

The Cement Industry of Pakistan: A Swot Analysis

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ABSTRACT

The study attempts to evaluate the cement industry of Pakistan by SWOT analysis. It investigates the major strengths, weaknesses, opportunities and threats of the cement industry of Pakistan. In the early days of Pakistan, this industry was a smaller one but it turned into one of the biggest industries of Pakistan. At present cement industry is one of the top industries of Pakistan which has a significant contribution in the economy of Pakistan. The cement industry of Pakistan is exporting cement after fulfilling the domestic demand. The strengths and opportunities of the cement industry attract not only the domestic investors but also foreign investors. On the other hand cement industry has few problems and threats which affect the industry negatively.

The study thoroughly analyzes all the strengths, weakness, opportunities and threats of the cement industry of Pakistan.

INTRODUCTION

Cement industry is one the important industries of Pakistan which has a significant contribution in the economic development of Pakistan. When Pakistan came into existence it had only four cement plants but presently over twenty cement firms are operating in the cement industry of Pakistan. (Agha, 2014). The cement industry requires high infrastructure and favorable conditions for production. Majority of the cement firms in the country are located in the vicinity of mountainous areas. These areas are highly rich in the inputs required for the cement production

such as clay, iron, gypsum and other minerals. (Manarvi, & Gardezi, 2014).

The cement industry of Pakistan is divided into two broad regions on the basis of their geographical location which include Northern zone and Southern Zone. The Northern zone covers over 80% of the total cement share of the country while rest of the cement is produced in the southern zone. (Manarvi, & Gardezi, 2014).

The cement industry of Pakistan has an oligopolistic market structure where top five companies have controls over 55% of the market share of cement. While the remaining all companies cover only 45% of market shares. The total production capacity of the cement industry of Pakistan stood 44.8 million tons in FY13. The capacity utilization of cement production stood 75% in the same year. (Nayyar, Zaigham, & Qadeer, 2014).

Cement industry of Pakistan is fulfilling the local demand of cement and also exporting cement to the neighborhood countries like Russia, Iraq, Sri Lanka, India, Afghanistan and United Arab Emirates. At present, Pakistan is also exporting cement to some African countries as well. Currently, Pakistan is ranked among the world's top 10 cement exporting countries. (Nayyar, Zaigham, & Qadeer, 2014).

LITERATURE REVIEW

The history of cement industry of Pakistan goes back to 1921 when the first cement plant was planted at Wah. When Pakistan came in to the map of the world there were only four plants with the production capacity of approximately 0.5 million tonnes. This capacity was not sufficient for the country (Sharwani, 1976). In 1956 two more plants were installed by the Pakistan Industrial Development Corporation in Hyderabad city and Daudkel. Furthermore plants were installed in the private sector (Gardezi et al., 2014). Due to the shortage of cement in the country, cement was imported from other countries. So the extension of cement industry of Pakistan was need of the time. The number of cement plants in the country was only 6 till the year 1965. But just after this year the cement sector of Pakistan observed a good development and three cement units were planted by the private sector. The newly opened cement units were Javedan cement, Gharibwal cement and Mustehkam cement. Javedan cement was launched in Sindh province while Gharibwal cement and Mustehkam cement were set up in the province of Punjab. This initiative of entering in cement industry was a good step not only for the cement industry but also for the economic development and growth of the country. (Gardezi et al., 2014).

In the era of 1971-1977 nationalization came into place and all private cement units

were nationalized by the government of Pakistan (Ahmad, 1962). During this period no any new cement unit was introduced. The government of Pakistan came up with the establishment of State Cement Corporation of Pakistan (SCCP) in 1972 and the management of cement production in the country was assigned to it (Buttress, Jones, & Kingman, 2015). During this tenure all the existing cement firms in the cement industry came under the control of SCCP. The State Cement Corporation installed five new cement manufacturing plants in order to reduce the gap between demand and supply in the industry with the production capacity of 1.8 million tons (Rauf, 1994). It was the time when cement industry worked under the complete control of state and the industry met strict regulations and policies during this tenure (Bilgen, 2014).

During the age of 1977-88, denationalization of industries came into action and people were motivated to invest in different sectors of the economy especially in housing and construction sector, as a result demand for cement had been increased. With the inception of denationalization, private sector was also permitted to establish new cement manufacturing units. (Shahida, 1989).

In 1990, cement industry observed another huge change, the industry had been privatized and initially eight cement units were privatized (Oggioni, Riccardi, & Toninelli, 2011)(Wen et al., 2015). To boost

the industrial sector the state gave tax exemption to main industries in Baluchistan and Khyber Pukhtunkhwa. This tax exemption was also enjoyed by cement industry and as a result new manufacturing units were also established in private sector. Private sector was working effectively due to their new technology while SSCP started to lose its power during the period of privatization and its control over supply of cement went down to 25 percent of the installed capacity of the country. But still there was a gap between the demand and supply of cement and to meet the demand of cement in Pakistan; cement was imported from other countries (Umar, Friis, Khan, Kassi, & Kasi, 2011).

The cement industry of Pakistan had reached a level where surplus production was achieved after meeting local demand in 1997. Due to this huge development in the industry, many investors were attracted. Other reasons for attraction of the investors were cheap and abundant availability of raw materials in the country. Increasing local demand for cement consumption also encouraged the producers for further expansion in production capacity of their manufacturing units. Currently the cement sector is utilizing approximately 74 per cent of its installed production capacity of 45 million tones approximately since the local consumption of cement is dull for the last several years. The total production of cement during 2013 was 33mln tonnes. (Wen et al., 2015).

Swot Analysis of The Cement Industry of Pakistan

1. STRENGTHS

The major strengths of the cement industry of Pakistan are discussed as under.

i. Cement a Strong Industry

The cement Industry of Pakistan makes a significant contribution of Rs. 100 billion in the Gross Domestic Product of Pakistan. The cement industry generates Rs. 30 billion of tax revenue for the country. The cement industry of Pakistan is spread all over the country and contributing in the economic development by providing employment to more than one hundred thousand people. This industry also makes a considerable contribution in the exports of Pakistan and consequently earns foreign exchange for the country.

ii. Maintained Growth of Production and Exports

The considerable growth has been seen in the cement industry of Pakistan. In this regard production of cement has increased and the exports of cement industry have also been raised. The total cement production has increased to 38 million tonnes from 9 million tonnes. Although the total cement production of the country is very lower than the rival country India which has 155 million tonnes of production. The friend country China has cement production of 111 million tons of China. Pakistan is also increasing its cement production due to increasing demand of

cement in the domestic and international market.

iii. Easy Access to Production Resources

A significant advantage to the cement industry of Pakistan is that almost all the inputs like raw materials and labours, required for the production of cement, are easily available in the vicinity or within the country at cheaper rates.

iv. Surplus Production for Local and Export Markets

The Pakistani cement industry has a surplus production capacity of approximately 12 million tons of cement and if this capacity is utilized, the additional produced cement could be exported in order to earn foreign exchange of approximately US Dollars 750 million.

v. Good International Reputation

The grey cement produced in Pakistani has a very good reputation in the international market. The foreign buyers consider this cement as a best quality product. That is why the demand of our cement in foreign market is frequently rising.

2. WEAKNESSES

The weaknesses or negative areas of the cement industry of Pakistan are discussed as under.

i. Lack of Innovation and Technology Development

The cement industry is lacking innovation which results in insignificant inflow of modern technology into the industry. It is very important for the Pakistani cement industry to adopt modern and advanced technology in order to improve production

efficiency and production of high quality cement to meet the domestic demand and export orders. The cement industry of Pakistan must introduce latest technology for energy conservation and improvement of environment.

ii. Absence of Vision to Identify Weaknesses

The cement industry also lacks a long run vision due to which it is not able to identify those weaknesses and deficiencies that negatively affect growth of industry. Therefore, the cement industry should develop a vision that is long term and strategic in order to enhance its production and exports.

iii. Lack of Funds to Take up New Projects

An important weakness of the Pakistani cement industry is that sufficient funds are not available on easy basis that could be utilized by the industry for setting up new projects or upgrading the existing plants. The financial organizations like banks in the country are providing very limited finance that is really inadequate for starting new projects in the industry.

iv. Lack of Professional Expertise within the Industry

Another negative point to the cement industry is that it is lacking professional expertise. Due to deficiency of people who are professionals and experts, the cement industry is unable to achieve its production targets, improvement in quality, reduction of production cost and improvement and

enhancement in its marketing and distribution channels.

v. Dependence on Cartelization for Sufficient Revenue

Another weakness of the cement industry of Pakistan is its dependence on cartelization in order to earn sufficient revenue. This resulted in artificial price acceleration and increase of cement in the country. The SECP has to make intervention in such circumstances to impose fine on such cement organizations, which form cartels in the industry. The cement industry should find out other sources for increasing their profit.

vi. Lack of Research & Development

Another weakness of the industry is that there is no any institution in the private sector that could take part in research & development in the cement industry in order to bring improvement in the productivity. Due to this industry also lacks quality, efficiency, marketability and conducting feasibility for producing new products in the industry, minimizing cost of production and expansion of the industry.

3. OPPORTUNITIES

Cement industry has the following opportunities which can be availed in future.

i. Future Growth Potential

The cement industry of Pakistan has shown a slow growth over the last couple of years but in future it is expected that the growth of cement will show a high growth rate in future. It is due to the huge demand of cement in housing sector and the most

important thing is that the investments in PSDPs will be expanded.

ii. Rising Local Demand

The demand of grey cement increased to 24 percent in the period of 2006 to 2007, from just 12 percent in 2002 to 2003. It is expected that the demand of grey cement will rise further in near future. In addition, cement organizations are mostly producing high-strength cement. There is urgent requisite for producing alkali cement in order to meet the demands of mega PSDPs such as Lawari Tunnel project, Mangla Dam Raising project, Gwadar Port etc.

iii. Emerging Export Markets

There is an excellent scope for the export of clinker and grey cement to the countries like India, UAE, Qatar, Middle East and some African countries. These markets are being opened up and depend on the capacity of production and bulk handling facility provided on the ports to handle with the increasing international demand.

iv. Construction Industry Boom in Pakistan

Currently there is a boom in the construction industry within the geographical boundaries of the country. The demand for cement has been rose very much due to construction of a big number of PSDPs which include water dams, northern by-pass projects, highways, roads, government housing schemes etc. This sort of developmental projects are offering a huge opportunity for the cement industry of Pakistan to increase its production in order to fulfill the future demand of cement in the country. It is significant to carry out

the research to come up with the new varieties of cement.

v. Developing a Long-Term Vision and Strategy

The cement industry of Pakistan is adopting a future oriented approach and developing a strategy to enhance production capacity and exports. The Trade Development Authority of Pakistan has also designed a committee on cement for this valuable purpose.

vi. Research to Develop New Products

Advance and purposeful research is being done by the Cement Research and Development Institute, under the support of the Ministry of Industries and Production, for production of new types of cement to fulfill the demands of the modern construction.

vii. Focus on Cost Optimizing

The cement industry of Pakistan has not made serious and significant efforts for optimizing the cost of cement. It is something important through which the cement industry can make improvement by utilizing the professional expertise and skills of Management Accountants in cutting down the production cost.

viii. Possible Switch-over to Cement Roads

The cement industry in association with the authorities should consider switchover to concrete roads. Though the preliminary capital cost of these roads is higher but the maintenance cost is approximately nothing. This would lead to fuel consumption.

ix. Conversion to Coal

Another opportunity for the industry is conversion from furnace to coal as it is simply available in the local market on very cheaper rates.

x. Availability of Finance

The cement industry has the opportunity to get finance from the banks and other financial organizations in the country as it is the growing industry.

4. THREATS

The main threats for the cement industry of Pakistan are as follows.

i. Low Per Capita Consumption

Regardless of increasing demand of cement in the country, the per capita consumption of cement is very low in the country i.e. Rs. 137 Kg. as against 870 Kg. in Malaysia, 750 Kg. in Thailand and 411 Kg. in Iran respectively.

ii. High Incidence of Taxes

Around 30 percent taxes on cement are highest than other countries i.e. 10 percent in other countries like Indonesia, Philippines & Egypt while 7 percent in Thailand and zero percent in Iran and Malaysia.

iii. High Input Cost

Due to the high cost of input such as electricity, coal, paper bags and mark-up rates, the cost of production of cement has been increased time to time.

iv. Decline in Profitability

Regardless of unparalleled growth rate in the demand of cement in Pakistan, at present the industry is unable to generate sufficient margins due to low level of prices of cement.

v. Inadequate Bulk-loading Facility at Ports

The bulk-handing facility at ports is not available in Pakistan; due to this cement industry is not in a position to export to new markets and countries in bulk quantity at low cost in very short time.

vi. Supply of Inferior Quality Coal and High Cost of Imported Coal

The quality of local coal supplied is inferior and inappropriate for production in cement plants. On the other hand, the price of imported coal is very high. So there the prices of imported coal have been increased by almost hundred percent rates within few years.

vii. Different Rates of Royalty

Another threat is that royalty rate on cement, in different regions is quite different i.e. Rs. 1 per ton in Islamabad, Rs. 50 per ton in Baluchistan and Rs. 15 per ton in Punjab and Sindh. So it considerably varies from region to region.

viii. Rising Oil Prices

The high rate of furnace oil has a huge effect on the cement industry. The rising international prices of oil are also a huge threat for the cement industry of Pakistan.

CONCLUSION

Cement industry of Pakistan is on the way of progress and it is developing day by day. The indicators of the industry are showing a positive trend and the future of the cement industry of Pakistan is bright. The industry has the potential to increase its exports but due to the absence of bulk handling facility

in the ports, the growth of exports is affected. The cement industry is highly in need of long term vision and strategy to avail the opportunities in future and to face the challenges successfully. One of the biggest challenge of the industry is that despite constant increase in demand of cement, the per capital consumption is much lower than other countries. The tax and duties paid by the cement industry are high which are responsible for the higher cost of production. So the government should take measures to rationalize the taxes. The measure should be taken by the cement industry to minimize cost of production which will result in the increase of profit margin.

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