CHAPTER - III

CEMENT IN INDIA
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Cement, a basic commodity essential to all constructional activities, is a vital ingredient of the development of a country. India is the fourth largest producer of cement in the world, the first three being China, Japan and the United States of America. The capacity as at the end of 1991 was 60.5 million tonnes inclusive of 5 million tonnes in the mini-sector. The capacity of the industry will be 100 million tonnes by the turn of the century.¹

Pre-independence period:

India under the foreign yoke was industrially backward though raw-materials were at her disposal in plenitude. The Britain's policy towards India was tinged with free trade and laissez faire. The fiscal and industrial policies of the government were guided chiefly by revenue-considerations without any regard to the industrial development of the country. The free import policy rendered the survival of the then existing industrial concerns very hazardous. All the same, the discouraging attitude of the government towards industrialisation and the lack of pioneering spirit and capital among the Indians coupled with the fear of foreign competition were responsible for the industrial backwardness
of the country. Thus, the economic and political circumstances were to a considerable extent detrimental to progress prior to 1914, when India stepped into its cement-era.

The history of cement in our country is as old as the hills. As a building-material cement has been known in one form or the other since the time of ancient Indus Valley Civilization at Mohenjodaro in India. Though it has a long history of its use in this land, its manufacture is relatively of recent origin. The first reference to cement production in India is recorded in George Watt's directory of 'Economic Products of India' published in 1889 which stated 'Portland cement was being made in Calcutta from argillaceous kankar'. In India the era of cement commenced, infact, with the establishment of a small cement factory at Washermanpet in Madras in 1904, by the South India Industrial Limited, a company that dated back to 1879. The potential capacity of this plant was confined to 10,000 metric tonnes per annum. Almost the entire capital of Rs.9 lakhs was invested by Indians. This was the first attempt at manufacturing Portland cement with the calcareous sea-shells as principal raw-material. There was sufficient demand for the product but
because of technological defects and inadequate supply of raw-materials, this plant did not operate economically and ultimately collapsed.

Then the real foundation-stone of the cement industry was laid in the year 1912, when a small factory was established at Porbander in Kathiawar by the India Cement Company Limited. This factory commenced its production in the year 1914, at the rate of about 100 metric tonnes per day. This company adopted dry process in stationery intermittent operation of vertical kilns which were changed to continuous rotary kilns subsequently. This plant had easy access to limestone quarries of Porbander. It was situated only 300 and 1500 miles away from Bombay port and Bengal coal fields respectively, in the close proximity of raw-materials. The authorised capital of the plant was Rs.60 lakhs. The paid up capital during the first year of its operation stood around Rs.7 lakhs and it eventually increased to Rs.20 lakhs by 1920. Karachi, Gujarat, Bombay and Madras were its principal marketing centres. It manufactured only one type of cement designed by the British Standard Committee as artificial Portland cement. Though the company was started entirely with the help of private capital, state assistance in some form or the other was forthcoming.
Hence, the establishment of the first cement plant at Porbander proved to be a financial success and attracted prospective investors. The import of cement declined because of the out-break of the First World War in 1914, as the Indian cement proved to be cheaper than the imported cement. During the initial years of the war the price paid by the government ranged from Rs.43 to Rs.70 per tonne, while that quoted for imported cement ranged from Rs.80 to Rs.200 per tonne. Thus the increase in demand for domestic cement consequent upon the reduction in supply from abroad, availability of Indian capital, cheaper labour, special governmental concession and increased use of cement were largely responsible for the ultimate success of this enterprise. This initial attempt could egg on the establishment of two more factories, one at Katni in Madhya Pradesh by the Katni Cement Ltd. and the other at Lakheri in Rajasthan by the Bundi Portland Cement Ltd. Both these factories started their commercial production in January 1915 and December 1916, respectively. None of the factories had the problem of disposing of its product though they were not located near the port-towns. The out-break of the First World War gave a fillip to this industry and the output of the plants was under the government control. The total production of the three plants increased from 18,199
metric tonnes in 1915 to 74,911 metric tonnes in 1917 and to 92,718 metric tonnes in 1920. The government control was lifted immediately after the war and the boom-period of the industry set in. However, the conditions changed with the arrival of foreign cement at the port-markets. These factories found it difficult to step into the main marketing centres. But, the demand for cement increased very steadily as the cement was used not only for housing but also for dams, roads, bridges and other developmental activities. The three existing plants increased their capacities between 1919 and 1924. Six more companies were floated and they commenced production. The total licenced capacity of the six plants was 3,92,180 metric tonnes.

In 1924, the total capacity of cement industry was 5,59,800 metric tonnes as against the production of 2,67,965 metric tonnes i.e. less than 50 percent of the rated capacity. This increase in the indigenous capacity did not lead to reduction in imports, in any way. The expansion accompanied by sudden resumption of imports created a glut in the market. The industry was faced with the problem of the disposal of production. This resulted in a fierce rate-war among the domestic firms and it reduced the prices to such an extent
that actually prices fell below the cost of production. Consequent upon the heavy losses to shareholders, three factories came to be closed. The plight was due to:

a) foreign-competition and rate-war and

b) locational disadvantages with regard to market and raw-material.

Though it is difficult to ascertain the degree of cost-advantage of Indian cement manufacturing, it can be said that the European counterpart had absolute cost-advantage. The main fuel-item i.e. coal was qualitatively poor in India as compared to that of Europe. Coal was more expensive on account of large railway freight and high pits-mouth cost and wagon-shortage. In addition, there was inadequate supply of coal at proper time, a point which involved huge cost of holding inventories. Moreover, the freight from the plants to port-towns in India was higher than the sea-freight from England to Indian ports. So, only in the interior places the cost per unit of home-product was comparable to that of the imported one. It was very often observed that these domestic entrepreneurs were rather hasty, over-optimistic and even short-sighted, for, no factory was located within 350 miles from Calcutta and 250 miles from Bombay till 1925. As the
cost of internal transport was exorbitant; these two centres
banked entirely on import. Most of the new factories were
within the geographic marketing circle of the old ones and the
external competition which led to an insensate scramble for
business at any price pushed the industry into the ditch of
crisis. The industry whose development was very rapid and
full of promises only two years back, was in shambles.

At this critical juncture, several companies had to pray
'S.O.S.' to the government. And the government had to
intervene by referring the working of the industry to the
Tariff Board. The Tariff Board recommended the protection of
the indigenous industry against the dumping of imported cement
at uneconomic prices. With a view to tiding over this
bewildering anomaly, certain proposals were put forward for
raising the customs duty from 15 percent to 41 percent, so
that foreign cement might be excluded from the Indian markets
resulting in substantial rise in domestic output of cement and
an attractive profit-margin. It was opined that it would
provide a healing touch by ensuring a definite and substantial
relief to the industry. The claim was based on the fact that
though the Indian cement was maintaining a good standard there
prevailed a special preference for European cement and this
was certainly a specific difficulty of a temporary kind. Thus, the industry contended that under such a condition the temporary protection could give a strong footing to the industry by ensuring adequate demand, fuller utilisation of installed capacity and ultimately helping them to minimise the cost of production.

All these proposals of the Tariff Board were not acceptable to the government. The government found no justification for providing such a relief by way of bounties or custom duties. However, the government was compelled to alter the ad valorem tariff to a specific one. In such a choking moment, the industry realised the need for playing its own role in setting its house in order. Ultimately a cartel was formed in the year 1925, known as Cement Manufacturers Association which was entrusted with the responsibility of regulating prices. The formation of this Association, in fact, saved the industry from collapse due to low profitability caused by the adverse effects of foreign competition combined with unhealthy internal competition all of which would have driven out the industry callously. A total ban on imports would have amounted to defending an inefficient industry. If such a protection be once given, the
industry would have no incentive to meliorate its efficiency. It would have rather resulted in market sharing agreement based on installed capacity. Thus, the consumers both in interior and port markets would have suffered. Hence, the stand taken by the government could not be considered as irresponsible.

Then in the year 1927, another Association was formed known as Concrete Association of India. This was formed in order to (a) promote free technical aid and advice and, (b) to educate the public in the uses of cement so as to increase the total consumption in the country. In order to strengthen the marketing organisation and thereby to co-ordinate the distribution and sales of the companies, the Cement Marketing Company of India was established in the year 1930. A quota-system on the basis of installed capacity of each factory was resorted to. All these measures undertaken by the Association certainly had substantial and favourable impact upon the performance of the industry. The total sales gradually went up and there was not even a single case of price-reduction. The Cement Marketing Company of India really succeeded in eliminating internal competition, reducing transport charges, avoiding over-production and increasing the
demand for cement by a centralised advertising campaign. Because of the quota-system every unit, old or new, big or small, was assured of certain-market. The Cement Marketing Company of India followed a policy of progressive price-reduction, made possible by the economies in sales and distribution, which encouraged to a large extent, the consumption of domestic cement. These years witnessed the establishment of new factories and the capacity rose from 5.8 lakh tonnes in the year 1924 to 14.7 lakh tonnes in the year 1935. The production also increased from 2.7 lakh tonnes in the year 1924 to 8.6 lakh tonnes in the year 1935. As a result of the rapid rise in production the imports fell down from a level of 1,45,000 tonnes in 1915 to 32,000 tonnes in 1937-38. The persistent fall in the cement imports betokened a good augury of the industry.

However, numerous difficulties and problems cropped up in the existing system of distribution and pricing. One of the serious short-comings of the quota-system was that most factories had to work below their capacity and even the uneconomic units were kept alive. In fact, the chief drawback was that the organisation was not in a position to enforce the rationalisation of production, distribution and pricing. In
many cases, the Cement Marketing Company of India had to follow a distributional pattern which was very uneconomical. Hence, within 3 to 4 years of its operation the Cement Marketing Company of India started cracking down.

During this stalemate situation the great industrialist Sir. F.E. Dinshaw put in unswerving efforts to form a strong cartelized organisation. Ultimately in 1936, all the existing companies except the Sone Valley Portland Cement Company at Japla in Bihar, agreed to amalgamate to form the Associated Cement Companies Ltd. This was a milestone in the history of the Indian cement industry, after which the industry took a very promising turn on the road to prosperity. This merger instilled self-confidence and thereby gave impetus to the industry. The merger took place not to grab a monopolistic position, but to manufacture and deliver cement as cheaply as possible. The year that followed vouchsafed a tight restraint on the Associated Cement Company Ltd. As a result of rationalisation and modernisation of the existing units, establishment of new efficient units and withering way of the inefficient ones, the industry operated very efficiently. Consequently cost and prices were perceptibly pulled down.
The Dalmia-Jain cement enterprises in this very context contemplated upon establishing five cement plants with an installed capacity of 5.75 lakh tonnes. The Associated Cement Company Ltd. also expanded its operation by setting up four more cement plants. In addition to these enterprises some new entrepreneurs also entered into the field of cement manufacturing during and after the Second World War. The Assam-Bengal Cement Company now in Pakistan, Kalyanapur Cement Works in Banjari, Mysore Iron and Steel Works in Bhadravati and Andhra Cement Ltd. were established during the period from 1937 to 1939. The entrepreneurs had lofty aspirations regarding the potential demand for cement which induced them to go in for the expansion of their factories. The rapid growth soon led to a state of temporary saturation among the domestic producers. The prices of Dalmia cement were considerably lower than those of the Associated Cement Company Ltd. Expenditure on publicity began to rise and the price-war was so fierce that the price fluctuated almost every day. They went on reducing the price to suicidal extent. This neck to neck competition continued for a period of three years. The dwindling profits and mounting cost of advertisement made them realise that the rate-war had hampered the healthy
declared cement as an essential war-commodity. An order was issued in August 1942 under the Defence of Delhi Rules by which the government had controlling hand in the production of cement too. The regional cement advisors were in charge of equitable distribution of cement throughout the country. In view of the war-need, the civilian demand for cement was suppressed. When the War ended in 1945 the government prepared a scheme of cement expansion aiming at the expansion of the capacity in a rational manner. With that objective in mind, the government came out to provide assistance in procuring raw-materials, technical personnel and importing foreign machinery etc.\(^2\)

The historic partition of the country had an adverse effect on the cement industry. Prior to independence the country was endowed with 24 factories with an annual capacity of nearly 2.7 million tonnes. India retained only 19 factories with an annual productive capacity of 2.1 million tonnes as a consequence of partition. On the supply-wing Pakistan faced the problem of disposal whereas India suffered from acute shortage.

Since a number of plants went to Pakistan and a number of consuming centres remained in India, the industry was not
able to meet half of the national requirement. The productivity of the different groups in the field of cement production was adversely affected by the partition. The Dalmia-Jain group suffered heavier loss of capacity than what the Associated Cement Industry Ltd. did. The yawning gap between the total requirement and the total availability of cement forced the government to revive the cement expansion scheme in 1948. Under this scheme two new factories came to be established and three others were expanded. So, by the beginning of 1950 the installed capacity increased to 28.2 lakh tonnes out of which the Associated Cement Company Ltd. had 18.5 lakh tonnes and the Dalmia-Jain group 4.4 lakh tonnes with 21 producing units together. Hence, during the period from 1947 to 1951 six factories were established at different places viz. Bagalkot, Jaipur, Orissa, Digvijay, Travancore and Talaiyuthu. In 1950–51 the industry was endowed with 22 operating units with 3.2 million metric tonnes of output.  

Progress during the plan-period

The cement industry acquired great importance with the launching of Five Year Plans of the country. The Planning Commission held a series of discussions on the industry and
the targets of capacity were fixed to cater to the requirements of the country.

The First Five Year Plan envisaged a capacity of 5.4 million tonnes. This was heroically achieved by the industry even on the face of a sea of troubles. The actual production in 1956 was 5.02 million tonnes compared to 3.57 million tonnes capacity and 1.58 million tonnes production in the year just after independence. Among other factories, a factory at Churk was established by the Uttar Pradesh State Government in 1954. The factories at Rajgangpur and Bagalkot commenced their production in the year 1951. The total consumption increased admirably as a result of new developmental schemes like irrigation and power projects, roads, dams, bridges etc. All these resulted in providing a fillip to enhance the capacity and production as well. In the First Five Year Plan the industry achieved 90 per cent of the target.

During the Second Five Year Plan the government felt that the large-scale programmes for industrial development etc. would boost up the demand for cement. The government encouraged by the unprecedented success of the First Plan, therefore, raised the capacity and fixed it at 15 million tonnes. Licences were issued in view of the scheduled target,
with a certain amount of liberality. Production increased from 5.02 million tonnes in the year 1956 to 7.8 million tonnes in the year 1960. During this period cement was imported to some extent to bridge the gap between demand and supply. The increasing demand and the growing shortage of cement supply made the government inspect the system of distribution. From the 1st July, 1956 the price and distribution of cement came under the provision of Cement Control Order. The State Trading Corporation became the sole agent for the distribution of cement from the 1st July 1956 and a notification was issued to all the producers to sell their entire output to the Corporation.

A higher selling price was fixed for indigenous cement to meet the loss incurred on account of imports. In the year 1958, the work on a number of projects had to be slowed down due to foreign exchange difficulties for which the demand was suppressed. The government off-take was reduced by about 35 percent. Though the initial plan was to increase the capacity from 5 to 15 million tonnes, the actual target was brought down to 10 million tonnes only. This unexpected fall in the consumption especially at the time when planning for expansion was under way gave a rude shock to the cement industry.
Despite all these difficulties, the industry marked a heartening record of growth. Seven new units were established as a result of which the installed capacity reached 9.4 million tonnes. The total number of plants increased to 34 of which 14 belonged to the Associated Cement Company Ltd. and 2 to State Governments. During this period certain other types of cement could be produced for the first time. The plant of the Associated Cement Company Ltd. at Porbander in Gujarat switched over completely to the production of white cement.

In 1957, the government increased the excise duty from Rs.5 to Rs.20 per tonne. It was further raised to Rs.24/- in 1958. This steep increase in the duty affected the demand for cement. The industry spasmodically received a rude shock.

But the fall in demand was momentary and the situation improved with the general tempo of development and suitable adjustment in the fiscal policy. Subsequent years, however, witnessed rapid rise in the consumption as a result of new construction activities.

During the Third Five Year Plan the development schemes which were slowed down, were to come up faster. The plan envisaged massive construction programmes in different sectors
of the economy. This necessitated heavy expansion of the industry. In order to meet the increasing requirement, the targets of annual capacity and production under the third plan were subsequently stepped up to 15.0 and 13.0 million tonnes respectively.

During the period from 1964 to 1966, the producers of cement were feeling that the existing strict system of distribution and pricing control had hampered the profitability of the industry. Many representations were made stating that they had been unable to pay the dividends at a rate paid by other industries and that fresh capital was not forthcoming for the expansion of the industry. Thus, with a view to enabling the industry to undertake expansion, the government decided to decontrol the industry with effect from 1.1.1966. The decontrol was to be in effect only for one year on an experimental basis. But the government decided to keep this system in force for one year more. Under the changed set-up, the government relieved itself of the responsibility. Following the decision of the government, the industry accepted a form of self-regulating control through an organisation called the Cement Allocation and Co-ordinating Organisation (C.A.C.O.) with its central office in Bombay and
the regional offices in Delhi, Calcutta and Madras. This organisation had control over all factories belonging to private as well as public sectors. The Cement Allocation and Co-ordinating Organisation had to be careful of satisfying the requirements of both central and state governments. It was also decided to pay special attention to the needs of the backward states. With a view to providing a developmental element in the price and to helping meet some part of the cost of the future expansion programmes of the industry the pre-decontrol f.o.r. price was raised by Rs.16.00 per tonne with a developmental-rebate of Rs.6.00 per tonne. The profit accruing from this system was ploughed back to augment production.

Curiously, the new pattern of voluntary control of Cement Allocation and Co-ordinating Organisation did not succeed. The Cement Allocation and Co-ordinating Organisation was empowered neither to exercise efficient control over the various units nor to ensure equitable distribution of the product. The rise in capacity and production was less than 2 percent and 5 per cent respectively during the period from 1966 to 1967. The Government, therefore, reintroduced the control over the price and the distribution of cement with effect from 1-1-1968.
The control was reimposed by the issue of government control order 1967 under the Industries (Development and Regulation) Act, 1951. A senior officer designated as the Cement Controller was to exercise the overall supervision on the distributional system. Subsequent to the reimposition of control there was further demand from the industries circle for an onward revision in the ex-works price of cement as a result of the increase in costs due to various circumstances including the action of the government.

During the Fourth Five Year Plan i.e. from 1969 to 1974, the provisional target was projected at 18 million tonnes against which the actual production was 14.6 million tonnes for the year 1973-74. It was calculated to achieve the entire capacity by utilising the indigenous machinery. It was expected that public sector would contribute sizably to the expansion of the industry apart from the projects proposed by the state governments and cement corporation. By the end of the plan the public sector was expected to enhance the capacity to the extent of 4 million tonnes. Actual annual growth rate in capacity was 5.7% as against the growth rate of 3.7% in production.
The government referred the complaints received from the industrial lobbies for an upward revision to the Fourth Tariff Commission. As a result of the recommendations made by the commission in its interim report on 24-3-1973, the government allowed an interim price increase of Rs.10.00 per tonne. The number of plants had risen from 34 to 52 including two grinding plants. The number of states having cement factories increased from 11 in the year 1961 to 14 in the year 1973. The licenced capacity almost doubled from 9.5 million tonnes in the year 1961 to 19.7 million tonnes as on 1-9-1973. The production also increased from 8.2 million tonnes in the year 1961 to 15.7 million tonnes in the year 1972. The public sector entered into the field on a large measure. It established 9 factories as against 2 in the year 1961. The Cement Corporation of India and the Uttar Pradesh government were owning two units each and other 5 units were owned by the state governments of Assam, Jammu and Kashmir, Karnataka, Orissa and Tamil Nadu. The Associated Cement Company Ltd. continued to be the largest group in the industry owning 17 units as against 14 in the year 1961. South Zone accounted for 20 units followed by West, East and North with 13, 10 and 9 units, respectively. The industry then faced an accentuated problem of regional imbalance.
The government was convinced of the detailed enquiry into the various problems of the industry because of the several representations. The comprehensive review was to ensure the development of the industry to meet the requirements including exports at a minimum cost to the economy. The government requested the tariff commission to take into account the considerations such as cost, price, location, capacity utilization, freight pooling and distribution etc. The commission submitted its report in September 1974. Some of the recommendations of the commission were accepted by the government.

In the year 1976, fifty four units operating in the country had a total capacity of 21.32 million tonnes against which the actual production was about 18.61 million tonnes. In the remaining three years from 1976 to 1979 of the fifth plan 1.82 million tonnes of additional capacity were to be created, the total capacity being 23.31 million tonnes. In the year 1977 the interest of the investor in the country was revived following the announcement of a new policy by the government assuring a post-tax return of 12% on net worth. In the year 1978-79 the capacity increased from 22.5 million tonnes to 24.5 million tonnes which was contemplated erstwhile.
After several complaints, a high level committee, headed by Lav Raj Kumar was appointed in the year 1978. The Lav Raj Kumar committee recommended a three-tier system of retention prices. Accordingly in May 1979, the government accepted three prices for low, medium and high-cost plants respectively. This system was intended to provide the working of the industry with some kind of incentive. Unfortunately it was not as satisfactory as the individual retention price, but it was an improvement on a single retention price which was in vogue prior to 1979. During the year 1979 the capacity increased by 6.24% while production declined by 6.59% consequently capacity and production became 234.07 lakh tonnes and 182.38 lakh tonnes, respectively. The capacity utilization in the year 1979 decreased to 77.91% as against 88.62% in the preceding year.

During the Sixth Five Year Plan the cement industry had to face different problems altogether. It was only five years ago that the shortages of cement rocked the economy. The mention of cement conjured up images of scarcities, adulteration and corruption. It was inconceivable then that only five years later we would be talking of comfortable supply situation and worrying about as to how to boost the demand for cement to mop up the supplies.
The performance of the cement industry during the Sixth Five Year Plan period had been truly spectacular. The Sixth Five Year Plan had set an ambitious target of 20 million tonnes of additional capacity in cement. This target was achieved bringing the total installed capacity to 42.5 million tonnes at the end of the plan. However, not all was well with the cement industry. The upward trend in the capacity utilisation reversed during 1978-79 and in 1979-80. Capacity utilisation during the sixth plan was around 75%. Another disturbing factor was the sharp increase in the capital costs of cement plants over a relatively short period of five years.

The Seventh Plan had set the target of capacity in the terminal year 1989-90 at 62 million tonnes. The addition to capacity during the seventh plan was around 20 million tonnes. The target was effectively reached utilising the expanded capacities and removing the infrastructural constraints. The actual achievement at the end of the plan period turned to be 60.5 million tonnes. During the first five plans, 19.3 million tonnes capacity was added and during the sixth and seventh plan 18.6 million tonnes and 19.3 million tonnes capacity was added respectively.
REFERENCES

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