PROBLEMS & PROSPECTS OF CEMENT INDUSTRY IN INDIA

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

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The first successful attempt to produce Portland Cement in India was made in October, 1914. Since then, the industry has gone from strength to strength. Starting with a production of less than 1,000 tonnes in 1914, the production of cement in India by all the units in the industry, including the three units in the public sector, has now reached the one crore tonne mark.

Everybody's eyes are on the cement industry on account of the scarcity of cement experienced by the large fraternity of consumers for putting through their projects. Some State Governments are trying to persuade the Centre to import cement on rupee payment from countries of Eastern Europe to tide over their immediate requirements. Whilst the seriousness of the situation and the anxiety of the consumers is understandable, the present scarcity of cement, as compared to the demand, is not on account of any lack of enthusiasm or efforts on the part of the cement manufacturing units to produce more and yet more cement than they have been able to do. The 34 units in the private sector, which the Cement Manufacturers' Association represents, have been producing cement during the last three years at about 95% of their installed capacities. There are several reasons why this performance could not be bettered.

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* Based on Mr. Khatau's presidential welcome address at the function organised in Bombay on January 18, 1965, by Cement Manufacturers' Association to mark the completion of Fifty Years of the Indian cement industry.

The souvenir published by Cement Manufacturers' Association in January 1965 to commemorate the completion of Fifty Years of the Indian cement industry will help the public to understand the Cement Industry's position and problems in their true setting. Here I shall deal with a few salient features of the industry only. The capital invested in the industry is approximately Rs. 115 crores. The industry provides direct employment to about 55,000 workers of all categories. It pays Rs. 28 crores annually to Government in Excise Duty alone. It uses about 33 lakh tonnes of coal, i.e., 1/20th of the total raisings from the coal mines in India. The industry uses each year a sixth of the total production of sacking goods manufactured by the Indian jute industry. It pays the Indian Railways Rs. 14 crores by way of transport charges alone. The cement industry is wholly Indian. The ex-factory value of the industry's turnover is Rs. 80 crores per annum.

When the industry began its career in 1914, there was a foreign Government ruling over India. Besides, the general public was apathetic to the use of cement and concrete as construction materials. Thus, the industry had not only to attend to the production of cement but also had to nurture the market for cement. After the close of the First World War in 1918, more cement manufacturing units came into existence, and production gradually rose. On the one hand, the Government allowed the import of Portland cement and on the other, there was unwillingness on the part of consumers in India to take to the indigenous product as against imported cement. This resulted in a rate war amongst the Indian cement producing units leading to the liquidation of a few units, the appointment of the first Tariff Board and the formation of the first Indian Cement Manufacturers' Association for educating the public in the manifold uses of cement and popularising Indian Cement. The formation of the Concrete Association of India in 1927, a technical service organisation, and the Cement Marketing Co. of India Limited in 1930 helped the industry to turn the corner. Another landmark

was the merger of several manufacturing units and the incorporation of the Associated Cement Companies Limited in 1936. After the formation of the Associated Cement Companies, many other entrepreneurs, prominent amongst whom were the Dalmia-Jain enterprises, entered the field and cement production grew rapidly. The first Public Sector unit was formed by the then Mysore State Government in 1938.

During the Second World War, a rate war amongst the cement producers again raised its head and the prices came down to uneconomic levels. With the close of the Second World War and the formation of the Department of Planning by the Government of India, a fresh impetus was given to the cement industry. One of the most notable achievements in this era was that the Indian Standards Institution produced the first Indian Specification for Portland cement, thereby making it possible for the industry to utilise millions of tonnes of raw materials which would otherwise have had to be rejected. During the First Five-Year Plan, cement production increased from 27 to 46 lakh tonnes. The second State-owned factory at Churk in U.P. was also set up during this period. Substantial expansions to capacity were also carried out in many existing units. During the Second Plan Period, actual production rose from 46 to 78 lakh tonnes. Another technical service organisation—The Sahu Cement Service—came into existence in 1959. This period also saw the manufacture in India of new types of cement like White Cement and Portland Blast Furnace Slag Cement. In the fourth year of the Third Five-Year Plan there were 37 factories having a total installed capacity of 1 crore and 5 lakh tonnes and producing roughly 1 crore tonnes of cement. It is anticipated that the industry will be producing about 1.1 crore tonnes of cement by the end of the Third Plan in March, 1966.

The performance of the industry, as measured by the index of productivity, has been gradually improving. The level of output of cement per man-day in 1961 was more than 300% of the corresponding level in 1949. The main reason for this increase in productivity has been the greater degree of mechanisation in terms of kilowatt hours of electricity consumed per man-day which was *567%* of the level in 1949. Another reason for the increase in productivity has been the larger average production capacity per plant, which more than doubled from 100 tonnes in 1949 to 218 tonnes in 1962. Although the productivity of the Indian cement industry during recent years has increased substantially, it still lags well behind corresponding levels prevailing in the leading cement manufacturing countries like the U.S.A., Belgium, Japan and the U.K.

Some fundamental facts about the Cement industry need to be appreciated by the public. A cement factory can be established in regions where there are fairly large deposits of limestone of suitable quality and where adequate power supply and railway facilities are available or can easily be made available. If the factory can be sited not very far from the sources of coal supplies, it would be an added advantage. In India, the cement factories are located in almost all states except Maharashtra, West Bengal and Assam. The principal reason for the non-existence of cement factories within these states is non-availability of fairly large deposits of good quality limestone. Fortunately, in the not distant future, a cement factory, jointly sponsored by the Government of Maharashtra and the Associated Cement Companies, will be set up in Maharashtra State. There now seems to be a possibility of establishing a plant for the manufacture of blast furnace slag cement in West Bengal. It has been reported that the State Government of Assam is planning to install a cement plant in Assam.

In the earlier stages of the development of the cement industry in India, it often happened that plants of uneconomic size came to be established. Presently, as a measure of standardisation of the plant size and with a view to reduce the foreign exchange component, the economic size for a cement plant has been fixed at a capacity of 600 tonnes per day, equivalent to an annual production capacity of 2,00,000 tonnes. To establish a plant of this size at the present level of costs, it would require an initial financial outlay of Rs. 3.2 crores for a Wet process plant and Rs. 3.4 crores for a Dry process plant. The foreign exchange component for these standard plants to-day has been restricted by the Government, due to paucity of foreign exchange, to about Rs. 50 lakhs.

It is common knowledge that the difficulty about raising the necessary capital required for expansion of the existing plants and the setting up of new plants owing to the state of the capital market in recent years and the unrealistic licensing policy of the Government, among other reasons, have led to a virtual stalemate in the industry resulting in the present gap between the demand for cement and its supply.

This, however, was not the only factor resulting in the present scarcity of cement. The other, and more important, factor was the pricing policy of the Government. The price payable to manufacturers in the cement industry ever since the last World War has been controlled by the Government. From time to time, an expert body like the Tariff Commission has examined the cost structure and other aspects of the industry. The last Tariff Commission made its recommendations in 1961 after an exhaustive examination of the cost structure of the industry. The recommendations of the Tariff Commission did not come up to the expectations of the industry. However, when the Government, after taking into consideration such recommendations, decided on the price payable to the units in the industry, it scaled down the recommendations of the Tariff Commission, and in that process worsened the already unsatisfactory recommcnda. tions of the Tariff Commission. As a result of the price structure fixed by the Government with effect from 1st November 1961, the industry as a whole lost a substantial amount. The recommendations of the Tariff Commission were to cover the period, 1st July 1961 to 30th June 1964 The Government decision fixing the price structure took in its stride a much larger period ending on 31st March

1966. By this decision, the prospects of the industry were further depressed. The only silver-lining to this decision. was that the Government agreed to adjust the price payable to the manufacturers whenever called for, for variations consequent on governmental action, including escalation for fuel and power. A little before the new price structure came into force, the costs of production of the cement had already started rising and these costs have continued to rise, due enitrely to factors beyond the manufacturers' control, like increase in the price of coal, increase in the electricity duties and tariff for power, increase in railway freight and several other imposts, both of the Central as well as the State Governments. The Government has, no doubt, between the period 1-11-1961 to 30-4-1964 awarded **ad hoc** price increases to the cement manufacturers. But the total of these **ad hoc** price increases has fallen far short of the actual increase in the cost of production of the manufacturers. An idea of the shortfall can be had when it is pointed out that as against the total increase in the cost of production of Rs. 5 91 per tonne, the total net **ad hoc** increases have amounted to only Rs. 3.75 per tonne. Furthermore, these **ad hoc** increases granted by the Government were without any retrospective effect. In consequence, during the period 1-6-1963 to 30-6-1964 alone the industry lost Rs. 3.25 crores as no retrospective effect was given to the **ad hoc** increase granted by the Government. It is regrettable that the Government has not as yet framed automatic escalation to cover increases in the cost of fuel and power, although the Tariff Commission had recommended the framing of such an escalation. This still leaves out of account the escalation for the increase in Dearness Allowance payable to the workers which has been linked to the All-India Consumer Price Index.

Whilst on this question of the controlled price payable to the manufacturers, it should be remembered that the cement industry is a basic industry. On its proper development and expansion depend the progress of many other industries and the construction of housing for millions of our countrymen. This industry also has a bearing upon the defence needs of the country and it also affects in a large measure the industrial projects envisaged by the Government. By controlling the price payable to the manufacturers, the Government has impaired the generation of funds within the industry, funds so necessary for expansion and modernisation of plants. Another repercussion of this controlled price is that the cement companies cannot pay dividends to their shareholders at adequate levels with the result that the directors of these companies cannot go to the capital market for the finance needed to expand their plants. As against this, there are many other industries where there is no Government price control and such industries have been able because of the absence of the price control not only to pay larger dividends to their shareholders but also to build up internal resources with which to expand. Price control has had a crippling effect upon the fortunes of the industry. In this connection it is not out of place to consider what the World Bank Mission had to say on the subject of price control in a priority industry like Cement.

> "The policy of controlling prices in key industries, while prices in less important industries have been left free, is particularly difficult to justify. It has had the effect in India of diverting capital away from the priority sectors where the need for expansion is greatest. Thus the coal and cement industries have both experienced difficulty in attracting capital for development in recent years."

It is often said that Indian cement is much too expensive as compared with prices of cement in other cement manufacturing countries. This charge is not correct when one takes into account the retention price paid to the manufacturers of cement and the ultimate price payable by the consumer. For instance, the average retention price received by cement manufacturers works out to about Rs. 75 per tonne as against which the price to the consumer is about Rs. 160 per tonne. Included in the price payable by the consumer are several charges and imposts like Excise Duty of Rs. 28.32 per tonne, average railway freight of Rs. 21 per tonne, packing charges of Rs. 15.30 per tonne, besides other items like commission, to the State Trading Corporation, distributors' margin, sales tax, town duty etc.

It is not anticipated that the Third Plan targets for cement of 1.5 crore tonnes of capacity and 1.3 crore tonnes of production would be fulfilled. It is estimated that there will be a shortfall of about 20 lakh tonnes in production. The Fourth Plan target has been pitched at 2.6 crore tonnes of capacity and 2.3 crore tonnes of production. In fixing these targets, presumably the likely demand for cement must have been taken into account by the planners. It is, however, not enough to fix the targets. What is more important is to devise ways and means of fulfilling the targets. Realising the hard facts staring us in the face and profiting from our previous experience about the difficulties of achieving any substantial expansion of capacity, the cement units in the private sector, as represented by the Cement Manufacturers' Associatioti, recently made certain concrete suggestions to the Government on the best way to achieve the targets. The Association has submitted to the Government that the Private Sector in the industry would undertake expansion of the industry by 50 lakh tonnes additional capacity in the Fourth Plan period if the Government would include in the price payable to the manufacturers a special Expansion Allowance to be identified and utilised as such and simultaneously award to the manufacturers realistic increases in the price payable to them on account of the mounting costs of production, and, for that purpose, frame an Escalation to cover the increases in costs on account of fuel, power, price of coal and the variable Dearness Allowance payable to the workers in the industry and also liberalise the Development Rebate by increasing it from the existing 20% to 40%. These are the three ways by which internal resources can be built up which, along with the steps to be taken by the manufacturers to raise equivalent capital, can be utilised for putting up the additional 50 lakh tonnes capacity which the Private Sector would be willing

to undertake. In the proposals made to the Government, it has been clearly stated that if the special Expansion Allowance is not utilised for carrying out the expansions, it would revert to the Government. Unless the industry is enabled to expand and achieve the targets, the industrial projects envisaged in the Fourth Plan and the housing programmes of the Centre, as well as the State Governments, would be retarded and this retardation would prove costlier than any Expansion Allowance, which may be under-written in the price payable to the manufacturers. The extra cost of the Expansion Allowance to the consumers, if and when passed to them, would be just about 30 Paise per bag of cement which the consumer will not grudge to pay as the alternative would be an indefinite postponement of his essential construction needs.

The anxiety of the Public Sector to enter the cement industry can be explained by the belated realisation that the existing cement industry has no resources with which to carry out the needed expansions, a result for which the industry is not responsible. Before the Public Seclor enters the industry in a substantial way, however, the economics of such entry should be impartially examined. The Government should consider whether it will be more economic, in the long run, to allow the present industry to expand or whether the Public Sector, on the basis of its command over finances, should enter the field. The number of trained personnel available also is limited. In view of this, the entry of the Public Sector into the field by reason of its financial weight may not prove to be nationally advantageous. It will be more economic to allow the existing units to expand by giving them necessary encouragement than by putting up entirely new cement plants in the Public Sector.

I would like now to deal with a comparatively minor problem faced by the Industry. The cement producers are awarded certain prescribed packing charges fixed by the Government every quarter in respect of the mixed packing which the industry is expected to undertake. By "mixed" packing is meant the packing of the production partly in new jute bags and partly in old jute bags. The industry. as the producer of cement is least interested how the production is packed, whether wholly in new jute bags or partly in new and partly in old jute bags or some other packing arrangement is made. From the consumers' angle, it would be advantageous to pack the production entirely in new bags as by reason of such packing the loss on seepage would be minimised. However, the Union Government has been insisting that the industry should pack the production partly in new and partly in old bags with the result that the seepage percentage has gone up and the consumer is often heard to complain about the loss. Besides, as far as the industry is concerned, its experience is that the quarterly packing charges are unrealistic and that the manufacturer has to pay more for obtaining his packing than he is awarded by the Government. I hope the Government will take early steps to remove this grievance and permit the industry to resume packing entirely in new bags. The Government's insistence on mixed packing seems to be based on some idea of holding the price line. This, however, is illusory.

In the price awarded to the manufacturers, the Government has included a small allowance of 10 Paise per tonne to be utilised for research in the industry on a co-operative basis. One of the effective ways by which industries in many advanced countries secure for themselves the aid of science and technology is through co operative research. The co-operative research pattern for industry in India started with the establishment, in 1947, of the Ahmedabad Textile Industry's Research Association (ATIRA). Since then, other industries in India have entered the field of co-operative research. The Council of Scientific & Industrial Research (C.S.I.R.) of the Government of India has been taking active steps to encourage the promotion of co-operative research associations in India. It also provides financial assistance towards both capital and recurring expenditure. As early as 24th May, 1961, the Cement Manufacturers' Association had agreed. in principle, that the cement industry should take

advantage of the offer of financial assistance by the Council of Scientific and Industrial Research for the formation of a co-operative research association. Accordingly on 24th December 1962, the Cement Research Institute of India was registered as a society under the auspices of Cement Manufacturers' Association, jointly sponsored by C.S.I.R. and the cement industry, to undertake research in the industry. Each cement manufacturer has to pay to the Cement Research Institute of India a sum equivalent to 10 Paise per tonne of cement sold. The C.S.I.R. is to participate in the capital as well as the recurring expenditure of the research scheme for the industry on a 50:50 basis. The Cement Research Institute of India has been looking for a suitable site where the research laboratory of the industry could be established, and it is anticipated that a suitable site somewhere in the Punjab will soon be found. The establishment of a research laboratory will meet a long-felt need. Modern industries cannot do without research. Improving a product and, at the same time, making it cheaper is the primary aim of all industrial research. It is hoped that when the research laboratory of the cement industry is established, a substantial step forward will have been taken in achieving these twin purposes.

Closely linked to the cement manufacturing industry is the cement machinery manufacturing industry. Till very recently, the Indian cement industry was entirely dependent on foreign countries for the machinery required for establishing a cement factory. Forced by the foreign exchange difficulties, the enterprise of the Indian industrialists led to the establishment of the cement machinery manufacturing industry. The pioneering work in this industry was done by the Associated Cement Companies Ltd., during the Second World War. Meant primarily to fabricate new and replacement machinery for the use of its own factories, this enterprise led the Associated Cement Companies later to establish the A.V.B., a large engineering enterprise having modern and well-equipped factories in Durgapur, West Bengal. The manufacture of cement machinery has now been begun by seven undertakings. The fabrication of the machinery by these undertakings is relieving the pressure on foreign exchange and the country will progressively depend less and less in respect of heavy machinery on foreign countries. The cement machinery manufacturing industry is at the moment passing through teething troubles in respect of supplies from other industries such as large castings, motors, gear-boxes, boiler quality steel plates, which are not keeping pace with its development.

Earlier I mentioned that the cement industry employs upwards of 50,000 workers. Except for the head office staff of the companies, most of this force is employed at factories which are situated in remote rural areas. The cement industry has been amongst the first to provide amenities such as education—in some cases upto the High School level — medical care, including first-class hospitals, operating theatres and X-ray facilities, recreation clubs, cinemas and other welfare measures. As Ear back as 1946, the Labour Investigation Committee appointed by the Government of India stated: "The cement industry can be regarded as being well in advance of others so far as organisation of welfare amenities for their employees is concerned." The last tripartite Cement Wage Board has recorded: "In this respect, employers in the cement industry are in advance of employers in a number of other major industries."

There is no doubt that private enterprise in cement industry which heretofore faced and overcame all manner of difficulties and problems and yet contributed so much to national development will not be found wanting if a proper climate for it is created.

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"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff

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