

CEMENT INDUSTRY IN INDIA

by

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FORUM OF FREE ENTERPRISE

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"We are neither omniscient nor infallible, nor **are we** so rigidly wedded to any course of action as not to alter it **if** it becomes apparent **to us that** we are **mistaken**.

"It is for this reason that we **continuously** welcome the people of India and our friends abroad **telling** us when **and** where they **think** we are going wrong."

T. T. Krishnamachari

ONE of the aims which the Forum of Free Enterprise defined in its recently published Manifesto was to educate public opinion on the role which free enterprise has played in the past, and is capable of playing in the future development of the economic and industrial structure of the country. To achieve this aim it is clearly necessary to place before the public without bias or exaggeration the achievement of free enterprise in some of the basic industries on which the country is dependent. The purpose of this article is to give an account of the stewardship of free enterprise within the cement industry leaving it to the reader to judge whether this stewardship has measured up to the high standards of social propriety and industrial efficiency which the sponsors of the Manifesto claim for the system, and on which they base their submission that it should be increasingly encouraged and relied upon.

The history of cement manufacture in India began in 1904 with the establishment of a small factory at Madras. This enterprise failed and the shareholders lost their money. Ten years later, at the start of World War I, the industry was revived,

and three factories were established—by **Tatas** at Porbandar in Saurashtra, by the **Khatau** family at Katni in Madhya Pradesh, and by **Killick Nixon & Company** at **Lakheri** in Rajasthan. The **impetus** provided by war conditions helped these new ventures to survive, and by 1918, 85,000 tons of cement each year was being manufactured. Between 1919 and 1924 seven more factories came into existence. Their lot was an unhappy one. Cement was still looked upon with suspicion as a building material, and the prejudice in favour of brick and mortar died hard. The producing units found themselves faced with serious competition to supply a small and reluctant market. Three of the new factories were forced to shut down, and the shareholders lost 2-1½ crores of rupees.

In the ensuing years the producers took **certain** co-operative steps to save the industry which included the formation of the Indian Cement Manufacturers Association in 1925, the establishment of the Concrete Association of India in 1927, and in 1930 the Cement Marketing Co. of India came into being to co-ordinate the distribution of sale of the production of the member companies. These steps had the effect of stabilising the industry, and of furnishing the base from which its future development has progressed. It is no idle boast, but an undisputed statement of fact, that the two major factors which brought the industry through this time of trial were the resolution of the promoters to see that they did not fail, and the faith and the confidence of the shareholders in the future of their companies. This in spite of the fact that for many years not only did they see no return on their investment, but were frequently faced with the possibility of its total loss.

In 1936 the four major manufacturers of cement, namely **Killick Nixon & Company**, **F. E. Dinshaw & Co.**, **Tatas**, and **Khataus** merged into a common **organisation** named the Associated Cement Companies

Ltd. At that time the total annual production of cement in the country was 9.84 lakh tons of which the Associated Cement Companies provided 9.10 lakh tons. Since then many other producers have entered the cement field and today there are sixteen manufacturers who together produce very nearly 5 million tons, and of this quantity the production of the Associated Cement Cos. Ltd. is 2.7 million tons.

The creditable rate of expansion which the Industry has achieved is revealed by a study of the following table which gives the annual production of the industry over the past ten years. The rate of development during the past seven years when production was very nearly trebled, should particularly be noted:—

Year	Production (in tons)
1946	15,42,000
1947	14,47,200
1948	15,52,800
1949	21,02,400
1950	26,12,400
1951	31,95,600
1952	35,37,600
1953	37,80,000
1954	43,98,000
1955	44,16,000

The Manifesto of the Forum of Free Enterprise **claims** that the system operates as a well-balanced wheel regulated by, and in its turn regulating, the interests of the consumers, the workers, and the shareholders. These three interests jointly **form** what may be termed the "Industrial Society", and clearly any basic industry must be able to show that its operation meets the social and economic requirements of this Society.

In addition, the basic industry must also be able to show that its activities have been of benefit to the public and the country in general. This article will now seek by factual analysis to see whether the duties so imposed have been met by the Cement Industry. To do this we shall examine the record of the Associated Cement Cos. Ltd. which manufacture approximately half of India's cement production.

In the matter of quality Indian cement is required to pass the high standards laid down by the Indian Standards Institution. It is tested against these standards both in the laboratories of the producing factories as also at the Government Test House, Alipore. Indian cement passes these standards with a substantial margin of safety and is comparable in quality with the best cement produced elsewhere in the world. So far as availability is concerned, it is true that the industry is not able today to supply the full requirements of the country. This, however, is not due to any lack of endeavour or initiative on the part of the industry, as is evidenced by the fact that cement production has been trebled between 1948 and 1955, and also that the industry achieved and exceeded the targets laid down for it in the First Five-Year Plan.

The shortfall is due to the tremendously increased requirements of cement needed to meet the targets of the Second Plan. When, over a year ago, the industry foresaw the extent of the shortfall which was likely to develop, not only did it immediately inform Government of its fears, but offered to finance the import of the additional cement required, and to distribute it to consumers without making any profit.

Distribution is done through an organisation which reaches down to the small consumer and in accordance over-all allotments made by Government. It is categorically stated that even though this vital building material has been in short supply for some

time past, the manufacturing group has never exploited this position to gain one single additional illicit **anna**. If blackmarketing has taken place, it has been beyond that point in the distribution **organisation** over which effective control can be exercised.

Next let us turn to the selling price of cement and its cost to the consumer. For the past 14 years not one ounce of cement has been sold except at a price approved of by the Government of India. The existing selling price is based on a Tariff Commission Enquiry held in 1953. The Associated Cement Cos. have twice taken the initiative in voluntarily reducing the selling price, on each occasion by Rs. 2-8-0 per ton. This action was consistent with the policy which the group has always followed of **manufacturing and distributing cement as cheaply as possible**. The reader will be interested to note the rise in cost of cement as compared with other consumer commodities in the following Index of Wholesale prices:—

Index Number of
Wholesale Prices
(Base 1939=100) as
published by the Eco-
nomic Adviser to the
Govt. of India.

Jute Manufacturers	388.0
Cotton Manufacturers	419.0
Iron & Steel Manufacturers	330.0
Machinery	407.0
Vehicles	495.0
Coal	362.0
Cement	279.0

In making this comparison it should be borne in mind that *in* the production of the eventual article the Industry has no control over freight rates or the cost of coal, jute packing and numerous items of stores,

which jointly account for the major portion of the **cost** of each ton of cement sold. The index of wholesale prices (base year 1939) shows that the increase in the cost of jute goods has been 288 per cent. and in that of coal **262** per cent., whereas the increase in the price of cement has been only 179 per cent. This emphasises **how** carefully the increase of the actual manufacturing cost of cement itself has been pegged **down** by the manufacturers. This achievement is one which compares favourably with the performance of any other major industry in India or indeed even with those of highly **industrialised** countries with fully developed economies.

The Associated Cement Companies employ approximately 22,000 persons ranging from top-level administrative and technical staff of the **maz-**door who hews limestone in a quarry. The aggregate monthly emoluments in oash and kind, comprising basic wages, dearness allowance and grain concessions of the lowest paid unskilled worker, have increased by 39 per cent. since 1948-49. The long-term security of the workers has been catered for by the provision of two retiring benefits—gratuity and provident fund. At the factories, the well-being of workers and their families is taken care of by the provision of schools, fully equipped and staffed **hos-**pitals, and dispensaries, creches, canteens, cinemas, works clubs, grainshops, and playing grounds. In addition, co-operative societies are encouraged, and a works, welfare and benefit fund provides for the special need for finance which sometimes face the worker.

In the matter of housing the company provides for **25** per cent. of its employees free of cost. The most striking proof which can be given of the manner in which the lot of the employees has improved is that in 1944-45 the company employed a total of 15,700 people. The expenditure which it **incurred** on **wages**, dearness allowance, gratuity, welfare **expen-**

ses, etc. was then Rs. 92.5 lakhs. Ten years later in **1954-55** the number employed was 22,000, and the amount paid out under these heads was Rs. 330.7 lakhs.

Let us next consider the shareholders. Who owns the Associated Cement Companies? It belongs to a very large number of members of the public, and not to a few wealthy individuals. The shareholdings of the company are distributed **as** follows:

Holding No. of Rs. 100 Units	No. of shareholders in each group	Percentage
1— 100	28,747	94.70
101— 200	980	3.23
201— 300	273	0.90
301— 400	107	0.35
401— 500	65	0.21
501— 600	41	0.14
601— 700	19	0.06
701— 800	20	0.07
801— 900	16	0.05
901—1000	3	0.01
1,001—5000	70	0.23
5,001 and above	15	0.05
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	30,356	100.00
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Of the **85** shareholders who own 1,000 shares or more 43 are private individuals, and the remainder are investment trusts, insurance companies (most of them now **nationalised**), and other public bodies which in their **turn** are owned by a large number of shareholders. The 43 private shareholders together own 8 per cent. of the issued stock. Therefore, 92 per

cent. of the Associated Cement Companies' capital is held, as it properly should be, by a wide cross section of Indian society consisting of individuals and families, who have invested their **savings** in this company because of their faith in its future. This is surely no case of concentration of economic power in **the hands** of a few.

The following table gives the dividends which have been paid for the past ten years:—

Pear	Percentage of dividend to paid up capital	Percentage of dividend to invested capital
1945-46	7.0%	5.69%
1946-47	5.0%	3.56%
1947-48	6.0%	4.50%
1948-49	7.0%	5.14%
1949-50	8.5%	6.25%
1950-51	9.5%	6.73%
1951-52	9.5%	6.45%
1952-53	9.5%	6.26%
1953-54	8.5%	5.81%
1954-55	10.0%	6.13%
Average	8.05%	5.65%

It will be noticed **that** the average percentage of dividend to paid-up capital is 8.05; but the percentage of dividend to invested capital is only **5.65**. It should be noted that invested **capital** means paid-up capital, premium on shares paid in cash, and profits ploughed back into the business. The fair-minded reader will readily acknowledge that the return which has been given to the shareholders has indeed been modest **and** restrained. This is especially **so**

when considered against the background of the earlier years during which the industry faced much trial and tribulation, and when the shareholders not only saw a meagre return on their investment, but in some cases lost it altogether.

It would be useful to show a breakdown of the earnings of the company during the year **1954-55**, as this underlines the balance which has been maintained between the three sections of "The Industrial Society."

Process Charges	60.97%
Labour	17.52%
Taxes	11.51%
Reserve (plough back of profits)	4.11%
Dividend	5.89%
	<hr/>
	100%
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It would not be proper to omit from the purview of this article the matter of managing agency commission, as this is a point which the opponents of free enterprise are constantly harping on, and about which a good deal of misunderstanding persists. As it happens the gross amount of commission earned by the managing agents of the Associated Cement Companies is among the highest in India. It should therefore be examined without any attempt to avoid the issue. The commission earned during the last **financial** year of this company was Rs. **51.56** lakhs. The expenses incurred by the agents were Rs. **4.71** lakhs, leaving a balance of Rs. **46.85** lakhs. Of this figure, taxes including double corporation tax amounted to Rs. **29.67** lakhs, leaving a figure of Rs. **17.18** lakhs which works out at approximately nine annas per ton of cement sold. This, in its turn, is subject to super tax in the hands of the final recipients. Thus, the net amount

of agents' commission left with the real entrepreneurs is indeed insignificant as compared with the original figure of Rs. 51.56 lakhs which looks so formidable and which has excited so much comment. It is correct to say that as much as 70 per cent. of the agents' commission if not more is in fact earned by Government and used for public purposes. The Government, and through it the public at large, is by far the major partner in this managing agency firm.

Finally we face the issue as to whether the Associated Cement Companies have fulfilled their obligations to the general public and to the country. In the matter of production the company has increased its output from 18,62,000 tons in 1950|51 to nearly 30,00,000 tons today. As has been said earlier, it has consistently followed the policy of producing and selling this basic building material of the best quality at as cheap a rate as possible, consistent with the need not only to provide for its workers and its shareholders but also to finance the ever increasing production which the country requires. Over the next five years the company will expand its capacity to a total of 5.2 million tons in order to play its part in reaching the national target of 12 million tons of cement by 1961. This expansion will involve an expenditure of more than Rs. 30 crores. The reader must realise that this money will be raised and spent on the national industrial development of the cement industry without Government assistance and without any burden on the tax-payer, consumer or worker.

During the war years when it became increasingly difficult, and later impossible, to import cement-manufacturing machinery from abroad, the company started the manufacture of machinery in its own workshops. This process has continued at a constantly increasing rate since then; and today it is the proud boast of the company that it manufactures in its own workshops 70 per cent. of the cement-making machinery required in a factory. Not only has this

saved India very large sums of foreign exchange, but even more important it has provided the country with the nucleus of a specialised heavy engineering industry.

It is now the intention of the company, making use of this nucleus to join hands with two of the best known machinery manufacturers in the United Kingdom in the establishment of an up-to-date heavy engineering plant which will, within a few years, make India entirely self-sufficient in the whole range of cement-making machinery, and will also provide a substantial amount of her requirements for mining machinery and water tube boilers for power plants.

All this has been achieved through the initiative of free enterprise and the voluntary and willing co-operation alike of the shareholder, the consumer, and all categories of workers, technical, administrative, skilled, semi-skilled or unskilled. The progress could obviously not have been achieved without the constant encouragement and support of a national Government. This support has been freely asked for and graciously given. The industry acknowledges this debt to Government with deep gratitude. That indeed is how free enterprise works in a free democratic country.

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