in the last decade. The recent unfortunate episode of ₹3.44bn being allegedly stolen from your books has once again put an unwanted question mark on Dalmia Bharat's corporate governance standards. Many have even said to me that such a fraud was impossible without your knowledge. Though you have also acknowledged publicly that one of the key learnings from this episode for yourself and your company is to get engaged only with people and institutions with very high credibility henceforth, has there been any learning internally within the organization? Have you identified any loopholes? Many wonder why Dalmia Bharat was at all get engaged with a third-party broker who didn't have great credibility. What is your take on these concerns?**

a. We have learned through this incident. Our internal controls could have been better. But having said that, it is very difficult to protect yourself against fraud and forgery. Even if I look at our systems today, we have really engaged ourselves by doing third-party audits and we have also done our own checks. We have strengthened our systems on the basis of what we know. But I still cannot guarantee if there is a forgery or if there is a fraud. Can you prevent against a forgery and a fraud and underwrite any system? Even in Goldman Sachs, we have seen that there was fraud. Even with the best systems, you can't safeguard against fraud and forgery. But again, having said that, we have learned from this episode. To the extent we can look at managing risks and strengthening our systems, we have taken corrective actions. The second point is about people saying that we were involved in the fraud. To that my answer is that, we were the complainants to the fraud. We complained to the police and the SEBI. And both of them have done audits on us beyond looking at involvement of the Depository Participant and IL&FS. It

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***To the point of people saying that we were involved in the fraud, my answer is that - we were the complainants to the fraud.***

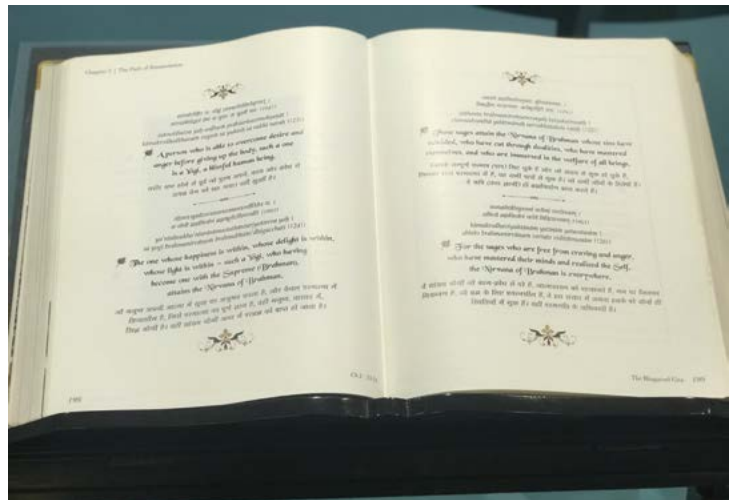
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## ***People make comments, and I am not responsible for what comments people make.***

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has been almost a year since this episode happened. If I look at it, the police have charge-sheeted and arrested the broker. One of the people from IL&FS has also been arrested. Both of them are co-accused in this conspiracy. SEBI has also served a show-cause notice to IL&FS and it has frozen the assets of Allied Financial Services. Both the investigations have given Dalmia Bharat an absolute clean chit. I do not understand on what basis people make such statements. There was a statement made against our CFO by one of the magazines; we filed a defamation case. Now those people are coming up to us and giving us an apology by saying we will withdraw the story. They are requesting us to withdraw the case, but we are not accepting their apology. People make comments, and I am not responsible for what comments people make. Ultimately, we will do our best to get the money back. We have already taken corrective steps to improve our systems. But at the same time the caveat for me is that you can never ever underwrite a forgery or a fraud, in any system no matter howsoever good that system is. If it was forgery, somebody forges our signature and takes it away, what can we do. But still to the extent we can, we are going to protect ourselves. About the relationship with the broker, this was not a broking relationship. This was just a Depository Participant relationship. It is like opening a locker in a bank. If you open a locker in a bank and somebody takes your money out of the locker, for that matter, the bank itself takes the money out of that locker, how can you ever even think about it? So now we have learned. We never thought that in a Depository Participant account where there is no power of attorney, where there is no trading account, somebody could take money out like this. We never thought somebody could loan the money to himself and pledge it for an option trade. This was a very well-conceived fraud and we were the victims. We could not ever imagine that such a thing can happen. Now we are wiser and we have taken corrective steps to plug our systems and that's about it. One of the learnings is to avoid relationships with intermediaries where there is conflict of interest. Earlier, the debate was can you do a Depository Participant relationship with an intermediary, which is a bank? One of the arguments in the debate was that if there is a difference with the bank, the bank can dip into the assets where it is also a Depository Participant, and hence

this relationship is also risky. This happened in one of the cases where IL&FS adjusted some dispute, as I understand. So, the intermediaries should have minimal conflict of interest. More so, these are SEBI approved intermediaries. We thought if SEBI has done a due diligence and given a license, who are we to double check? But now our standards are going to be much higher. I don't know whether any renowned intermediary is the right institution to have a Depository Participant relationship, as many such intermediaries also have conflict of interest. We have decided that we will do our own due diligence by looking at factors such as net worth etc., before we select a new relationship. Just look at Karvy Stock Broking episode, which was a leading service provider with a good market share. More than 80,000 investors were impacted and the



A copy of Bhagwad Gita on display at the office of Dalmia Bharat Group.

money was stolen. Even the leading service provider's system is bad. The same people who did not believe us earlier, after the unfortunate episode at Karvy Stock Broking, started believing us. They said yes, it is possible!

### **Q. What will be your message to your investors?**

a. My message to my investors is very simple. We are trying to build an institution; we are trying to build something which is very sustainable and distinctive. Dalmia Bharat will be a company which will grow, which will be profitable and which will have a cautious risk profile.

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***We are trying to build an institution; we are trying to build something which is very sustainable and distinctive.***



**Q. In the growth journey of Dalmia Bharat – whom do you recollect the most as your constant support till date?**

a. I would say the entire team and my family has been a tremendous support. I cannot recall just one person. There were ups and downs and my family has always backed me and supported me. And even the entire team for that matter. People have worked long hours; my people have sacrificed their family time. So, I cannot recall one person. Everybody has really contributed tremendously in building this institution.

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***If my children wish to join the business, they must be professionally qualified. They must earn their position.***

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**Q. You have two children – one daughter and one son. Tell me something about them. Will you also like your children to be a part of the family business? Did you ever have an opportunity to take them to your plants and bring them to your office?**

a. My daughter is fifteen years of age and my son is twelve. Yes, they have seen our plants, and they have visited the office as well. But I want to encourage them to do what they want to do in life. I would not force them to join the business if they don't want to. Having said that, if they wish to join the business, they must be professionally qualified. They must earn their position.

**Q. I also know that to keep**

**your children grounded, you make them use public transport for schools, etc. Why do you believe that keeping them grounded is so important?**

a. As I see, being humble and grounded is one of the most important characteristics to remain happy! If you are in an ivory tower you will always lose touch with yourself and the world. It is important they understand that we already have a fiscal disadvantage because we live in a bubble. I believe it is very important for



Mr. Puneet Dalmia along with his son, feeding school children at Radha-Kund, Goverdhan, Mathura – a town having immense holy importance in Hindu mythology.

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***Being humble and grounded is one of the most important characteristics to remain happy!***

them to connect with the real world and society. I do this for them and I do this for them to be happy.

**Q. What do you to enjoy apart from your business? Your favourite past times and hobbies?**

a. I love listening to old Hindi songs and I love playing table tennis.

**Q. Your favourite holiday destinations? How often and with whom do you generally holiday? Are your holidays pre-planned or it just happens?**

a. My favourite holiday destination is Maldives. I take a lot of holidays. I take holidays with my parents, with my wife's parents, and with my kids, so I take at least 4-5 holidays in a year. They are all planned holidays.

**Q. Your role models?**

a. Both my parents.

**Q. Your favourite cuisine. I believe you always have some chat masala on your table, is that right?**

a. Yes, that's right. I like Indian cuisine. Chat items like Pani Puri, Aloo Tikki, Papdi Chaat and whole range of street food. Those are my favourite delicacies.

**Q. Which are the cement companies you admire?**

a. I admire UltraTech Cement for their bold vision and execution, phenomenal M&A, and integration capabilities. I also really admire Shree Cement for their cost curve and for their very consistent strategy and a simple business model.



**Q. Who are your best friends and mentors in the industry?**

a. One of my very close friends is Mr. P. R. Venketrama Raja, Chairman & Managing Director, The Ramco Cements Limited. One of my very close mentors is Mr. N. Srinivasan, Vice-Chairman & Managing Director of The India Cements Ltd.

**Q. What is the first thing you do when you go back home after a hard day of work at office?**

a. The first thing I do is I hug my kids. I then spend time with my family before I go to sleep.

**Q. What is one thing at Dalmia Bharat which you have not been able to change, which was in your wish list?**

a. How do I get people to take the fear out from committing, is something that I have not been able to change. Many times, people are very fearful to take big goals and to commit to them. How to take the fear out of the equation is the constant struggle I have with my people. Many times, when we are dreaming big, people don't engage in that conversation because they feel that now they will have to own it, and if they fail what will happen. When you are talking milestones and dreaming big, how I can take the fear of failure out from them is the challenge for me. That is something that I will really like to change at a large scale in Dalmia Bharat.

**Q. What is the one thing which you will never like to change at Dalmia Bharat?**

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***How do I get people to take the fear out from committing, is something that I have not been able to change at Dalmia Bharat.***

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a. I will never like to change the humility and the human touch of Dalmia Bharat.

**Q. In the whole journey of transformation of Dalmia Bharat, what is one thing that you think you have carried forward from the legacy and which you have not changed?**

a. It is again the humility and the value system, which I have carried forward from my legacy.

**Q. In the journey of transformation of Dalmia Bharat, any incident which stays as a fond memory with you and the most unpleasant incident, which you wish hadn't happened?**



Mr. Puneet Dalmia along with his wife and kids during a visit to his alma mater, IIM Bangalore.

a. One thing which really stayed with me is when KKR got an exit and when they made money. They had really made a bet on us when we were following an ambitious and risky strategy. They stayed with us throughout and when they made 3.3x their money that was a very satisfying moment for me. Another satisfying moment is when the Employee Stock Ownership Plan (ESOP) was vested and the stock price had gone up to a level where everybody made a lot of money, much more than that anybody could have imagined. Third satisfying moment is when we discovered that we are the greenest cement company in the world. Those three moments have been very satisfying. Unpleasant incidents, there have been many. The ones which stand out – when we are building plants or when we have been stabilizing plants, there have been times when there have been fatal accidents. Those are very painful and touching moments. And despite our best efforts to have a better safety standard, every three or four years one incident happens. While it is a statistic in the Board Room, in the life of that family it is a shattering incident. How can we prevent these things, how can we be more responsible, how can we learn from these incidents is our constant introspection. To have a 100% safety track record is something that we would like to achieve. Despite huge investments in training, in people, it is very painful when we hear of these incidents. If we can do better on the safety aspect and protecting human life, it will be pleasant for me to hear.

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***To have a 100% safety track record is something that we would like to achieve.***

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**Q. Not all cement companies believe in ESOPs, including some of those whom you admire. Why then do you think that ESOPs are important for boosting employee morale?**

a. I agree that money cannot be the sole motivator for anybody but it is something which is important for people. I personally feel if you make people an owner, they start thinking very differently, because they are also invested in the long-term success of the company. Sometimes people don't value it as much, but when they realize how valuable it can be, it aligns the interest of everybody. It allows people to take a more long-term view. If money is not important will somebody work at fifty percent of the salary if you just give them a challenging job? I don't think so! Though money is not the sole motivator, it is an important factor. It is important to get people to look at the long-term and at sustainability. For example: if you just look at bonuses, you can change the profitability of the company by changing accounting policies and the way they are booked in books of account, but the real wealth creation is if you have sustainable and consistent numbers over a period of time. So, I feel ESOPs is also a way to give long-term rewards to people.

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***I personally feel if you make people an owner, they start thinking very differently, because they are also invested in the long-term success of the company.***

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**Q. Some of your social initiatives are also driven by patriotism. Dalmia Bharat was engaged with the initiative of a fund-raiser for family members of Martyrs called 'Bharat ke veer'. Please tell me more about this.**

a. I thought it is our duty and duty of the society to take care of the families of these Martyrs. Their life stopped because they ensured that our life keeps running. In alignment with these thoughts, I spoke with many of friends and I came to know about this initiative called 'Bharat ke veer'. It was launched by the earlier Home Minister – Mr. Rajnath Singh. I met and spoke to him. I said I want to do something for this. He was pleased to hear our initiative and we then organized a function. The function was very nicely conceptualized and Mr. Kailash Kher composed an anthem too. We were able to video shoot the family of these people to really highlight what happens in their life when the bread earner of the family gets Martyred. It

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***It is our duty and the duty of the society to take care of the families of Martyrs***



Mr. Puneet Dalmia and his wife handing over the contribution cheque on behalf of Dalmia Bharat group for being part of initiative 'Bharat ke veer' to the then Union Minister for Home Affairs of India - Mr. Rajnath Singh (extreme left).

just came out of a simple fact that it is our duty to take care of their families. The Martyrs and their families are making the ultimate sacrifice to take care of our families. I am very happy that when we did a fund-raiser here, we were able to raise ₹160mn in one day. We then spoke to the Home Ministry to suggest that if there can be an annuity payment which can go to the Martyr's wife and only in some specific life events or incidents, like payment for kids education or marriage it can be paid in lump sum, rather than the current practice of payment of ₹1.5mn to the family as lump sum. They are thinking about it. When such lump-sum amount payment happens, at times such amount is unfairly taken over by family members like father-in-law or brother-in-law, and the widow of the Martyr remains empty handed. So, it was just borne out of this fact that it is our duty to make sure that we do something for these family members as a sense of responsibility. I got a lot of support from people. I have seen and experienced that when you start an initiative with a good intent and noble thought, a lot of support is forthcoming.



Mr. Puneet Dalmia addressing the gathering at 'Bharat ke veer' function.

(From left to right) Mr. Gautam Dalmia, Mr. Puneet Dalmia, Mr. Akhsay Kumar (A renowned personality in the Indian film industry, Mr. Yadu Hari Dalmia, Union Minister for Home Affairs of India (Ex) - Mr. Rajnath Singh, Minister of State for Home Affairs (Ex) - Mr. Hansraj Ahir, Minister of State for Home Affairs (Ex) - Mr. Kiren Rijiju) at the 'Bharat ke veer' function organised on 20<sup>th</sup> January 2018 at Teen Murti Bhavan, New Delhi.

**Q. Any other philanthropic initiatives at Dalmia Bharat, which you can recollect and share with us?**

a. Like I said when you start with a noble thought and good intent, a lot of people join in. We were engaged in a similar fund raiser for Ashoka University, where we have collectively raised nearly ₹10bn. We will get nothing out of it. For us, it is just building an institution, which is not related. The aim is to make scholarships available to people who have the talent, who are hardworking and to build good leaders. We are also doing some work in our private foundation on value education for kids, though it is yet in a testing phase. The program is called 'Sampoornam'.



An extract from the detailed program brochure of Sampoornam.

*I have seen and experienced that when you start an initiative with a good intent and noble thought, a lot of support is forthcoming.*

We are working in Delhi schools where we are training the teachers. There are some simple values, which we are preaching and teaching like kindness and truthfulness. These are heart values, which we make them teach through stories. Initially, we started this initiative by going to some private schools. But then the Delhi Government called us and requested us to come and teach in public schools too, so that they also benefit from it. Today it is being run in thousands of schools in Delhi and though in testing phase, it has got very good feedback.

**Q. To sum up, where do you see Dalmia Bharat thirty years down the line, and what will you like Dalmia Bharat to be remembered as?**

a. We see ourselves amongst the top-three cement companies in India. I would like Dalmia Bharat to be remembered as "a company that allowed their people to realize their potential!"









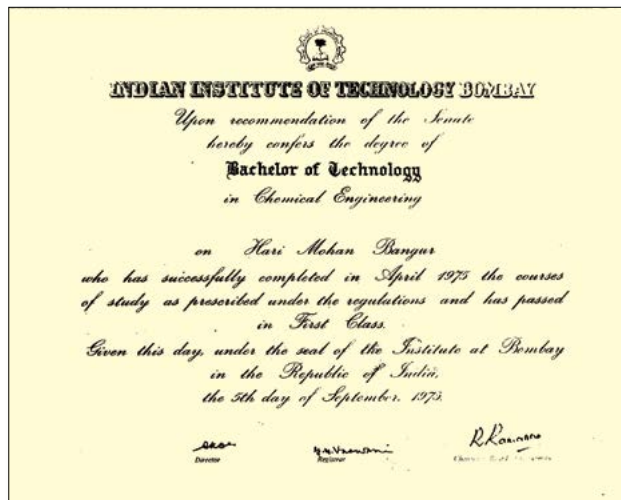
**INTERVIEW - Prashant Bangur**  
Promoter & Joint Managing Director, Shree Cement Limited

Mr. Prashant Bangur along with his father - Mr. Hari Mohan Bangur (left) and grandfather - Mr. Benu Gopal Bangur (sitting).

**Q. You joined Shree Cement as a Senior Executive way back in 2003 when you were nearly 23. This is almost a year after your father took control as Managing Director from your grandfather and Shree Cement was yet in a transformation phase then. Was your father the inspiration and motivation for you to join the family business or was it your own inclination?**

a. My father graduated from Indian Institute of Technology, Bombay, in 1975. Thereafter, he joined a few other non-cement family businesses for some time, and then Shree Digvijay Cement, which was also a joint family business then, after which he joined Shree Cement in 1992. Though he took charge as Managing Director only in August 2002 from my grandfather, he was engaged in the cement business from the early days of his professional career. He was well aware of all the nuances of the cement business and he was also a guiding mentor for me throughout. After I completed studies, and when I was about to begin my professional career, my father gave me the flexibility – and he was open enough to give me an option about whether I want to be in Shree Cement, or engage myself in some other business. So, at that point, I visited multiple industries – a paint company which was on sale at that time, a couple of industrial chemical plants that were potential takeover targets. This was just to explore the option of continuing in cement or making a choice otherwise. But at the end of the day, I thought that the whole idea of being in business is to grow

and cement industry did in fact offered me enough potential to grow and expand. In India at that time the GDP per capita was pretty low at c.547 US dollars p.a. and as the GDP per capita grows, we have always seen that the cement consumption also grows. The whole idea for me was to be in an industry which has enough potential to expand and grow and as such cement is a large industry. Also, because of the experience of my family and given their familiarity of the business, it didn't make any sense for me to



The 1975 Graduation Certificate of Mr. Hari Mohan Bangur from IIT Bombay.

explore outside of cement. So we discussed it, we explored outside cement, but then we realized that this is the best business for me to be in. It was a conscious and considered decision to stick to this business and not to diversify in my early years.

**Q But personally, did you ever have an ambition or intent to invest money in any other business?**

a. As I told you, my father was very clear and flexible towards my

decision. He told me to explore all opportunities available in every corner across the length and breadth of the country and do what I like the most. Hence, I evaluated the paint business and specialty chemical business as my business ideas at that point of time, but then I dropped these ideas. I took our technical team along to such places where these businesses were on sale, and after a joint consultation we decided that my idea is not worth it, especially after keeping Shree Cement in perspective. But, more than a joint consultation, maybe it was also just a gut feel, or a feel that you gather after visiting so many places that these are not the places you want to be. Ultimately for me I decided cement was the place to be in.

**Q. You have worked as a trainee at Ernst & Young (E&Y) and then pursued your management studies. You have a Hons. in Mathematics**

**and you always also excelled in mathematics too as I understand. You have very good professional qualifications. With your skill sets and resources, you could have easily been an entrepreneur, as that was also a phase of booming new ideas and new ventures. Did it not excite you to be an entrepreneur? Though you say you chose cement because of the visible growth potential, but it was still not considered to be a very lucrative business opportunity, and for you it was a question of where you place yourself at the beginning of your career?**

a. Though cement was not



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*Our philosophy since the very beginning was always to be the most efficient, to be technologically innovative, and to be the benchmark for the industry – and this is what we strive to achieve every day, even today.*

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lucrative at that time, it was still a large business and also a business of the future. We today have substitute for almost all other products but we still don't have a substitute for cement. It is by far the cheapest commodity you can come across. I will not say cement will never have a substitute as it will be a 'tall' claim from my end and the world is changing, and even at that point of time, it was not in anyone's minds that cement could never have a substitute. The only concern we had then was that though cement was always an attractive business, the business just didn't make enough money. But this doesn't mean that it cannot make money. Around 1993-1996, there was a cycle where all of them made a lot of money. So, at the end of the day, it is a commodity and in commodities, there are cycles, so it was just a bad cycle but a good business. Good businesses can have bad cycles. The picture was therefore clear in my mind that being in cement should be my career choice.

**Q. Apart from evaluating the ideas of paint and specialty chemical businesses as your ideas, did you ever venture into a business where you may have tasted business environments before joining Shree**

**Cement, which I am not aware of?**

a. My trial evaluation or exploration of paints and specialty chemicals by visiting a couple of plants, which were on sale at that point of time was only to explore whether I want to be in the cement business or outside. It was never the case that I had my hands in any of these businesses, as a trial business venture to explore my entrepreneurial skillsets before I joined Shree Cement. It was just to explore different things before I decided that cement is the business that I want to be in.

**Q. What were the thoughts that came to your mind when you joined the family business? Did you ever visualize the potential then which you, your father, and the team work at Shree Cement has unearthed today and which was once almost on the verge of being sold off to a European major?**

a. The potential was considered in a way that the cement industry is large and globally it is the construction industry to be present in. But to be frank and honest, we never considered that we could grow so large in cement. Having



Mr. Prashant Bangur along with his grandfather, father, mother (sitting extreme right) and wife (standing left).

said that the philosophy at Shree Cement has always been that – it is not important how big or large you want to be but it is always important how relevant you are in the industry at large. Our philosophy since the very beginning was always to be the most efficient, to be technologically innovative, and to be the benchmark for the industry – and this is what we strive to achieve every day, even today. We may be 40mn tonnes p.a. capacity today, but I would rather like Shree Cement to be not known as a 40mn tonnes company, but the most innovative cement company in India or the world rather. What drives me or what is more relevant to me is not the size, but the efficiency and how you run the business. In 2003, when I joined Shree Cement, the whole idea was not to grow in size or to achieve a particular number, but to do things correctly. Even the smallest of things, if it is logical and if it is saving even 10 paise to a tonne, we will always still do it, because it is the right thing to do. The culture was eternally driven by doing the right things and doing things more efficiently and more innovatively rather than size. But to answer your question very frankly, we could never visualize at that time that we would be so big. The driving force even today continues to be not to grow in size or to take size from 40 to say 50 or 60 (million tonnes p.a. capacity), but be an industry leader in terms of efficiency, innovativeness and overall comparable industry benchmarking parameters.

**Q. What was your suggestion to your father when he decided not to sell-off the business? Was your opinion also taken by your elders and did you have a different view vs. them then, if any?**

a. As you know, I joined the business in 2003 after I graduated from the Indian School of Business, Hyderabad (ISB). The business was likely to be sold off around 1999. At that point of time I was still studying in college and not involved in business at all. So, my view was not sought and neither my elders even thought that my view should have been sought. I too did not provide any view to them proactively. I was completely hands-off at that point from business. To put in simple words, I was not even relevant then. To understand the nuances of business or to understand the implications of having a large debt was beyond my comprehension.

**Q. As a child, did you accompany your father and grandfather to cement plants and interact with them to learn more about your family business? Did these plants ever fascinate you then? When did you first visit your office?**

a. As a child, I used to go to our plants twice every year and it used to be always a family trip. But I would like to tell you that when I use to see such large machines and infrastructure, yes it always fascinated me. The scale of a cement plant as you may be aware is huge and so is the expanse of the machine. The size and the volumes that they handle were

***Till the time I was in college or school, I had never ever visited office. I was never involved in work at all. Rather till the time I completed my post-graduation and finished my higher studies I did not go to office at all.***



Mr. Kumar Mangalam Birla (Chairman, Aditya Birla Group) felicitating Mr. Prashant Bangur at his Graduation & Convocation Ceremony at ISB, Hyderabad in 2003.





Mr. Prashant Bangur along with his family for the Annual temple visit at the Plant. This event happens every year in the month of February.

always fascinating to me. But again, like I said, in our family, it was a clear distinction between college and office. Like many other Kolkata business families or generally what happens in business families in India, as in when the young generation joins college, they also join office simultaneously, it was not the case for our family or me. For me it was always a very clear distinction between academic career and professional career. Till the time I was in college or school, I had never ever visited office. I was never involved in work at all. Rather till the time I completed my post-graduation and finished my higher studies I did not go to office at all. After finishing my college in 2001, I did B.Sc. Mathematics in Kolkata. Post completion of B. Sc. Mathematics, I did an internship at E&Y for nearly a year and thereafter I joined Indian School of Business (ISB), Hyderabad. Hence, you will be surprised to note that till the time I was studying in ISB or rather till the time I did not complete my post-graduation from ISB, I had not visited the Kolkata office at all. I post-graduated from ISB in March 2003 and 1<sup>st</sup> April 2003 was the first day that I visited the Kolkata office.

**Q. Beyond your father, did your grandfather also give you any suggestions at the time you joined Shree Cement? What were they? Can you share some of their thoughts?**

a. My grandfather was actively involved in business when I joined business and we had only one plant then at Beawar.



The one thing which both my father and grandfather told me very clearly when I joined Shree Cement and which I recollect even today was that – during my learning period, whenever I visited plants, I would only be in learning mode and not open my mouth. I was visiting plants for 15-20 days at a time during these learning years. I was understanding only one machine or area of operations at a time, especially in the initial phases of my learning years. For example, if I was at the plant for 15-20 days at one go, I would spend time only in mines and understand how the excavator, dumper, and crusher works, how explosives are used, understanding mine planning, the cost aspects and hence the entire 15-20 days would be spent at mines. Same way I spent 15-20 days for raw mills, coal mills, cement mills, etc. My whole induction period was nearly 200 plant days at Beawar spread over 2-3 years. The instruction to me from both of them was pretty simple that even if I find anything, which is obviously

## All larger business decisions, philosophical business decisions and directional decisions, are discussed extensively within the family.


incorrect, I am not going to open my mouth and I am not going to suggest anything to anyone. The whole idea was to learn. If Shree Cement has lived with that problem for 25 years, it can live with it for another two years. The message was that - there is a right time for everything and I am supposed to be in learning mode and not get into a teaching mode. The whole advice, suggestion and instruction to me from them was to learn, absorb and not to instruct. If you go to someone as an immature kid (which I was then), and you start asking them and poking them then you clearly make enemies and this is the basic human psychology of interactions. I was told that when I am meeting people at such a senior level such as Plant Head, Head of Electricals, Head of Instrumentation, I am only there to learn from them. So, this was the mindset, and this was the clear instruction given to me by both of them. I was told to make the most and make the best use of the opportunity provided and only learn from them.

### Q. In business, do you find your equation with your father and your father's equation with your grandfather the same, or are there any differences?

a. The whole family works in sync, though this question would have had much more relevance 15 years ago. This is because my grandfather is no longer now actively involved in the business, although he is definitely there as a Non-Executive Chairman. Having said that, even today, all larger business decisions, philosophical business decisions and directional decisions, are discussed extensively within the family and the guidance and experience of my grandfather is always paramount. The respect we all have for each other is immense and I am thoroughly fortunate to have the blessings of both my father and my grandfather.

### Q. Your father's intellect is truly commendable and is also proven by his average CAT score of over 92 percentile consistently throughout when he appeared for CAT, even till 8-9 years ago. Was he also a motivation for you in your educational career?

a. Firstly, my father's CAT score was 99 plus percentile and not 92 percentile. I think he is not recollecting it correctly and he has been consistently appearing for CAT exams just about until 9-10 years ago. But coming to your question, there is a small story behind it, which no one knows. After I graduated from my college, St. Xavier's, Kolkata, in 2001, I took CAT exams and I failed miserably and I did not get a call from anywhere. Then I took a break for one year and gained work experience at E&Y. I reappeared for CAT in 2002, and I again failed and I didn't get admission in any of the Indian Institutes of Management (IIM). But I got admission in ISB. Though I had already joined ISB, again in 2003 I continued to appear for CAT not because I wanted an admission but this was just to prove to myself that I can get call letters from IIMs as well. I remember that Sunday morning when I was in ISB and I drove to the exams centre to take the CAT exam, after which I got two call letters from IIMs. So, the whole idea of taking CAT exams even after I joined ISB was just to prove to myself and satisfy myself that I am good enough to get call letters from the IIMs as well.


**भारतीय प्रबंध संस्थान इन्दौर**  
 भारतीय प्रबंध संस्थान इन्दौर  
 INDIAN INSTITUTE OF MANAGEMENT INDORE  
 Rajendra nagar, Indore-452 012  
 Ref. No. CAT-2002/INT/836

सजेड नगर, इन्दौर - 452 012  
 February 5, 2003  
 Test Regn. No. 132214

**By Registered Post**  
 PRASHANT BANGUR  
 INDIAN SCHOOL OF BUSINESS  
 GACHIBOWLI E06  
 HYDERABAD- 500019

Dear Applicant,  
**Ref. Your application for admission to Post-Graduate Programme in Management**  
 I am happy to inform you that you have been shortlisted for group discussion and interview as follows


Date	Time	Venue
25-MARCH-03	9:00 AM	New Teaching Block Indian Institute of Management Calcutta Diamond Harbour Road, Joka Kolkata - 700104

Please note that you are shortlisted under **General** category as declared in your application. You are required to bring the following documents with you when you come for the interview:

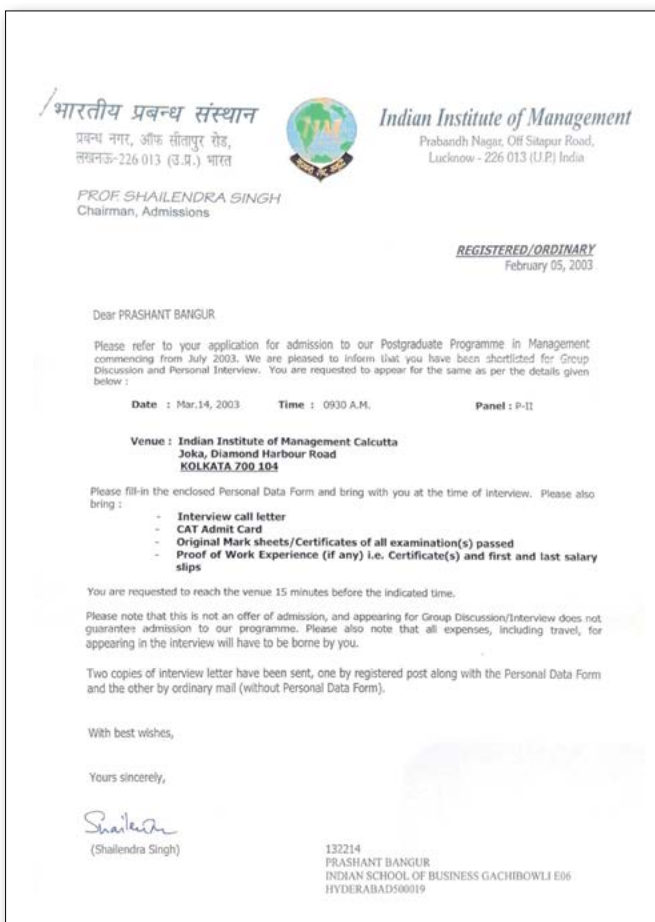
- CAT-2002 ADMIT CARD for identification.
- Completed interview form enclosed with this letter.
- Photocopies of the following mark sheets, duly arranged in sequence as follows:
  - 10<sup>th</sup> Std. or equivalent
  - 12<sup>th</sup> Std. or equivalent
  - Bachelor's Degree: I year, II year, III year, IV year, V year
  - Master's Degree: I year, II year
  - Post-Graduate/ Professional Qualification
- Originals of extra-curricular activities. Show them to the interview panel and take them back on the spot. Copies of these certificates are not required.
- If you belong to SC/ST category, please bring a certified photocopy of your caste/tribe certificate issued by a Deputy Commissioner/ District or Sub-Divisional Magistrate/ Tehsildar.
- In case you have any physical disability (conforming to the "Persons with Disabilities Act, 1995") please bring a certified copy issued by a competent medical authority for necessary verification.

**You will not be interviewed if you fail to bring any of the documents listed above from 1 to 4 and 5 & 6 if applicable to you.**

Please note that you will have to bear travelling and other expenses for attending the interview.

With best wishes,  
 Yours sincerely,  
  
 Prof. Pratab K. Paul  
 Chairman (Admissions and Financial Aid)

Phone : +91-731-2321971, 2321973, 2321112-5, Fax : +91-731-5058785/2321050  
 Web site : <http://www.iimdr.ac.in>



(Left and Top) Prashant's 'Call-Letters' from IIM Indore and IIM Lucknow.

## ***CAT was always an introspection exercise for both me and my father.***

Thereafter when I came back to Kolkata, after graduating from ISB, I continued to take the CAT exams every year until I got call letters from all the IIMs, as in the IIMs which were still left behind. Today on record I have call letters from IIM Ahmedabad, Calcutta, Bangalore – rather all the IIM's possible. Only when I got call letters from all the IIM's I stopped taking the CAT exams. But when I came back after graduating from ISB to Kolkata it was a mystery for my father that why am I appearing for CAT exams when I have already joined office, and he wanted to understand – what is my purpose?, and then I explained it to him. That is the time actually when my father thought that taking CAT exams was a good benchmark to introspect and to see where do you stand vs. the talented youth of the nation. Then he decided that he will also like to try to evaluate his standing amongst the youth of the nation and what kind of percentile he gets if he takes CAT exams. This is when my father also started taking CAT exams and then

it was addictive to him, as it is a very interesting exam the way it is designed. Then I and my father took the exams together until 2010 for nearly 5-6 years, though we would have had different exam centres many times. The only reason my father stopped taking CAT exams is because the test went online. I obviously stopped at the point where I got call letters from all the IIMs. CAT was always an introspection exercise for both me and my father.

### **Q. How were you as a child, an introvert or extrovert? What were your favourite subjects and how was your performance as a student during your academic career?**

a. As a child I was an introvert. About my academic performance, today I will say, till Class X, I was a pretty average student. I will elaborate on the 'today' part here in the latter part of my answer. Now coming to your specific question, during those times I had scored 81% marks in Class X in CBSE board. I would now say 81% at that time was decent, but not great. My father is an engineer, and hence I too had aspirations to become an engineer. I took science in XI and XII standards. I was studying at Abhinav Bharati School in Kolkata till Class X, but when I joined class XI, I switched boards from CBSE Board to the West Bengal Board and I joined South Point School, Kolkata, which is run by the MP Birla Group. West Bengal Board at that time was extremely difficult and it was supposed to be the toughest board of the country. In the first term of Class XI, I failed in 3 out of 5 subjects, and that is the time I realized that although I considered myself a 'Hero' of my school at Abhinav Bharati, who excelled in studies with a 1st or 2nd rank in my class always, I am no-where at South Point. When my scale and standards changed, I stood no-where. My situation then, today reminds me of a saying "A frog in the pond thinks that he is the king but he doesn't know the world outside". This was the changing point of my life and I realized there is a world much bigger than the small circle I was associated with. When I graduated from Class XII, I again got 81% in West Bengal Board (Science specialization), which was considered to be fairly good. I appeared for IIT JEE then, but I didn't qualify. Thereafter I joined Mathematics specialization in St. Xavier's, Kolkata. My favourite subjects were always Mathematics and Science. I am more of a technical chap and the softer issues of Philosophy, English, and Literature were





never of great interest to me. I was a technical numbers guy right from beginning. I remember in my first class of mathematics, the head of department came and said to all of us "Right now you are 86 students in the class. Last year in the same class in the first year the strength was 85 students, and in the second year it was just 28 students. So, you have to understand many people join this subject, but many people actually flunk or leave or change the course. Hence mathematics is not a joke and Mathematics (Hons.) is not the easiest of the subjects to graduate in". The department head added, "Think over your choice again and I will make sure you get an admission into any other stream of your choice. Only if you are really serious about mathematics then only you continue or else please change right now". When I returned home, I told my father that Mathematics is beyond my capabilities and I just cannot do it and I decided to switch courses. But as luck would have it, I continued with the same course, excelled in Mathematics, and was a University ranker when I graduated. Then history repeated. When I was a University

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***My background enables me to ask the right questions to the right people and that is how one uses the experience and the educational background in business or practical life.***

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ranker, I again started thinking that I am too smart. But when I joined ISB, we had toppers from all possible Universities of India in ISB. This again was a level changer for me. When I interacted with these kinds of people I again realized that I am actually nowhere. The intellect and smartness of my fellow colleagues at ISB was way beyond my understanding. The first game changer was when I joined Class XI / XII (science specialization) and then again, second time, the same thing happened when I joined college – the first lecture I got from my professor, I will never forget. He

told us to work hard and that there is no escape from hard work, else you will flunk. The third time it happened to me when I joined ISB. It kept on happening to me again and again in my life.

**Q. So, is it fair to say that when you were young you always had the pride of being smarter than others or rather what we sometimes refer to as being 'over-smart'?**

a. That's good, I think (laughs). Actually, I am lucky to have that experience then, and the cost of that experience was very small for me. I only used to think this way till the time I was still studying. I am fortunate not to pay that cost today in business (continues laughing).

**Q. What was your job profile when you were a trainee at E&Y and what was the field of your specialization as a Management Graduate from ISB?**

a. I joined E&Y in their Management Advisory Services Department known as 'MAS', which now has some new



name, as I understand. I had zero work experience then, as I had just graduated from college. When I joined there, I was just as a simple trainee assisting my seniors. As far as my specialization is concerned, because ISB has dual specialization, I specialized in logistics and finance.

**Q. Can you recollect and share few examples where you implemented your academic learning in business?**

a. These are two different worlds. 'Academic world' and 'Real world' can never be mapped one to one. So, whatever you learn during your academic career it will always have some soft implications or applications in your practical life. For example: ISB had a chapter called 'Game Theory'. Game Theory is a branch of science, which studies how and why people make decisions. To be more specific, it is the study of mathematical models of conflict and cooperation between intelligent rational decision-makers. It helps people understand parts of science and politics. I use this every-day. When you are in the market, when you are talking to your competition, you are practically using 'Game Theory' every single day. 'Negotiation Analysis' was another course in ISB, which taught me how to negotiate. Terms like hardball, softball, high number, low number etc. which are taught here as part of the curriculum one doesn't really use it in real life but it helps understands a lot of concepts. When you understand such concepts, it

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***'Academic world' and 'Real world' can never be mapped one to one.***



A file picture of performances at the Annual functions of Shree Cement, that are held around their plants and a representative picture of the massive gathering and crowds at such Annual functions.

helps us to mix something from economics, something from game theory, something from negotiation analysis, and it is always a mix of everything that we use in business. If you ask me to do a self-evaluation, I am not a bunch of books and theories, which I have learned in my academic curriculum, but I am a bunch of experiences. The education which I got in ISB and my physics and mathematics courses in Kolkata provided me with enough tools to channelize the experiences

and the knowledge together. I will share an example with you here. When I was specializing in mathematics & science during my school and college days, I was taught subjects known as 'Projectile Motion' and 'Fluid Dynamics'. Projectile motion apparently talks about how the solar system works but in reality, projectile motion also talks about how something will fall if you throw it. Now this has huge applications in the cement industry. If you ask me if I remember a single

formula from projectile motion, the answer is 'No'. Have I ever used it? the answer is 'No'. But that concept gives me enough tools to talk to my technical guys and force them to use it. Driven by these concepts, I do understand how a crusher will behave. If a crusher is impacting a rock – how that rock will break. The same is true for fluid dynamics. Fluid dynamics teaches how things move – whether it is liquid or gas. In the cement industry, 'fans and motors' are huge components of power consumption. Moving air and airflow are extremely important. We have preheater columns, where there is a pressure drop. So how does one use academic knowledge? If you ask me, can I do any mathematical calculations, the answer is completely 'No'. I have not been in touch with that science for past many years and hence I cannot do it. But I know the physics behind it; I can talk to my technical guys and the suppliers with relevant questions. My background enables me to ask the right questions to the right people and that is how one uses the experience and the educational background in business or practical life. If I would have specialized in accounts, I would not know many such technical concepts which I today use in my business.

**Q. Do you see any bottlenecks here because of your academic inclinations and specific specializations?**

a. Yes, you are right. Because I was in engineering and had science background, I never had finance, costing, and accounts. So, for these verticals, I had to get on-the-job training. When I joined Shree Cement, I had to spend so much more time learning finance, costing, and accounts and all such things. I never studied 'Business Mathematics' and I remember spending weeks and weeks in understanding costing because the whole concept was new to me as I had no background. The whole knowledge I had about finance was just a couple of modules in ISB and that is about it. I did not even know what is a debit and credit in accounts. It is fair to say that you start with some advantages, but at the same time, you have some handicaps and you have to learn only by experience by talking more and more and with regular interactions with your colleagues and mentors. In my case, it was various teams like accounts team, tax teams etc. You have to listen more and speak less when you are in the learning mode.

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***You have to listen more and speak less when you are in the learning mode.***

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***To run a successful organization, it is far more important to balance out various aspects, rather than excel in one aspect.***



Mr. Prashant Bangur addressing the gathering at the Plant's Annual event (right) and enjoying some of the performances along with his wife (top).



**Q. I also understand that you have contributed a lot in technical innovations, not just at Shree Cement, but also to the industry. Now this is something that is an earned credit by you to your name especially because you are one of the rare promoters in the new generation league of promoters who has excelled not just at the top, as a Joint Managing Director, by showing the right directions to your team, but also by being directly remaining connected to the ground throughout and excelling in production innovations which is a much tougher task as I see. What is the driver here?**

a. Like I said, as a kid, when I used to visit plants, their size fascinated me. The way rocks were blasted, the mines layout, how the big trucks were dumping limestone rocks into the crusher, the whole experience was fascinating. I thank you for the complement that you think I have contributed to the innovation of the industry. But I will like to say here that running a business is not about technical innovations. Finally, an organization is not just a set of machines, rather, it is a set of machines that is run by a set of people who have families, kids, and feelings.

Beyond that, there is competition in the market. I feel that when one runs an organization, one should not limit himself to technical innovations and be happy about it. To run a successful organization, it is far more important to balance out various aspects, rather than excel in one aspect. Yes, we tried to excel in innovation, but we always tried to balance out all other aspects to be successful. As you may recall, a chain is as good as its weakest link. Thus, we don't want to be weak in a particular area and then the whole organization fails. I will not take undue credit, though you may be right that we have excelled in technical innovation but that is only one part of running an organization.

**Q. Was it also because when you joined the company, Shree Cement had already created its own benchmark in production innovations (such as usage of petroleum coke as a fuel being one of them) and as the next generation leader, you were keen to gain an edge on plant operations so that the long-term competitive advantage of Shree Cement not only remains intact, but only improves further under your leadership?**

a. When I joined Shree Cement in 2003, my 2-3-week short stint that I spent at the plant was always balanced. During those induction days, I was always touching one technical and one commercial subject in the relevant area of operation in each of these visits. So, if I spent 20 days, it was say 5-10 days in technical and the rest 5-10 days in commercial aspect. But it is fair to assume and believe that given my background I took more time to understand commercial aspects. Say for a normal guy understanding costing might take 10 days, for me it took a month because I started with a handicap. But to answer your question specifically, I will like to reiterate that running an organization is not just about innovation, but you have to understand the psychology of the people as well. Also you will appreciate that Shree Cement is not just run by me and my father sitting at the head office in Kolkata, but it is run by 6,300 people and we have to make sure that objectives of all these people are aligned to move forward. So, if you ask if innovation was the objective...it does not work that way. Innovation

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***Running an organization is not just about innovation, but you have to understand the psychology of the people as well.***

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***My father's approach to innovation is very different and he completely believes that you learn on the job.***

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and making more money may be the objective at the corporate level, but at the plant level, you have to create benchmarks and people have to be proud about what they are doing. What is important here rather than me mastering innovation, is that, all 6,300 people including me and my Dad have to be guided well. The whole setup needs to be in a way that it makes sure all 6,300 people are equally motivated and directionally guided to achieve the common and aligned goals and results.

**Q. Shree Cement is a rare company where I understand that failures are rewarded? Was this initiative also driven by you since you believe a lot in technological innovations. Innovations lead to failure and the success ratio in such innovative experiments is generally much less. The only way to encourage a team to try new things is to keep motivating them and which you do by rewarding the failures?**

a. No. It was completely my *Dad's* idea and his initiative. It was his clear direction to innovate with a '*freedom from the fear of failure*'. This is going on since the time he joined business or since the time I have seen the business rather. His approach to innovation is very different and he completely believes that you learn on the job. I will say that I have learned this skill from him – how to make sure that people innovate by allowing them to fail. It is wholly his idea and he is the champion of this!

**Q. I have also sensed and realized over my interactions with yourself and Mr. Hari Mohan Bangur that he relies a lot on your judgment on all plant-related operations and technology related initiatives at Shree Cement. Is this true? I can recall a few instances where he took your suggestions on newer technology packing machines, power plant upgradations, logistic automation initiatives etc. Is it fair to say that you are the backbone of all technology related initiatives at Shree Cement?**

a. I will put this in a different way. It is unfair to say that my judgment counts the most; definitely not! Whoever is right, his judgment will be counted. We have our internal



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*The flexibility and assurance among all of us, including my father and me, is that whatever is more logical will be taken forward, and it will not be based on the person's position. There are no hierarchy-based decisions when it comes to technology-based decisions.*

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technical and project teams. Though yes, it is true that whenever we want to order a machine, I personally go and visit the technical guys or the equipment supplier in Germany or the United States of America or wherever they are situated. Besides that, I also go and visit our plants and my father doesn't do that. My father is more involved in the other operations and industry related matters here in India and I am more involved when it comes to discussing failures or benefits when we evaluate usage of certain machines. To say that my opinion has greater value is completely incorrect. You may say my opinion has better value because I have spent time on this subject. I have spent time visiting the equipment suppliers understanding machines for numerous days and I have discussed with them how things work. But my opinion has equal value to what my technical guy's opinion has. It is very easily possible that my opinion and my technical guy's opinion may differ. But the flexibility and assurance among all of us, including my father and me, is that whatever is more logical will be taken forward, and it will not be based on the person's position. There are no hierarchy-based decisions here.

**Q. I also learn that you are the backbone behind the implementation of world's largest (excluding China) Waste Heat Recovery System at the Ras unit of Shree Cement? In just about 7-8 years of joining the company, how did you manage to identify such a large-scale technology related initiative to save huge costs for the company?**

a. There is a background to this story, which again not many people know. In 2003, there was a World Bank Project about Waste Heat Recovery Systems. We were a part of it, and we installed a small 3 MW boiler and a turbine in our Beawar plant and it failed miserably. But that was the starting point of the Waste Heat Recovery Systems for Shree Cement. Nobody knows about it



Shree Cement's Mega Power unit at Ras.

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because it was a complete failure. The cost of the project was ₹150mn at that time. But despite the failure, we still had the equipment with us. We had the 3 MW turbine and we had a boiler. So, with an inquisitive mind-set, we just played with it and kept on tinkering with the machine by doing some experiments, modifications, etc. Finally, we came up with a model that we believe worked for Shree Cement. In 2007, we placed our first order with a Pune-based machinery supplier, but it was a first-generation machine that again failed miserably, and which we have now removed completely. This is why I would say that Shree Cement had already entered the Waste Heat Recovery Systems space when I joined business. The Waste Heat Recovery Systems that you see at Shree Cement today are the 4th and 5th generation machines. It is not that we knew the success formula from beginning.

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*Shree Cement had already entered the Waste Heat Recovery Systems space when I joined business.*





***The decision-making between my papa and me is always united, though we may have different perspectives while looking at things.***

But to add, even today, to be very impartial, Waste Heat Recovery System is an expensive project with a payback of 8-9 years. In normal sense of things, it is not a viable project because it does not have a 4-year payback where you take a loan and the repayment is possible from the proceeds of the business. But because Shree Cement is cash-rich now, for us, the alternative is to invest the money in 6% tax-free vs. an 8-year 12% payback and that is the reason we are investing aggressively in Waste Heat Recovery Systems despite it having an 8-9-year payback. While generally companies invest in projects with a payback of 4-5 years, we invest in projects or technologies, even if it has a payback of 9-10 years. The logic remains very simple – we have a cash surplus. If we were in debt, we couldn't justify a 9-10-year payback project. Therefore, it was in 2003 that we started with Waste Heat Recovery Systems but the scale was built-up

in the last 10 years, in line with the capacity growth of the company, to be fair, rather than calling me the backbone (smiles).

**Q. Another opinion, which many of the investors have, is that you are also the backbone of building up the huge thermal power capacity at Shree Cement. Was it your thought and initiative to have power as a business segment? Please tell me if this is true?**

a. No, this is absolutely not true, and it was not my initiative in any way. At the time when Shree Cement entered into the power venture, I was too junior, and my entry into the business coincided with the building of the power venture. The installation of the first power plant happened in front of me, true, but the whole idea, conceptualization and execution of power venture was overlooked by my father. It was my father's idea, and not mine, to also venture into power as a business segment.

**Q. What opinion did you express to your father when Shree Cement decided to venture into The United Arab Emirates through the acquisition of Union Cement?**

a. The decision-making between my papa and me is always united, though we may have different perspectives while looking at things. We brainstormed about Union Cement exhaustively. The whole idea about acquiring Union Cement was that it was a very cheap acquisition and the returns as we see, were phenomenal. Both of us were on the same page on this, once we brainstormed.

**Q. A constant feedback that I have received is that Shree Cement is considered one of the most transparent companies. How do you look at this?**

a. I consider transparency a 'by-product'. For me, the whole idea is to remain efficient. If being efficient calls for transparency, then the company will automatically become more transparent. But I will always do the job that brings in more efficiency.

***If being efficient calls for transparency, then the company will automatically become more transparent.***

**Q. Do you also learn from your competition? Any such initiative that comes to mind for which you would give credit to your competition?**

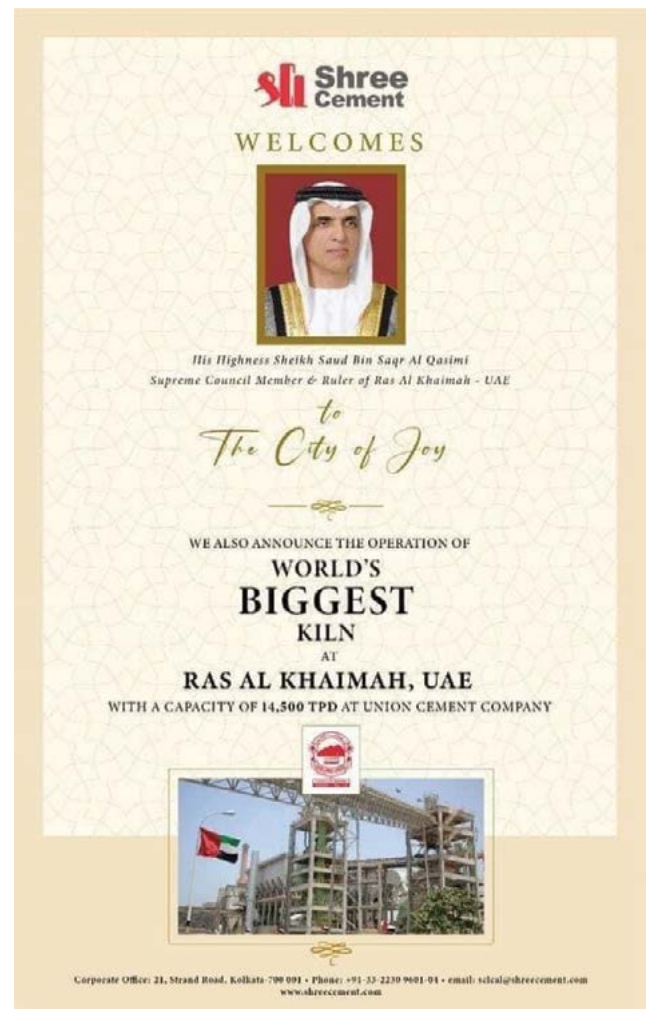
a. Oh yes! In terms of many practices, when it comes to marketing, I think we have to learn a lot. Our competitors – UltraTech Cement, Dalmia Bharat, ACC Ltd., Ambuja Cements etc. – are far ahead of us when it comes to branding and we keep on trying to learn from them. We know this is where we lack, but it was the platform and the position we had taken in the past that we want to be a mass player and we don't mind if our cement sells cheap, as long as it makes money. We make sure our production cost is lower and hence we don't mind if it sells cheap. Definitely yes, we try to learn from the competition, and we don't have the art or the mastery of marketing yet. But that is how we have positioned it. On the other hand, when it comes to logistics, many companies in India have installed Global Positioning System (GPS) device in their trucks and they are monitoring truck movements real-time. We are yet to do it in full scale, and we are still evaluating the benefits of it. Another example is that of the Ready-Mix Concrete (RMC) business. Many companies have their own RMC plants. We are yet to learn and still evaluating this idea. We may or may not decide to do it but we are always in the learning mode when it comes to competition practices, we constantly learn from them and observe what they are doing. Your question reminds me of a Sanskrit quote '*Aano bhadra krtavo yantu vishwatah*' which means '*Let noble thoughts come to me from all directions*' and all of us at Shree Cement are a firm believer of this. We are continually acquiring knowledge and we welcome new ideas and new thoughts from everyone.

**Q. Please talk about some of the key innovations, examples, or learnings on production operations through your journey of technical innovations?**

a. Innovation is not something which happens on day zero. New things happen when someone comes up with some idea. At that time, it is a first-generation idea. Then it passes through 'N' number of people and iterations. You have to convert first-generation ideas to

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***To attribute any innovation to one person is really unfair, because ideas can come from anywhere.***



Shree Cement's plant in The United Arab Emirates has the world's biggest kiln with a rated capacity of 14,500 TPD.

second-generation ideas. By the time you implement it, 20 people could have given 20 different small inputs and submissions, and the whole idea turns out to be a different thing altogether. It is always team-work. I may be good in some aspects, but my other team members may be good in some other aspects. For example – how we operate our cooler. A cooler is a small aspect of a cement plant. We went to Germany; we discussed with our equipment supplier "this is how we want our cooler to be". They came up with some submissions, my technical team came up with their submissions and then we came up with a different design altogether. But then again, that was a first-generation design. Then our Head of Operations, Mr. Prakash Narayan Chhangani, came up with some more inputs on this. The final product that we received was very different and more efficient than what we initially envisaged. To attribute any innovation to one person is really unfair, because ideas can come from

anywhere. The important thing is to evaluate which idea is correct. Hence, ideation and innovation is an ongoing and evolving process.

**Q. I learnt that you actively participate in a lot of seminars, conferences and exhibitions within India and overseas on technology innovations and production operations. Please tell me something more about these events and how this journey began. Were these initiatives self-motivated?**

a. Yes, the initiative was self-motivated, as I started with a handicap of not having any technical background specifically about cement-plant operations. To catch up with team members, I had to learn. I took training in the United States of America at a Technology Centre for 7 days, then I did some basic cement courses and then some advanced cement courses. I took specific courses in grinding and many other parts of production operations. Everything is a science. You just have to spend time and you have to learn to remain updated. It is just like a software engineer who consistently learns new languages. If you don't update yourselves you become irrelevant in 5 years. I don't want to become irrelevant so soon (smiles) and hence if I am not there on the ground how else will I keep updating myself.

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*I want to meet the technology people who are always in the back office.*

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**Q. Which are some of the regular seminars / conferences that you attend or always look forward to attend?**

a. VDZ Seminar in Germany is very good; it is biennial. This is conducted by an Institute in Germany, which takes care of the cement industry there. There is another exhibition for cement machines in Germany, which is triennial, or quadrennial, which is also very good. I also always attend the biennial Cement Manufacturers Association (CMA) event, which happens in Delhi here in India where all international technology exhibitors are present. But this is only a small part. The bigger agenda is that we definitely go at least 20 days in a year to visit all our suppliers. I will go to all cities, say in Germany or wherever else my supplier is located. For example, I

bought cranes from Liebherr, Germany so I will go to their factory and visit them. This is because I firmly believe I will learn something new when I visit them, and I take this opportunity as a learning experience. Our Heavy Earth-Moving Machinery supplier is Komatsu Japan, so I will also go and visit them at their office. The advantage of visiting these suppliers at their office, rather than meeting them at our office, is that the people who come to our office are generally senior executives or marketing heads. They are not the technology people and I want to meet the technology people who are always in the back office. Ultimately, at the end of the day, we are doing business with them and the suppliers have to explain and sell their machines to us. Therefore, the suppliers are always very open and happy to show us all their facilities. They make me interact with all the desired set of people, with whom I look forward for an interaction.

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*The vital learning for me, beyond the innovation skills, is the relations that I nourish from such events or conferences.*

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**Q. Some key learnings which come to your mind from such events or conferences and which you may have implemented at Shree Cement?**

a. Events or conferences are rare and only one small part; maybe I will attend only one event in a year as the frequency of such events is not necessarily annual events. It is more about interactions, and that is the key. The vital learning for me, beyond the innovation skills, is the relations that I nourish from such events or conferences. For example, in the United States of America, there is a petroleum coke conference, which happens twice every year (once in February and then in October). Earlier I used to go every year twice, say from 2005 until 2012, but now I don't go so often. That is how one makes relations. Now I know all the petroleum coke suppliers of the world first hand because I have been there with them. These relations are one of my (and Shree Cement's) strategic learnings, beyond technical awareness.

**Q. Any key contributions that you have made at such conferences, which others may have implemented and which you are aware of?**

a. I have not yet presented a paper at any of the conferences. Till now, it has been a learning experience.



Though I can present a technical paper, I believe that I may not be the most competent person to do that. There are many more people in our organization who, I think, can do this job better than me. But if you are referring to the Indian cement industry at large, I think all our friends and colleagues in the industry are really smart and many of them have been presenting papers in such international conferences regularly. I think all of them are doing a phenomenal job and it is just that everyone has a different niche. The industry is very transparent when it comes to technology, and the technology seller will market the technology to everyone and not do selective marketing to only us or any of us.

**Q. Regards supply-chain initiatives, I recollect a discussion with you and your father, about printing truck numbers on cement bags – and you were super quick to identify, may be within just 2-3 seconds, that this initiative would cost an additional amount of 6 paise per numeric character, which implies nearly 25 paise per bag additional cost. This discussion to me emphasizes your ability of not just being a master of understanding of on the ground operations of a cement plant, but also being able to judge the financial implications of each and every plant operation, however small. Do you always correlate all technological innovations with financial implications? How did you grasp or learn this ability?**

a. There are two aspects to any innovation. First is that it has to be logical, and second it has to be economical. So, everyone has to understand that we are neither a technology company, nor a research & development company. At the end of the day we are a commercial organization. This particular philosophy has been deep-seated in all our technical guys. When a technician says that he can develop and design a 100% fail-proof system,



GV interview with Mr. Hari Mohan Bangur - 3<sup>rd</sup> February 2019 (File picture).

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***There are two aspects to any innovation. First is that it has to be logical, and second it has to be economical.***

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a call needs to be taken whether you really require a 100% fail-proof system or you are ok with say 1% failures, but a system which is also cheaper at the same time vs. a 100% fail-proof one. We have been providing this kind of training to all our technical staff, and our costing department has been empowered to train the technical staff consistently on all matters of costing. For example: motor is an essential machinery component of a cement plant. Say you have 100KW motor, which is operating a fan. Due to wear and tear, it regularly gets burnt out. The standard way of repairing such a motor is to rewind it, which can be done any number of times. The cost of rewinding a motor is very small and it is only a fraction of the cost of the motor. But what you have to understand is that the efficiency of the motor goes down every time you rewind it. The new generation electrical motors are 97% efficient. Every time you rewind these motors the efficiency parameters continue to fall, say to 96% and then 92% etc. and so on. The motor consumes power and if it is only producing 92% of the power it takes then you are losing 5% vs. a new motor. As a solution to this issue, with a completely good intent, most engineers will generally say and think that they are saving money for the company by not purchasing a new motor but rewinding the old motor, as it is fair to assume that they lack the commercial understanding. But at Shree Cement we make sure that we also make these engineers understand the commercial aspect of it – like what is the financial implication of using the low power efficiency old motor and it being re-winded, what is the extra cost to company by using it vs. purchasing a new motor and using the new motor. What is the payback period of replacing the old motor with a new motor? So, everybody, not just me or me and my father, it is the commercial person who has to understand technical implications and vice-versa so that they can tell each other and suggest

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***Everybody, not just me or me and my father, it is the commercial person who has to understand technical implications and vice-versa so that they can tell each other and suggest things to each other.***

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Pre-heater of Shree Cement's South India plant decorated in the shades of The Indian Flag.

things to each other. Like in this example, the evaluation will be whether the motor has to be re-winded or a new motor should be purchased; the final decision will be driven by the ultimate cost implications and the payback period. The reason for me to be super quick on this is that I luckily don't have any other job, and I do these things day in and day out! (laughs uproariously).

**Q. Please tell me something more about what you do to make sure that technical people understand commercial skills and vice-versa? Did you initiate this thought?**

a. To be honest, the idea behind making technical people learn commercial skill sets and vice-versa is not just to make them learn these skill sets but to evolve each of them as an 'individual entrepreneur'. At Shree Cement, the core thought process of the management and the culture, which we want to build, is that every individual should be an entrepreneur. For entrepreneurship, I believe that there are three essential characteristics: (1) decision making, (2) technical competency, and (3) commercial acumen. Any business owner needs to have all three is what we firmly believe. At Shree Cement, we don't just empower employees to take decisions, but we also ensure that the other two skill sets – on both technical and commercial aspects – are also developed

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***At Shree Cement, the core thought process of the management and the culture, which we want to build, is that every individual should be an entrepreneur.***

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consistently in them. When you interact with any of our employees, you will find the flavour of entrepreneurship in them. Particularly, to answer your question and how do we do so, here is an example – if you visit any of our plants across the whole area of the plant for the smallest of the machine at every corner, you will find detailed mathematical calculations on display which elaborates on the loss and gain to the company in terms of profit numbers if the machine has a down-time or if the machine is run efficiently with an error free performance. So, when we do this, all my technical staff automatically gains some commercial skill sets and when the commercial people see this, they too get more vigilant about efficient performance of these machines, which in a way is their technical skill set. Believe me, if the technical person does not take the commercial aspect into consideration while taking a decision and vice-versa, the decisions are bound to be unfavourable not just to his individual performance but also to the company. Hence everyone at Shree Cement acts as a business owner or an entrepreneur in his or her own job profile or specialization. Beyond this, being an entrepreneur is also a self-motivation for all Shree Cement employees to consistently do better than yesterday. This idea – of making people entrepreneurs and business owners within their own field – is a very old idea of cross learning within the company, and I believe it has been this way since inception.

**Q. Do you continue to believe that technological or production innovations in cement industry still have a long way to go? If yes, do you also believe that this can have a material delta on cost structure or do you see the cost structure not getting benefited much from technological innovations hereon?**

a. It is fairly easy to answer this question. Yes, technology will change as it is evolving. Something or the other will keep on happening and the cost will come down. In the past, we have seen cement being made with 100 units of power which is now down to say 70 for the industry at large. To take it from 70 to 60 or 50 is definitely possible but if you ask me how it will be done,

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## ***Technology will continue to make cement operations more and more efficient going forward.***

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the answer as of now is that nobody knows. Technology will continue to make cement operations more and more efficient going forward. As technology is evolving, it will also mean machine up-time and if this gets better, the cost of operations will automatically fall. It will also mean consumption of stores and spares coming down. Technology innovation is happening in all spheres. My belief is that cost is bound to come down directionally driven by technology innovations.

### **Q. Generically, otherwise do you see any major incremental opportunities for the industry to improve cost structure?**

a. The industry has two biggest costs – 1) Power & Fuel and 2) Logistics. Technology will help in reducing the fixed costs and some other costs like stores and spares, but the principal cost of cement industry is power & fuel and logistics. The more fuel efficient you get, the better is the cost advantage, but it has its limitation as well. When you reach the lowest benchmark, it will probably be very difficult to do better than this, or achieve the same delta that you achieved in the past. In logistics, I complement the Government of India and I think they have done a big job by introducing Goods & Service Tax (GST), which has decreased the transit time and turnaround time for trucks. So yes, we do see opportunities here and these initiatives have helped not just us, but the industry at large, phenomenally.

### **Q. You are the only promoter whom I know of and who does not have his own cabin at his own office. I also understand that your cabin was built and renovated twice but you still decided not to sit in a separate cabin and rather sit alongside your father. The first thing which this portrays to me is the immense respect you have for your father beyond your intent of being able to constantly learn from him. Are there any more reasons to it?**

a. The reasons which you have listed are definitely true! But the bigger reason is the way we are structured here in Kolkata; we don't have any 'line jobs' at the Kolkata office. There is no full back office. There is no finance,

accounts, purchase, technical, marketing, logistics or strategy – we have nothing at the Kolkata office. It is only a skeleton office of say just 10 super-senior people who report to us on various topics or areas of operations in the organization. Like one may report for finance, one for marketing, one for technical, one for logistics and so on and so forth. In this kind of a setup, I don't need to have a separate space or time because all the time we spend is generally spent on discussions about innovation or going forward or where you want to be, say, after 5 years as a vision. So, with that in mind, there is no immediate thing for which I need privacy. Therefore, to answer your question, is there anything that I am deciding in isolation, the answer is 'No'. Is there any meeting happening in Kolkata that is not taking into concern the bigger picture for the organization, the answer is 'No'. The quality of discussions that happens in the Kolkata office is such that it needs to be more of a considered decision. The discussions and decisions taken here are more around the policy and philosophical framework. Thus, it is always better to sit together and decide. But yes, just to correct you and let you know, my cabin is still there and it is just next to Dad's cabin. On very rare occasions when we have two meetings simultaneously and if I have to attend one and he has to attend one than only I use my cabin. And to add to this, I will also say that learning from Dad is always

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***Learning from Dad is always a by-product for me, and it happens to me every day and every single moment.***



Mr. Prashant Bangur on his chair, in the office cabin of Mr. Hari Mohan Bangur and sitting next to him.



a by-product for me, and it happens to me every day and every single moment, elsewhere where do you get such an experience! (Smiles)

**Q. I am sure that sitting together at office in the same cabin has definitely helped you learn a lot from your father and understand the tricks of the business. But how does sitting together impact your joint thought process and decision-making procedures?**

a. If you ask me this question for critical decisions, I will say it really doesn't matter where you sit whether you are sitting together or you are sitting separate. But decisions may be critical or non-critical. The whole idea of being together always is also that because both of us think very differently, both of us have a different approach to different subjects. The whole idea is what kind of interactions my Dad and I have and the quality of discussions when we brainstorm. If the interactions and thoughts are very much in-line and aligned then the discussions are generally very boring because then there is no difference of opinion. But luckily, we both have very different opinions and approaches to look at things and that is why our interactions make the best outcome for the company. I told you earlier also that it really does not matter as to whose idea it is, as long as the idea is logical and correct. So, if we come across such situations – where both of us along with our team members have two or three different opinions – then we have to thrash it out and understand which idea to go ahead with, adopt and follow. Our sitting arrangements really do not make a difference to our decision-making process. And I will also add here that this is not just at Shree Cement, but I know of a few very large FMCG giants where the Managing Director does not have his own cabin; he sits next to all the other marketing heads and alongside everyone else. They only have four or five small chambers in the whole office and just in case they need a private time for a meeting or a phone call they use the chamber and then again come and sit back along with each other. I don't think there is anything that I cannot discuss in an open forum, which I have to decide in isolation or privacy. I don't have any line job and nor does my Dad. Our mutual engagement with each other does not waste time for

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***We truly believe in having a very open and transparent culture and our decision-making is always completely united.***



Mr. Vineet Bhatnagar, Managing Director & Chief Executive Officer, PhillipCapital India Pvt. Ltd. felicitating Mr. Hari Mohan Bangur before an address to Institutional Investors on 1<sup>st</sup> March 2019.

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any of us. We truly believe in having a very open and transparent culture and our decision-making is always completely united.

**Q. You are also one of the promoters whom I know, who has an extremely strong on-the-ground connect, not just at the operations level but also on the sales and marketing front. For example, you once told me that you didn't even know the names of many of the districts in Bihar earlier and today with your involvement in sales and marketing, you are aware of not just almost all the districts but also zillas and talukas in Bihar. I have also realized at any given point of time, you have all the realisation figures, lead distances and market shares numbers on the top of your mind for every region where you are present. How do you manage to do all of this together, as in having a complete and real time on-the-ground idea of not just production operations but also sales, logistics and marketing operations?**

a. When I joined the business many long years ago, the numbers were just numbers to me. They did not make any sense. I was just reading them as individual numbers and I could not connect to the numbers. But right now, when I think after so many years of work experience, every number corroborates itself to form a story. Just like you as an analyst have a job to form a story after reading say 6 different set of numbers of 6 different companies,



Shree Cement's Ras Unit at Rajasthan, North India is amongst the world's largest cement plants with eight clinker production lines at a single location.

my job is to understand how the business is doing, how the market is behaving, how the plant is performing, etc. Over a period of time, I will say that I have learned the art to form a story out of these numbers, through years and years of training. The training has helped me to understand what to look at and what to ignore. And on a serious note, I will like to add here which I mentioned you earlier too that I really don't have any other work except for looking at my cement business and I don't have to divide my time, thankfully! Every business, be it big or small takes a lot of time and requires a lot of effort and every business has its own nuances and it has to be fully respected. I am also quite sure, which you too may note, that Shree Cement probably will be one of the rare companies amongst whom you interact where the Promoter or the Managing Director does not have a laptop or a computer. I, too, very rarely touch a computer. Firstly, I don't have a laptop or a PC at my office and the laptop which I have at my home I use it only and only for watching Netflix and I have no other work

whatsoever on my laptop. All the emails I manage on my phone and I very rarely get emails. There is no point of getting an email if you can't react to it. When I am travelling, I will not get a single paper that day. When I am on holiday, I get all the emails, but I choose whether I want to read them or not. If I have to search something or find something or do anything, I usually get it done from one of the assistants. I will like to term myself as 'IT-disabled'. 20 years back I could work on computer software like say Excel, but today if you ask me to work on Excel, I will probably be able to do it but I will really struggle, I think. I don't need to use Excel as somebody else is doing it for me. The hundred papers which come to me I never read them as independent hundred papers but I

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***I never believe that anything is a "One-man show". It is always a combined team-effort and it is the whole team that has to work in co-ordination.***



read them as one story. The whole paper needs to be collaborated together to form a story. When you keep on looking at the daily performance sheets such as unit-wise performance, marketing zone-wise performances etc., then you know that what is happening where and you just grasp this ability. I will rather say that my whole set of 6,300 people are doing a fantastic job for me. I never believe that anything is a “One-man show”. It is always a combined team-effort and it is the whole team that has to work in co-ordination.

**Q. Over the course of my interactions with various employees at Shree Cement, one thing that has been consistently highlighted about you is that – “Prashant ji’s grasping ability and ability to understand innovations and new things is great! He is much faster to catch a point in any discussion than any other top management personnel at Shree Cement”. How do you read this compliment from your colleagues, and why do you think that your colleagues think about you in this way? Do you remember any incident that you think would have given this impression to your colleagues?**

a. Firstly, thanks a lot for sharing the compliment from my colleagues! But for me to give an example here will be very difficult because what is obvious to me may be special to them. I think you should ask for an example here not from me but from my colleagues because only they can tell you what they found special about my observation. How can I tell you what my colleagues observed that was special in me? For example, like you said, you found it special that I was able to tell you the cost implication of printing truck numbers on cement bags instantly. For you it was special but for me it was obvious as I have already evaluated and done a similar calculation once. Now I will tell you how I gained this knowledge. We had a discussion once as to whether we should or shouldn’t print week numbers etc. on cement bags. Whether this should be pre-printed or

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***We are ok with not having 100% perfection; we will save extra costs for 80% and won’t mind spending money on the rest 20%.***





Mr. Prashant Bangur on a site visit to Shree Cement's plant in August 2018.

should we print it later manually or through an online printing system on conveyor belt? The bottleneck with pre-printing week numbers is that your planning has to be really good. Because one should be aware that they need say 5 lakh bags in Week 27, 8 lakh bags in Week 28, 6 lakh bags in week 29, etc. because once you print the week number you have to make sure the despatch happens in that particular week. If you don't print the week than you do pay something extra to print, but then you have the flexibility, which is having the bag non-printed and printing it as and when you require. But this flexibility costs more money. We had a discussion once on this topic a few years ago, where we calculated the ink requirements with being flexible and evaluated our options. The only two things required when you don't pre-print are ink and manpower, and if the printing is online on a conveyor belt, manpower requirements come down further. The outcome of the discussion, when we elaborated on this subject was that the flexibility will mean an additional cost implication of ₹2-4/tonne vs. pre-print and hence it is much better to pre-print week numbers on the bags. But then the bottleneck is, it still happens a

lot of times, even today, that the week gets over and the bag is still lying or there is shortage of bags in a particular week. In this case, you just have to scratch manually the pre-printed week number and again re-print it manually or through an online system on the conveyor belt. Now, this is where planning is required. It is fair to assume that 90% or 80% of the times you will be accurate, and that the probability of going wrong is only 10% or 20%. Hence, the extra money spent is just on 10% or 20% but you still save money on 90% or 80%, and it is fair to assume that one can predict at least with a minimum accuracy of 80% if not 90%. We are ok with not having 100% perfection; we will save extra costs for 80% and won't mind spending money on the rest 20%. This is why I was super-quick to reply during that discussion, which you highlighted in your earlier question (smiles).

**Q. You have said that your perspective of looking at things is different than your father but beyond different perspectives is there anything more to it?**

a. Firstly, it is an absolute yes that we both have very

different perspectives and I reiterate that having same perspectives will have no value-add to our discussion or to the organization. With same perspectives, the situation will be just like, one of us is too many as there won't be any variety of thought. Even you would have sensed that when you interact with me and when you interact with my father, we both have very different flavours in our conversations when we talk to you. But one thing which I will definitely like to highlight here is about the mutual respect we have for each other. It is not that I have to respect him only because he is senior or he is my Dad, but he also respects me as much for my ideas. Whose idea it is – it is immaterial whether me or my Dad, and the idea is respected if it is good. But if it is a wrong idea then it is trashed immediately, without looking into whose idea it is.

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***It is not that I have to respect my father only because he is senior or he is my Dad, but he also respects me as much for my ideas.***

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**Q. When I asked about you to your father last time when we took his interview in our previous edition of Ground View on cement, he said he likes your “Hard Work & Smart Work”. But beyond that most importantly one of the attributes he likes about you is that you know how “not to demean anyone”. I see similar attributes in your father as well. What will you say about it?**

a. Demean anyone for me is just out of question, as I have myself personally seen three times in my academic career how arrogance can be so bad and I think ‘demean’ is a very strong word for me to even think of today. Though you have taken a quote from Dad’s interview, I think demeaning for me is just out of question! But yes, I will say you cannot undermine anyone, as I strongly believe that everybody makes you learn. My interaction with you today will give me some ideas which I can carry home. Even when I stand on the street and watch people walk, I have some understanding about the social interactions of humans. So, it is just that whether we have an open mindset or not. There is learning everywhere and it is just how we take it and grasp it.

**Q. How much importance do you give to family and cultural values?**

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***Our culture and family actually define what we are and it really reflects in our identity.***

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a. An organization is not just about numbers, but it is also about human values. If you don't understand the concept of human interactions and human empathy, it is not worth it. Empathy becomes very important because you are dealing with people and you have to deal with everyone with utmost respect. Family comes first because that is why you are here, and family is number one priority. But upholding family values, I believe, is the most important! And the same goes for cultural values as well. I will say your culture and family actually define what you are and it really reflects your identity, you really don't want to dilute yourself and your identity.

**Q. Your father also added, “Prashant is much better than me in many aspects”. Do you know what makes your father believe so and any such aspects that you think he may be referring to, when he said this?**

a. One thing he may be referring to is about my grasping abilities of the technical innovation part of the business. I spend more time talking to technical people and talking to machine suppliers like I am doing today as well. I have called in our gearbox manufacturers for discussing some of the concerns we have, right after this interview. So, it is quite natural that I will have more knowledge about machines as compared to my Dad, on the basis of my ongoing daily interactions. Maybe this is what he was referring to when he said this to you.

**Q. Another important thing which your Papa also told us is that inculcating his value system will not be a formula for success in your regime. New generations will have new success formulas. Do you agree?**

a. Absolutely correct! Everyone has a different mindset and a different approach to subjects, and everyone has a different list of priorities as well. Hence the opinion and thought process of both of us can be very different and is generally very different. What he did was fantastic and what he continues to do is also fantastic. So, I have to derive from the good work he is doing or he has been doing and define my own path to take Shree Cement forward.



A file picture of Mr. Prashant Bangur along with his grandfather and father.

**Q. Any such mantra or formula which you have learned from your father?**

a. Yes! Rather I thank you for helping me here, as this is something that you only reminded me today. One of the principal learnings for me from my Dad is that if you want to innovate, then you have to embrace failures. This is the biggest success mantra, which will take you forward not just in case of business but rather even as a generic life philosophy, if you want to do something new in life. You are expected to fail at times in the journey of life. For example: I play squash, but if you ask me, do I play good squash? The answer is 'No', but I will still not give up. I want to learn and I play to the extent I can play. I try to innovate and excel my skillsets in squash. If I play with a very good young player, he will beat me left, right and centre, but I still enjoy it because I have to try and learn. Failure is not a problem and is only one of the aspects of innovation. Like for my kids, I always motivate them that you have to do one new thing every new day. Yesterday I made them bake a cake. They may or may not learn today or know how to do it today but with guidance they can do it tomorrow. Do something new, whether the end result is favourable or unfavourable, it is immaterial. And doing something new has to be a habit rather than an occasion if you ask me for my success mantra.

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***One of the principal learnings for me from my Dad is that if you want to innovate, then you have to embrace failures.***

**Q. Mr. Hari Mohan Bangur also added that "Everybody has to make their own wealth. No generation can pass on wealth to the next generation". I know that you have played a key role by supporting your father in the journey of building Shree Cement but the benchmarks are now very high. Do you remain confident of not just sustaining them, but also slowly raising the bar for such benchmarks?**

a. Totally! But the benchmark for Shree Cement has never been size, it has always been technical innovation, speed of doing business, and efficiency parameters in terms of fuel, power consumption, and machine productivity and so on. This is how we really want to be remembered and this is how we are really recognized in the whole system. But with newer technologies coming in, along with the various developments taking place around the world, these benchmarks are being challenged every year. Every year we are able to achieve something good, worthy and laudable as compared to the previous years. So, if you ask me about my confidence, yes, we all have confidence, and I too have confidence, and we must have confidence! We are always trying to remain competent and working towards it and that is where we tend to put most of our energy, especially when it comes to innovations and making our systems more efficient.

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***The benchmark for Shree Cement has never been size, it has always been technical innovation, speed of doing business, and efficiency parameters.***

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**Q. When you appoint leaders in your company what are the key essential qualities that they should have?**

a. Most of the senior people associated with our company have been associated with us for the past 10-15 years. But the qualities that I will look forward to in my leadership team is not just the technical skills, but what is also important to me is the human values, cultural values, and the quality of interactions we have. So, when I am talking to my head of technical or head of marketing, we both have to speak the same language. By that I mean that we have to think alike and in the same direction. But when it comes to appointment of senior people it is generally promoted within the organization so that the same value systems that they have been groomed in for the past



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***The qualities that I will look forward to in my leadership team are not just technical skills, but what is also important to me is human values, cultural values, and the quality of interactions, we have.***

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5-10 years are carried forward and carried together. But, one most important thing for me when I look at my new leaders is their ability to try new things and their ability to have an open mind – something may click, something won't click. A lot of people, because of the fear of result, they refuse to try and many have pre-conceived notions that the results will be unsuitable, which is something that should not be there. For example, just from my today's meeting which is going to happen after the interview the vendor which I am about to meet is pitching me a machine that he is quoting at ₹12.5mn and I know the value of the machine is only ₹10mn. But I will still take it. Because it is a new thing that I still want to learn, I may or may not use the machine in the future but I will have it in my memory, I will have it in my experience bank. The additional cost of ₹2.5mn is the cost which I consider as a cost gaining an experience. In another case, another vendor of mine has come up with a special machine that they want to sell to us and hence they have requested me to come for a demo for which I have to go to South America. I know that this particular machine is of no use to me and I will never install it and about which I am very clear even today. But I will still go to South America and see that machine. Because when I will see that machine, I will come up with newer ideas which I can use at my existing plant and existing machines.

**Q. Your answers clearly elaborate about your more in-depth ground connect vs. your father. Please tell me something more on this?**

a. My Papa has some other skillsets. Like the understanding he has in Commercial, Tax or Human Resources, I may not have that understanding in that great detail. But the reason for my strong ground connect is also the system we follow at Shree Cement. The top bosses will not just talk to only the No. 1 or No. 2 people in the pyramid. For example, if my Papa wants to talk to even at level 3, 4, 5 or 6 within the company, he can just directly pick up the phone and call. In my case, forget about talking to Head of Operations, but if I want to talk to the assistant of his assistant's assistant, I still directly

pick up the phone and talk to them. If I want to talk to the maintenance head of say unit 3 Raw Mill, then I will just pick up the phone and call him up. If I want to make anyone understand anything or understand anything from anyone and if I follow the right channel of hierarchy and bureaucracy, then the information flow may take as long as 3 days. When I know who the right person is, why not to directly pick up the phone and call the concerned. It will then be the job of the concerned, with whom I have had an interaction, to call up his seniors and update them about these interactions, so that everybody is on the same page. The idea is not to bypass the system, but rather smoothen and fasten the system, and to make the process easy.

**Q. World Economic Forum declared Shree Cement Sustainability Champion in cement industry in September 2011. What were the key initiatives, which you think, led to this achievement?**

a. Sustainability and being a leader in sustainability is not a one-year affair. It is just that we were recognized that year. We continue to do something new every year. Like as of today, Shree Cement is a water neutral company. In fact, we may be even water surplus. We have extensive rainwater harvesting in and around our plant. We all understand that water is a scarce resource and going forward with ongoing climatic changes and weather pattern disturbances, water will be a real problem. So just to make sure that we do our bit for the community and our bit for the area that we operate in, we have ensured that every inch of rain that falls on our premises is collected. Be it mines, plants or anywhere across the setup, we have water collecting systems in every single area. The whole mine of say 5-square kilometres at Ras is designed in such a way that 100% of rainfall there is accumulated. This is part one. Second thing about sustainability is to get the maximum output with minimum input. In cement we use limestone. Limestone is a non-renewable resource and it is also degrading the environment, in the sense that you are mining it. Basically, you are digging a hole or cutting a mountain. So, you have to get the maximum output, for it to minimize the damage to the surrounding nature. All

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***Our idea is not to bypass the system, but rather smoothen and fasten the system, and to make the process easy.***



A water reservoir next to Shree Cement's Ras unit: in-line with the sustainability initiatives of the plant.

such initiatives are always at the top of our mind when we design a plant or undertake a project. As far as controlling carbon emission goes, it is also a part of the sustainability initiatives. But the technology which is available in the world today makes it extremely expensive to capture the carbon from the atmosphere. If you ask is it possible to reduce carbon footprints? I would say 'yes, it is possible', but nobody in the western world is also doing it to a great extent. We are trying to be more efficient on our carbon footprint parameters by planting more trees. Technology wise it is extremely expensive, but one thing that we all must plan, is to capture carbon back from the atmosphere by planting more trees; that will definitely make us carbon positive. The decision about being the Sustainability Champion was based on a comprehensive analysis of our company driven by the implication of the word sustainability itself, deriving maximum output for minimum input. Factors like how well we utilize natural resources like limestone, our output for cement per unit of consumption of water, our output of cement per unit of limestone, ratios of output of cement vs. emissions of carbon dioxide etc. were all considered. Our value maximization propositions vs. our eco-friendliness and our long-term initiatives on these fronts were the key reasons for Shree Cement to win this award.

**Q. You are working very hard as I understand on transforming the product line of Shree Cement to better quality and moving up the brand curve by way of premium product line? Though I understand it is an ongoing process, how long do you think Shree Cement will take to complete this whole transformation?**

a. We may or may not even want to complete the whole transformation. There is a big niche in the market where Shree Cement is operating – good quality and low value cement, which is where we have excelled in the past. Why we entered the new segment of high premium cement is – simply to expand our market in the same geography. The whole concept of premium cement is entering a different market segment altogether. The guy who is buying premium cement doesn't buy cheap cement and vice-versa. For example, when we were operating earlier in Jaipur city, we were only accessing one large market segment of customers, which gives value for money as the number one priority when they buy cement. With

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***The whole concept of premium cement is entering a different market segment altogether.***

premium cement, we are also entering a different segment in the same geography of Jaipur, the set of customers that gives value for brand as the number one priority and therefore they want premium-branded and much better quality cement. Therefore, it is not that we will shift away from our old value proposition – that continues to be the same for us. It is just that we are entering a new market in the same geography. We continue to re-define ourselves as per our competing needs.

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***Supply-chain, as a subject, is under-penetrated, and people don't realize the value. It is completely absent in India.***

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**Q. Driven by my constant on-the-ground research, I feel that supply-chain initiatives will be the next game-changer for the industry in terms of discovering new delta for earnings in the longer term? What is your opinion on this?**

a. Of course, there are umpteen inefficiencies in supply-chain in India. Supply-chain, as a subject is under-penetrated and people don't realize the value. Just look at it from the agriculture industry perspective. In India, as far as my knowledge goes, 30% of the agricultural produce is lost because of bad supply-chain. So, it is a hugely underdeveloped subject and underdeveloped science in India and I can see a huge opportunity here. In cement, if you go to any godown in India and if you go to any godown in Southeast Asian countries like Philippines or Indonesia, the godown itself is completely different. We have no palletization system in India, we still have no concept of forklift. You go to any large site in India, they don't have forklifts. You just can't send them cement in pallets as they just can't unload pallets. It is shocking to note that we are still using manual labour to load and unload cement. It just doesn't make any sense! Hence trust me, I will not be exaggerating if I say supply-chain, as a subject, is completely absent in India. The ecosystem itself is just not there. To elaborate further, what I am saying here with an example, you may recollect long back in the airline industry the practice was to issue tickets in small rectangle shaped ticket booklets. But the Government of

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***The delta from supply-chain initiatives will be sustainable for sure!***

India, one day, suddenly decided to change this practice to paper tickets. At that time, everybody was laughing that how can this be made possible? But within few months or years, the whole system ultimately changed to paper tickets, and now even paperless tickets. The whole ecosystem was developed. In many western countries, you can just show the boarding pass as well on mobile phones to board aircrafts; the same kind of transition is bound to come to India. Hence, from the cement industry's perspective, the need is of an eco-system to develop the supply-chain. If many of my clients have a forklift, then I too will send my cement in pallets. But then the site guy says that since I don't send in pallets why should he install a forklift? So, it is like a chicken and egg situation. Hence the whole ecosystem needs to be developed when it comes to supply-chain.

**Q. But these initiatives are truer from incremental structural changes perspective for the industry at large in terms of how they do business. Do you see any opportunities from the current business practices as well within the industry on supply-chain?**

a. Of course, there are, and it will happen. Your presentation on supply-chain is quite comprehensive and you have made the people and the general cement industry more aware about the wastages, which are happening in the system, which once highlighted, obviously gets corrected. So yes, it will add a lot of value and we are all working on it. And I am quite sure that your presentation was well presented to everyone in the industry as well and people have taken a note of it.

**Q. Can the delta from supply-chain initiatives be expected to remain sustainable for the industry at large in the medium to long run?**

a. Yes, it will be sustainable for sure! If you follow a good practice and you continue with it than obviously the delta remains sustainable.

**Q. Do you believe that there can be greater use of technology in identifying loopholes in the supply-chain and hence technology usage can further better the industry's operating mechanism especially on supply-chain front?**

a. Totally! For example, there is no smart warehousing in India. There are no robotic warehouses in India which is



there globally. Another important and relevant example here would be, like in our cement plant, we may need some 10,000 different stores and spare parts. How do you store and retrieve these 10,000 stores and spare parts is also part of supply-chain. If I have a robotic warehouse for stores and spares and if the robot knows which part is in which bin, the robot can easily go pick it up and get the stores and spares to the machine. I have a 100-member team for managing stores and spares, do I really need it if the ecosystem of supply-chain is present? Hence, if there is a breakdown in my machine and I need say 6 spare parts to repair the machine, how efficiently all the 6 spare parts get accumulated and come directly to the said machine so that it can be repaired quickly and in a more efficient manner is also supply-chain. It is an internal supply-chain. Therefore, I say, supply-chain as a concept is fully absent in India. What you have highlighted is mainly the external supply-chain, but what I will like to add here is that even the internal supply-chain has a lot of scope of improvements in India.

**Q. How long do you think this journey of transformation will take in India?**

a. Probably a long-long time. In India all people are always in business, it is always a matter of cost vs. benefit. Hence difficult to judge for me, timelines on this front. But it will definitely happen as time passes by.

**Q. What is your advice to your long-term investors and how do you think they should look at the**



***We keep on changing every day, not hypothetically, but practically. Shree Cement today is not what Shree Cement was ten years ago and it will not be the same Shree Cement five years hence.***

**industry?**

a. I will never advice my investors. But I will only tell them how I expect the industry to behave over the next few years. Indian cement industry is very correlated to the GDP. As long as India is growing, and as long as we have good expenditure by the government on infrastructure, the cement industry will continue to grow. India is on the cusp of transition from a low cement consumption base to a high cement consumption base. Our GDP per capita is close to c.2,200 US dollars p.a. in 2019 and it is almost at this level when big transition takes place when need converts into demand. We are at a very sweet spot and we expect the industry to do very well over the next five years.

**Q. In the long run, in your regime, are you open to exploring any allied building-material-related business**

**opportunities?**

a. Yes. We do learn from our competitors. Some of our competitors are present in RMC and Construction Chemicals segments. Though we don't have any plans right now to enter into any of these allied businesses, we keep an eye on the happenings of the industry.

**Q. If there was any sector beyond cement you will like to invest your personal money if not as a promoter but say may be as an angel investor, what would that sector be?**

a. I would rather have my personal money liquid and safe. I am not a private equity person. Personally, we invest only in listed equities and that too only well recognized large caps and blue-chip companies. We don't have any stock in our portfolio that many call 'multi-baggers'. We consider investments not to be a

money-making machine but a safe-keeping machine.

**Q. If there was something which you will like to change at Shree Cement, what will that be?**

a. We keep on changing every day, not hypothetically, but practically. Like every organization, wear and tear happens and it happens every day. It can be wear-and-tear of system, culture, attitude and we need to keep on repairing it and innovate it every day. This is the change that happens at Shree Cement, and it happens every single day. Shree Cement today is not what Shree Cement was ten years ago and it will not be the same Shree Cement five years hence.

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***We consider investments not a money-making machine, but a safe-keeping machine.***

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**Q. What is it that you will never like to change at Shree Cement?**

a. It is the culture of innovation which defines me and which defines all of us at Shree Cement. The culture of being driven not by numbers but by benchmarks. You know what is that which really motivates all of us at Shree Cement; it is that we are a 'Global benchmark'.

**Q. 30 years down the line, where do you see Shree Cement?**

a. Nobody knows. Was it possible

for me 10 years back to tell you that I will be 40 million tonnes p.a. capacity in 10 years, the answer is 'No'. 30 years is too far into the future and hence I will not like to share a vision statement here.

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***What really motivates all of us at Shree Cement—it is that we are a 'Global benchmark'.***

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**Q. Shree Cement as I understand was founded in 1979 and it went public in 1984. In 1997 you did a rights issue. From then until November 2019 you never diluted equity when you did a Qualified Institutional Placement and raised ₹24bn from the market. You have said that these funds were raised with a view to fund future capex, as Shree Cement will always remain a debt-averse company and as of now you have shared a vision of 80mn tonnes p.a. capacity with the public. But beyond this, do you think you will need further equity for your growth plans beyond this vision?**

a. Like I said, I cannot say what is going to happen in the future or say 30 years down the line when you asked me the previous question. If you would have asked me 2 years back, we may not have had a plan to raise equity, which we did last year. So, it is very difficult for me to comment on what happens in the long term to very long term. But if you ask me personally, I don't think any further equity dilution will ever be on the cards, at least not for the foreseeable future for sure. We are confident of reaching all our

desired milestones without taking any material debt and without doing an equity dilution again.

**Q. Will you like both of your sons (one 9, the other 6 years of age currently) to also join the family business when they grow up or do you feel there are chances that they may choose to do something different? Though they are quite young, do you discuss with them any learning at business or anything similar when you are with them? Did you ever have an opportunity to take them along to your plants?**

a. I will give my sons the same flexibility which my father gave me then, and then it is really up to them. And this again is 20 years down the line in the future and I have no idea what happens then. They have been to our cement plants during our regular annual functions, when the whole family visits together. But they are too small yet I think for me to say whether they are also fascinated by machines or not, the way I was during my teens. If you talk about my conversation with them about my business learnings I do it in a different way. Like I forced them to do something new yesterday. I asked them to cook. Why was it? The whole idea is that they need to try something new. Whether making them learn cooking skills is part of business skills, definitely not. It is part of my institution of learning for them which will ultimately define them. But I want them to try something new irrespective of whether it succeeds or fails. I encourage them to try their hands in all kind of activities be it cooking, cycling, skating,

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***We are not a company that is driven by numbers. I believe the valuation that Shree Cement is commanding is the choice of the investors.***

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swimming, golf, squash, basketball, be it anything and everything. The whole idea is to keep on trying.

**Q. Who amongst the competition do you admire other than Shree Cement?**

a. Ramco Cements, I believe has done a good job.

**Q. Have you been able to make friends in the industry or amongst the Next Generation Leaders of other cement companies? If yes, who are your best friends in the industry if you will like to share with me today?**

a. We have social interactions with all of them, but no one I would like to term as a close friend.

**Q. Shree Cement today commands the most premium valuations in the cement industry. This is to likes of valuations commanded by Apple, Tesla, Amazon, and Wuxi PharmaTech in their respective sectors. How do you benchmark Shree Cement when it comes to stock valuations?**

a. We are not a company that is driven by numbers. I believe the valuation that Shree Cement is commanding is the choice of the investors. Our focus is not numbers, but it is to only benchmark

ourselves to the best and being the most efficient company. Profits, principally, we believe, are a matter of market product prices and market scenarios. We don't care whether the profits are good or bad as long as we are performing in terms of our consumption benchmarks. If we are not profitable today, we will become profitable tomorrow. But what are we consuming in terms of power, in terms of fuel, in terms of converting limestone to cement factor, etc., is where we look to evaluate our performance.

**Q. Do you also get involved in Corporate Social Responsibility (CSR) initiatives along with your father?**

a. As a Joint Managing Director of Shree Cement, I am actively involved in CSR and this is more to do with areas that we operate in. Afforestation and water harvesting are two areas that are very close to my heart. Planting trees and water harvesting in the newly formed deserts of Rajasthan is an initiative where we have taken a large effort. Most of our plants, if not all, are water positive. Specially, in case of Rajasthan, where water is scarce, we make sure that our presence is not a burden on the society, but we are welcomed by the people because of our initiatives there. I set the guidelines along with my Papa and then I am closely monitoring these initiatives, especially those that are dear to me. At my office, I can show you the plant-wise details of the water harvesting capacity today and what it will be next year.



A selfie by Mr. Prashant Bangur along with his wife and kids.

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These initiatives remain my focused initiatives on CSR front and are very close to my heart.

**Q. What can I expect Mr. Prashant Bangur to do if he is not busy with work?**

a. I spend a lot of time with my kids. I love to cook. Other than that, I love to play sports, mainly squash, and I also cycle.

**Q. Your favourite cooking recipe?**

a. I innovate, and trust me, I innovate! I have never seen a cookbook. All my cooking is fully innovative. I just go into the kitchen and grab whatever is available in the kitchen. Whatever I see, I just take

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***Regards CSR - Afforestation and water harvesting are two areas that are very close to my heart.***





charge of it and cook something on my own. I can cook everything I want, but in my own style. I don't use recipe books. My best dish that I can recall now is a sweet dish called 'Caramelized walnut with salt and green chilly'.

**Q. Your favourite cuisine?**

a. Randomly. Anything is fine for me. As far as it is vegetarian, I can eat everything.

**Q. I heard you recently ate a dish made out of cactus when you were in the United States of America. Is this true? Did you like it?**

a. Yes, it was in San Francisco recently, and I loved it. It was at a Mexican restaurant. The reason behind me ordering that dish was that, it was a very different recipe and it was a vegetarian recipe. Driven by my hunger to try new things, I didn't even want to

understand, apart from cactus, what the other ingredients in it are! I had to order it, because of my passion and DNA to try something new, unique, different or rare and which I know I will not get at my home, back here in India.

**Q. Your role model?**

a. Of course, my Dad. I have learnt a lot from him.

**Q. I knew it would have been your Dad, obviously. But beyond your Dad do you also have any other role models?**

a. Beyond my Dad, calling someone a role model is very easy and also equally difficult because, for example, if I say that Mr. Steve Jobs is my role model, I don't know anything about him, so he cannot be my role model. Hence my role model is not a person and it cannot be a person. It is a bunch of people whom I have interacted with socially or at a personal level, and whose positives and negatives I know as a person. One of my close ISB friends is highly family value oriented; he has very good strengths and takes very good care of his kids. Therefore, he is my role model when it comes to parenting. When it comes to innovation it will be another friend of mine about whom I know how he thinks about innovation. Hence, role model, as I see, it cannot be a person and it is usually the best practices and you have to gather these best practices from different people.

**Q. Your philosophy of living life?**

a. I will quote from Bhagwad Gita to tell you my philosophy of living

life – 'Karmanye Vadhikaraste Ma Phaleshu Kada Chana, Ma Karma Phala Hetur Bhurma Tey Sangostva Akarmani' and the simple meaning of this quote is 'Do your duty and be detached from its outcome, do not be driven by the end product, enjoy the process of getting there'. To read this shloka for you from my business perspective, whatever input I give to my organization that will drive the output and numbers of my company. Ultimately, an output is a function of inputs, and therefore the input is more important! This is what I truly follow and practice in my life too.

**Q. Newspapers that you read?**

a. Business Standard, Economic Times and The Hindu Business Line.

**Q. Favourite holiday destinations? Do you have a set holiday calendar or do you take as it comes?**

a. My holiday calendar is completely random. I don't have a favourite destination, because I prefer to explore. I would rather go to a new place every time, and if it turns out to be my favourite, then I tend to repeat it, but generally I don't like to repeat.

**Q. Last but not the least, your Papa told me last year during his interview that I can look forward to a biography of Shree Cement by 2025? Has the groundwork begun on writing this, and is it fair to remain positive and look forward to this biography? It will be a great pleasure to read it!**

a. You already have the answer from the Boss and thus you don't need my answer (laughs mischievously!).



INTERVIEW - **Aditya and Alok Sanghi**  
Promoters & Whole-time Directors, Sanghi Industries Ltd.





Family chief - Mr. Ravi Sanghi (sitting on the chair at extreme left) along with other family members of the Sanghi family.

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**Q. Sanghi Industries does not have a very long history. It is the brainchild of your father, Mr. Ravi Sanghi. From publicly available resources, I understand that the construction of your plant began in 1996, and then there were some major headwinds during the construction phase. The first production batch could have been despatched in 1999 but that was not the case, and the plant became operational only in 2003. This is a very long gestation period of nearly eight years for the plant to come on-stream from the date of inception of this idea. Tell me about this journey of your father, about the headwinds he faced, and how he defeated them?**

a. The idea behind investing in cement for our parent's generation was to invest in the core sector. When cement was fully decontrolled in the late 80s, this sector attracted their attention. Cement demand in India was fairly small then, but there was a lot of international trading in this sector. Therefore, when they searched for relevant business opportunities, they identified Kutch as an ideal location for a cement factory. This location is alongside the seacoast, and allows the prospects for an open participation in international trading, which was also a common norm during those days in all Far East countries like Indonesia, Thailand, Korea, and Japan. All these countries have a lot of cement plants along their coastline, with a viewpoint of exporting cement. With that philosophy they felt that they should also establish a similar facility in India – that is not just competing in India but also globally. Keeping this mentality as their core thought process, they decided to set up a 2.6 million tonnes p.a. integrated cement capacity. As the original design of this plant was massive, it created fear among then existing Indian groups, and as a result, many aggressive Public Interest Litigations (PILs) including environmental litigations were filed against our company in late 90s, when nearly 70% of the project construction was already completed. In 1999, which was the initial deadline for plant completion, the project could only reach a semi-finished stage, so we could not start any of our operations. The court had put a stay order for further construction of the project because of these litigations. The judgment for all these litigations in the court of law came in our favour, but it was again challenged in the Supreme Court of India, and we won that too, eventually. It was only once we won in the Supreme Court

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***The idea behind investing in cement for our parent's generation was to invest in the core sector.***





Sanghi Industries plant in 1999 when 70% construction of the plant was already complete.

that we were allowed to restart the construction for the balance pending 30% of the project, so the project execution period became very prolonged. We were able to complete the full construction only by 2003. The time delay created a lot of financial strain and stress on our company. The four-year delay meant that the project cost had ballooned out of control and it was no longer sustainable. The promoter family had to pump in a lot of money to make sure the project was still doable. The banks also gave us a restructuring package, which we were able to thankfully complete in 2016, three years ahead of the bank deadline of 2019. But it was with a lot of difficulties that Sanghi Industries was able to complete the debut project, kick-off and despatch the first bag of cement in 2003.

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***The four-year delay meant that the project cost had ballooned out of control and it was no longer sustainable.***

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**Q. If these PILs and such similar litigations had not been raised and filed, what were the differences that could have been brought to Sanghi Industries?**

a. Two things would have happened. 1. We would have commissioned our project well in time in 1999, and that means both our financial as well as market strength would have had an additional advantage of four-years vs. today. 2. The project cost would have been very much in our control. The promoter family would not have been required to pump in the additional equity, which they did. Our return ratios, like Return on Assets and Return on Equity, to a large extent appears depressed because of a lot of interest capitalization that happened during that time, because of the project delay.

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**Q. Your father comes from a textile background, and you said that venturing into the core sector was one of his key thought processes, but cement was not yet proven to be a lucrative long-term sustainable business opportunity. What do you think made him zero down on cement within the core sector?**

a. We are not sure as to why he chose to go ahead in cement only within the core sector, but we are sure he evaluated many other sectors too within the core sector. The only thing that we can recall now is, when the cement sector was completely decontrolled on 28th February 1989, the generic feeling was that this sector would have great business opportunities in the future. Industrialists and entrepreneurs started factoring in further liberalisation of the Indian economy, and a need of a dream budget that will augur India's exponential growth. Cement was one such commodity that was a pre-requisite for this Indian growth story to come true, and fortunately this thought process played-out over the last three decades. Another incentive for our father to venture into cement was the availability of a limestone mine along the coastline at Kutch. He never wanted his business to be only domestic focused. There were a lot of incentives for setting up an export-oriented unit then, and there was also a lot of money available outside India, which was supporting his thought process of becoming relevant on the global map. These favourable trade policies encouraged him to search for a business opportunity where he can compete globally. The limestone mine in Kutch region along the coastline ensured the possibility of setting up a cement unit along with a port facility. Consequently, he thought his goal of participating in international trade is viable, if he sets up a cement plant in Kutch. In fact, that is the sole reason why he chose to setup this unit in Kutch, though there is a very limited demand pie which Kutch region itself consumes of the total Indian cement demand. Participating in the Indian growth story through a core play like cement, and making India's footprint even better and stronger on the global trade and commerce map through his business venture, were the two key reasons that made our father venture into cement.

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***Beyond our father's willpower, it was only because of the support we got from the banks, that we could complete the project, and the company could manage to survive.***

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**Q. At any point of time, did he think of exiting the business by selling-off or dismantling the partially constructed unit? Did he consult both of you?**

a. During those days, we were not involved in our business in anyway whatsoever. Both of us were quite young.



Mr. Ravi Sanghi (second from left) along with his sons Aditya (extreme left) and Alok (extreme right) visit the construction site in 1996 to participate in the rituals of the site inauguration ceremony.

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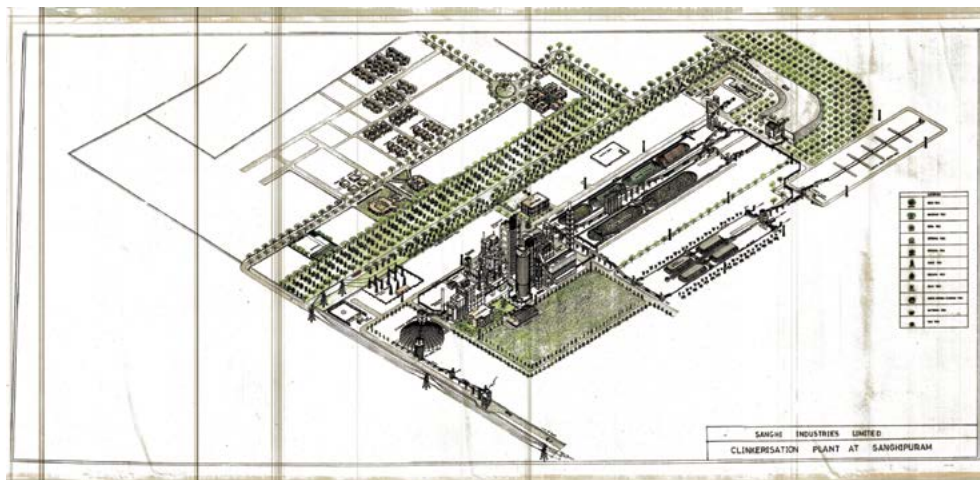
Rather, we were not even around, and still studying in either school or college. Therefore, the thought of our consultation never came in his mind. We are sure he would have evaluated many options, but the choice of exiting the business was not available to him, as no one would look at and buy a project that was under a stay or litigation. Any strategic or equity option was therefore not available to our father till the resolution of all these litigations were complete. More so, the debt on the books was unsustainable. Only once we won those litigations, various options were put on the table and discussed. But given his firm determination, he decided to complete the project with the support from banks. We must say that we got a lot of support from banks to complete the project. The banks too realised that our debt is unsustainable, and so they requested the promoter group to pump in more equity and they came up with a debt-restructuring package. Beyond our father's willpower, it was only because of the support we got from the banks, that we could complete the project, and the company could manage to survive. The choice of an exit was also never a doable option for our father, more so because of his attachment to this business of which he was the founder.

**Q. To my knowledge, your company is a rare cement manufacturer in India, which straightaway initiated the journey with a very large kiln size of 7,600 tonnes per day (tpd) capacity of clinker production, and which was also one of the world's largest integrated single-stream plants. This size was unheard of in India at those times. What do you think made your father begin his journey with such a bold single-kiln capacity? What was the**



**original project capex outlay that your father envisaged? When you look back today, how will you rate your father's capabilities then, as he was a debutant in cement business?**

a. You are correct, we initiated with 7,600 tpd that was later upgraded to 9,800 tpd around 2010. For a 2.6 million tonnes p.a. of integrated cement capacity, our father chalked out a capex of ₹6.83bn. His primary objective was to make this a very large site for an international scale of operations that was capable of participating in global trade, offering competent cement prices. The design of the equipment, the scale and size of the land we acquired, the layout and drawings, all of them were made with a mindset of scaling up to a very large setup, say 20 million tonnes p.a. in times to come. He was very clear that he wanted to go for something very big. Though he was a debutant in the cement industry, but when we see the original drawings and initial artist sketches of our plant, we are stunned to see his hold on this subject. For example, the way he could visualize the usage of conveyor belts to link the various plant locations, the way he could imagine that these belts can link our clinker and grinding unit which



The 1994 original drawing of Sanghi Industries first clinkerisation unit at 'Sanghipuram'.

***Our father's primary objective was to make our site a very large site for an international scale of operations that was capable of participating in global trade, offering competent cement prices.***

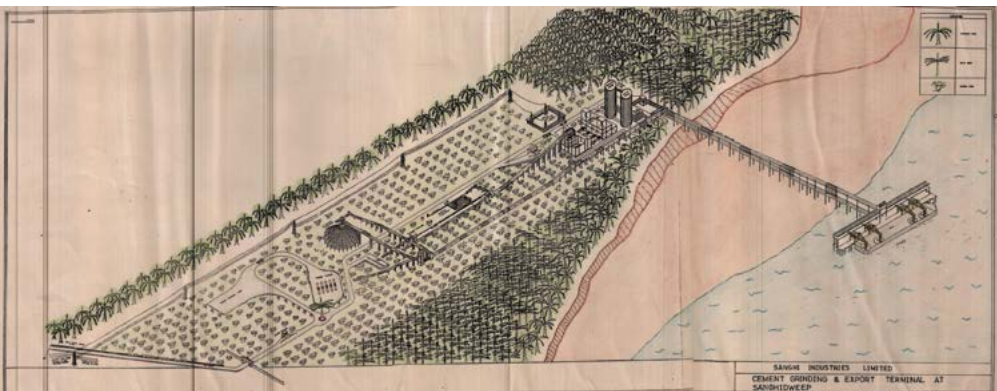
are fourteen kilometres apart etc. The concept he had in mind was very similar to the concept used by Southeast Asian players, especially those in Thailand. Thailand was a dominant exporter of cement before China took that position. Thailand is a classic example of having multiple, very large cement plants in a small cluster, and being the second largest exporter of cement in the world,

even today. These kinds of setups certainly inspired our father. But the key underlying was that this site allowed that kind of a setup. There are very few sites in our country where such large capacities can come up and where all the raw materials including fuel is within a radius of 50-60 kilometres. Keep in mind, the original site was designed for lignite and that played a major role to bring him into the comfort zone to execute this setup.

***The original site was designed for lignite and that played a major role to bring him into the comfort zone to execute this setup.***

**Q. Does your vision today also remain in line with your father's vision, or does it need some alterations?**

a. Though the broader vision remains the same, we have also learned that cement in India is a pure play on the logistics setup. That is something that was missing in the original concept, which we want to additionally factor



The 1994 original drawing of Sanghi Industries cement grinding and export terminal unit at 'Sanghidweep'.



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***Though our broader vision remains the same as our father, we have also learned that cement in India is a pure play on the logistics setup.***

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in and improve upon with his original vision. We have gradually moved ahead on the learning curve for this business. We never factored in the past that we would have multiple grinding units at multiple places like we do today. Therefore, there is a slight change in our strategy, to ensure that we move a little closer to our target markets. Having said that, we definitely want to remain relevant and be a player of some significance; that is in line with the original vision set by our father. Back then, in the late 90s nobody could imagine that India would consume as high as over 300 million tonnes of cement p.a. within a span of two decades. We could never imagine or even conceive a thought that a single company can have a rated capacity of producing over 100 million tonnes p.a. of cement, and today we have a company hitting that number. These developments have definitely changed the wider perception with which one looks at the cement sector, and we have to accordingly incorporate these developments in our broader vision.

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***We definitely want to remain relevant and be a player of some significance; that is in line with the original vision set by our father.***

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**Q. Why do you think other manufacturers did not initiate an idea similar to your father?**

a. We don't know why they were not thinking on similar lines; we would say it was only because of a difference in thought processes. All players who were setting up cement plants in India were only focused on the domestic market. Nobody was thinking of an international market. It was not that none of them were exporting cement, but export being a mainstay and foundation of business strategy was not being considered. For such an export strategy, you need a viable site, which is along the seacoast with abundant limestone availability, and the availability of such limestone leases is very limited in India. This could have been a basic roadblock and another reason.

are correct to an extent, for one very important reason – that these vendors had never executed such a large site based on lignite as a fuel input. They would have executed many sites, which were based on different varieties of coal as a fuel input that were procured from United States of America, South Africa, Australia, Russia, etc. but never on lignite. The choice of fuel makes a huge difference in project execution and plant setup. Fuel is the only

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***The choice of fuel makes a huge difference in project execution and plant setup.***

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Sanghi Industries plant in 2002 when the construction was finally completed and the plant was proceeding towards trial-runs.

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**Q. But since these kinds of plant setups were not executed in India then, were there any challenges from your vendors, as they too would not have had many experiences in executing such a large setup?**

a. In terms of global scale of operations, the size of capacity we initiated was not an unheard number internationally. There were many such similar sized plants, especially in Thailand and Indonesia, though they may not be as big as what our father envisaged. But yes, you

material that burns in the plant, and can also potentially explode. Therefore, choosing the right fuel and implementation of all the requisite safety precautions is something that is of utmost importance during a plant setup. Petroleum coke, a fuel that is also being used nowadays in the cement industry, is something that was not even discovered by this industry then as a fuel input. More so, we wanted to source all our raw materials, including fuel, locally; so, we did not consider any imported fuels as an alternate option at the time of project execution. Given

that lignite was easily available within a close vicinity of the plant, and that too in an abundant quantity, our setup was based on assumption of 100% lignite for fuel usage. Lignite is also more volatile than coal as per its basic chemical composition and properties, and so the possibility of an explosion or any unfortunate incident with usage of lignite is much higher vs. coal or petroleum coke. There were definitely few plants in the world based on lignite even then, but they were not of the scale that we proposed for our plant. Consequently, choosing lignite as our fuel input was a very critical decision for us, and it had significant implications on the way we executed the project too. The kind of safety precautions that were incorporated was something really very challenging for both, the vendors, as well as the project execution team, when our father executed the project.

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***There were definitely few plants in the world based on lignite even then, but they were not of the scale that we proposed for our plant.***

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**Q. Though you were quite young, did your father briefly consult with both of you when he decided to venture in the new business of cement? Were both of you brothers groomed from the very beginning to be a part of this business?**

a. No, we were definitely not consulted, and it was also not fair on our part to have an expectation of being consulted by our father. Like you said, we were very young and we had no practical idea of what it means to be in this business, or for that matter, any other business as well. But we knew that something was going on in the family with regards venturing into cement, as that was the talk in the house. It is a tough question to answer for us – whether we were nurtured right from our young age to join family business – as there are many aspects to it. Since ours is a business family, right from the very beginning, we have always been surrounded by talks around business, whether it is at our dining tables, living rooms, or wherever. Our elders always encouraged us to come to the office from very early age and all our family members have also always been in sync with this thought process. As a result, it was quite natural for us to remain fascinated by talks of setting up a factory, or participating in any other business discussions, even when we were young. This kind of grooming definitely influenced our thought process – to be a part of the



Mr. Aditya Sanghi as a kid, accompanying his father Mr. Ravi Sanghi during one of his site visits when the plant was in construction phase. Photo clicked at the plant's old guest house.

business environment when we grow up. The tough part of your question for us to answer is whether family business was the only default option available to us? We both studied abroad and were inclined to come back to India at some stage to become entrepreneurs and put our entrepreneurship skills to the test, but not as early as we actually did. Coming back to India was a preferred option always for both of us, but we wanted to gain reasonable work experience in a professional setup abroad, before we came back to India with a viewpoint of ensuring success in our entrepreneurial ventures. But for various different reasons, at different points of time, we both did return to India, much earlier than we actually anticipated. The fortunate part is that we both were able to join this business just when the company had really kicked off on the ground. Therefore, we got

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***The fortunate part is that we both were able to join this business just when the company had really kicked off on the ground.***

an opportunity to experience a lot of those early teething problems, participate in the growth phase, and also understand the various challenges that the business faced practically, since the time we are visibly present in the cement industry. Entering the business at the right time has been the most critical and a blessed coincidence for both of us.

**Q. Before you joined business, as youngsters, did you get an opportunity to visit your plant site along with your father and how did all of you celebrate when the plant was inaugurated?**

a. Incidentally, we both were not here on the day the plant was inaugurated. Because the plant was commissioned in different phases, we never had one single moment of celebration. We first began clinker operations, and then after a bit, cement grinding and other related operations were also commissioned. But we do recollect our visits on our holidays to the site, before we joined business and we would have done that at least twice or thrice. We always used to wonder and discuss amongst ourselves – why is the facility so far away from civilization, *plant itna door kyun hai?* We remember we used to spend an entire day travelling to the plant and again an entire day on our return journey from the plant. For us, the only memories before we joined the business, are those real tough road journeys and nothing else! (Both brothers chuckle).

**Q. As you said, both of you returned to India much earlier than what you anticipated, but then what made you choose the cement business only? I am sure there could have been many other business opportunities that were worth exploring. Please tell me the reasons behind choosing cement business as your career path?**

a. **Alok:** I joined in 2005, and though I am the younger one, I was the first one to join this family business for two critical reasons. First, when I came back to India, I was fully convinced that the largest change that I could make and which I should make, was only in the cement business. Though our Corporate Debt Restructuring (CDR) was principally approved, the business continued to remain under a lot of stress, probably unsustainable like the way it was in the past. More so, within the whole set of various family businesses, it was also the newest business, and hence I did not want to see it die. Second,

though our family is pretty large, beyond my father nobody else was involved in this business. There was a definite natural need of more family members getting involved. Therefore, I felt that I will get a lot of freedom to run the business the way I want to, and I will be able to bring in a lot of difference. The liberty available to run the show gave me the confidence of being able to deliver a change and as I said, the business also demanded participation of more family members beyond my father. These were the two most critical reasons for me to decide to join my father's cement business.

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***When I joined in 2005, though our Corporate Debt Restructuring (CDR) was principally approved, the business continued to remain under a lot of stress, probably unsustainable like the way it was in the past.***

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b. **Aditya:** I joined in 2006, a year after Alok. I was engaged with a job in the United States of America, and my academic career too needed some extra time, therefore I took a little longer to decide not to work abroad and to return to India. My reasons for joining the cement business are identical to Alok's, but beyond that, what also attracted me to the cement business was the degree of 'professionalism' in this business. The kind of professionalism available in the cement industry now, and even in 2006, was ahead of the curve vs. any other business in the rest of country, mainly because it is a highly capital intensive business. Cement business in India cannot be run like a *mom and pop shop!* This business requires professionals to run the show, and they know the outcomes of what they are doing the best vs. any family member. Both Alok and me came back from the United States of America, and it was very difficult for us to join a typical family business in India, like textiles, where the micro management is so vigorous that one has to decide to an extent, just to exaggerate, whether even a pencil has to be purchased or not. This is not necessarily to say that our business in Hyderabad was conducted in a similar fashion, but this is the typical culture of the old-style family businesses in India and it is true even today. It was very difficult for me to get adapted to this kind of a culture. I believed the professionalism of the cement industry could allow well-educated youngsters like me to participate and contribute more to the business, and so I boarded the same ship as my younger brother.



**Q. In the past, barring cement, the Ravi Sanghi group also had interests in other ventures like power, shipping, and hospitality. What is the status of these businesses?**

a. In the mid-2000s, our family went through a separation, in which most of the other family business in which we had an interest, were allocated to different family members. Since the early 90s, our father was anyways not involved in the management of any of those businesses in any material way, and when he decided to venture into cement in the mid-90s, his involvement became further negligible. When this separation happened, all the financial holdings were exchanged, barring few miniscule financial crossholdings, which still remain pending, and which the respective family members will exit at their own convenience. But since the period of this separation, say the last two decades, the other family members are not involved in our management, and we are not involved in theirs. Beyond any minor financial interests, there is no interest of any other family member in our cement business, and likewise for us. It is only our father and the both of us who are the whole and sole from the family in the cement business.

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***But since the period of this separation, say the last two decades, the other family members are not involved in our management, and we are not involved in theirs.***

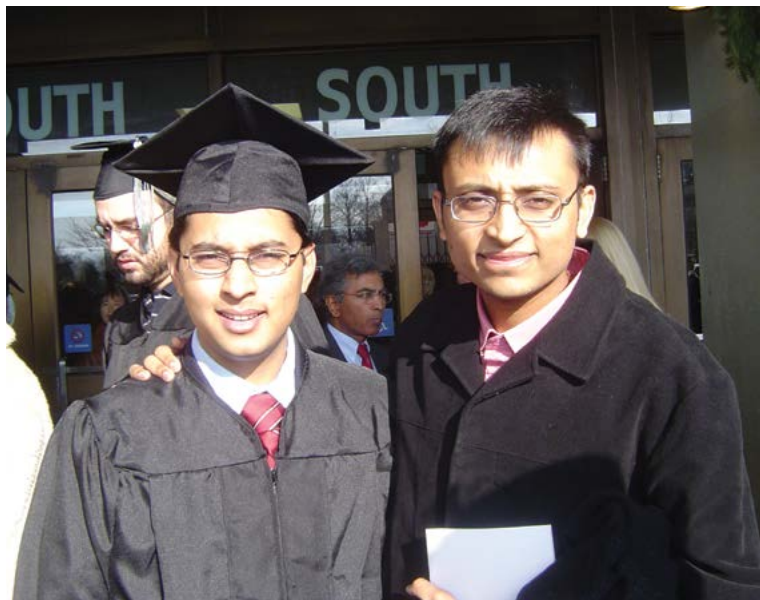
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**Q. Let us talk about your individual work experiences before you joined Sanghi Industries...**

**Mr. Aditya, I understand you passed class XII and went to the United States of America for further studies in 2000. Before coming back to India, you worked with three leading American companies - SPX Lighting Corp., Rochester, New York; Parker Hannifin Corporation, RAC Division, Lyons, New York, and TRW Automotive and Electronics Group, New York. This was all within a span of six years and implies that you had a very brief stint at all of these places. Why is that so?**

a. The answer is fairly simple. At our college in the US, we had a 'Co-op' program where the companies would come, interview students and hire them for a short period

of time. Two of the three you mentioned were my co-op internships of four months each and the third one, which is TRW, is something that I wanted to pursue as a full-time opportunity, and which I did before I came back to India.



Mr. Aditya Sanghi (right) along with Mr. Alok Sanghi on the day of his convocation at his University in The United States of America on 18<sup>th</sup> December 2004.

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**So Mr. Aditya, what pulled you back to India?**

a. A very brief conversation that I had with my dad. When I got my first full-time offer letter, a copy of which I still preserve, I was elated to tell my dad that I have a full-time opportunity and I am now thinking of pursuing this as my career. He just sarcastically asked me "Kitne ka hai aur kitna milega?" implying what is the salary package offered and how much will I actually draw every month. When I replied to him with that number he said to me, "You know the number that you are quoting, you can make that much for yourself and the entire family in just a day here, so why do you want to waste your time and youth there? Come back to India, and keep that opportunity for someone else who is needy". I resigned the next day and came back to India. That phone call was the only reason to pull me back to India.

**Mr. Alok, you have worked with some leading financial institutions and brokerage houses before you joined the family business? Why did you try multiple jobs before joining the family business?**

a. Every year during my holidays, when I used to come back home from the US, I would get very bored because of various reasons. It is natural that we lose touch with friends and the rapport weakens when we are away for a long time. It was sometimes difficult for me to find ways to spend my holidays, and so I just felt that I should not waste my days and valuable time like this. As a result, in all of those summer months, I would pick up an internship here. I did an internship with a stock-broking firm known as Regency Securities in Hyderabad. I was like an assistant in this summer job trying to develop an understanding of the stock market and how it works, especially from the trading-desk perspective. Another summer, DSP Merrill Lynch employed me. Here, I was an analyst in their Equity Capital Market (ECM) department. Mr. Ravi Kapoor, who is now the Head of Global Banking at Citi India, headed my department. It was a specific assignment with regards to Initial Public Offering of Tata Consultancy Services Ltd and there were three Book Running Lead Managers to the transaction – JP Morgan India Ltd., JM Morgan Stanley Private Ltd., and DSP Merrill Lynch being the third one, who was my employer. In another instance, when I was returning from the US, one of my friends suggested me to take a stopover for a month in the UK to participate

in an event organized by Merrill Lynch. Accepting his suggestion, I participated in one of the trading events held by Merrill Lynch in London for their Private Wealth Clients, where I made a mark and was noticed. Subsequently, the Private Wealth Division of Merrill Lynch, New York, recruited me to manage their Private Wealth Clients on my return to the US. But then I had to leave that, because when I applied for my H1B Visa, it got rejected. I wanted to pursue permanent employment in the US when I was under Optional Practical Training (OPT). As per US visa rules, you get one-year validity extension on the student visa and this is called as OPT, within which you have to apply for H1B Visa, if you seek permanent employment. OPT is a period during which the undergraduate and graduate students with F-1 status, who have completed or who have been pursuing their degrees for one academic year in the US, are permitted by the US Citizenship and Immigration Services (USCIS) to work for one more year on a student visa towards getting practical training to complement their education and gain experience. But since my H1B visa got rejected, I saw no logic in continuing to work for only one year in the United States of America and then having to quit and come back to India. Consequently, I quit and decided to come back to India immediately.



Mr. Aditya Sanghi (left) and Mr. Alok Sanghi during the interview.

**Q. As I understand, Mr. Aditya has taken the broader responsibility for all plant and production related operations whereas Mr. Alok is broadly responsible for sales and marketing? Is this understanding correct and what led to this bifurcation? Was it pre-decided?**



a. **Alok:** Your understanding is correct. I look after sales, marketing, logistics, shipping and related aspects of business whereas my brother looks after the plant and everything related to technical aspects of business. In a way it was pre-decided, because my interest has always been on the commercial side and even my educational background has been in Finance and Marketing with a minor in Economics. My brother has done his Masters in Industrial Engineering, so his interest has always been more in the engineering and technical zones of the business. Our job profiles are more of a natural succession to our individual academic backgrounds and in line with spaces of our personal interests.

**Q. Mr. Aditya, you have been credited with various operational related initiatives at Sanghi Industries including installation of captive power and Waste Heat Recovery Systems (WHRS), increasing the plant capacity to 4.1 million tonnes p.a., establishing bulk**

**terminals at Navlakhi in Gujarat and Dharamtar in Mumbai. Were these initiatives your brainchild or will you like to share credit with more people?**

a. Most of the initiatives that you mentioned, we only primarily looked at them from a cost perspective to either lower the operating cost or to improve the reliability of our plant. When I joined the business, one of the very serious reasons for lack of performance at the plant was unviability and unreliability of the Diesel Generator (DG) sets. Furnace oil that used to be very cheap suddenly saw a very steep increase in its prices, which was a serious issue. The power, which we were able to produce at ₹2.5-3/unit without breaking a sweat, suddenly the power production cost shot up to ₹10-12/unit. We assessed naphtha, but the prices for Naphtha too shot up. We evaluated connecting our plant to the state grid at that time but then there was no grid present. Even today the availability of grid power to our plant site is very limited. Therefore, having a thermal captive power plant was considered the best bet, and it became the need of the hour for us. It was also one of the biggest cost-saving initiatives that we executed and similarly the same is true for WHRS. The projects of Dharamtar and Navlakhi that were taken up, they were all joint exercises of our past efforts and the vision of our organisation. It was not that one fine day I or anyone else initiated these ideas and thoughts because of which they were taken up. When we used to look at our cost curves and discuss them every month, these were some of the ideas that were mutually floated by the team. Therefore, the initiatives for which you said that the credit goes to me, the credit actually goes to everyone who contributed to these ideas. These initiatives, not just came to my observation but the whole Management team's notice. The scale of thermal power project we executed costs ₹2bn plus, so these are very large initiatives, and I was not really ready to lead the way for such large numbers. Though today, I can steer such large projects, but at that time, coming out of the college as a fresher with limited experience, I would have certainly not been individually capable to drive these large projects. I only happened to be an executing agency, and I share these credits with each and everyone involved in my project execution team.

**Q. Mr. Aditya, you have also been closely monitoring the Corporate Social Responsibility (CSR) and Sustainable Development initiatives at Sanghi Industries. Under your leadership, the company has initiated usage of alternative renewable fuels,**



**implemented mechanisms such as Root Zone Treatment System (RZTS) to effectively reuse wastewater, and you are now promoting the greenery around the plant more intensely. Tell me more about this; were these initiatives self-identified by you?**

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***As an organisation, and also as a family, we have always believed that we have to live well with nature.***

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a. Broadly, as an organisation, and also as a family, we have always believed that we have to live well with nature. These initiatives are a reflection of the inherent culture that is imbibed in our organisation. 'Sustainability' is a buzzword these days, but the part of Kutch where our plant is located, is essentially a desert. So, sustainability for us, at that time, meant that we have to make the conditions for everybody around us liveable, we cannot make them unhappy, and we also have to ensure that our people live near the plant. We wanted to ensure that the people who work with us do not feel like they live in a desert. It is thus indispensable that everyone in and around the plant is happy and lives cheerfully. This was important for us to attract talent too. If the families of these people don't stay along with them, and if the family members are not happy, probably the employees will also not live there for long to work with us. Even today, when we hire senior people our effort is to imbibe this deeply into their mentality so that they work towards the reduction of the new buzzword 'carbon footprint'. Since our plant is in a desert, all initiatives that we take in this subject, may it be rainwater harvesting at our mines, or reducing the water consumption at our facilities or reusing wastewater through RZTS – they all are an effort to make life better for our people, their families, and everyone in and around these areas. I am quite popular in my team to teach them all the time that we cannot disrespect water. I firmly believe '*jo cheez kam hai, uski izzat hum karenge, to hi hum reh payenge wahan par*' implying you have respect what is scarce; that is the most essential and critical to ensure our survival in a desert.

**Q. Mr. Alok, you are the younger one and you have been shouldered with the responsibility of corporate strategy and business development? Though both you have equally tough tasks, do you see your task as more critical, as it decides the future course of direction for your company?**

a. By the very nature of my educational background in marketing and finance, I am more of a front-facing person, so in a way, I inherited these roles. Like I said before, our job profiles are led by the natural succession of our academic backgrounds, and that decided who is best placed to perform what role. I cannot say whether which role is more crucial because every role is dependent on another role. Sales cannot perform if a plant does not perform, and plant cannot perform if sales does not perform. What can I do with an excellent operations team if I cannot sell a tonne of cement and what can I do with an excellent sales team when my plant operations are inefficient? They are all interconnected and interdependent on each other. The individual roles for both us brothers are equally critical; none of us is either bigger or smaller in his individual responsibility. We both have to be successful in our arenas to ensure that our organisation is successful.

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***We both have to be successful in our arenas to ensure that our organisation is successful.***

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**Q. Well said! Do both of you brothers take a consulting opinion with each other frequently?**

a. Yes, that is natural, and it happens regularly, rather on a daily basis. There has to be a consultative process. We may or may not agree on every option that will form our strategy, but without a consultative approach no organisation can run. But this process is not just amongst both of us; the idea is to always have a consultative approach amongst the all five Senior Executives on the Board of the company. This includes our father - Mr. Ravi Sanghi, the founder, key promoter, and Chairman and Managing Director of the company, and the four whole-time directors that includes the two of us, Mrs. Bina Engineer, and Mr. Nirubha Balubha Gohil. Mrs. Engineer is based in Mumbai and is also the head of finance, while Mr. Gohil is based at the plant and manages plant operations. The five of us forms the core group for any consultative process and decision making within the organisation.

**Q. The five of you have a consultative approach quite regularly, but how often do both of you seek consultation from your father on a personal note?**

a. By the very nature of consultation, it means that you have to seek an opinion that is different from yours, and how you can have a holistic approach covering all angles with all possible distinct perspectives for any problematic situation or even otherwise. There is a huge value of wisdom and experience that we both see in our father, and therefore, we consult him quite a lot, especially on critical issues. When we joined the business, we used to consult him on every issue, big or small, but naturally, with the passage of time when we started gaining experience, wisdom and understanding of the business, we became broadly aware about what our regular activities should be. Our consultation with him nowadays is more limited only to demanding issues, but then there is also something that we call generation gap and disconnect in cultural viewpoints. For example, about the usage of technology, the younger generation is more conversant with it, and therefore we have made all businesses more dependent on technology. These methods were different when our ancestors used to be in business. When both of us joined the business in the mid-2000s, we decided that we should move on to a digital Enterprise Resource Planning (ERP)

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***About the usage of technology, the younger generation is more conversant with it, and therefore we have made all businesses more dependent on technology.***

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system, which technically is a System Applications and Products in Data Processing (SAP). There were probably not more than a couple of companies then in the cement industry who had implemented SAP. We remember there was a lot of anxiety then, and even some resistance to spend those huge sums of money on technology by our father and even amongst other elders in the organisation. This was because they would always wonder whether that will be really worth it and they would question us on the ability of such technology platforms to capture the practical aspects of doing business. But the good thing is, that our father always gave us the freedom and confidence that we could go ahead and execute any idea if we find that there is merit to it, and if we believe and feel convinced of effecting any idea. But if the choice was given to our father, we feel he would not have implemented SAP, for the simple reason that he would not felt it was important to implement SAP. He would still have felt that we have people and we have systems in place that will take care of the required necessities in business, which we wanted

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***There is a difference in the style of operations of the older and younger generations, and there is a difference in the way we have to achieve the same objectives.***

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to get done through SAP. There is a difference in the style of operations of the older and younger generations, and there is a difference in the way we have to achieve the same objectives. But having said that, we truly respect and regard our father the most for all the faith and confidence he always showcased in both of us and allowed us to do the business the way we wanted to do.

**Q. Do both of you brothers inspire each other? Any examples you can share?**

a. **Aditya:** Outside work, I can definitely mention one thing. Alok is a *health freak*, and he is very disciplined when it comes to living life. Lately, seeing him I have also started exercising and doing yoga to some degree. It was not because I felt I was gaining weight, but because I truly felt that it helps in leading a good life. As an anecdote, I read in one of the interviews of an icon in one of the large business family that if somebody can take care of himself or herself, they can also take care of the organisation they are running. This interview also somewhere really inspired me to start thinking about my health.

b. **Alok:** Everyone has different traits, and everyone is different by nature. Each person has at least a few characteristics that are unique and will be very different from your own mindset. My brother has inspired me in many aspects of life. In the initial years of the company in 2006, when my brother returned from the United States of America, the second day he was at the plant. He was not just there for a day, but he lived there for a long time. One of the key reasons why he lived there was because of his view that if I don't experience what my people experience, I cannot ever solve their problems. Kutch is a very hostile place to live, and during those days it was even more difficult. It was more difficult to commute than today, and there was no social life too. What he showed

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***You cannot ask and expect your team to do something if you yourself aren't willing to do the same thing.***

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was the quality of a leader. A good leader is always on the forefront. You cannot ask and expect your team to do something if you yourself aren't willing to do the same thing. His one action and decision of going there and living there inspired a lot of people to join our team, and we were actually able to attract a lot of talent because of that. More so, he continued to live there for nearly eight years, which consistently inspired and gave a lot of confidence to all the other people whom we wanted to send there. As a promoter, if you go and personally live in a very difficult and hostile environment, two things happen: 1. You get to understand the challenges, which you try to address and improve, and 2. You inspire a lot of others – that they can also do this because you tell them, “though I am the promoter, I am as good as you, and I am living there along with you.”



The first imported fuel consignment for Sanghi Industries arriving at its port over a decade ago.

**Q. If there is a future need sometime for both of you to shuffle job profiles, do you think the transition will be smooth?**

a. **Alok:** This is more of a hypothesis, and it is unlikely that something like this would happen. On an immediate basis, both of us definitely don't have the skill sets and capabilities to run the individual responsibilities of the other person with the same smoothness, like we do individually for our current roles today. Therefore, if such a transition happens immediately, it may not give desired and favourable results right away. If you ask me whether I understand everything about every machine, the answer

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***With our age and experience, we have come to a stage in our individual lives where we are no longer immature young people who have just been handed the reins of a business.***

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is 'No'. If you ask my brother if he knows everything about the market and how to tackle different market scenarios, the answer would be 'No'. This is because there is a value to experience, being deeply involved in our job profiles, and there is a significance of doing things consistently over a period of time – and that cannot be earned immediately. But both of us understand each other's roles and functions well. If you ask any of us whether we have the confidence of running business independently if a need arises in future, I would say 'Yes' on behalf of both of us. I believe with our age and experience, we have come to a stage in our individual lives where we are no longer immature young people who have just been handed the reins of a business. We have reached a juncture in our individual life cycles of business where we are sort of self-assured that we can tackle business calamities autonomously, and we can run the business independently too, if required. Our experience is an immeasurable wealth that we possess.

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***We want our systems and culture to be hybrid.***

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**Q. What is the reason that you have a dispersed office setup, even when it comes to both of you brothers, though you are in the same office building?**

a. **Alok:** We want our systems and culture to be hybrid. Today, the way technology has made life seamless, it is quite amazing! It does not matter whether you are stationed at separate offices or separate floors or even separate countries. The more important aspect to understand is, is there strong coordination within the top management team, or whether there are differences in the way of their approach? Any organisation has to be cohesive from a strategy point of view and well-coordinated, and that is the key focus area for us. Though both of us are physically not together in office, but we have a common platform, where all five of said senior executives are connected on a real-time basis. Any input given to anyone is shared within minutes on this common communication platform of the top management. Therefore, the internal co-ordination is very strong amongst all senior management executives. To answer



why both brothers are separately stationed, it is because just about until two years ago, we had a very limited office space; there wasn't enough space for everyone to sit. But then, we were envisaging very large projects, like our clinker expansion and grinding unit in Surat, so we anticipated a massive increase in manpower needs, which actually happened. Then we wanted to shift our people where they could be effectively monitored, and as a result, we made all relevant teams sit together, instead of people from similar departments being scattered around various places. But after that, again we felt the need to add more people to our teams for future growth, especially new people in marketing and a whole new accounting team. The challenge was to reallocate all teams in such a way that they were in sync. So, when we shifted to a larger office space, we decided that the project and commercial team should work together, because they commonly deal jointly with the vendors and they occupied one of the floors along with my brother who is the best person to lead it, whereas me and my father were stationed on another floor monitoring sales, accounting, logistics, and marketing aspects.

**Q. Sanghi Industries production cost is one of the lowest in the industry. What according to you are the key reasons for this?**

a. It is a combination of everything, and it has to be that way. Certainly, in raw material cost, we are the lowest because of our very efficient limestone mines, but we also believe our agility and flexibility to procure and use fuel, is a big competitive advantage. Lignite is probably the most inferior fuel input used in cement industry, and since the original plant was designed for lignite, it allowed us great adaptability to other fuels. The ease with which we were able to switchover from lignite to petroleum coke was a commendable development. Our plant technology has now adapted to the usage of multi-fuels, and once we run through our existing stocks, we can do a fuel alteration in a maximum time span of three days. We have made ourselves capable and flexible to use the most economical fuel at our plant and factors such as grades or types of fuel are no longer a constraint for us. Beyond that, being right at the port is a natural advantage that further added to our elasticity to switch-in and switch-out for any kind of fuel, more easily vs. peers. In a nutshell, our liveness of the operations is very high and which is complemented by the ability of our team to milk the asset. That is why we remain amongst the lowest cost producers of cement in the country.



A glimpse of construction state of Sanghi Industries second unit, as on 24<sup>th</sup> April 2020.

**Q. You are about to commission a very large sized facility at the same location with a kiln capacity of 10,000 tpd. What do you see as the disadvantages and advantages of adding such large capacities, and please tell me how confident you are about its success?**

a. One of the disadvantages of having one single unit is that with any considerable problem in the unit, it directly impacts the bottom line and it is visible to everybody very quickly because the stocks at the plant are limited. The advantage of having a second unit is to neutralize those volatilities of low 'lows' and high 'highs'. The steepness and slope of the sinusoidal curve eases out to an extent. Therefore, we are fairly confident of a better sustainable success for the organisation with our new unit. Furthermore, the new unit has much newer plant technology, and therefore the efficiencies are much better. From an operations perspective, it will tremendously help in having more consistent numbers coming out from our overall production facility. Many people get worried when they look at the size of our new kiln, but we think they miss looking at the size of market opportunity we

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***The advantage of having a second unit is to neutralize those volatilities of low 'lows' and high 'highs'.***

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have. When other cement manufacturers install a smaller capacity, say 2 million tonnes p.a., they are typically operating in much smaller markets. With smaller market radius you have a real concern, because if the market does not demand enough, the manufacturer has no other market to rely on to sell the extra unused capacity. Though we are predominantly a Gujarat-based player, in our case, the size we have in terms of market opportunity is very large and it is to service the whole of western India, not just limited to Gujarat state. The only difference between any peer and us is probably that we are installing a unit which is 2x the size of their single unit, but then, the size of our market ambit is 2.5x bigger than them. The other clear advantage that we have vs. any peer is that of an open exit window for a huge export opportunity in

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***From an operations perspective, our second unit will tremendously help in having more consistent numbers coming out from our overall production facility.***

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international markets, which as you may recall, was also our father's original plan. We may not have to shut down our kilns, which can be the case with our competitors, if the core market does not perform to their, or our, expected levels. This is why we are not at all worried, and remain very confident about sustainable success with our second production line.

**Q. You have said earlier that you look at cement in India as a pure play on the logistics setup and regional business, then why do you factor in the export opportunity for your business?**

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***Today, as an organisation, we have the flexibility of picking our market.***

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a. You are correct, and we accept that cement in India is a pure-play logistics setup. But what we are highlighting here is a possible worst-case scenario. Cement has to be looked as a long-term business opportunity, which is cyclical, and which means that the cycle definitely reverses at some point. If we service international markets, we may suffer on profitability, but we will still make some profit. If the demand in India is not enough to run installed capacities at optimum utilisations, our EBITDA/tonne numbers may not be as high as we would be able to otherwise make in India; but we would not have the scenario of a shutdown (which our peers may face) because of the exports window available to us. If we go back into the history of Sanghi Industries, from 2003 to almost 2009, 60-65% of our total volumes (bagged cement + clinker) were exported. Exports, at that time, gave us better naked cement / clinker realisation (NCR) and higher revenues vs. the local Gujarat market. But after the global financial crisis of 2007-08, the exports market completely collapsed, and India suddenly became a better market for us. Today, as an organisation, we have the flexibility of picking our market. In the future, we will never have an issue with selling our capacity, but we will always have an issue with allocating the production of our capacity to be sold to the highest profitable region, at any given point of time. If the domestic markets do not perform well, we have to look at exports at lower NCR, and that should be acceptable to us. Therefore, we reiterate, adding a large capacity is the least challenge we foresee, and that does not scare us, but the bigger contest would always be to ensure that we sell our products in the right markets with the best possible acceptable retentions and margins.

**Q. Within India, when you enter newer territories of other players, don't you fear or foresee a risk of retaliation?**

a. Cement business should be a sustainable business; we cannot have a frequent entry and exit marketing strategy over a period of time for any market we propose to enter. For every market, two basic questions need to be answered before we enter that market. 1. Whether we have a 'Right to play'? 2. Do we also have a 'Right to win the market'? 'Right to play' implies whether we stand a chance of being a fair competition, amongst the top five players in that market and withstanding it. If we are not competitive, we will not go in that market. 'Right to win the market' means whether we have the potential to be among the top three players in the longer term in that market. These two facets remain the core of our thought process, whenever we propose or decide to enter a newer market. Our sphere of influence, which is western India, will always continue to remain our core market and we do not propose to go outside the boundaries of

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***Our sphere of influence, which is western India, will always continue to remain our core market and we do not propose to go outside the boundaries of this sphere in any material way.***

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this sphere in any material way. The core fundamental belief is that unless we can make a sustainable dent to any market, we will not enter it. For example, we do not service states of Rajasthan, Madhya Pradesh, though they can be intermittently serviceable markets to us, as we know that we do not have a 'Right to play' in those markets. When we service Maharashtra state, we only service Mumbai; the best extension in Maharashtra for us is maybe to service Pune, but we will not go to Aurangabad or Nagpur, as it does not fit our core marketing strategy. For markets that can be serviced through the coastal routes, we do not have a presence in Tamil Nadu, though it is serviceable for us. We have a presence in Kerala, but we have restricted ourselves to Kochi; we have not yet even explored Thiruvananthapuram, though it is very much reachable, and within our limits. Therefore, because we will be very cautious in understanding our strengths and weaknesses when it comes to our marketing strategies, we do not really fear for any risk of retaliation when we enter newer territories, if we do.

**Q. Sanghi Industries is so well-placed as you have beautifully explained, on both cost of production and also being in the right market, but then, why are the operating margins of your company still not among the best in the industry and lower than peers?**

a. Though our cost of production is one of the lowest in the Indian cement industry, our cost of logistics is one of the highest. The reason is that our plant is far away vs. a reasonable distance for the cement industry for many of our target markets. The geographical location of Kutch, though near the coastline and best suited for export markets, when it comes to domestic markets, it may not be the best location to have a plant as far as logistics costs are concerned. There is a very limited scope for us to improve our geographical mix. For the sake of assumption, even if there is a lot of demand in Kutch region, we will still have to move longer lead distances to sell our products, given the size of our capacity. But with the second unit getting on stream, there is a definite opportunity to economise the cost structures, and those are very high, as we highlighted earlier. We will be able to have a much better overall cost structure vs. the current one, and there is a tremendous unexplored potential. Because of this we now have a confidence that we will be able to be among the top quartile of margins as well, within the Indian cement industry, and it is something that is not very far in the future.

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**Q. Can you further elaborate about what kind of savings you are looking at with the commissioning of second unit?**

a. Three things will happen. 1. There will be economies of scale, as the addition to fixed costs is very limited. The team size at the overall plant does not increase proportionately, so the plant employee cost will get averaged out on a much bigger base, and we expect a reduction there for sure. 2. Since the second unit technology parameters are much newer, the variable cost per tonne will be much lower vs. our existing first



unit. 3. We will get opportunities to make changes and modifications to our existing unit as well, and improve upon the first unit's currently obsolete or about to be outdated equipment, as we will have the flexibility of the second unit being available to us at all times. Therefore, we will make the necessary changes to our existing first unit in a gradual way over a period of time, and improve its performance as well, with an attempt to bring it at par to the efficiencies of the newer second unit. Though we are already among the best in peers as far as production costs are concerned, with

the commissioning of the second unit, there are multiple levers available within the organisation on the cost side that will allow us to bring down our overall expenses even further vs. current. So, we remain confident about an added improvement in our overall performance with the second unit commissioning.

**Q. That is exciting to hear, but can you give me some more detailed examples of getting economies of scale on your overall production base with the second unit commissioning? When you say you**

**can improve upon your existing first unit, can you tell me is there any potential that you have already discovered?**

a. As far as opportunities in the older unit are concerned, there are few initiatives of the newer unit, which were obvious to us, and which we have already replicated. Our current time, energy and efforts are quite focused on ensuring smooth execution, commissioning, and ramp-up of the second unit; so, we are yet to deep dive into this subject. But then, there were these obvious ones. For example, we had a plan to link our mines with the plant through a conveyor belt for the second unit, but when we realised this was an opportunity for our first unit as well,

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***The delta of economies of scale with our newer initiatives is definitive, and some of this is already visible to us.***

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we have already duplicated it for the older unit. We will now move our entire volume of limestone through conveyor belts, not just the limestone requirements of the second unit. The delta of economies of scale with such initiatives is definitive, and some of this is already visible to us. Another example is about the way we procure our fuel. To elaborate, cargo vessels of different sizes and capacities are available in the shipping industry. It starts with Handysize (loads of up to 32,000 deadweight tonnage (DWT)), Supramax (52,000 DWT), Ultramax (62,000 DWT), Panamax (75,000 DWT), Kamsarmax (82,000 DWT), Post-panamax (98,000 DWT), Baby-cape (120,000 DWT), Capesize (172,000 DWT) and Valemax or



***We will make the necessary changes to our existing first unit in a gradual way over a period of time, and improve its performance as well, with an attempt to bring it at par to the efficiencies of the newer second unit.***



Conveyor belt laid from the mines to the plant as described by the Sanghi brothers to answer a question on incremental cost saving potential for first unit.

***When we will have larger production volumes, we will be able to order in larger sizes in larger vessels, which will bring in better economies in freight costs for fuel.***

Chinamax (400,000 DWT). A cement manufacturer can buy fuel in the larger sized vessels only if their cement plants can consume it within a stipulated period, otherwise there is bound to be an inventory pile-up in the books. Fuel is volatile and also has the risk of catching fire. Therefore, when you buy unreasonable quantities of fuel, which is not in sync with the normal plant requirements, the risk of losing fuel is certainly present. More so, it is not easy to procure large quantities of fuel. But when we will have larger production volumes, we will be able to order in larger sizes in larger vessels, which will bring in better economies in freight costs for fuel. Keeping those larger fuel import volumes in perspective, the absolute incremental increase in our freight costs will be negligible to what it was in the past. It will also open the doors for us to procure fuel from more and multiple sources across



the world. Earlier we were limited to sourcing our fuel from Indonesia or South Africa, because we could only order in smaller vessels. As the larger vessels become viable to us, we can now explore ordering fuel from Saudi Arabia, the United States of America, Columbia, Russia, New Zealand or may be anywhere in the world. The whole world can be our supplier, and we can bid for the best competitive rates of fuel across the globe. Over the last forty-five days, we have already initiated this exercise, and we now get our entire coal requirements on Supramaxes, which was earlier on Handysize vessels. As we can already sense the benefits arising from these initiatives, it only adds to our confidence.

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***We will have a dual advantage of having the fuel directly at our port and also of the economies of freight cost with a larger fuel order. Our competitive advantage can thus be imagined when we will be firing on all cylinders.***

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**Q. Any proven benefits of such economies of scale to anyone you know, which you can share with me, maybe with any existing cement manufacturer in India or even otherwise?**

a. Of course! Look at China; they import most of their raw material requirements from South America in Valemax or Chinamax. They get huge economies of scale. In our industry, one of the cement manufacturers who is equally or little more efficient than us on production costs, imports whole of their fuel requirements from the United States of America or the Gulf region, rather anywhere in the world, in Capesize vessels. But they do so because they have the ability to consume that much quantity of fuel in a reasonable period of time, and they don't foresee the risk of an inventory pile-up. If we do the same, it can convert to nearly four months of inventory at the plant, as we cannot consume such inventories in the same span of time like our larger peers. But when the second unit fully stabilizes and we have the whole plant functioning, our order size will further increase and we will also move from Supramax to further larger vessels. Notably, our peers who have a similar or better cost structure vs. us have an additional inland freight cost to move the fuel from the port to their plants and that is not the case with us. We are located adjacent to the port. Therefore, we will have a dual advantage of having the fuel directly at our port and also of the economies of freight cost with a larger fuel order. Our competitive advantage can thus be imagined when we will be firing on all cylinders.

**Q. The scope from incremental plant economies because of better efficiencies is now well understood. But, do you reject the argument that better brand positioning can also be a successful tool to inch-up margins?**

a. The markets where we operate are fundamentally institutional markets, which are the states of Gujarat and Maharashtra. The customer profile of our market is more of organized institutional players and that is unlikely to

change anytime in the foreseeable future. They are highly driven by non-trade sales. Cement pricing and also the net revenue/tonne in the non-trade segment is generally lower vs. the profile of an earnings matrix for any cement company when they operate in the trade segment. Our cement realisations therefore have a massive difference if you compare our realisations with the realisations of other players operating in most of the other regions in the country. This is again something that we cannot change because it is the core characteristic and profile of our market. But to clarify, as far as our brand positioning within our current markets go, we are positioned either in A or A (-) grade in all of the pockets wherever we are present.

**Q. Is that the reason you still do not believe in brand premiumisation, when the whole of the cement industry is talking about it?**

a. Well, that's our business strategy. Like we said, the markets where we operate is pre-dominantly non-trade by nature. The trade sales for us are very small and the proportion of institutional sales is very high. All the manufacturers who have launched premium products, such a launch is nowhere in non-trade, but only in the trade segment. More so, on an average not more than 15% of sales within the trade segment are from premium or super-premium brands for most manufacturers. Talking about us in perspective with a relevant example, in Mumbai, one of the markets that we service, nearly 70-80% market is non-trade, and only 20-30% is trade. For us it yet does not make any sense to invest in a brand and garner brand premiums there, because we are talking of 15% of the 20-30% trade market, which is an immaterial number, in the overall scheme of things. This segment is just too small relative to the size of the geography we are operating and servicing. The cost to build a brand in the premium segment is thus very high for us vs. the size of potential market opportunity. Therefore, at this stage, we do not have any intention of getting into brand

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premiumisation, because we do not see it as lucrative enough for us to explore. The objective, currently, is to not lose focus from what we want to achieve, concentrate on markets that we are already servicing, and to build our scale. For now, we have a lot on our plate to digest before we move on. Having said that, maybe sometime in the future, when an opportune time comes, we will also move towards brand premiumisation.

**Q. If the sales pitch in cement is not with premium or super-premium products, then what do you think it should be?**

a. We see cement as an intermediate product. Ultimately, consumers should evaluate the cost of concrete. If buying a premium or super-premium product helps the consumer in getting lower cost of concrete, then there is merit in buying those products, and we have no complains about it. But we will always advocate not looking at the cost of cement, and to buy cement that helps consumers to reduce the cost of manufacturing concrete.

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***We will always advocate not looking at the cost of cement, and to buy cement that helps consumers to reduce the cost of manufacturing concrete.***

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**Q. In one of the December 2019 stock exchange filings of Sanghi Industries, there is a categorical mention that for all promoter group shareholders, all the rights are vested with your father, Mr. Ravi Sanghi. That in a way showcases the unity and bonding of your family members. But then, of the total promoter holding, promoters have pledged 94.41% of their holdings. Though you have categorically mentioned non-disposal undertakings (NDUs), do you agree that the concern of high promoter pledge is genuine?**

a. The declarations and filing on the stock exchanges clearly mention that there are NDUs in place for 37.02% of promoter holdings, which is classified as promoter pledge, and this is because there is no separate reporting head provided by the regulatory authorities. Therefore, the promoter pledge looks unreasonably high. The actual promoter pledge is 57.39%. The NDU was provided to the company lenders with a view that during the phase of implementation of the project, the promoters will not divest any stake. The norms listed by regulatory

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***The promoter's pledge is more of a sign of confidence by the promoters – that we believe in our project so much, that we are unlikely to sell our holdings in the business while we are in the project-execution phase and until the project starts.***

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authorities including those of Securities and Exchange Board of India (SEBI) enforces that since these shares cannot be sold, in spirit, it is as good as a pledge, which is actually not the case. If we look at it the other way around, it is more of a sign of confidence by the promoters – that we believe in our project so much, that we are unlikely to sell our holdings in the business while we are in the project-execution phase and until the project starts. And just to add, the promoters have also been buying back from the open market throughout FY20, for which the requisite declarations have also been submitted to the stock exchanges.

**Q. But can you explain more about why these original pledges were created and if we can expect them to come down in the foreseeable future?**

a. It is important to understand that the pledge has been created to the lenders of the company, and it is not for any personal loan to promoters. We have not done any other business outside of cement for which we have taken a loan and pledged our promoter stake in the cement business. The promoter pledge is against the loan that the company has taken for its business operations and project execution. It is actually a guarantee by the promoters – that in case the company defaults on any of its commitments on the loans taken, the promoters are willing to sell off their holdings to repay to the lenders of the company. We will like to firmly reiterate that the pledge is an indication of the confidence the promoters have in their business. We will leave no stone unturned to ensure that the business operations are profitable and sustainable, and therefore we are willing to bet all our holdings for the growth of this business, and not

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***It is important to understand that the pledge has been created to the lenders of the company, and it is not for any personal loan to promoters.***

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any other business. As far as reduction of the pledges are concerned, we are sure it is bound to happen over a period of time, as we hit the triggers, in line with the fine print of the agreements that we have signed. Beyond that, as and when the debt obligations keep coming down, as per the schedule of repayments, it will be able to reduce the security cover that we have given to lenders, and therefore the pledge will automatically fall as we move forward.

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***There is no question of us not being able to service our debt, and we are fairly confident about this.***

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**Q. It is also a common belief that there could be stress to Sanghi Industries in servicing debt in the foreseeable future. How will you react to this?**

a. The risk for the organisation of not being able to service debt is extremely limited, as we see. The way our second unit project has been designed and is being implemented, the capital expenditure is way below the mark than what a normal 4 million tonnes p.a. capacity will need; probably it is amongst the lowest in industry. The debt in our books, at peak, is unlikely to cross the ₹13bn mark. There is no question of us not being able to service our debt, and we are fairly confident about this. Our loans have a long-term gestation and they are for a tenure of 11 years, therefore the loan repayments are legitimately spread out. In unfavourable market circumstances, we may not hit the EBITDA levels that we would have done otherwise, but we expect that our EBITDA numbers in the future would be comfortable enough to meet all our debt obligations and we will always remain very comfortable in servicing our debt.

**Q. What will be your advice or communication to your long-term investors?**

a. **Alok:** I always admire the support our investors have given us in the past and I believe all our long-term investors are seasoned players knowing the financial markets much better than what I understand. I have learned a lot from many senior investors in the market, whenever I have got an opportunity to interact with them. Therefore, I will not like to give any advice. However, what I will like to really communicate to them is that they should not look at the company's past, but to also take

into consideration the future growth prospects for Sanghi Industries, and build a scenario that can probably be the reality for future. And once they do so, only if they are convinced that our company can generate adequate returns, they should continue to support us. Our wish list will be always to get the same support and backing that they have given us in the past. From my end, I can only assure them that we will always be fair, and we would not do anything ever that we feel would not be in the interest of either the shareholders or the company, and we would never take short-sighted bets.



***I have an open invitation for any investor to come at our site and see it for real – as to what we have built.***

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b. **Aditya:** I completely agree with what Alok has said. But I would only like to add that I feel our current valuations are a reflection of weak investor confidence in the organisation, and its future growth prospects. I only want to reiterate that now is the time when we are about to deliver what we promised them, as we are in the commissioning and ramping-up phase of the second unit. Good times are ahead, and now is the time to realise the dreams for Sanghi Industries – of a much better future.

Since I am more involved in plant operations, I have an open invitation for any investor to come at our site and see it for real – as to what we have built. There is no gold plating in what we have said, and I think, as and when the second unit commissions and ramps-up, it may trigger a real valuation kicker for the stock. I firmly believe that we cannot get worse from where we are today.

**Q. I feel supply-chain initiatives can be the next game-changer for the industry in terms of discovering a new delta for earnings in the longer term? Will you agree?**

a. Absolutely, and there is a huge scope! Because there can never be a perfect world, and there is no end to the journey of discovering new efficiencies in the supply-chain. In the cement industry, there are so many customers and so many vendors that we have to deal with, and because of few people who do not implement

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***With commoditisation of technology, a lot of systems can be put in place at a very low cost, which will result in more vigilant monitoring.***

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good systems, it puts undesirable pressure on producers that run with good practices (to either compensate for those losses or give higher margins to vendors or channel partners). As a result, any efficiency improvement that would bring in good processes would help the industry in the long-term. With commoditisation of technology, a lot of systems can be put in place at a very low cost, which will result in more vigilant monitoring. We are a big proponent of this, and have been investing a lot of money in improving our systems fundamentally, by use of technology. We also understand that a lot of peers are doing similar work at their organisations. If it becomes a cohesive effort by the cement industry in improving its processes, then definitely the industry health will inch up by significant percentage points. Therefore, when everyone tightens their belts, it is definitely going to be good, helpful, and a future game-changer for the industry for sure.

**Q. Though you are relatively smaller in size within the cement industry, I was very impressed by your openness to accept the subject of supply-chain inefficiencies. The visit PhillipCapital India Pvt. Ltd. organized to your office on 27th September 2019 with institutional investors to get insights on this matter, understand your thoughts, and to see the measures underway to address such inefficiencies was highly appreciated. What triggered these initiatives at Sanghi Industries?**

a. At the core of all these initiatives is a belief that when we are hiring talent and geniuses from the industry, they cannot waste their productive time in executing unproductive activities. We have to ensure that their time is freed up to enable them to pursue value-accretive activities that generate better efficiencies for the whole system. Inefficiencies cause a lot of heartburn, use a lot of time, and then in the end, we only do supervision and follow-ups. At our organisation, the whole idea was – how could we declutter the operations and systems to make it more efficient, so that it results in reducing our time involvement. But, at the same time, we do not

want to lose control over what is going on. Keeping that in mind, we are investing a lot in various initiatives for deploying technology, and we showcased some of these initiatives in supply-chain to the investors who visited our office at Ahmedabad on 27th September 2019. With commoditisation of technology, accelerated deployment of technology platforms in various aspects of business is a very low-cost affair. Other than what was showed to investors on that day, there are many other varied fields related to supply-chain, where we are constantly working with similar goals. Every department in the organisation is working on similar initiatives. Our core fundamental belief is that we need to make our business process simpler, efficient, and a value-accretive activity, rather than wasting our time on fruitless deeds.

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***Inefficiencies cause a lot of heartburn, use a lot of time, and then in the end, we only do supervision and follow-ups.***



27<sup>th</sup> September 2019: A group of institutional investors and representatives from PhillipCapital India Private Ltd. visiting the Corporate Office of Sanghi Industries Limited at Ahmedabad to understand their initiatives on discovering better supply-chain efficiencies.

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**Q. But why only now, and not in the past?**

a. We are more than doubling our size, which implies that the complexity of the business is going to increase. The number of transactions will increase, the vendor count will rise, and the customer base will also broaden. We felt



that we cannot run our business the same way we were running in the past and our processes need to see a sea change. We wanted our enlarged business to become simpler, which ensures that we are able to maintain a level of control that is needed for such a business. Those were the two driving forces why these initiatives were taken at today's juncture and not in the past.

**Q. I remember both of you mentioning to me once that "everyone has technology available at their end, but what differentiates Sanghi Industries is how are we able to do different things with the same technology by using some logical theorems around it to address systemic loopholes". What triggered such distinguished thoughts in your minds vs. industry?**

a. It is difficult to say what the trigger was, but our only agenda was to come up with a solution to a set of problems that would have least resistance. Generally, people get scared of technology, and they find it difficult to use it too. We wanted to make the usage of our technology platforms simple to understand, and that was the fundamental thought process. The principal belief was that our technology platforms should have faster adoption and also deeper penetration in terms of on-the-ground deployment. We wanted to incorporate all our processes, right from the grassroot levels through technology platforms, and that should be the way they are assessed too. Our technology platforms should deliver the desired efficient results, even in remote areas that do not have good cellular networks, and even for those people on the ground that do not have smartphones.

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***Our technology platforms should deliver the desired efficient results, even in remote areas that do not have good cellular networks, and even for those people on the ground that do not have smartphones.***

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**Q. That is quite enthrusting to know. Do you develop these technologies on your own, or do you rely on external vendors to provide you these technology platforms?**

a. We use a lot of external vendors, and it would not be a fair statement to say that we do not use their services. But, having said that, our team understands our business

much better than any outsider. Our internal teams are therefore relied upon to make such technology platforms tailor-made to our needs, so that the deployment is easier, understandable, and much faster. For example, installing Global Positioning System (GPS) in trucks is a technology that is widely used in the cement industry, and there are multiple vendors for this, but we want our internal teams to do front-ending of these platforms, so that they customise it to our needs. Whenever the deployment of such technology platform happens, it should deliver the results that are desirable to us, rather than generic results.

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***At Sanghi Industries, though we have initiated these initiatives for better supply-chain efficiencies, there is still a long way to go for us.***

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**Q. For the cement industry at large, do you believe there is a similar scope, and what is your take on the earnings delta through such initiatives?**

a. At Sanghi Industries, though we have initiated these initiatives for better supply-chain efficiencies, there is still a long way to go for us. We still have a lot to improve upon when it comes to supply-chain efficiencies. We are constantly working on how we can monitor our logistics in a better way, how we can reach our customer faster to deliver the product, what can be done to ensure that the customer feedback system is more objective and the concerns are addressed, and so on. There is tremendous scope available for us to do more, and the journey has just begun, though it is extremely difficult to quantify it in terms of an earnings delta and in terms of how much is already achieved and how much can be further conquered. But from the larger perspective of the Indian cement industry, we are sure if we have so many things to do here, there must be a case for others also to introspect and work on such initiatives.

**Q. I see the ground supply-chain efficiencies can be bifurcated in 'Logistics' and 'Marketing'. The presentation you made to investors on 27<sup>th</sup> September 2019 gave an impression that the focus of Sanghi Industries is more skewed towards logistics aspect vs. marketing. Is that a fair assessment?**

a. No, that is not a fair assessment, for the simple reason that when we work on logistics efficiencies, we are able to derive a more apparent result as compared to when we want to work on marketing efficiencies. In marketing and sales network, the outcomes of such initiatives are less measurable tangibly, because in such areas, there is a lot of intuition and a great deal of inferences. To substantiate with an example, we have been putting in immense effort to ensure that we are able to commit a delivery time to our customers and that is a logistic-based initiative. This has definitely made a tangible benefit to our sales, but we cannot quantify how much, and we cannot put a number to it. Earlier, the activities of wrong deliveries with back-loading and front-loading were untraceable and undetected, but now we are able to identify it. This has definitely brought a sense of happiness also on the ground, especially amongst our loyal dealers, and they have added to their sales and hence to the company revenues, but again, it is something that is incalculable precisely in numbers. Therefore, a lot of actions that improve efficiencies in these areas are very difficult to quantify and prove gains or results in numbers, and that is why we also said that it is difficult to portray an earnings delta. These are those practices that will make the business more sustainable, stronger, and healthier in the long run.

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***Supply-chain efficiencies are those practices that will make the business more sustainable, stronger, and healthier in the long run.***

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**Q. I also like your ability and openness in introspecting. I recollect a discussion with you when we were talking about incorporating seal on bulkers. You said to me, that this is something you have been doing for ages, and therefore you thought you are on track, but then you introspected and found loopholes. Your bulker seals were being broken outside factory gates, and they were being replaced with duplicate seals, post pilferage. Tell me what triggered this introspection?**

a. These are those learnings that come to anyone when they observe others, and we are very happy to be observant of industry practices. We are not the smartest people in the room, and happy to unlearn and

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***We have no shame in admitting that we can improve our processes and disregard those practices where we are not doing well.***

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relearn. We have no shame in admitting that we can improve our processes and disregard those practices where we are not doing well. We are always delighted when we can improve on our existing systems or even incorporate a new system. In this particular example, we were discussing pilferage from cement bulkers. You mentioned to us that some of the companies are printing bulker seal numbers on their invoices for bulk cement despatches, which are being delivered through such bulkers. Since we too had a system of sealing our bulkers since the time we are in business, we thought we are already following the right practice. Our bulker seals too have a seal number. But then when we were discussing internally amongst ourselves, we deliberated, how is it possible that we have not received a single customer complaint over so many long years? This is virtually impossible! That is where it clicked – that something is definitely wicked here, and we then introspected. We figured out that what we are missing is incorporating the seal number on the invoice. The ground was taking advantage of our earlier practice, and was indulging in malpractices such as pilferage outside of the factory gate. Though we knew the seal number with the past practice, customers were not aware of the seal number and accepted our deliveries assuming those seals are the seals we have tagged at the factory. To correct our past practices, we started incorporating bulker seal numbers on invoices too, so that customer could reconcile seal numbers on invoices and the physical seal at their end to ensure it is an original seal, a practice that some of our peers were already following. We felt it is a more logical exercise and easily doable at our end too. It also helps to gain further customer confidence, as he will believe in our quality check parameters more visibly henceforth.

**Q. Let us talk about some of the other concerns many investors have, the first being current status of past family disputes in the promoter family, and if there is something that investors need to be alarmed about?**

a. Firstly, we are a large family, but we do not have any other business interests apart from managing Sanghi

AL - Sanghipuram, Abdasa-Kutch-370511  
 Phone : (02831) 274131/32/38/39  
 Fax : (02831) 274123/15  
 Email : info@sanghiment.com  
 Web : www.sanghiment.com

**CEMENT** સાથી ઇન્ડીસ્ટ્રી  
 Turning Dreams into Concrete Reality

(Sec. 31 (1) of CGST Act, 2017)  
**TAX INVOICE**  
 Non-Trade  
 (NOT FOR RETAILS SALE)

GSTIN NO.: 24AAEC5510Q1Z4

Supply From

ORDER NO. 2151000118 DATE: 22.04.2020 INVOICE NO. 5520002090 DATE: 23.04.2020  
 P.O.NO. P.O.DATE: 22.04.2020 WEEK NO. 17

NAME & ADDRESS OF THE RECIPIENT: SURAT, SURAT-CITY - 395006  
 STATE CODE: 24 NAME: Gujarat GSTIN / UNIQUE ID:

NAME & ADDRESS OF DELIVERY: SURAT - 395003, 1400

DATE & TIME OF REMOVAL: 23.04.2020, 00:03:52  
 MODE OF TRANSPORT: Trailer  
 HSN CODE: 25232910 Material Code: G053BULK Approx Distance: 791

DESPATCH POINT: Grinding SIL-1130  
 TRANSPORTER: Driver Name: amir Mobile No: 9913573736  
 Kachchhi Hospitality Private Limited

DESCRIPTION: SUPER QUALITY SANGHI CEMENT Cement OPS 59-0 Bulk

SR.	DELIVERY NO.	TRUCK NO.	BAGS	MT.	RATE	UOM	TOTAL	Less Disc.	TAXABLE VALUE	
1	3120001882	GJ12BW7533		29.960	5,000.00	MT	149,800.00		149,800.00	
									CGST 14.00 %	20,972.00
									SGST 14.00 %	20,972.00
<b>TOTAL</b>										191,744.00

RUPEES IN WORDS: RUPEES ONE LAKH NINETY-ONE THOUSAND SEVEN HUNDRED FORTY-FOUR

Payment Terms: **ONLY** immediately interest @30% P.A. will be charged on delayed payment.  
 Corporate Office: 10th Floor, Kataria Arcade, Off. S.G. Highway, Post:- Makarba, Ahmedabad-380051, Ph:- +91-78-26838000, Fax: +91-79-26835111  
 Registered Office: P.O. Sanghinagar, Hayatnagar mandal, R.R. District Telangana-501511  
 CIN No.: L18209AP1985PLC005981

Digitally Signed By: DLP CHAUDHARY  
 The 23-04-2020 00:02:04 IST  
 For EIL: 2301157FAFAE30D  
 Authorised Signatory E & O F

વિચ્છાના સોથી મોટા સિમેન્ટ પ્લાન્ટમાં નિમિત્ત

An invoice for bulk cement sale dated 23<sup>rd</sup> April 2020 with seal number incorporated.

Industries. Cement is our one and only single business, and our company does not have any subsidiary. We may have some minor financial holdings in other businesses, but from the management perspective, there is no other business that we are involved in. Like we said earlier, in the mid-2000s, our family went through a separation. Since the late 90s, the managements of all businesses were already separated, but then we had a formal separation later. From the time our father founded the cement business in the mid-90s, he has never been materially involved in any other business. Likewise, our other family members have been managing their own businesses for a very long period. When financial holdings get separated, obviously everyone does not remain equally happy with such a process. Therefore,

*From the point of view of our shareholders, we can assure them that from Sanghi Industries' perspective, the only members of family involved in the business, are our father, and both of us brothers.*

there were some allegations and counter-allegations and which went around for some time. Most of these major disputes have now been settled; maybe just a few minor ones still remain. But from the point of view of our shareholders, we can assure them that from Sanghi Industries' perspective, the only members of family involved in the business, are our father, and both of us brothers. Beyond the three of us, no one else is involved in this business. Even from a shareholding perspective, we currently hold 70.3%\* of the company's outstanding equity, which is comfortably over the 51% mark. Therefore, there is no risk to the company or to the management of the company with regards any past or current family dispute. Like we also briefly mentioned earlier, in the near past, over a period of time, our father, Mr. Ravi Sanghi and his family, has been continuously increasing stakes in the business through open-market purchases. In FY20 itself, the promoters, through their various arms, have bought c.11.6 million\* shares, representing c.4.6%\* of company's total equity. This only goes to show that we are well aware that our future is aligned to the company's future. Since we are the largest shareholders of the company, for every gain in the quoted value of the company at the stock exchanges, we have the highest gain, and for any downfall in such prices, when we are not doing well, we are also the biggest losers. Thus, the investors need not be worried about any of our past family disputes, and also about our intent in this business. The promoters of Sanghi Industries are investor's largest representation.

\* updated number as at the end of FY20.



**Q. Another concern about Sanghi Industries is not de-risking the capacity portfolio to newer geographies. There is also a belief that you will scale up the current site to 20 million tonnes p.a. capacity before you move out. Is it true and how will you address this?**

a. Like we have been saying all the time in the past on all our public commentaries and various open shared platforms, our strategy remains that first we want to become a regionally dominant player. We believe there is a huge opportunity in the markets that we are already operating in and therefore, at least in the near term, we do not have any plans to set up any capacity anywhere else. As far as the scalability of the site is concerned, and to clarify our stand, the limestone reserves that are given and made available to us by the government can suffice 20 million tonnes p.a. capacity. Probably there can be an opportunity to even expand beyond 20 million tonnes p.a. if need be, because all the raw material support is there. Therefore, per se, there is a potential at the site and also an opportunity for that kind of size. But then, we need to figure out the right timing to add further capacity at the current site. We will also have to evaluate the evacuation and saleability of that kind of volume. It will be a gradual process over a period of time. Having said

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***Our strategy remains that first we want to become a regionally dominant player and we believe there is a huge opportunity in the markets that we are already operating in.***

that, there is no such set capacity benchmark for this site, say in ten years from now, to enable us to move to newer regions. In future, if we feel that the market potential for this site is saturated, we may move to newer regions. But in the foreseeable future, there are no such plans.

**Q. Sanghi Industries also has a presence in Ready Mix Concrete (RMC) segment. What are your thoughts forward for this business segment?**

a. RMC is a very small opportunity that we have invested in, for the simple reason that it was more of a trigger and demand from our customers. We had an opportunity here because many consumers started demanding RMC instead of cement. Therefore, in order to maintain our wallet share in these opportunities, we invested in a couple of RMC plants. It should not be considered that we want to build a portfolio of RMC plants; that is not our agenda here. We do not plan to scale up our existing capacities significantly either, and we will

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***About our presence in RMC segment - it should not be considered that we want to build a portfolio of RMC plants; that is not our agenda here.***

continue to operate as a very small niche player. For now, we are only servicing a few markets in Gujarat and that too based on the needs of our customers. We do not make adequate returns in this segment that we should be making otherwise, though they are not negative for sure, but that limits our future opportunity

and business plans for this segment.

**Q. If there was one thing about Sanghi Industries that you wish could be changed, what will that be?**

a. **Aditya:** I wish we were more consistent.

b. **Alok:** Consistency is exactly what came to my mind too. As an organisation, we need to be more consistent with our operations and sales. Our numbers have seen a lot of fluctuations quarter over quarter, which should not be the case.

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***As an organisation, we need to be more consistent with our operations and sales.***

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**Q. What is that one thing which you will never like to change about Sanghi Industries?**

a. **Aditya:** The open work culture. There is no politics and it is a delight to work here.

b. **Alok:** Not just one but it is a mix of few, and I will not like to change these things regardless of the size that we grow to, in the future. We want to continue to remain a cost leader of the industry, and this is an area we will always be conscious about. We want to continue to remain on our journey of improving quality of our products and we want to be a quality leader in the market. We have set a very high bar for ourselves in terms of customer satisfaction and that should always remain with us.

**Q. How often do you brothers have differences of opinion, or debates?**

a. Not just both of us, but all three of us, including our father – we are very different people in terms of nature and preferences, whether it relates to business or social life. My father may like one cricketer, which I may not, similarly our taste in food, in lifestyle, etc.; we all are very dissimilar. Therefore, whether it is the both of us, or all three of us, we may not debate, but we may happily agree to disagree on a lot of things. But the good part is that our values and beliefs are common. All of us strongly believe in integrity, transparent communication, and to have an open mindset. These three pillars are our core beliefs, and hence it is acceptable to us to have a difference of opinion almost all the time.

**Q. Your wish for Sanghi Industries thirty years into the future?**

a. **Aditya:** We should be larger than a regional player.

b. **Alok:** Definitely, size and scale matter in this business quite a bit. Therefore, we have to build our size and scale to reasonable levels to remain relevant in the cement industry. But more than that, I will also wish our company to be highly profitable, and amongst the best in the cement industry, because profit orientation cannot come at the cost of size and scale. I hope we are able to outperform the index returns of financial markets and our return ratios like Return on Equity and Return on Investment should be amongst the best in cement industry.

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***Profit orientation cannot come at the cost of size and scale.***



Mr. Alok Sanghi holidaying along with his wife and kids.

**Q. Mr. Alok, you have two kids. Tell me something about them. Any opportunities you had with them in the past to showcase what you do. Would you like them to join your business when they grow up?**

a. I have two kids; my son is elder, aged 7 years, and my daughter is now 4. I did have a couple of opportunities to take them to our plant, and I must say that though they are quite young, both of them thoroughly enjoyed being at the plant. In a way it is a good thing to know that they appreciate our work and what we do, but I would not want my kids to join this business when they grow up.

**Why is that?**

a. If they join my business what will I do? (laughs mischievously) On a serious note, I would want both my kids to do what they want to do. My belief is that my kids can be financial investors in this business, but I would not want them to run and operate this business at any point of time in the future. I feel if you say to them now that you cannot join this business they will definitely

find something of their own to do in their respective lives, but if I tell them right away that you have an option to join the family business they are bound to come back and join here, and they will not explore their capabilities to the best possible extent.

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***Our business is our socialisation as well.***

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**Q. Apart from business, how do both of you brothers spend time together, may be either socially or otherwise?**

a. We stay together in the same house; so, by default, we spend enough time with each other. But we have always been a business family, so within family cultures, some things never change. Our business is our socialisation as well. Therefore, even when we are at home, we end up spending a lot of time discussing business matters only, and it is a usual and generic practice with all family members. Consequently, everyone in the family is also always fully aware of what is happening with our business.



3<sup>rd</sup> August 2014: Smt. Anandiben Patel, Ex-Chief Minister of Gujarat awarding the Sanghi brothers with the “Young Entrepreneur of the Year - 2013”

**Q. Both of you were jointly awarded the “Young Entrepreneurs of the Year” by the State Government of Gujarat in 2014. What do you think led to this achievement?**

a. We are not aware of what holistic evaluation criterion they followed, but one of them was definitely CSR and our engagement in such activities. Beyond the success of our company, the contribution by our organisation in the Kutch region and how it has improved the social lives of the villagers, our involvement in making those villages better places to live, and our other such initiatives on the CSR front which had similar impact, to improve the lifestyle of people were considered. Therefore, CSR was certainly a key reason for the recognition and winning this award.

**Q. Mr. Alok, you are also involved**

***CSR was certainly a key reason for being recognised and winning the award of “Young Entrepreneurs of the Year -2013”.***

**with the Managing Committee of the Cement Manufacturers’ Association (CMA). Please tell me what does it really mean to be a part of it?**

a. CMA’s Managing Committee has the participation of the senior leadership of almost all organisations in the cement industry. Here we discuss joint issues such as concerns regarding logistics, technology, environment, sustainability, and new regulations that are being implemented, and which we foresee in the future and so on and so forth. These forums provide an opportunity on a good learning platform because

of the exchange of views and discussions that happen amongst the senior leaders of the industry. But there are not too many such Managing Committee meetings; maybe a maximum of four in a year. Beyond that my attendance in those forums is also very poor, as most times, I am unable to go to join those meetings. I wish I can increase my involvement by improving my presence, but then, I make sure I send a representation from Sanghi Industries, as we get to learn a lot when we participate in these discussions.

**Q. Mr. Aditya, you have been a key member of state delegations that were headed by Chief Ministers and other dignitaries of Gujarat to various countries for promoting business and attracting investments to your state. Tell me about your experiences here?**



a. The last delegation in which I participated, we actually signed the WHRS project agreement in the presence of the leaders from the State Government. But generally, these participations and visits are more to promote our state and highlight the ease of doing business here. With the 'Make in India' initiative rolled out by the centre, such thoughts and initiatives have gained momentum. It is always a joint opportunity given by the state government to us, where all of us as a part of the delegation get a chance to interact with other countries in the form of meeting their dignitaries, senior officials and we also get an occasion to meet very senior members of our State. It is a platform to see new facilities and learn some new management techniques. There is never usually any specific agenda in such meetings. I love to participate here because some of the sights I have seen through such mediums is a pleasure to watch, and I firmly believe that probably India can also imitate some of it. For example, when we visited China, we saw one of the world-class training institutes there, that was on such a grand scale that they were coaching nearly twenty thousand children

together on how to perform welding and how to contribute and prepare an individual to engage themselves in assembly operations. Those spectacles are a memory I always cherish, with an aim to adopt some of it in our company, and also with a wish to see them replicated in our home country someday.

**Q. Mr. Aditya, you are very actively involved in CSR. I am told that you are personally and directly involved in many social causes in healthcare and education, such as free medicine distribution to the poor, serving underprivileged children, free seva camps for the pilgrims of a nearby Mata-na-madh temple, providing scholarships to bright students of nearby areas to plant so that they can pursue higher education etc.? Tell me more on this.**

a. It is definitely something that is very dear to me and close to my heart. I am also a part of our CSR committee of the board and that adds to the intensity of my efforts. Since childhood, I have a fundamental belief that people around us have to grow and many around me must have observed and sensed that I have a

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***I have a fundamental belief that people around us have to grow.***

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great amount of liking for children. My dream is that these children should have a better future than their parents. Whatever we can do for them should be done, so that they are not dependent on others when they grow up and are able to stand on their own two feet. Kutch has been a region that has not been as privileged as many other provinces of India, and therefore, especially for this region, I am more determined to do my best so that the government largesse can survive.

**Q. Mr. Aditya, you are also actively involved with many business associations and reputed institutes such as Entrepreneurs Organization (EO), Confederation of Indian Industries (CII) and The Federation of Indian Chambers of Commerce and Industry (FICCI). Tell me about your roles here and where do you enjoy yourself more – such forums or CSR?**

a. One hundred percent CSR would be my first preference any given day! As far as my other engagements with business associations are concerned, they are just a good meeting place to interact specifically for common areas of interest and matters of substance. I am not as active here, as I am with CSR, but I do attend events organized by such associations at times. The last active engagement was about two years back, when I was a member of the Manufacturing Committee of CII. Such assignments keep one aware of various business dynamics and cultures, which is always something I am very interested to learn.



A camp organised by Sanghi Industries welcoming all pilgrims during Navratri – a series of auspicious days of worship as per Hindu mythology – when pilgrims walk long distances to worship at temples and other places of religious importance, especially those relating or belonging to a Hindu goddesses.

**Q. Mr. Alok, how do you rate yourself vs. your brother on CSR initiatives?**

a. On a personal note, I tend to involve myself with causes where I can see a difference because of my efforts. I do not think I can make a difference to lives of many people, but I can definitely bring about a difference to the lives of a few, and that is where I am more actively involved as an individual. I want to be personally involved in causes where the kind of impact I make can be felt. Having said that, I am quite happy that as an organisation we are doing quite a bit of CSR activities under the leadership of my brother.

**Q. How do both of you siblings look up to each other as an elder and younger brother?**

a. **Aditya:** We are now at an age where we do not look at each other as brothers, where one is elder and the other one is younger. I am just a year and four months elder to Alok. We look at each other more like friends and that keeps our interaction healthy and alive. We have a mutual respect and love for each other. To one of your earlier questions, when you asked us what happens at some stage if we were to switch roles, I would say that probably I would have a very hard time doing what Alok is currently doing. To convince external people is much more difficult than to convince people internally. Most of my job profile is to take care of internal affairs and there are a very few external aspects of my responsibility. Alok is the best person to deal externally.

b. **Alok:** I completely second what my brother is saying. Now we are more of peers and compatible with



A concrete house donated by Sanghi Industries to villagers in Kutch as a part of their CSR initiative.

each other than just being brothers. When I was young, it was a little different though, because he was more protective towards me all the time. Being elder, he went to school earlier, say a couple of years ahead of me. All teachers and everyone around me knew him better than me, as he was the first one to face them. Half of his friends became my friends and all of my friends used to know him very well too. Those friends of his who were also my friends, even they started treating me as their younger brother, and the relationship became more protective and caring from their end, just like how my brother would treat me. My identity then was that I am 'Aditya's younger brother'. But after college it completely changed, because then you do not go back to the same school, your friends are new, and they are not necessarily the same old school friends, and the whole setup changes. Having said that, even today, our friend circle is of a common set of people with an only difference that the relationship is now more casual than what it was in the past.

**Q. Beyond cement, if there can**

**be a sector where you will like to invest your personal wealth as an angel investor, what will that sector be?**

a. **Aditya:** I believe a lot in the upcoming 5G revolution, and it will change the way many businesses exist. Quite a lot of times, these terminologies remain just those obvious *buzzwords*, and people do not know much about the kind of opportunity that is coming our way. That will be something exciting! The kind of work happening in this area gives me more confidence about what lies here for us in the future, and of course, it will also change the way we live our lives. Given an opportunity I will definitely like to invest my personal money here. I already have a small portfolio of personal investments that I have built over a period of time, where I have invested in similar future growth opportunities, or where the business models are thrilling!

b. **Alok:** I agree that the way technology is revolutionising the world, the world will be a different

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## ***The way technology is revolutionising the world, the world will be a different place to live in over the next 2-3 decades.***

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place to live in over the next 2-3 decades. When Steve Jobs launched the first iPhone in June 2007, it became one of the few smart devices that everyone carried. Today within fifteen years of this, people cannot live anymore without a smartphone. Therefore, the sizes of opportunities that are available around the technology platform are very large. These newer technology-oriented businesses that people continue to make is only solving our same old problems, beyond making our lives better and making us breathe easier. We are definitely in for exciting times, and this is something intriguing that I wish I could explore. But now, neither do I have the financial capability nor the bandwidth to make those kinds of investments. But as an angel investor, I will be open to consider investing my personal wealth in a business that is built around the concept of using technology to solve real-world problems.

### **Q. Apart from Sanghi Industries, which are the companies in the cement industry that you admire?**

a. **Aditya:** I like different aspects of many other manufacturers in the cement industry. The financial discipline of UltraTech Cement is phenomenal. They are really the masters at doing what they do. I also like Shree Cement for the way they run their operations. They seem to be very cost conscious and nimble despite their size. These two

companies are an inspiration for everyone in this industry.

b. **Alok:** Shree Cement is believed to be very entrepreneurial now, in their thought process, with their size and scale. This is something I really admire about them. Second organisation that I have admired a lot in the past in the cement industry is Ambuja Cements. When I had joined the cement industry, it was known as Gujarat Ambuja Cements Ltd. and they had a very different approach. They were very entrepreneurial, and their thought process was very forward looking. Probably, with times, things have changed, and a lot of that has now gone to UltraTech Cement's thought process, and therefore I admire them too. These three organisations have been very good in their own way, with commendable contributions to India's growth story.

### **Q. Who are some of your good friends in the cement industry?**

a. There are many acquaintances, but we cannot recall anyone in particular whom we can reach out and call them friends. The relationship has not yet matured to that level, because we do not talk or have chats frequently. But definitely, yes, we know a lot of people in the cement industry, as our good colleagues.

### **Q. What can we expect both of you to do on a Sunday?**

a. **Aditya:** Generally, I am on a travel schedule even on a Sunday, because of my engagement with the plant. So, most Sundays go into work-related activities for me. But if I have free time at home, I will either be

flying my drone or will go out to try some eating-house. I love flying my drone and I am a big foodie. If it is none of these two, then probably I will like to give some rest to myself and go to sleep (smiles). But I hardly watch any television like Alok does (continues smiling).

b. **Alok:** I am not a foodie like him (laughs mischievously). But I love to watch a lot of good full-fledged documentaries. They are not just those brief television episodes. With over-the-top (OTT) platforms like Netflix and others, there are unbelievable amounts of good documentaries available today. An hour and forty minutes of watching a documentary gives me a very good idea about real-life incidents and a peep back into history. But Sundays are those specific days for me when I love to spend time with my kids and I do that as much as possible. My children too know that this is one day when I am going to be around for them, always. It is a very clear mandate for me that on Sundays I will not work and I will avoid taking any phone call too. I take my children out for lunch most times. Beyond that, I also like to remain more physically active on a Sunday, by going to gym or playing a sport. If there is still some extra time left, then such Sundays are also a very good way to catch up with what you have been hearing or reading.

### **Q. Any other hobbies and interests?**

a. **Aditya:** Definitely, I like to read a lot, and before joining work, my reading habits were even more religious. One of my favourite books is 'The Black Swan'. It is a fantastically well-written book. Recently, a few



months back, I also read *Tamal Bandyopadhyay's HDFC Bank 2.0 'From Dawn to Digital'*. This book talks about the transformation of HDFC Bank and how it sowed the seeds of change in September 2014 before waiting to be disrupted by fintech companies. It portrays how HDFC Bank went all out to disrupt itself, recasting its role and scope on a scale that it had never attempted before. It is an exceptional read. These two books have made a mark and remain in my memory. I have also read quite many philosophical and historical books because I like history a lot.

b. **Alok:** Just like my brother, I too like history quite a bit. Reading is also one of my other interests and hence I also tend to read, especially about history. Apart from that generally one can find me enjoying listening to my music. I can listen to every genre, and anything and everything is fine with me when it comes to music.

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***Thirty years into the future, I would want our organisation to have one of the best profitability matrix in terms of our return ratios and earnings profile, but then there will be no compromise with our value system.***

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#### **Q. Your Role Models?**

a. **Aditya:** Mr. Mukesh Ambani. The way he has taken the reigns of Reliance Industries and the group companies and grown them is really something that I admire.

b. **Alok:** From business perspective



there are two organisations I look up to as Role Models and where I get to learn a lot – Reliance Industries and their group companies, like my brother also mentioned, but for me, it is also the Tata Group. They are those two organisations, to me, that are very credible to emulate. The way Reliance Industries has transformed from being a textiles major to petrochemicals to refining to exploration to retail to telecom to media and now with Jio significantly transforming itself to become like a software company – is something that is very inspiring and motivating for everybody and also me. For an organisation of that scale to be able to do such makeovers and to also build a scale where it is no less than the leaders of all verticals is truly marvellous. As far as Tatas are concerned, their ethos has remained, regardless of their size and scale. The value system of Tatas is unconquerable. When you asked me thirty years into the future, how do I see Sanghi Industries, I would want our organisation to have one of the best profitability matrix in terms of our return ratios and earnings profile, but then there will be no compromise with our value system.

#### **Q. Any favourite sport?**

a. **Aditya:** I like watching cricket. Earlier I used to play chess quite often, but that is not the case nowadays.

b. **Alok:** I watch a lot of Formula One (F1) racing. I just enjoy watching that sport and I am big fan of it. I have been to many of these races. When F1 came to India, it was conducted at the Buddh International Circuit at Greater Noida. I went there every year to watch it. But then I figured out that this sport is made for television sets and better enjoyed there. The simple reason is that on television you get to understand this sport far more comprehensively vs. a circuit. It is not a very good feeling to watch it at a circuit, rather, to be honest, it is quite a bad experience there. Therefore, nowadays, I only prefer to watch it on my television. I also play cricket and watch it too, but then I only see and follow those cricket matches where India is contesting and otherwise I don't. I like playing table tennis and chess too. In fact, my brother taught me to play chess. These are some advantages to both of us being in very similar age brackets, because when you are almost of the same age

as your sibling, you generally end up doing the same thing as them and get the same training and classes from your seniors. The younger or elder automatically picks what the other one does, most of the times. Though we have said we are all very dissimilar people, but being almost of the same age has also helped both of us to be a lot similar in many of our qualities and traits.

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***Though we have said we are all very dissimilar people, but being almost of the same age has also helped both of us to be a lot similar in many of our qualities and traits.***

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#### **Q. Your favourite cuisine?**

a. **Aditya:** I have tried the whole world, but nothing is better than 'Ghar ke daal chawal'.

b. **Alok:** I like Mexican. This is again a similarity (smiles) as that is also chawal (rice) and beans. The reason for me picking this cuisine is because when I was in the United States of America I had very limited options and as we are vegetarians, I thought Mexican is the best cuisine I should opt for.

#### **Q. Newspapers you read?**

a. It is a religious practice at our home, with not just both of us, but all three of us including our father, to go through all newspapers everyday, whatever is available in Ahmedabad. Be it general newspapers like The Times of India, The Indian Express or be it business newspapers like The Economic Times, Business Standard, and Mint, or be it any other newspaper too. If the newspapers are not around then

you can expect us to have a severe problem that day.

#### **Q. How do you plan your holidays and which are places where you love to holiday?**

a. **Aditya:** As I yet don't have the time-specific need with kids, there is not a holiday calendar that is set for me yet. It is relatively easier for me to plan my holidays as per my flexibility. One of my favourite places that I have been to is Peru; it is a very beautiful unexplored country.

b. **Alok:** I take my holidays whenever my kids have their holidays. Most of the time, we prefer to go to any resort where we all can be together and spend quality time. Our destinations are generally abroad, because of the weather and ease of travel, more than anything else. Nowadays, overseas flight connectivity is extremely good and likewise for the quality of resorts there. It is more challenging to travel to northeast India and more convenient getting into the United States of America, especially when we bring kids into perspective. Considering the weather, during summers, we generally holiday in Europe, while in the winters, we prefer something on the southern part of the globe.

#### **Q. Before we end, what is the best and worst thing that both of you brothers like and dislike about each other?**

a. **Aditya:** The best part about Alok is that he is very detail-oriented and that helps all the time. The worst part is that he is much too disciplined as an individual and with so much of discipline that is an issue sometimes for me! (smiles mischievously). Given all the criticism that my *health-freak*

brother has been providing me for many long years, I have started waking up at 05:30 AM every day, to do my yoga and some other exercises, so that I can take care of my health.

b. **Alok:** There are many qualities that I can appreciate in my brother. He believes that I am very detail-oriented, but I feel that his detailing is much better than me. Many times, I would send him something and he would revert me saying that I missed figuring out something that I should not have missed otherwise. Though there is no specific dislike about him, as we are just very different as two people, sometimes our styles can be very dissimilar, which can be an issue. But the one thing that my brother also said, and which I definitely do not like about him, is that he forgets to take care of his health. He is just too much into work! He should also be more active with his workouts just like what he does with his work. You need to give time to your body and yourself atleast for an hour every day, for some exercise. If you can't take care of yourself, how will you take care of your company and its employees or for that matter anybody else? I know it is not something new that I am telling him now, but it is important to be physically active for an hour every day. You can play, you can go to gym; with activities like yoga I believe it is only peace of mind, but our body needs much more activity than just that. Though he says he gets up at 05:30 AM every day, I counter the argument and say that I wake up at 07:00 AM but anyone can visually make out who is more physically fit among both of us. Thankfully, now he appears much more committed on my suggestions. He has promised me that he will start his workouts more actively and take my recommendations very seriously!







**INTERVIEW - Raghavpat (Raghav) Singhania and Madhav Krishna (Madhav) Singhania**

Chief Operating Officers for white & grey cement respectively, and members of the promoter family, nephews of **Yadupati Singhania**, Chairman & Managing Director and Promoter, JK Cement Limited

Mr. Raghavpat Singhania (left) with his *tauji*, Mr. Yadupati Singhania (centre) and younger brother, Mr. Madhav Krishna Singhania.

**Q. Mr. Raghav and Mr. Madhav, as I see, you both are the change agents of JK Cement. As per your earlier designations of 'Special Executive', I do believe that both of you individually have done something very special for the company over the last decade. Do you think that you have been able to deliver the desired results and hence you are now promoted as Chief Operating Officers of white and grey cement, respectively?**

a. The truth is that we were already doing the same role in the past that we have now been designated to do. For us, it is just a re-designation. From the designation perspective, the role and the work did not go hand in hand in the past, which now will not be the case. In our family, the tradition is that whenever any new family member joins the business, the individual is always given a 'Special Executive' designation, before they are patched in to the hierarchy of the company. Because of this, that designation was assigned to us earlier and which is now changed. The 'Special Executive' designation gave us an opportunity to be flexible, as we could be sent for any role when we started our careers. With that designation, one can be in the process of training and simultaneously in a position of responsibility. Over the years it started with training and it gradually converted to responsibility. However, we both agree that it was a very *weird* designation to start with, even for us. It was a conversation starter for us with most people because they would ask us "Yeh kya hota hai, aap

thoda samjaho?" which means 'What is the meaning of this and please explain this concept to us?' and we both faced that. We think you asked us this question because you also wanted to understand this designation through our answers (both brothers smile). With regards to the special assignment or doing something special, we think it would not be right to say that we have done anything special! We have just taken the vision of the company forward, what was already in place before, and we have tried to make it come true, that's all!



Mr. Madhav Krishna Singhania joins the interview through a video call from Singapore.

**Q. Mr. Raghav, as I understand, you were the first among both siblings to join the business in 2007 when your tauji, Mr. Yadupati Singhania, invited you to join the family business and requested your help. Did you take time to decide or was it an instant decision?**

a. Yes, I was invited to join the family business, but there wasn't an option. It was like – you have to do it. You have to come back and you have to join the family business. In fact, during my final year exam, I was told to come even before my exams, join now! But I

***The 'Special Executive' designation gave us an opportunity to be flexible, as we could be sent for any role when we started our careers. With that designation, one can be in the process of training and simultaneously in a position of responsibility.***

said I can't come now; I will finish my exams and may be then I can come. As far as what I wanted to do in my career is concerned, my studies and education background was in hospitality. Driven by my interest and academic background, I wanted to pursue the hotelier's business sometime as a career opportunity. At that time, I never thought that I will be joining the family business. But then, it is hard to predict where life takes you and I shifted here and joined the family business. It was a rocky start for me initially, but after a while, things started to fall into place.

**Q. Mr. Madhav, you joined the business a little later in 2010. What was the deciding factor and motivating force for you to join the family business? Was your bhaiya an inspiration for you and you simply followed his footsteps?**

a. Firstly, both bhaiya and I were brought up not to necessarily join the family business. We both acquired educational qualifications in streams that were fields of interest to us as career opportunities. Like bhaiya did hospitality, I am an electrical and computer engineer, and my aspiration was to work in Silicon Valley and not to come back to India. My dream job was at Apple. It is very funny to hear this, but my deal at home was that if I didn't get my dream job, I will come back to India. That played out. So, after university, I came back. As far as bhaiya is concerned, he has always been an inspiration for me, in terms of everything I do, right from childhood till date. With him joining the business, it definitely was an added incentive and an inspiration for me to join the family business.

***We have just taken the vision of the company forward, what was already in place before, and we have tried to make it come true!***

**Q. Before joining the family business, did both of you try your hands in any other business apart from your family business, may be on internship or projects to gain work experience?**

a. **Raghav:** I worked for a little over one and half years with a company in England known as Sodexo. It was at London. They are also in India now and they sell meal coupons here. But then, we had a concept in England where any Heritage site will be converted to museum and also lease out some space for banquets and conferences. When anybody came to sell the venue, my job was to make sure it was the right venue choice and to execute all the arrangements with prospective clients. This is what I used to do before the family business. I started there as an Industrial Trainee and gained experience for a year. Then somehow the General Manager left and I was subsequently made the Events Manager to kind of fill his vacancy. I worked for six more months as Events Manager before joining the family business. That is all about my other experiences, apart from family business.

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***Bhaiya has always been an inspiration for me, in terms of everything I do, right from childhood till date.***

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b. **Madhav:** One summer, I worked with Infosys for a couple of months. Infosys has something called a 'InStep internship' programme. Here they recruit people from universities abroad. They bring them in to create diversity. I worked as a programmer and I used to code. Then I realized that I cannot be a hard-core programmer. It is too intense a job. It is a job that doesn't have any human interaction and is pretty monotonous. That was it. That was the only work experience I had before joining the family business.

**Q. As youngsters, did you ever visit your cement plants along with Mr. Yadupati Singhania? I understand his visits to plants were quite frequent as JK Cement is his brainchild. If yes, did such visits fascinate you and could you ever imagine that you could be at the helm of this business someday?**

a. **Raghav:** I visited once and I only visited Nimbahera, which is our oldest plant today in North India. That was in 1991, and this was when the temple at the plant was being inaugurated. I went with *Tauji*, my grandparents, and everybody else in the family also joined. I have a very fond memory of going in a Gypsy (vehicle) and going to the mines. I was just about seven. When I stood at the view point and looked at that big mine, I thought it

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***Our MD was always very conscious about quality***

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is such an amazing place and I got that 'Wow' feeling! Even at that point, there was some sort of an automated diagnostic system where you press a button and the machine functions and it would deliver a sample, which you then got to test. It was not like the machines or the robots we have today, but it was still something that was automated. Madhav will be able to explain to you what it was. Just to see the sample coming and seeing the machine functioning, it used to really fascinate me. I could not imagine that it just came from that big mine which looks far away. That was my only visit and experience at the plant. It never occurred to me then, that I would be joining this business sometime.

b. **Madhav:** What *Bhaiya* is referring to was an automated sampler, which was installed in the 80's at JK Cement, because our MD was always very conscious about quality. In fact, it was among the first machines to be installed in the Indian cement industry. I realize his vision today, when I see what's happening around, and these early initiatives by *Tauji* are a value-add for me too. I was along with *Bhaiya* in this trip to Nimbahera. I was too small. I was just about three years old, so I don't remember it. But having said that, both *Bhaiya* and myself, we have lived in Kota for two years of our life. We were there in Kota from 1995 to 1997. At that time, Kota was not the education hub and it wasn't known for training institutes like it is known today. But, JK Synthetic's fibre business used to prevail in Kota. JK Jute, another business which was revived by the group, and overlooked by the Chairman and Managing Director (CMD) office in Kanpur then, was also around. Many times, both of us visited a lot of the synthetic fibre plants, jute plants, and cotton mills during our childhood days, but not a cement plant. Except the 1991 visit, when the entire family had gone together for the temple inauguration, I never visited a cement plant before joining the business.

**Q. How close were both of you as kids? Did you do your schooling together? Does the same closeness still remain, or has it changed with you becoming more mature?**

a. **Raghav:** I still remember it very closely that we used to fight with each other, all the time. Most times, I used to beat up Madhav and he used to retaliate. We did





(Left) Mr. Madhav Krishna Singhania on his convocation day at his University in the United States Of America. (Right ) Waving the Indian Tricolour.

our schooling together. I was there till Class VIII before I went to England for my further studies, and from there I went to my University. Madhav was in the same school till class XII before he went to Carnegie Mellon University, United States of America (USA), for his graduation.

**Q. For further studies, both of you chose different geographies. One in the United Kingdom (UK), and another in the USA. How often did you meet when you were far apart? When you visited India during your holidays, how did you spend your time?**

a. **Raghav:** We used to only meet when we were on holidays. It is very difficult for people to imagine this today, but during those times, options like FaceTime and WhatsApp Video call were not there. We didn't talk much to each other when we were away. We used to have normal telephone calls, and that too only once in a while, as that was the only option available to us. But when we used to be here in India on holidays, our meets would make up for the time we lost being away. When we were here on holidays, our Mom used to be on the top of the world, like it is natural with mothers. She used to be like *Wow, you have come back after so many days- my sons are here so I will pamper them!* The 15-20 days or one month of our holidays used to be spent in her pampering, and she never missed out on that. All the holidays were just pure holidays along with family.

b. **Madhav:** *Bhaiya* was the first one to go abroad. When he was here in India, we used to share a room. When he

went, initially I was very happy because I used to have my freedom in my own room. I did not miss him initially. Everything was good for me when *Bhaiya* went to the UK. But gradually one starts missing the other person. We both have shared a very good relationship since childhood. There are always those childhood fights, which do happen and which always continue. It has always been that we have had differences in our opinions, which today we solve by discussions. But when we were kids, we used to solve it in a different manner (laughs). Though we were away in different geographies, we were always in touch.

**Q. Mr. Raghav you are a graduate from Sheffield Hallam University, England, and you come in from a non-technical background whereas Mr. Madhav you have completed your Bachelors in Electrical and Computer Engineering from Carnegie Mellon University, USA. Tell me how easy or difficult was the journey for each one of you when you stepped into the business?**

a. **Raghav:** For me it was extremely difficult because in a family-run business there are many different aspects. One is obviously the work aspect, but more than that, there is the people aspect. When you see our Chief Financial Officer, Mr. Ajay Kumar Saraogi, he has been there for five generations. How do I talk to him? What do I communicate with him? Where does he fit into my life? Generally, nobody tells you these things. There was nobody to tell me that these are the people who are going to teach you, this is how you should talk to them,

and this is how you should be with them. It was a difficult experience – what I went through. More so, for me, one very big difference was that I had stayed abroad for nearly nine years, so a lot changed in my life. I came with a very open mindset, where everyone is called on a first name basis, it doesn't matter what the age is. Only after working for six months here in India, I realised: Oh no! that's not how India works! Mr. XYZ is XYZ Ji or maybe Mr. XYZ is not XYZ but he should be called in some other respectful manner. That was the biggest challenge for me. From a work perspective, I think Mr. Singhania was so passionate about teaching and Mr. Saraogi was given the task to follow up and make sure I am learning. I didn't even realize that this was his job. Saraogi ji would suddenly ask random questions, and I kept wondering why, what is



A file picture of Mr. Raghavpat Singhania at Insead Business School Campus, Fontainebleau, France.

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***Mr. Saraogi was told to slowly teach the children of the family, make them learn and prepare them to be ready for business.***

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wrong with him? But he was told to do that by *Tauji*. He was told to slowly teach the children of the family, make them learn and prepare them to be ready for business. The incubation period for me was close to five years.

b. **Madhav:** The incubation period for me too was at least five years. Given that *Tauji* is an engineer himself, he always had this notion about someone in the family becoming an engineer. And because I was from an engineering background, the first place *Tauji* put me in was at the plant at Nimbahera. I was spending 20-25 days at Nimbahera, and I was working with Mr. D. Ravishankar, who was the Plant Head then. Mr. D.

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***Tauji always believed that if you take hundred decisions, ten will be wrong. But if you try to cover it up, then those ten wrong decisions will have further unfavourable implications.***

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Ravishankar was three times my age, and in fact, most other people at Nimbahera were also pretty senior. They have been working for multiple years with the company or in the industry. For both *Bhaiya* and me, it was an experience to deal with them and to learn from them, rather, it was primarily to learn from them and then to deal with them. In simple words, the idea was firstly to respect them, and then as we go along, gradually to also start getting work out from them. It was both, learning as well as a transition phase. But, when I joined worked, both *Bhaiya* and *Tauji* were there to guide me apart from Mr. Saraogi, who was anyways always there. Since I had three or four excellent mentors who guided me throughout, it was relatively easier for me.

**Q. Mr. Raghav, what was the first piece of advice Mr. Yadupati Singhania gave you, when you joined the business?**

a. "If you make a mess, come and tell me, don't ever try to cover it up and don't lie." That was the only advice he gave me. And it is absolutely being followed even today to the hilt. He said this because he always believed that it is a fact that if you take hundred decisions, ten will be wrong. But if you try to cover it up, then those ten wrong decisions will have further unfavourable implications. The situation can become really bad. If you just say – this is what has happened and I don't know how to go about or what to do about it, a solution will come out really fast.

**Q Mr. Madhav, for you, did the first advice came from *Bhaiya* or from your *Tauji*? What was it, if you recollect?**

a. *Tauji's* advice was pretty simple to me. He said me only three things. 1) Always be honest with me. 2) If there is a problem, come and tell me. And 3) strive for perfection. As far as *Bhaiya* is concerned, hmm...I don't know what *Bhaiya* said to me (both brothers laugh uproariously). I don't think that he advised me anything. All he said to me was welcome on board and it is a



great thing to have you with me and that's all about it. He only added, if there is any issue or concern you have at any point of time, just come and tell me.

**Q. I understand that Mr. Yadupati Singhania has always been based out of Kanpur along with other senior management personnel of the company. When you joined the company, did you both also spend some time with him along in Kanpur to understand the business?**

a. **Raghav:** I was there with *Tauji* for about a year in Kanpur. I used to come back to Delhi on weekends to be with my parents. But otherwise, Monday to Friday, I used to be either at Kanpur or Nimbahera. If I was at Kanpur, I was there with *Tauji*, but if I was travelling to Nimbahera, I was on my own, on some assignments given to me by *Tauji*.

b. **Madhav:** I used to spend about a week every month at Kanpur and that was more to spend time with *Tauji* and learn from him. It was to learn from his experience of the business. This was only during my initial period incubation, say initial two years. But at that time, *Tauji* used to travel a lot. When I joined, he wasn't as restricted to Kanpur. So, every trip he used to take to every plant, he would always take me along and we always went together post me joining work. This is probably also a reason for my passion towards technology. Otherwise, I used to spend a week at Kanpur with him, to learn about our plants, accounts, and other aspects of the business.

**Q. How frequently do you now travel to Kanpur and generally on what occasions?**

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***Diwali is not an option. It is the only festival when every family member, doesn't matter where he or she is, the individual has to be in Kanpur.***

a. Once a month, generally. We have to go for a day to meet him and to brief him on business performance and other aspects of the business. Apart from that, on major festivals like Diwali, we have to be there. Diwali is not an option. It is the only festival when every family member, doesn't matter where he or she is, the individual has to be in Kanpur. The Diwali Pooja still happens in the place known as '*Khoti*' where it all started six generations ago. It is just opposite Kamla Tower, which is our office building in Kanpur. Apart from that, for milestone events, like some birthdays, poojas etc. we generally visit Kanpur.



Mr. Yadupati Singhania (sitting) with family and JK Cement employees on the day of Diwali Pooja.

**Q. Mr. Singhania is now 66. I know that even today he follows a practice of daily phone calls at specific times to Mr. Saraogi, and both of you individually one after another. What is the sequence of these phone calls and what is generally discussed? Barring these individual phone calls, do all four of you also have joint conference calls on regular basis for an update on business?**

a. **Raghav:** Generally, any person runs his business from 9 am to 6 pm. Mr. Singhania does not do that. He runs his business from his office from 10 am to 3 pm and then he again runs his office from his home in the evening between 6 pm to 9 pm. During 6 pm to 9 pm, as he obviously doesn't like people coming to his home, he makes these daily phone calls. The phone call sequence, 99.9%, is always first Mr. Saraogi. It has to start with him! Mr. Singhania will understand everything from him.



Mr. Saraogi will tell *Tauji* that this went right, this went wrong, etc. and then *Tauji* will start making the other phone calls. On the subsequent calls, if one does not mention to him what Mr. Saraogi mentioned to him, then somewhere towards the end of the call he will raise the point and ask “*Aur kuch hua kya, aur kya hai?*” or “*Are you forgetting to tell me something?*” If we think, that maybe we will wait for a day and tell him tomorrow, we know we are wrong. We know that you just can’t leave out anything; we have to tell him everything. The sequence after Mr. Saraogi varies. He will try both of us. At times, if we don’t pick up the call, that person will go to the back

should be the right way, what we have been seeing at business and automatically these calls started becoming conversations. On your question about having a joint conference call, no we never had that. To have a call with a *CMD* on a conference is taking a very big risk. If the communication system won’t work, the *CMD* will get very irritated. We would never want to do something like that.

b. **Madhav:** I just have one more point to mention, as far as *Tauji* is concerned, most of his people have been there for a long time, and he knows most of them by name. This is true even for on the line jobs – like a lot of them who have even reached a senior position today and who may have been at a much junior position twenty years ago, he knows them by name. If you tell him about the day and you take a name, that today I met so and so person, there is a 90% probability that he will know that person well. That is another aspect that we have to keep in mind on these phone calls. We have to tell him everything, with full details, and he can point out even the minutest of the discrepancy, if any. Otherwise, the calls have now gradually started maturing towards a mix of talking both about life and briefing him on work.

**Q. Any memorable incident on such calls which you will like to share?**

a. **Raghav:** No, I cannot really recollect any such incident. But yes, what I can recollect and remember today, I cannot narrate (laughs loudly).

b. **Madhav:** Yes, it is the same for me too. I think half of our conversations cannot be repeated for sure! (joins the elder brother laughing).

**Q. Apart from Mr Yadupati Singhania, who obviously belongs to the second generation promoters of JK Cement, and from whom both of you have learned a lot, Mr. Saraogi is another person with the company since inception, and he has been a strong guiding force in the top leadership apart from being the face of the company to all investors. What were the key learnings from Mr. Saraogi to both of you individually when you joined the business?**

a. **Raghav:** There is a lot to learn from him. But, the biggest challenge of working with Mr. Saraogi is that he is a man of very few words. When you want to discuss something with him, he will always listen to you but he



Diwali Pooja arrangements at ‘Khoti’.

of the queue. But after finishing other relevant calls, he will try again. It normally happens every day between 6 pm-9 pm. Me and Madhav stay together in Delhi. 99.9% of the times, it is a sheer coincidence with *Tauji* that as and when we will sit down for dinner and as soon as we break bread, the phone rings. But that’s not bad and ok with us. About the discussion on these calls, during the initial days when we joined, the conversation was more about what we did during the day, what are we planning to do, and he would suggest that we should see this, we should do that, etc. As time passed by, we then started telling him what we felt was wrong, what we felt

***We have to tell *Tauji* everything, with full details, and he can point out even the minutest of the discrepancy, if any.***

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## ***The commitment and dedication of Saraogi ji and his family for our company and our family is something that is truly commendable!***

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will not react (smiles). One will not know easily whether he is agreeing with you or he is disagreeing with you or what he feels, whether he feels what you are saying is right or wrong. Though I have to say that now as time has passed by, the relationship has developed and he is just a little, *I mean only just a few percent more vocal* (laughs). But there is a lot to learn from him, especially how to carry people along. He has seen life very closely, the ups and downs of life. We have so many old people who have worked with us for fifty years, forty years and we are now a part of the younger generation that has come into the company. We have our own new ideas. How to balance the time and how do we, as the younger generation, get along with the older generation – is something that Saraogi ji has taught us.

b. **Madhav:** Just to correct you, though, JK Cement is the brainchild of *Tauji*, he himself is *fifth generation*. Both *Bhaiya* and I belong to the sixth generation. From Saraogi ji's perspective, I really admire his commitment and dedication to our family and our company. This is something very commendable! This is something which is worth learning for anyone and everyone. Saraogi ji is himself the fifth generation of his family working with our family. His forefathers have worked for JK group companies as well. JK Cement came into existence only since 1974. Before that it was with other JK group companies. And to add, Mr. Saraogi's sixth generation

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## ***How to balance the time and how do we, as the younger generation, get along with the older generation - is something that Saraogi ji has taught us.***

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has also joined the JK group. His nephew Mr. Amit Saraogi is now the Head of Accounts (White Cement) and is based at Kanpur. In September 2019, Amit took charge from the erstwhile officer Mr. Ashok Kapur, who retired; before this, Amit was trained at the plants and was also a part of the Corporate Reporting team. Amit has also been with the company now for nearly a decade. His first stint was between 2003 until 2006 and he joined us back in 2013 for his second stint. Therefore, I will say, the commitment and dedication of him and his family for our company and the family is something that is truly commendable; I admire it the most!



Mr. Yadupati Singhania (centre) along with his nephews and Mr. Ajay Kumar Saraogi (extreme right).

**Q. As both of you now officially take charge of the company as Chief Operating Officers of white and grey cement, do you see any change in the blend of your individual responsibilities and how you would like to capitalize going forward on Mr. Saraogi's leadership skill sets?**

a. From our perspective, there are no changes. We were anyways doing the same work. We think working with Mr. Saraogi has been a great learning experience and we hope that he will continue to work with us going forward as well. We will always look forward to his teachings and guidance. He has been a mentor throughout to both of us and his position will never change.



Mr. Raghavpat Singhania along with Mr. Ajay Kumar Saraogi (President - Corporate Affairs & Chief Financial Officer, JK Cement).

**Q. Mr. Madhav, a specific attribute that I have observed in you is that you carry immense respect for your elder brother. Over the course of our interactions, you have always said whatever *Bhaiya* decides will be the final decision. I will not be exaggerating if I would say that it reminds me of Lord '*Ram-Laxman*' *Jodi*. Is my observation correct?**

a. *Absolutely yes!* For most opinions and major decisions, I have always consulted *Bhaiya*. The way you have characterized me as Laxman and us being a '*Ram-Laxman*' *Jodi*, I think it is absolutely true. For everything, he takes the lead and he is a guiding force. And I think we both complement each other very well, because we both have our own strengths and we play through these. This helps both of us in all aspects of life and makes us the '*Ram-Laxman*' *Jodi!*

**Q. Mr. Madhav, what is that one single advice to you from your *Bhaiya* which would always remain with you, which you will never forget?**

a. (After a very long pause, he replied in a low and very serious tone) Actually you know *Bhaiya* doesn't advise me that much (the elder brother bursts out laughing). (Mr. Madhav continues the answer) But, this is something very good, I think. Because it is not too much of top-down advise. Seriously, that is

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***Not having too much of top-down advice is the reason why we brothers have such a good relationship.***

the reason why we have such a good relationship. I just go to him for guidance when I need it.

**Q. So, Mr. Madhav what has been his best guidance?**

a. *Bhaiya* is a fundamental believer of the fact that good people attract good people. The basic thing that I have always learned from him is that it is people that make the organization and it is very important for us to build a strong team of good people to take the organization forward. He really believes in having a good team and making us all come together. His people-bonding skills have been one of his best guidance to me.

**Q. Though each of you brothers are now distinctly responsible for individual business verticals, do you rely on each other and share opinions before taking any individual business vertical decisions?**

a. We would not say that it is just both of us that rely on each other, rather, all three of us including Mr. Saraogi – we all rely on each other to take any major business decision. That would be an apt answer to your question.

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***All three of us including Mr. Saraogi – we all rely on each other to take any major business decision.***

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**Q. Amongst both of you, has it ever happened that individual opinions changed after consulting each other?**

a. **Raghav:** Yes! This has happened in the past. As I recall, long time ago there was a post for which we were looking to hire a person. And it was the first time I recollect when we both were on separate pages. Madhav and me were sitting together to take interviews. We both ended up with separate choices, me being after someone and Madhav was after somebody else. Both were completely disagreeing with each other's choices and telling each other that the respective individual choice of the person is not correct. It was then that we had to come to a consensus to agree about one person. Our debate had to change one of our perspectives to take a decision. The arguments were more in favour of Madhav, and I had to change my perspective, rather than me pushing him to change his perspective. So definitely, we always consult each other, and share opinions most of the times.



**Q. Mr. Raghav, how do you look up to your younger brother? You do share opinions, as you just said, but do you also believe your younger brother has better skill sets than you in any areas of business?**

a. *Unquestionably, Yes!* From a technical perspective, there is nobody better than Madhav to lead and to guide us apart from obviously *Tauji*. *Tauji* has groomed him perfectly with all the knowledge that he has. Anything that is related to a plant, my first point of contact is always and always, Madhav.

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***If you want to run an organization, you cannot be giving different messages to different people.***

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**Q. I will like to share a complement about you by your colleagues. During my course of interaction with various employees at JK Cement, I was told that both of you brothers are always united. There is never a difference of opinion amongst you both. Are there any incidents when you both had very different opinions which then took longer than anticipated to get aligned?**

a. **Raghav:** No. As I mentioned, there was only one incident. But it didn't take too long to get aligned, just a couple of hours. There are definitely some other times where we do have some difference of opinion. But whenever that occurs, we discuss it between the two of us to solve it. We feel that if you want to run an organization, you cannot be giving different messages to different people. Therefore, as far as our team is concerned, it is always a common opinion and there is never a difference of opinion. The message has to be one. It is very important that the whole top management, not just both of us, is aligned to the message we are sending to the company's 3,500 employees. Everyone should understand very clearly where they stand and what the company is expecting out of them.

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***From a technical perspective, there is nobody better than Madhav to lead and to guide us apart from obviously Tauji.***

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**Q. Mr. Madhav, my first in-person interaction with you was in April 2014, at a seminar held by Confederation of Indian Industry titled "Cement Vision 2025: Scaling New Heights". You were the youngest of all panellists on the dais. But at the same time, you were also the most impressive panellist. When you gave your speech on a topic titled "Sustainability Initiatives and Usage of Alternate Fuels", I still recollect the way the room was cheering with applause. Within five years of joining the industry, you managed to not just gauge the importance of sustainability initiatives, but also guide the entire industry on usage of alternate fuels. You have already started practicing these initiatives at your plants at a much larger scale than your industry colleagues. How did you make this possible?**



a. An important initiative that our CMD took when we worked with him was that he always gave both, *Bhaiya* and me, a lot of exposure. He would insist on us attending a lot of seminars. He made sure that he sends me on multiple plant visits abroad. When I travelled and I saw the countries of the world are running their



The Singhania brothers addressing the audience at the 28<sup>th</sup> JK Architect of the Year (AYA) Awards 2019 on 14<sup>th</sup> December, 2019 in New Delhi. This journey was started in 1990 and this award function is JK Cement's annual flagship event, aimed at celebrating excellence and innovation in architecture.

plants with 80-90% Thermal Substitution Rates (TSR) and burning less traditional fuels, which are prevalent in India, I felt, why can't we have this in India? At that time there was rarely any company really doing this in India; probably none, or if there were, they wouldn't be beyond a couple for sure. It was then when I thought to increase the TSR and we took it up as a real full-fledged project within JK Cement. Another aspect of power generation was implementation of Waste Heat Recovery Systems (WHRS) at cement plants. This was actually one of the early ideas identified and implemented by our CMD at the Nimbahera plant in 2007. It was also one of the first Waste Heat Recovery Systems in the cement industry. Our CMD had gone to Japan for a review of WHRS, he discussed and tied these up with Taiheiyo Engineering Corporation and Thermax, and that is how JK Cement was amongst the first to set up a WHRS. Alternative Fuels and Resources (AFR) is also something that *Tauji* had seen. When I went along with *Tauji* and saw it, I took it

***Something that both *Tauji* and *Bhaiya* have always told me towards the end of most of our conversations is, most decisions in life are common sense, but what ends up happening is that people over-think and over-complicate most matters.***

as a self-challenge to converge to usage of AFR in India. At that time, from the AFR perspective, even if any of the companies used it, they were only using Biomass. We were able to setup our full-fledged first AFR system in our Line-2 plant at Mangrol, where we started firing all sorts of AFRs. When I got a chance to speak on it, it was a real pleasure for me to do so. Probably one of the reasons why you and the audience felt that I am so impressive and motivated to speak on this subject. Once again, I thank you for reminding me of my speech and the audience as well for the appreciation they shared.

**Q. Was this seminar your first public appearance to the industry at large?**

a. It was my second public appearance in the industry. There was one more which I had done before. *Bhaiya* had encouraged me to do that. It was in Delhi and it was an Asian Cement Seminar where I spoke along with Mr. Sumit Banerjee (Ex-Managing Director and Chief Executive Officer of ACC Ltd. and currently Chairman of the Editorial Advisory Board at ASAPP Media) and we both were keynote speakers for a generic address on cement industry in India. That is where the two of us met and then Mr. Banerjee invited me to come and speak on this panel.

**Q. Mr. Madhav, when I interacted with few other senior leaders of your generation in the industry, a few of the compliments that these leaders gave you include – that you are a “Bright star and among the best upcoming talents of the industry” and “Fearless fireman of the industry”. As per you, what are the initiatives that you have taken that make your generation leaders think about you in this way? I was also told that you have an extremely bold personality and that you don't care about headwinds once you take a decision.**

a. Firstly, I would like to thank my industry colleagues for these compliments! This is the first time I'm hearing about them. Something that both *Tauji* and *Bhaiya* have always told me towards the end of most of our conversations is, most decisions in life are common sense, but what ends up happening is that people over-think and over-complicate most matters. That is when outcomes of decisions are likely to go wrong. As far as matters that I oversee are concerned, though I have taken various initiatives, the changing point for me in life was the massive adversity that we faced with the problem in our



3<sup>rd</sup> February 2020: Mr. Madhav Krishna Singhania with his team at the day of inauguration of JK Cement's Aligarh Grinding Unit.

clinker silo in Muddapur, our south India cement plant. Honestly, that was a truly massive adversity! *Tauji* only said to me “*Tum dekh lo jo bhi kar sakte ho*” implying “You have to look into this and see what can be done”. Me and Mr. Rajnish Kapur (Business Head - Grey Cement) were at the site to resolve the issue. In the end, we did manage to solve a major crisis. After that sort of an adversity, no challenge seems to be a challenge now to me. Everything else seems to be relatively easier. Such adversities prepare you for all challenges in life; we see some sort of a tough time and it prepares us for everything in the future. More importantly, in a commodity business like cement, it is very important that we aspire to bring down our costs and become more and more efficient with every decision that we at JK Cement take. We are trying to bring down our cost to become one of the lowest cost producers. That is also a reason for me to initiate bold decisions and it is paying off so far. Maybe, that is the reason why I am getting these comments. Thanks once again for sharing these compliments!

**Q. Mr. Madhav, I also understand that you love to remain more engaged with plant operations and technology. Why so?**

***Adversities prepare you for all challenges in life.***

a. I started my career there; therefore, there is a clear passion for technology for me. I am very detail oriented and I have learned a lot in these areas. I feel I can contribute a lot more in technology and operations. My responsibility today and even before this add-on responsibility of the grey cement division was new projects, which was again more of a technology related role. With the additional responsibility of the grey cement division, it will now be an overall responsibility for sure, which will gradually change. But my passion remains where it is. I do also feel technology and plant operations are the core and heart of our business anyways.

**Q. Which are some of the regular conferences and events that you attend? Any key learning from them, that you have implemented at JK Cement?**

a. I used to attend the seminar conducted by National Council for Cement and Building Materials (NCCBM) and sit in one corner of the room. It was just to hear some of the lectures and to understand what is happening around. I also attended an International Cement Conference. *Tauji* sent me for the FLSmidth training course in Copenhagen, which is their company's training program. It was a three-



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***It is a matter that both me and Bhaiya have to ensure that we only grow the legacy of Tauji in the decades to come.***

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week training course in which two weeks were in Denmark and one week was in Vietnam. As far as my learnings are concerned, there were various distinct ones. Few key learnings that I sort of implemented at JK Cement are 1) how does one create a nice, green, environmentally friendly plant, which is very energy efficient with a minimum land parcel and which becomes as efficient as possible on all aspects of production. For example: our Aligarh project is set up on a total of 18-20 acres of land. How to optimize things, how to become capex efficient, and how to become cost efficient is something that I have learned and attempted to implement at JK Cement and 2) A very important learning – how to encourage sustainability, because today in the industry, ‘sustainability’ goes hand in hand with ‘profitability.’

**Q. Mr. Yadupati Singhania is a complete technocrat. He has been more than actively participating in a lot of seminars not just in India but also globally. On the global platform too, he has the technocrat image. Mr. Madhav, I sense some very similar attributes in you. Do you think you will be able to take this legacy of your Tauji forward?**

a. Yes. I am absolutely sure and confident that I will be able to take his technocrat image and legacy forward in the global cement industry. It is a matter that both me and Bhaiya have to ensure. As I said, Bhaiya and I complement each other, and together, we will definitely hope to grow this legacy in the decades to come.

**Q. Though each of you brothers are now designated for individual business roles, but my interactions with each one of you suggests that Mr. Raghav is more engaged in logistics, sales and marketing and Mr. Madhav is more inclined and engaged towards the production and plant operations framework. Given this background, is it fair to assume that both you brothers have a fair holistic understanding of each of your currently assigned business verticals?**

a. **Raghav:** Yes. Your assessment is fair, that I was more engaged with sales and marketing, and Madhav was more

engaged with operations; this doesn't coincide with our current individual business vertical responsibilities. But that was the case till about a year or so ago. For nearly the last one year, the scenario is a little different. Our workstyles now coincide more with our individual responsibilities. I do run the entire white business, which includes the plant and marketing aspect. Madhav, along with our grey business head, Mr. Rajnish Kapur, takes care of the grey cement business. Though I am always available to them for any advice that they require anytime. I would say that my learnings on the operations side are also getting updated on a daily basis; if not everything about operations, definitely some critical parts of operations.

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***Our workstyles now coincide more with our individual responsibilities.***

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**Q. What is the reason, Mr. Raghav, that you chose to remain away from plant operations vs. your younger brother? Is this because you believe that since your brother comes in from a technical background it is better to rely on his expertise and better to explore your skillsets from the commercial side on marketing and logistics?**

a. No. That is not the reason. To be very honest, a lot depends on who your mentor is. When I joined business, Madhav was not in business. You need mentors when you join business at such early age. At that point of time, there was an employee at JK Cement by the name of Mr. V.P. Singh and he was designated as President, Marketing (White Cement). Out of the entire lot of people at JK Cement, he was the senior most in terms of age. He was already in late 60s and the closest employee who was parallel to him in terms of designation at JK Cement was only in the 50s. Hence, on every aspect of individuality of an employee at JK Cement, he was probably the senior-most. For reasons best known to him, he took a keen interest in me. He started expecting that I should be with him. He asked me why don't you travel with me? Why don't you come with me? He insisted that I should meet people along with him. He started explaining to me how white cement business functions and what it takes to be at his position. When I travelled to the market with him, time just flew. It was so engaging that I never even realized how the months passed and I gained expertise on the commercial aspect. And it is because of him that my interest in the white segment also grew.

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***We both are completely and absolutely confident about delivering any role as per the business needs.***

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**Q. For some reason, let us assume that a need arises for both of you to interchange roles on immediate basis. Do both of you individually believe that you will be able to execute the responsibilities?**

a. Yes. Driven by our grooming and training of the business, we both are completely and absolutely confident about delivering on any role as per the business needs.

**Q. Mr. Raghav, other than the mentor you had like Mr. V. P. Singh, what is the special attribute about the white cement business that kept you passionate about it right from day one?**

a. One was definitely the mentorship and having a person who was very keen to teach me the business, like I said. The second important aspect was that white cement business then was not just based on pricing. If the market price falls, let us say by one rupee a bag and you too drop the price, that was not the be-all and end-all of marketing. White cement and putty were sold like fast-moving consumer goods (FMCG). Therefore, we got a lot of leeway as far as how we wanted to sell the product. As a company, we have really leveraged on this very well, and that is what I think I was interested in as well. Today, a lot of other people are also trying to copy our model. Mentorship and an opportunity to create our niche in white cement are the two underlying reasons that kept me attracted and passionate about this business.

**Q. In your leadership, white cement business has grown in leaps and bounds. Your performance is commendable vs. your competition and I think even your competition acknowledges this. The performance that JK Cement has achieved in the white cement segment is ahead of what even many industry stalwarts attempted in the past. Mr. Raghav, you are still just a little over decade old in this business. How did you make this journey possible?**

a. There are three aspects to why this journey was made possible and made us successful in what we wanted to do. 1) You have an excellent team that does the job, 2) You have a market that supports you and 3) You think out of

the box on how you sell your product. A time is coming in all industries, not just the cement industry, where there is no monopoly or duopoly in any business. There is competition. You have to learn to live with competition. The consumer is very smart; he is no longer somebody who would accept anything inferior. You cannot fool him. You have to be very clear on what your communication to the consumer is. And lastly, you have to learn from everybody including your competition. That is what it is about.

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***The consumer is very smart; he is no longer somebody who would accept anything inferior.***

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**Q. White cement is a much more expensive product (and so are all the related products to white cement). Do you agree quality and customer centricity remains a winning edge and protects your customers from shifting base to other manufacturers structurally?**

a. Yes and No. The yes is because I do believe it. No is because with the competition opening up, you have to be price sensitive as well. Just customer satisfaction is now no longer the final decision. Now, you have to be very careful on the price as well.

**Q. Do you recollect any incident when any of your large customers shifted the base to other manufacturers and whom you were able to pull back?**

a. Yes. One of our biggest customers – he shifted his base and used to buy a lot of quantity of JK White. We just did not understand why. We went to meet him and he started telling us the reasons; he said the competition is better than us. He gave us explanations such as product quality of the competition, services, etc. But when we investigated and introspected, we realized that the issues were different. There were two basic issues he had. 1) We used to give him a bulk deal and storage was a major issue at his end and 2) We were charging him a premium, which the competition was not. We revised our policies and said ok, we will be able to give you shorter supplies, and it will be delivery

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***The concerns for white cement business segment are there, but they are really more of imaginary concerns vs. the real world!***

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on demand and we would relook at pricing too. Then it became a pricing on the basis of quantity that he was willing to take at one go. The customer immediately came back and even today we have retained him. He continues to be one of our biggest customers.

**Q. There is a constant emerging fear about the white cement business segment. It is believed the business is under threat because paint companies and unorganized players are entering the putty space aggressively. JK Cement's CFO, on a recent conference call, dismissed these threats saying that the business is still growing much faster than the competition. What is your opinion on this? Are these concerns legitimate?**

a. Yes, concerns are there, but they are really more of imaginary concerns vs. the real world! It is very hard to predict the reality if these concerns play out. But the concerns are much more than what the reality is. One definite legitimate concern is that we have grown much faster than the competition in the past, so the growth percentages may look lower henceforth. Still, there is a lot of scope for growth. Today we are only measuring the organized sector. There is no way to measure the unorganized sector. According to me, the organized and unorganized sector together would be 4 million tonnes p.a. plus, and which is only putty. Keeping that in mind, the concern of competition growing, which is popping up again and again, seems to be overdone. We will be able to maintain our market share, and it will not be an issue. These concerns will automatically die out in a couple of years, as and when growth continues.

**Q. I have covered JK Cement since the Initial Public Offering days. I know that you have suffered a lot in the past on account of plant heritage issues. Over the last**

**few years, I have suddenly sensed the business is undergoing a transformational change with a new energy. Mr. Madhav, is it fair to say that this energy comes from your desk?**

a. This transformation started about five years ago when CMD felt the need to start making a change and transform the company. One of the first starts to this change was bringing in Mr. Paul Heinz Hugentobler on our Board. Once he came on, we were also able to attract more people like Mr. Rajnish Kapur. More people also followed, though I will not like to name all of them. But the team that has been built up gradually over the last five years is a result of the efforts that have been put by all of us – CMD, Bhaiya, Saraogi ji, and myself. That is what is leading to the transformation and the change that you are seeing in the numbers today. It has not happened overnight, because it is a very tough to do so overnight. It is a journey that we have covered in the last five years, which is now delivering us the desired results over the last two years.

*Our transformation is a journey that we have covered in the last five years, which is now delivering us the desired results over the last two years.*

**Q. But then Mr. Madhav, you have joined the company nearly ten years ago and you said the initial five years were an incubation period. This implies that you were also the backbone in bringing about these changes along with your CMD when you took independent charge of the business?**

a. **Madhav:** (starts smiling) *Aise mat lo aap, don't take it in this way!*

b. **Raghav** (adds to the answer): The fact is that the conversation started from the CMD. It was his vision. At that point, Mr. D. Ravishankar was the project head and it all started from there. But when Mr. D. Ravishankar retired then obviously Madhav took charge of his office.

**Q. I know for sure that the company has at most times used the best available technology or equipment driven by the emotional**





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*Whatever we did, we did the best or what we thought was the best at that time.*

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**attachment of Mr. Yadupati Singhania to this business. Therefore, it would not be fair to say that it took long for JK Cement to take corrective measures to deliver better efficiencies in grey cement business, but do you believe that probably these corrective actions could have been identified earlier?**

a. There are always good things that can happen. Like, say a generic example: We had an option of setting up a split grinding unit many years ago, may be a couple of decades ago. The CMD himself conceptualized this idea. But at that time, unfortunately, things couldn't go ahead. There were a few things that we were late in implementing. But like you pointed out, I would say that whatever we did, we did the best or what we thought was the best at that time. A lot of things changed for the industry after 2004, when there was a sudden boom, and the way in subsequent years the industry and market has panned out, it changed a lot of the dynamics that we are seeing today. Every step that we have been taking over the last few years has been to correct a lot of the things of the past. Because, we have a few heritage plants, we have been working on them to correct our inheritance issues; for example, our Nimbahera modernization project is a step forward in that journey. By next year, when the project is completed, out of the 15 million tonnes capacity, less than 1 million tonnes will be old, which is just about 6%.

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*Every step that we are taking is in the direction of improving our efficiency. Our results are already showing it. In the coming quarters, it will further reflect this.*

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**Q. My investment thesis on JK Cement is based on the argument that JK Cement will sooner or later be among the most efficient cement manufacturers of the country. Do you believe this can be made true and do you remain committed to making this happen?**

a. We definitely feel it is possible. We are fully committed towards it. Every step that we are taking is in that



Mr. Madhav Krishna Singhania performing Pooja in-line with Hindu rituals for the first truck despatch from JK Cement's newly-commissioned Aligarh grinding unit on 3<sup>rd</sup> February 2020.

direction. And our results are already showing it. In the coming quarters, it will further reflect this. We will not say the most efficient, but we will definitely say one of the most efficient compared to where we are today. We definitely say, if not the lowest, then definitely at least the second lowest or third lowest in the industry. It is a gradual process, and you would have already seen that we are gradually improving ourselves on the cost curve. Apart from bringing our costs down, we are also aspiring to improve our price and brand positioning too. Maybe, on our brand positioning, we may not be able to bridge the gap with India's largest manufacturer or the market leader, but we will come as close to them as possible. Similarly, on the cost side, too, we may not be the lowest cost producer initially, but we will try and come as close as possible to the best in industry.

**Q. The new Mangrol plant, which was setup by you both, is amongst the most efficient cement plants in the country. This has been acknowledged even by many of your competitors when I met them. Like you said, even the Nimbahera unit is now in revival, and expected to deliver better efficiencies and cost savings to the company. These initiatives prove two things to me – 1) Heritage issues at any plant can be addressed if there is an intent to address them, and 2) Dedicated and motivated management bandwidth can do miracles for any cement company. Do you believe this is true, when you introspect on what you have done with JK Cement?**

a. Absolutely yes! In every company, there are definitely strengths and there are a few things to be improved. In our case, we realized we need to work on areas that we felt need improvement, such as improving ourselves on the cost curve, getting rid of all the legacy issues. Not just the legacy issues on the plant front, but also getting rid of the entire legacy on the market side. All those actions that we are taking today till date continue to be in that direction. In terms of strengths, we would say our people are our strength. JK Cement was able to nourish its

***The legacy of the JK group was a major strength that we have played upon.***



Mr. Yadupati Singhania performing Bhoomi Pooja along with his nephews for Line - II at Mangrol, Rajasthan.

people the way we wanted. Most of our people take pride in working with us and have spent a lifetime working with us. Also, the legacy of the JK group was a major strength that we have played upon. It is more a matter of playing to your strengths and analysing the areas of improvement. In-line to what you feel, anyone can improve upon from where they are and we both agree to it.

***There aren't those many levers as far as the cost side is concerned for the industry at large.***

**Q. Mr. Madhav another important structural change, which I have sensed in the industry, is about the compliance and regulatory norms getting stricter day by day. Incremental earnings delta is still possible in JK Cement by way of reducing production cost (because you are about to correct the plant heritage bottlenecks), but my understanding is that for the industry at large the cost savings are limited on production front. Do you believe this is true?**

a. Absolutely yes! There are still aspects on the cost side that everyone is working on, but there aren't those many cost levers left in the industry. From here on, it is more about better technical conversion ratios, better waste-heat generation, better alternate fuels, lowering raw material cost, lowering your transport cost, selling close to the plant, etc. Thus, there aren't those many levers as far as the cost side is concerned. Having said that, everyone is working on it and everyone will still have some delta potential to improve on it. We may have a little larger delta because of our erstwhile heritage issues. But on the market side, there is definitely further scope for improvement in terms of people trying to improve their price positioning. Everyone is working there. We have also done a lot of work in this regard. One of our initiatives is our re-branding exercise with the entire JK Super rebranding journey, where we felt there was a need to do so and all our communication to the market is now consistent with it. It is very important to target all the influencers, too, on the market side. There are certain influencer programmes, which we have started. These are those initiatives which will help us bridge the price gap. Manufacturers who are already at the lowest point on the cost curve, for them, the delta will be limited here on. But for manufacturers like us, the delta will be available on both sides.

**Q. I got an opportunity to showcase you a presentation on the importance of the supply-chain recently, which unearthed the untouched potential for the cement industry to unfold, if the industry just gets aligned to few better business practices. Do you agree with these arguments – that the incremental delta to profit margins of the industry is bound to come more from supply-chain rather than production operations?**

a. Absolutely, we fully agree with this. Your presentation covers that beautifully, Vaibhav. In fact, it covers all the areas. For the industry as a whole, there

are definitely a lot of supply-chain improvement possibilities, and which the industry at large can address. If it addresses it, there is definitely a huge delta gain, which the whole industry can expect.

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***For the industry as a whole, there are definitely a lot of supply-chain improvement possibilities, and which the industry at large can address. If it addresses it, there is definitely a huge delta gain, which the whole industry can expect.***

**Q. Mr. Raghav, under your leadership at JK Cement, my ground checks suggest that JK Super has been one of the most successful recent new brand launches. I also have a feedback that a lot of large pan-India brand dealers, who never switched to other brands in the past, are more than willing to transition now to become JK Cement channel partners. What is the success mantra?**

a. Grey cement is large in its base and that is one obvious feature and non-ignorable characteristic of this business. But today, another very important facet, which is evolving, is 'after sales service'. We have changed our way of working in this aspect. We want to make sure that when a bag of cement gets sold, there is a technical executive who goes to make sure that it is being used properly and it is being applied properly. There is somebody to guide the customer always who buys JK Cement products. When an individual builds a house, the individual and relevant contractor should be made aware of the correct application practices. We have come up with a lot of different techniques to reach the right customer satisfaction. At the end of the day, what we have tried to do is to create a pull from the customer. Hence, automatically the dealer now says, that ok, if the customers come and tell me I want JK Cement, the dealer now wants to start keeping our product on the shelf. Your feedback is true.

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***Today, another very important facet, which is evolving, is 'after sales service'.***

Many distributors of pan-India players have now adapted to our products or shifted to our brands.

**Q. Not just with JK Super, but you have also been way ahead of competition in launching several value-added and premium products in the white cement segment too. You have led an entire rebranding journey. Tell me something about these products, their uniqueness vs. the competition and growth road-map forward?**

a. We will actually link this back to a question that you had asked, about margins. Though we want to reassure you that margins are not dying off today, you cannot predict what is going to happen tomorrow or say 10-15 years down the line. When JK Cement and our competition came out with putty, it was not that research happened one day and the product was launched the next day. We have to restart research and development today, if we want a new putty in ten years. JK Cement's new mantra is that we want to produce everything between the brick and the paint. We want to offer the whole range of finishing products. Whatever is required – like Plaster of Paris (POP), putty etc., we want to supply all of that. We want to offer Building Material Solutions platform to the customer. Our newer products launches, like JK Cement TileMaxX are with these thought processes in our mind. The customer should be offered a single window operation, and he should know that he will be able to deal and rely on a single person from the day he decides that he would want to build his house till the time he finishes building the house. This is our vision. It will take time to achieve this, and *we are not saying it will happen tomorrow. But that is our thought process.*



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***JK Cement's new mantra is that we want to produce everything between the brick and the paint.***

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**Q. Are all these newer initiatives going to be a part of the white cement business, or will you form a separate company?**



a. It will all be a part of the white cement business and under the JK Cement umbrella. We already have the normal putty business under this umbrella, which we have always been doing. We already have newer products like ShieldMaxX, which is weather-proof putty, LevelMaxX which is coarse putty and is applied like a plaster, and GyppoMaxX, which is used for POP punning. We have already come out with three variants of TileMaxX for different kind of applications like flooring, usage in marble slabs, building swimming pools and similar applications. We have already launched many new products and we already have an array of products that are in the pipeline for the next year as well. This will be our continuous journey and to reiterate, all this will be a part of the white cement business segment in JK Cement.

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***We have already launched many new products and we already have an array of products that are in the pipeline for the next year as well.***

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**Q. Talking about some of the concerns. Why do you think you took so long to make money from the south plant? It is believed that Mr. Raghav's entry in the business and the south announcements went hand in hand. Is it true? What is your plan for the south?**

a. **Raghav:** The south plant announcement happened before I entered the business. The Bhoomi Pooja had taken place in December 2006. As I can recollect, the industry was then selling a bag of cement in the south for ₹350-400. Everyone wanted a pie of the money, which is natural in business, and also in the cement industry. Therefore, the only reason I recollect why we went to south India is because it offered very good money. Let's say hypothetically, today cement prices in north India shoot up to ₹500 per bag. How many people do you think would put up a new plant in the north? This was the case with us too, and we made announcements for a plant in

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***The customer should be offered a single window operation, and he should know that he will be able to deal and rely on a single person from the day he decides that he would want to build his house till the time he finishes building the house.***

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south. However, we don't see any concerns now for the south plant. Ideally, what happens in the cement industry is that cement prices across the country don't remain stable. It is always *zone-wise pricing*. If you have (selling) options in other zones it will compensate for places where prices are not too great. Today, our south plant is making money that is in line with the industry. But unfortunately, at the time of commissioning, the project got a little delayed. By the time we commenced production, the downturn of the cycle had already begun. That was the only thing that went wrong with the south plant earlier. Everything else was well in place. As far as future plans are concerned, the south plant will continue to do well and its performance will be in line with other south-India players.

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***The south plant will continue to do well and its performance will be in line with other south-India players.***

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b. **Madhav:** I too don't see any concern with our south plants any more. But I will also like to add one more reason why we entered the south and as an extension to what *Bhaiya* has already said – our *CMD* always thought that we should look at geographical diversity. Even then, we had an option to do a brownfield in north India at our site at Mangrol. But we preferred south because our *CMD* said that it is important for the company to go south from a geographical diversification perspective. This is another important reason for our southern debut.

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***Our CMD always thought that we should look at geographical diversity.***

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**Q. Though it is sad to recollect, but your south plant did have two unfortunate and consequent mishaps in the past. The clinker silo roof once caved in, in January 2016, and then subsequently there was also a crack in the Controlled Flow (CF) silo. This did put a question mark on the construction methodologies of the plant pointing to some severe loopholes. How will you address these concerns?**

a. **Raghav:** At that point of time, as I see it, the way to build a cement plant was very different. Most

people, including large manufacturers and big companies used local contractors to do these gigantic jobs. But then, for subsequent projects, Madhav has addressed the issue very evidently. When we built Mangrol Line-2 we tied up with L&T and different other proper contractors to do the job. This was to make sure that civil work was of an optimum quality. We have also been doing quality checks and audits during the construction phase to ensure good quality construction and to ensure such issues never reoccur.

b. **Madhav:** What *Bhaiya* said is absolutely right. All our older plants were all built-up, set up, and executed by local contractors. We only continued doing that when we took the south project. But unfortunately, the local contractors over the years didn't take that kind of personal interest and weren't able to do the job properly here. The problem here was more to do with the way the contractor had supervised things. The steel was adequate and there was no issue with the steel. The concrete quantity and quality were adequate and it was not an issue either. It was just that when you construct, to make the structure effective, these ingredients need to be used properly. The concrete has to be vibrated and compacted and may be in certain cases it wasn't done when the south plant was being built. That was the basic issue, which is also why it could even be rectified. If there were grave issues than we would not have been able to easily rectify them.

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### *White cement has become totally like a commodity in the UAE, which is a very big challenge.*

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**Q. You also entered The United Arab Emirates (UAE) and in the recent past; it has been acknowledged by the Management that the decision of entering UAE has not proved to be prudent yet and continues to be a concern. Tell me what was it that made JK Cement enter UAE markets and why is it that you could not avoid this decision?**

a. The reason behind us entering UAE is not known by many and I would like to explain it to you. The initial understanding with the ruler of Fujairah was to set up a 2 million tonne p.a. grey cement plant. This understanding with him existed since 1994 and the discussions were happening since then. We then became a company under the Board of Industrial and Financial Reconstruction (BIFR) and hence investment was not an

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### *We felt that we have an amazing quasi opportunity with our UAE plant.*

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option. When we created JK Cement in 2004, we again started the discussion, and the decision got finalized in November 2007. We signed a Memorandum of Understanding (MOU) with the Fujairah Government to set up a 2.25 mn tonnes p.a. grey cement plant. But subsequently, unfortunately UAE economy just crashed. The government may have said that the slowdown was not prevalent, but the fact is that, there was an economic slowdown there. It became an over-capacity scenario and the demand-supply equation turned unfavourable. Just like low prices made our south entry adverse, the economic slowdown hit us in case of our UAE debut. But, at that point, we were exporting about 40,000-60,000 tonnes p.a. of white cement from India to the rest of the world. We felt that we have an amazing quasi opportunity, why not set up a white cement plant and we can shift this 60,000 tonnes quantum to the UAE plant. Having this capacity would also obviously help us in developing the market and explore our export opportunities further from a long-term perspective. When we commissioned the plant there, the first year or say during the initial seeding period, we did very well. But then, a lot of grey cement manufacturers across the world suddenly felt this is making a lot of money and they started converting their grey kilns to produce white clinker, if they had the availability of limestone, which can support white clinker production. White cement also became totally like a commodity there, which is a very big challenge. How will this market recover? The market will recover when the grey cement industry will recover, everyone will go back to making grey cement, and suddenly white cement will start pulling off, that is our first submission. But more importantly, our submission is also that we are not there for the short term. We are clarifying this point again through this interview. We are there for the long term, and we will kick it off. We have to remember that when we had set up the plant in Gotan in 1984 (our white cement manufacturing unit in India), till around 1997, the plant only ran for five months a year.

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### *We have strong hopes that within a couple of years, we will have a sort of turnaround story for our UAE plant.*

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14<sup>th</sup> November 2011: Mr. Yadupati Singhania laying the foundation stone at JK Cement's UAE site along with the Crown Prince of Fujairah Mohammed Bin Hamad Al Sharqi - as Mr. Raghavpat Singhania looks on.

One cannot forget those days. As far as the revival plan is concerned, we are now trying to replicate the value-added proposition in India across the world. We have opened a new value-add story for the UAE operations, which we have started only last year. Putty is one of the major products that we look forward to. But other products are also being simultaneously developed and sold, which are made for the local markets there. We have strong hopes that within a couple of years, we will have a sort of turnaround story for our UAE plant. It may not become like the India story, but a turnaround will happen. We are really very hopeful of that being a reality.

**Q. You have earlier tried to get rid of the UAE plant, but could not do so. Given an opportunity comes to your doorstep, would you still try to sell it off?**

a. We will have to evaluate it at that point of time, but it is not on the radar. But as we have said, we are very hopeful of a turnaround within the next couple of years.

**Q. There is a disconnect in your UAE performance and the UAE performance of one of your Indian competitors who has also recently entered this market? Why is that?**

a. The key reason we feel is that the company our competitor has bought is the only company in UAE that

has a license to make oil-well cement. Oil-well cement is an extra premium product and they have a tie up with few very large buyers across the globe. That plant was already making money when it was acquired. Though we give full credit to our competition as well for optimization of this plant. The profitability that was already there has become better because of their optimization capabilities. But this plant was always profitable, even in the worst of the crisis. Rather, it was the only cement company in the UAE that used to make a profit consistently. The seller exited the business because they were able to recover their investments and they made reasonable returns, say x times the investment. It is by choice that the seller sold it off, and there was no compulsion for the seller to sell this to our Indian competitor.

**Q. You have also pioneered a technology to be able to make both grey and white clinker from the same kiln? From where did this innovative idea emerge?**

a. **Raghav:** The innovative idea emerged in our CMD's mind and the whole idea of dual production capabilities was completely his endeavour. The plant technology was taken from Taiheiyo Cement Corporation, a Japanese company. We now have inter-changing capabilities to switch the clinker grade to grey or white at both, our Indian as well as UAE white cement factories. The only difference is that in India we have a single plant set





JK Cement's UAE production facility with two parallel lines post clinkerisation.

up, as in a single production line, but in UAE, we have created a system where we have two parallel lines. Up to the kiln it is the same line, but beyond the kiln there are two parallel lines. When our CMD and Madhav brainstormed for improvements in our UAE project technical specifications, they came up with the new idea of how we can have two separate production lines for different products post clinkerisation. The switch over time in UAE is much faster and much easier. We currently don't make grey cement in UAE as we feel there is no point. So, for the time being, both lines are being used

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***In UAE, we have created a system where we have two parallel lines. Up to the kiln it is the same line, but beyond the kiln there are two parallel lines.***

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to produce white cement. We are today also the only company in UAE and Gulf Cooperation Council (GCC) that has three variants of white cement. We make grades of CEM1, CEM2, and 32.5. Though we don't produce grey cement, but we capitalize on this flexibility of having an extra line. It enables the production set up to produce different variants of white cement simultaneously. We were the first ones to do it and we still are the first company to have dual clinker production capabilities from same kiln across our white cement production sites.

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***We are today also the only company in UAE and Gulf Cooperation Council (GCC) that has three variants of white cement. We make grades of CEM1, CEM2, and 32.5.***

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**Q. Another rising concern is the import of white cement to India from other countries. How do you look at this threat?**

a. I will not say it is a major concern, but yes, somewhere it is a concern. I feel that when the government is promoting the 'Make-in-India' concept, the government should ensure that the future of companies that are making in India is safeguarded. Because if that doesn't happen then the whole story of 'Make-in-India' doesn't really work. I will definitely like to urge the government to look into it. But it is not that big a concern as is being made out, as the viability of importing is only there in the coastal belts. We are more prominent in the northern belt, so there is a part of the country where we will always be more viable. There is another part of the country where the white cement importers can also be viable, but that is a much smaller geographical territory in the larger scheme of things.

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***Import of white cement to India is not that big a concern as is being made out, as the viability of importing is only there in the coastal belts.***

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***In another 6-7 years, we should be able to add another 10 million tonnes p.a. capacity.***

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**Q. JK Cement has plans now to enter central India as well. What is the time-line JK Cement can expect to announce its grey cement foray into central India?**

a. We are getting the site ready in central India. There are a few portions of the plant land that are still left and which should be done very soon. We are also in the process of procuring an 'Environment Clearance'. We would say in the next 6-12 months all these clearances as well as the entire land parcel should be in our hands. Once this is done, depending on the situation, we should be able to think about taking on the central India expansion. We have a plan to add about 10 million tonnes p.a. capacity in India over the next 6-7 years. If you look at our journey, in 2012-13 we were 7.5 million tonnes p.a. and today in 2020 we are about 15 million tonnes p.a. In about seven years, we doubled our capacity. Hence, we would say in another 6-7 years, we should be able to add another 10 million tonnes p.a. capacity. We will then become a nearly 25 million tonnes player with presence in three geographies – north, central and south India. This would give us a regional diversity as well as a substantial size. At the same time, we would also strive to be one of the lowest cost producers, and bridge our pricing gap with the better ones in the competition.

**Q. Beyond central India, are there any business plans that you are thinking of? Do you have any plans for other regions?**

a. Actually, there is a large potential for expansion at our site in central India. We will first work on capitalizing on this completely. Once that happens, only then would we plan our next region.

**Q. Another worry is that of equity dilution. You have done an equity dilution recently, with a Qualified Institutional Placement (QIP). It was largely believed that you needed these funds only for your north expansion. Now you have plans to enter central India in the foreseeable future. Is another dilution on the cards?**

a. We don't see us diluting further equity than what it already is today, we don't see that happening. The

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***We don't see us diluting further equity than what it already is today, we don't see that happening.***

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equity dilution that we did was a one-time process to clean up the balance sheet, partially to fund our Mangrol expansion, and also to help us plan for our expansion in central India at Panna, Madhya Pradesh. Our balance sheet now is relatively strong. When the right time comes, then only will we will kick off the Panna expansion. There is definitely no plan of any further equity dilution.

**Q. Being business leaders, what concerns do you feel are important. What are risks that you see as legitimate and worth thinking over?**

a. **Raghav:** As I see, one of the biggest concerns or risks is that the market has to continue to support us, the way it has done in the past. If the prices come down or market support comes down, then it will be a major concern. Without dilution to try to ensure that we are able to sustain our future growth plans, could be a challenge. To remain relevant, we want to maintain the market shares in all our products. That will be my only major concern.

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***We need to ensure that we grow at a faster pace than the market. We should continue to generate free cash flow and create value for all stakeholders.***

b. **Madhav:** For me, as I see JK Cement, we need to ensure that we grow at a faster pace than the market. We should continue to generate free cash flow and create value for all stakeholders. We should be able to carry a strong team of people that we have already created, and further strengthen it for the journey forward. These are some of the broad areas that though, they cannot be categorized as concerns, are something that I want to ensure that they happen. For the industry at large, a rising concern is that compliance norms are going to be challenging henceforth, not that challenges are tough to overcome. But the compliance norms that have now been

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***For the industry at large, a rising concern is that compliance norms are going to be challenging henceforth.***

implemented in the industry as a whole from every aspect of business operations are much stricter. Whether it may be environment norms (and we too believe a clean and green environment is very important for the wellbeing of humanity), or it may be online monitoring of trucks, mining regulations, etc. Many newer laws and regulations on these fronts are coming in, and it is definitely going to be challenging in the years to come to adapt to them for the industry at large. Compliance will be one of the major challenges that everyone will try to overcome, and the only way to overcome them is by complying with such compliances. In your previous edition of Ground View Magazine, Vaibhav, you have strikingly highlighted many of these new industry challenges that I am referring to.



**Q. How do both of you brothers spend time with each other beyond business?**

a. **Raghav:** Generally, when I am on the bed, Madhav will come and sit beside me and he will start talking. You have no option but to listen to what he has to say (laughs). But then yes, we do spend time together. We like to go out for dinner. When we are back home, a concept that our parents have brought into us is that we all sit together after a long office day. We end up spending a lot of time that way.

b. **Madhav:** We generally get time over lunch, as our lunch in office is together if we are in the same city. Otherwise at work, days when we both are in office, we end up spending an hour or two together to discuss anything that we may not have discussed. In our free

time, honestly, I enjoy going out more than *Bhaiya*. But *Bhaiya* loves *Chinese food* so that is one outing which is a must, and *Bhaiya* ensures that it happens, at least once in a couple of weeks. He loves taking us all out for it, and sometimes it is also even just both of us. We will discuss a lot of cuisines like Italian, Indian, Korean etc. and various restaurants too, but ultimately end up going for Chinese with *Bhaiya's* perseverance. And like *Bhaiya* said, we do get a lot of family time together at home too.

**Q. How do you view each other in terms of the elder brother-younger brother dynamic?**

a. **Raghav:** A guiding force and a pillar of strength. Those are those two words. Also, I take it for granted that Madhav is a guy who is always there for me, so I don't have to worry about it.

b. **Madhav:** Yes, he is more like a major guiding force in my life. I don't take him for granted like he does, but I know he is always there (laughs).

**Q. What is one thing about JK Cement that you have not changed since you are in the leadership role and that you would not like to change?**

a. **Raghav:** The values! The values towards people is something that have always been like this, and values towards people will always remain like this.

b. **Madhav:** Yes. I would also say values. But I would also add culture. The culture is something that is very strong. For me, it is both values and culture.

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*The values towards people at JK Cement is something that have always been like this, and values towards people will always remain like this.*

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**Q. What is one thing about JK Cement that you think was the biggest change you could drive?**

a. **Raghav:** The way people thought about the business, their adaptability to listen and their ability to introspect about what has to be done to deliver the desired outcomes. Changing these attributes of our people was the biggest change that we could drive as I see.





Mr. Madhav Krishna Singhania (Extreme left) in one of the Annual Session of Young Indians - Delhi Chapter overlooking the felicitation of Mr. Amitabh Kant (Chief Executive Officer - National Institution for Transforming India (NITI)).

## *Coming out of the comfort zone was one of the biggest change at JK Cement that we could drive.*

b. **Madhav:** Coming out of the comfort zone. A lot of times, it was work as usual, and it was important that we started thinking out of the box to see what better we could do, and make them come out of the comfort zone.

### **Q. What is the one thing that both brothers regret not being able to change at the company, despite trying hard?**

a. **Raghav:** I regret the fact that we haven't yet been able to use technology to the fullest extent. It has taken a long time to implement. I am not saying that we have not done it, we are doing it. But we are still in the process. The amount of time it should have taken and it actually took – there is a disconnect. That would be one of my biggest regrets.

b. **Madhav:** I would say 'change management' is a big challenge. Sometimes it takes longer than needed. Initially, it used to take longer than needed, but in a lot of cases now, we have started progressing much faster. I would agree with what *Bhaiya* is saying. On the technology front, it generally takes a lot of time. But if I look at the last two years, that is also not a regret. A lot of work has happened on that front and we have moved a lot forward, but it takes a lot of time. Apart from that honestly, though not a regret,

I see an opportunity to further improve our execution skills in JK Cement. I feel we can execute ideas faster, and that is also on my wish list. Another opportunity is that - there is a lot more that can be done with the amount of data that gets generated in the business. There are prospects for JK Cement to use this data more effectively, and I am working very hard to brainstorm on how we can gather more better decision-making inferences from such phenomenal data that we now generate on a daily basis. These are the potential opportunities for the future of JK Cement.

### **Q. Mr. Raghav you are blessed with twin sons and Mr. Madhav you too have two sons. Though they are quite young today, can it be presumed that JK Cement has a good business leadership succession platform. Will you like them to join the family business?**

a. It is too hard to say that for us today. In today's brain-age world, to expect that we will be able to mould our children to join the family business, we believe it is impossible. When you look at the newer generation, the biggest thing that they aspire for, is to have a start-up. Maybe after a start-up, they could join the family business but it is difficult for us to imagine today what will happen twenty years later. Our only wish list for all the four boys is that they should be happy, healthy and do what they want.

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*When you look at the newer generation, the biggest thing that they aspire for, is to have a start-up.*

**Q. Mr. Raghav, you are quite actively involved at the Sir Padampat Singhania University (Udaipur), LK Singhania Education Centre (Gotan, Rajasthan - LKSEC), Kailash Vidya Vihar (Nimbahera, Rajasthan) and Padam Vidya Vihar (Nimbahera, Rajasthan). Tell me something about your engagements here?**

a. Starting first from the University, it was the dream of our CMD to have an engineering college that is equal and at par to an Indian Institute of Technology (IIT), as he himself is an IIT alumnus. Even for students who have done extremely well academically, nowadays, admissions at such institutes is not easy. His dream is that such students should be able to study here. Sir Padampat Singhania University was established in 2007, and has been in operation since then. But somewhere during the past decade, the university lost its track of where it was going. I was appointed to the Board two years ago to try and see how I can bring it back on track. Just like you do in the company's business-reengineering process, it is the same process here. That has started happening. We

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***It was the dream of our CMD to have an engineering college that is equal and at par to an Indian Institute of Technology (IIT), as he himself is an IIT alumnus.***

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are in engagement with Ernst & Young too to help us. Within a couple of years, I am hopeful of a turnaround story. But apart from this University, everything, when it comes to the subject of education, our CMD is very passionate about it. LKSEC, Gotan, is one of the best boarding schools that we have in India. It is a co-ed school with about 1,200 children. It is a pleasure to visit this school. Most of the schools that start with any plant or industry, and I am not just talking about our company or only the cement industry but any other industry too, these institutions are meant for the local people. Kailash Vidya Vihar, Nimbahera, is one of those institutes that has done its job and served its purpose very well since 1983, when it was established by the father of our CMD, Dr. Gaur Hari Singhania. But it is now 37 years old, and it needs a facelift, and that is what I am trying to do. I want to upgrade it and bring it at par with LKSEC, Gotan, and the best of the other schools around.

**Q. Mr. Madhav, like your *Bhaiya*, do you get involved in any engagements barring business?**

a. In addition to my role in the business, *Tauji* has always encouraged me to take an active role in some of the industry bodies. Because of that, I am actively involved in the Confederation of Indian Industry (CII), wherein I am on the panel on the Delhi State Council as well as the Northern Region. I also led the Youth Wing of Young Indians Delhi last year. It has been a great experience, because I get to meet people from different industries, and learn a lot from them. I was also on the Panel of Board of Governors of NCCBM for a couple of years in the past.

**Q. Thirty years down the line, where do you see JK Cement?**

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***I hope and wish that we will move our rank upwards and continue to remain amongst one of the largest producers of white cement and also value-added products, globally.***

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a. **Raghav:** From the grey business perspective, I see that we will be one of the top five producers of grey cement in the country and definitely the market leaders in the North. In white cement, we are the third largest producer in the world and I hope that rank will go up. Cementirholding (Caltagirone Group) – is an Italian company with a capacity of about 3.3 million tonnes p.a. and established in 1947, is the largest; the second largest is Cimsa Cement (a Sabanci Holding affiliate), which was established in 1972 in Mersin, Turkey, with a capacity of more than 1.5 million tonnes p.a. of white cement clinker; we are the third largest at 1.2 million tonnes p.a. capacity (including our UAE venture). I hope and wish that we will move our rank upwards and continue to remain amongst one of the largest producers of white cement and also value-added products, globally.

b. **Madhav:** My *Bhaiya* has given a vision so how can I have a different view! This will be the vision for me and the company too (both brothers laugh).

**Q. Your favourite hobbies and interest?**

a. **Raghav:** I love watching mystery movies and mystery television shows, not the Indian shows, but the European shows or similar. One of my favourite such shows is 'The Blacklist'. It grips you when you watch it. I also enjoy

cooking but I don't cook Indian meals. I mainly cook continental desserts and that is something which I enjoy. I do a very good *Tiramisu*. And the last is eating (laughs). Except these three hobbies I don't have other interests as such.



Madhav Krishna Singhania performing Sirsasana on one of his daily yoga sessions.

b. **Madhav:** I like spending quality time with family or playing a sport. I end up playing a sport very often – any sport. But I also enjoy doing a lot of different things. I enjoy reading, if I watch TV, then I only watch cricket. I enjoy playing with the kids. I do yoga every morning. Yoga really relaxes me. *Bhaiya* tells me that I am '*Fitness Freak*'.

#### Q. Your favourite cuisines?

a. **Raghav:** Indian *Chinese*. Not the Chinese *Chinese*, but the *Indianized Chinese*. At the Taj Mansingh, Delhi, *House of Ming* is a restaurant where I generally take the family

along for those Chinese outings which Madhav was mentioning as a must in every two weeks.

b. **Madhav:** It is anything for me and I have no specific preferences. But something which I like more is *Thai* food.

#### Q. Do both of you brothers enjoy holidaying together? Do you pre-plan your holidays or it just happens?

a. **Raghav:** In my case, they are very pre-planned and planned out to the hilt. England is my preference always. They are generally with my family. I would like to take Madhav along with me to England, and I have proposed that to him too in the past, but I don't recall it happening yet. We avoid holidaying together as someone has to be at work. We generally take holidays at separate times.

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### *We avoid holidaying together as someone has to be at work.*

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b. **Madhav:** I don't know when *Bhaiya* has proposed me for a holiday in England together like he is saying. My holidays are with him only to Dubai when he takes me along to visit our UAE plant (laughs). He will just say to me, "I am going to Fujairah, can you please join me". From a holiday perspective, for me and my better half, we prefer seeing a new place every time we travel and accordingly work out our holidays. There is no favourite destination yet as such. My holidays are not as pre-planned as *Bhaiya's* holidays. His holidays are literally planned to the hilt even including the restaurant where he will go for lunch or dinner etc., so in comparison to him, I would

say my holidays are much more reasonably planned (laughs again).

#### Q. The best advice that you brothers remember giving each other?

a. **Raghav:** I always tell him – keep your head down and don't ruffle too many feathers. Just do your work.

b. **Madhav:** 'Listen to me' is my only advice to *Bhaiya* (laughs uproariously).

#### Q The advice which both of you brothers gave to each other but which was not accepted?

a. **Raghav:** I don't remember anything specific but I will tell you that he never listens to me (laughs mischievously).

b. **Madhav:** Generally, he accepts all my advice, but one advice he is yet to accept is to exercise every morning. He has never followed this advice of mine.

#### Q. The best thing and the worst thing both of you brothers like about each other?

a. **Raghav:** I really like everything about him. The only bad thing about him is that sometimes, in the heat of the moment, he wants to take a call very quickly, and he wants to do it fast. Most of the times that is also good, but sometimes there is a negative to it.

b. **Madhav:** What *Bhaiya* takes on, he ensures it is done. He has a fantastic way of leading a team. His administrative skills are exceptional. The downside is that he doesn't take care of his health.



**Q. One day of brotherhood in your memory, which both of you will never forget?**

a. **Raghav:** A day that I will never forget is the day when we moved back to Delhi in 1997 from Kota. The company had just gone into BIFR and we drove for nearly nine hours. I was in Class VIII and Madhav was in Class III. That is a day I will never forget in life. Both our parents were shaken up. At that point of time, for us to understand what was happening (from our parents) was not really an option. The way we both supported each other even at that young age always remains fresh in my mind. Whatever feelings we had in terms of what we were going through and the way both of us were trying to comfort each other, is a credit to our brotherhood. But on the lighter side, I have one more memorable instance that I will share with you. We both have had love marriages. In 2006, when I wanted to propose to the love of my life who is my wife today, he being a bachelor and four years younger was still advising me how to do it! I am an introvert and he is an extrovert. He was figuring out and devising plans for me – what should I tell her and how I should tell her my feelings. He was advising me to take along flowers, chocolates, stuffed toys, etc. when I went to propose to her. That is another memory that I always recollect.

b. **Madhav:** Among the two of us, we have just had many moments together. But for me, the best moment that I recollect is when I came back from the USA; my brother wanted me to come back for almost six months and he was asking me regularly about when I was coming back. Finally, being together after

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***Among the two of us, we have just had many moments together.***



The 'Ram-Laxman' jodi!

***Every healthy relationship there are fights, and after any fight, when one thinks and clarifies what went wrong, what was the right way and what is the way forward, which we both end up doing always, then it only makes the relationship stronger.***

eight years of him being away, and four years of me being away, was a great moment. Though the time we were away was parallel for both of us, it felt like we were away for twelve years when we both met that day! It was a moment for us, that yes, we are back and we are back as a team!

**Q. You are a Ram-Laxman Jodi, but did ever have an intense or prolonged fight?**

a. We have had many fights and we fight even today. Every healthy relationship there are fights, and after any fight, when one thinks and clarifies what went wrong, what was the right way and what is the way forward, which we both end up doing always, then it only makes the relationship stronger. But we have never had a

fight that is uncontrollable. It is very unusual that we won't talk to each other and we cannot recollect any such incident. Actually, the fight amongst us is never of something that is worth remembering. It is always of something very trivial. And 99.9% of the time, the person who always patches us up is our mother. On the day of such a fight, both of us will be looking down and our mother will somehow sense that something has gone wrong. Our fights are one of those fights after which, when we go back to think about it, we will wonder why we ever fought about this at all! Every fight we have had, it has always only made us come closer.

**Q. You both are teetotallers. But I learnt from many at JK Cement that you make sure that every party is a happening event, ensuring**

**that the drinks are never over and the party goes on. You don't mind even pouring the glasses of your colleagues, what goes on in your mind then?**

a. We are teetotalers by choice. It is not that in our house nobody drinks. On many occasions, a lot of people in our family enjoy their drink. It is just by choice that we don't drink, because probably we don't like the taste. If you ask why do we do this? The answer is that if you call someone for a party who enjoys a drink and if you don't offer him a drink, the party finishes very soon. The idea for us offering is that the party must go on; otherwise, there is no point of having them over for a party. We too join them though not by way of alcohol, but by way of alternate drinks like a diet coke, juice, *nimbu paani*, *nariyal paani*, etc. Though our alternates may also not necessarily be a healthy choice always either, and we don't want to encourage that, but if we don't drink alcohol, it doesn't mean that others shouldn't drink. It sets the mood, people open up, and they are able to say a lot more to each other. It makes the team bonding much better and brings the team closer.

**Q. During the course of the interview, you have been referring to Mr. Yadupati Singhania as either *Tauji* or *Mr. Singhania* or *CMD*. Why these different connotations when you refer him?**

a. We always refer to him as '*Tauji*'. *CMD* is for the outside world just to explain as to who he is. It just makes life easier for us as the picture becomes clearer. *Tauji* was very clear from day one to us that his relationship to us is that of a *Tauji* and nephews and he wants that to

be alive always. He categorically told us that "You both will never address me as *Sir* or *CMD* or *MD*. You will always address me as *Tauji*". Even when we have a board meeting or we are attending any external forum and when we address him, he is always addressed as *Tauji*. We referred to him as *CMD* or Mr. Singhania at times during the course of interview because by *Tauji* everyone may not be on the same page as to whom we are referring to. We said *Tauji* during the interview at times because in our subconscious mind he is always *Tauji*.

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***Tauji was very clear from day one to us that his relationship to us is that of a *Tauji* and nephews and he wants that to be alive always.***

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**Q. Finally yet importantly, basis my interactions with various leaders in the industry, there is a strong belief that the industry always feels happier to have talent from within the industry and outsiders are given a second preference. Both of you defy this argument as you were outsiders and new comers, and you have done some really fabulous job at JK Cement. What is your response to this debate?**

a. We totally are of the view that industry needs talents from everywhere and don't buy the argument that outsiders have a limited role to play in the industry. It is totally untrue. You have highlighted our example, but within JK Cement itself, there are many other examples. Our President (Marketing), Mr. Pushp Raj Singh, started his career from the tyre industry. Our Grey Cement

Business Head – Mr. Rajnish Kapur – comes from the Indian Army. It is not necessary today that everyone is from a similar industry. During good times, when the industry grows and when new entrants are coming, there is a talent pool that gets created. But when the industry goes through a slowdown, everyone wants to retain the old industry talent and the new talent of the industry leaves. Once they leave, and when again we need the replacement in good times, there is no option but to get talent from other industries. People coming from outside bring fresh ideas and new perspective on how to execute things. All of us, including us, we get into a comfort zone very fast and the person coming from outside brings fresh ideas of doing business. The business practices are otherwise just monotonous and there is nothing new that one can learn. It helps the industry to think out of the box. If a guy comes in from a tyre industry, fertilizer industry into the grey cement industry or from other building material companies such as Pidilite or paint companies to the white cement industry, they have many new ideas. Mr. Niranjan Mishra (Business Head for White Cement Segment) working for us comes from Oil and Telecom industries. He started his career with Bharat Petroleum and his last job was with Tata Telecom selling Docomo before he came on board with us. We can see the difference that he has brought. Therefore, we strongly believe that the cement industry now has to search for talent outside the cement industry.

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***We strongly believe that the cement industry now has to search for talent outside the cement industry.***

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*"Everything is fair in love, war and CEMENT MARKETING! Business practices adopted by the cement industry (in supply-chain) are sure to make the best of the marketing gurus go crazy with disbelief!"*

- Mr. Jamshed Naval Cooper, HeidelbergCement

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*"I buy the argument that supply-chain inefficiencies exist in every company whether it be in greater or lesser degree. There is always an opportunity to be more efficient. The amount of effort and rigor that is brought to plant costs whether variable costs or fixed costs, the same amount of intensity and rigor is sometimes not brought to the supply-chain."*

- Mr. Puneet Yadu Dalmia, Dalmia Bharat

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*"Supply-chain, as a subject is underpenetrated and people don't realize the value. I will not be exaggerating if I say supply-chain, as a subject, is completely absent in India. The ecosystem itself is just not there. When industry improves upon supply-chain business practices, the delta from supply-chain initiatives will be sustainable for sure."*

- Mr. Prashant Bangur, Shree Cement

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*"There is a huge scope in supply-chain and there is no end to the journey of discovering new efficiencies in the supply-chain. In the cement industry, there are so many customers and so many vendors that we have to deal with, and*

*because of few people who do not implement good systems, it puts undesirable pressure on producers that run with good practices (to either compensate for those losses or give higher margins to vendors or channel partners)."*

*"With commoditisation of technology, a lot of systems can be put in place at a very low cost, which will result in more vigilant monitoring. Our technology platforms should deliver the desired efficient results, even in remote areas that do not have good cellular networks, and even for those people on the ground that do not have smartphones."*

- Mr. Alok Sanghi, Sanghi Industries

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*"Supply-chain efficiencies are those practices that will make the business more sustainable, stronger, and healthier in the long run. We have no shame in admitting that we can improve our processes and disregard those practices where we are not doing well."*

- Mr. Aditya Sanghi, Sanghi Industries

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*"For the industry as a whole, there are definitely a lot of supply-chain improvement possibilities, and which the industry at large can address. If it addresses it, there is definitely a huge delta gain, which the whole industry can expect."*

- Mr. Raghavpat Singhania, JK Cement

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*"Every step that we are taking is in the direction of improving our efficiency. Our results are already showing it. In the coming quarters, it will further reflect this. However, for the industry at large, a rising concern is that compliance norms are going to be challenging henceforth. There aren't those many levers as far as the cost side (production costs) is concerned for the industry at large."*

- Mr. Madhav Krishna Singhania, JK Cement

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