

**INDUSTRIAL PROFITS
IN INDIA
(1936-1944)**

(AN INDUCTIVE STUDY)

**By
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In publishing this enquiry on Industrial Profits in India during the years 1936-1944 undertaken by the Research Department of the Federation of Indian Chambers of Commerce and Industry, the Committee would like to make it clear that the views expressed therein are not necessarily shared by them and that the responsibility for the same is entirely of the Author, Mr. M. C. Munshi, the Officer-in-Charge of the Research Department. The Committee however trust that this publication will go a long way in filling up the lacuna which exists in the field of statistics relating to profits of industry.

PREFACE

The study described in the following pages was undertaken more than two years ago, primarily because, the data available on the subject were found to be inadequate. As indicated in the opening Chapters, the enquiry had not only to be spread over several stages but its final form was decided upon after making some experiments ; and the results were completed by the middle of the last year. But, as in the case of the earlier stages, these findings had to be put aside, for the time being, in order to meet the exigencies of other work.

It is perhaps needless to add that an enquiry of this nature could not be completed (shall we say in our country, still?) without a good deal of help and encouragement from various bodies and individuals. The writer must, therefore, seize this opportunity of acknowledging, however inadequately, (but gratefully) the support and help that he has received from 'The Bombay Shareholders' Association, The Investors' Corporation of India Ltd., The Associated Cement Cos. Ltd., Bombay, The Calcutta Stock Exchange, Calcutta and Messrs. Kothari & Sons, Madras. I must mention in particular the help received from the late Mr. D. P. Khaitan, Mr. J. N. Patuck, Mr. Matadin Khaitan, Mr. A. K. Sur and Mr. C. M. Kothari.

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M. C. MUNSHI.

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CHAPTER I

MEASUREMENT OF TRENDS

Introduction

The importance of a reliable index of business profits as an indicator of business activity has long been recognised; for it is not merely the company promoter or even the prospective investor—or for that matter the speculator on the stock exchange—who is primarily interested in the trend of profits. Even a casual glance at the 'Statistical Summaries' appended to the numbers of financial weeklies will be enough to convince one of the avidity with which financial circles generally look at the trends of profits of business corporations. Of late, prominent stock brokers almost vie with one another in furnishing their clientele with their own statistical summaries and their (very guarded and non-committal) interpretations of financial statements about the prospective earning capacities of various business houses. On slightly different lines, banks and insurance companies, too, carry out and maintain their own analyses of the working of leading joint-stock companies. Again, in a period like the present, business profits naturally loom large in public discussions of economic policies. If we take a few random examples, we may recall the enthusiasm with which a 'Capital Levy' was proposed and discussed in Great Britain after the war of 1914-18 or the controversy that arose in our own country when the Excess Profits Tax was abolished in the Budget for 1946-47. In other words, it is not difficult to see how in periods like those following a boom or a crisis like a war, business profits become the finger point in a society. Their attraction, again similarly, is bound to be heightened when, for a number of reasons, economic controls during the war have—or even war economy itself has—be-

come a byword for mismanagement, and black-markets have been suffered to develop. But our interest here is not that of the prospective investor or even a tax administrator. We have referred to these aspects mainly because out of their empiricisms or methods it is possible to develop an analysis that would easily enable us to measure more systematically the trends of industrial profits. To-day, in all advanced countries, great efforts are made, both under official and unofficial auspices, to construct a number of indicators of business activity which are published generally as a part of their surveys of business conditions. We shall presently refer to leading profits indices such as the Economist's Profits Index or the Statistics of Income of the United States Treasury. Here we would only emphasise the need for an analysis of profits trends as an aid to the framing of business policy.

A third aspect of profits trends has almost been hinted at in the foregoing paragraph when we referred to the interest of the tax-administrator in the analysis of profits. But it would be necessary to add that the method of his inquiry must needs be more thoroughgoing—and shall we say more scientific?—than those enumerated above. This will be easily realized when we recall the fact that in this country (as elsewhere) from an insignificant position of 3% of the total tax revenue before the war (1938-39), business taxes accounted for nearly 33% of this total in 1945-46 and 27.5% in 1947-48.* Incidentally, one may also refer to the current discussion, both in theory and in policy-making, about the manner of taxing or exempting undistributed profits. Thus for example, profit retentions—as we shall see—in some industries, both here and abroad, have been significantly large (in some cases with the approval of governments) and some of these retentions can easily be taken as amounts earmarked against heavily inflated replacement costs.

Fourthly, profits trends, besides being indicators of business activity, may be used for the framing of a price-policy or a business policy which aims at ironing out the movements of the trade cycle.

*See "Taxation of Business after the War" by the present writer. Ch. I and tables at the end for comparison with other countries.

It will thus be seen why an increasing number of countries to-day publish their profits indices; but it is noteworthy that in the publication of such indicators of business activity, official as well non-official authorities supplement each others' efforts. In our country since 1933, when the Government of India started their Monthly Survey of Business Conditions, various indices of production and prices have been added from time to time. From 1936-37 the Economic Advisor's Office have been publishing a profits-index to which we shall make a more detailed reference presently. It was also expected that unofficial agencies, like the leading financial journals, would be able to fill up the lacunae in the business activity indicators in India.†

The Capital (Calcutta) since March 1938 has started publishing its index of business activity comprising of (i) industrial production, (ii) mineral production, (iii) index of internal trade, (iv) financial statistics, (v) indices of the value of exports and imports and (vi) indices of shipping activities with 1935 as the base. But these expectations of unofficial agencies compiling such indices, for obvious reasons, remained unfulfilled, though several detailed attempts have been made to study the trend of profits by an analysis of dividends declared by Joint Stock Companies over a series of years, particularly since the out-break of the war.*

Trends of Industrial Profits in India

It is not necessary, for our purpose, to examine at length the results of these enquiries or even to dilate on the trends of these profits during the different periods, as we propose to confine ourselves very largely to the methodological aspect of the problem here. In order, however, to be able to see the results of these efforts, we take an exceedingly interesting period—the war period—and

†Mention must be made of such a plea by Mr. J. V. Joshi (then Director General of Commercial Intelligence & Statistics) in the Golden Jubilee Souvenir of the Indian Textile Journal, 1941. pp. 40-41.

*For example the two articles contributed by Mr. P. C. Jain in the annual numbers of the Capital, 1942 and 1944. An elaborate industry-wise study of dividend trends has lately been conducted by Dr. M. H. Gopal and published in the Journal of the Mysore University in 1943.

summarise the results in the form of the following two tables, so that the indices in the two can be conveniently compared:—

Table I

	Year	No. of Cos.	Profits (Rs. 000)	Chain Index (Base 1928=100)
Cotton Mill Industry ...	1938	57	2,48,53	208.3
	1939	61	1,98,64	154.6
	1940	63	2,86,95	220.1
	1941	60	6,81,35	489.1
	1942	75	11,09,78	760.7
	1943	65	12,93,69	994.0
Jute Mill Industry ...	1938	59	—84,14	—9.8
	1939	60	1,15,95	13.6
	1940	60	4,16,48	48.8
	1941	61	3,98,68	46.8
	1942	61	4,22,84	49.2
	1943	61	3,36,11	39.1
Tea Industry ...	1938	127	78,79	73.9
	1939	127	1,02,56	96.2
	1940	127	1,00,86	95.4
	1941	127	1,49,41	141.3
	1942	128	2,33,06	219.5
	1943	62	74,73	142.3
Coal Industry ...	1938	54	1,22,77	142.4
	1939	55	1,19,00	139.1
	1940	55	1,19,93	140.2
	1941	55	98,29	114.9
	1942	53	94,00	110.3
	1943	53	1,13,93	133.7
Iron & Steel Industry...	1938	3	4,67,03	316.7
	1939	4	4,28,04	289.3
	1940	4	4,44,90	300.7
	1941	4	5,73,10	387.3
	1942	3	5,91,68	403.3
	1943	4	4,70,17	318.5

		Year	No. of Co's	Profits (Rs. 000)	Chain Index (Base 1928=100)
Sugar Industry	...	1938	25	70,76	157.7
		1939	26	81,01	179.4
		1940	27	84,37	180.0
		1941	28	1,19,78	247.3
		1942	28	1,06,46	219.8
		1943	28	1,52,73	315.2
Paper Industry	...	1938	4	34,45	172.1
		1939	4	30,39	151.8
		1940	8	71,72	358.7
		1941	8	86,41	432.2
		1942	8	97,64	488.4
		1943	8	119,28	596.6*

*Compiled from the figures published in the Review of the Trade of India, 1943-44.

Table II

		Average net profits per concern (Rs. 000 omitted)	Index number of average net profits (Base 1939 = 100)	Proportion of net profits utilised for dividends	Index No. of Reserve Funds (1935 = 100)	
Engineering Industry	...	1939	42,81	100	70.2	355
		1940	57,28	115	38.0	358
		1941	76,81	180	32.5	490
		1942	15,47	136	29.0	510
		1943	96,37	225	32.1	488
Banks	...	1939				155
		1940	12,39		76.5	170
		1941	24,20		77.0	166
		1942	23,39		75.2	174
		1943				174
Sugar Industry	...	1939	4,30	100	29.0	126
		1940	6,16	143	23.0	156
		1941	5,23	122	23.7	163
		1942	6,88	160	34.0	177
		1943	9,39	218	32.0	174
Tea Industry	...	1939	73	100	85.5	
		1940	86	118	63.0	
		1941	156	214	48.5	
		1942	184	252	55.0	
		1943	286	392	46.3	
Cotton Mill Industry	...	1939	6,08	100	37.0	190
		1940	4,43	73	52.7	199
		1941	12,49	205	30.4	177
		1942	19,04	313	16.1	227

		1943	39,21	646	11.9	241
Coal Industry	...	1939	1,85	100	44.6	132
		1940	1,67	88	37.9	110
		1941	1,98	107	47.1	123
		1942	1,77	95	33.0	126
		1943	2,30	124	21.4	111
Jute Industry	...	1939	1,08	100	113.0	137
		1940	6,43	590	32.4	160
		1941	6,67	617	31.3	207
		1942	9,68	896	22.3	210
		1943	10,02	926	17.6	213
Miscellaneous	...	1939	4,72	100	70.3	91
		1940	4,93	104	39.0	99
		1941	15,42	326	26.5	113
		1942	18,60	394	15.4	95
		1943	18,91	401	23.3	125
All kinds	...	1939	4,22	100	62.9	151
		1940	5,36	127	43.1	160
		1941	11,92	282	33.6	180
		1942	10,92	259	27.0	185
		1943	13,80	327	24.6	150

Based on a sample survey of 445 Joint Stock undertakings comprising of 20% Jute, 11% of cotton, 19% of tea, 3% of sugar, 15% of Coal, 3% of Engineering, 1.5% of Banking and 27.5% of miscellaneous concerns. The Jute firms taken here represent 84%, Cotton 44%, Coal 70%, and Banking 60% of the Paid-up Capital in the Business Groups—M. H. Gopal, "Eastern Economist", 12-5-1944.

For the Reserve Funds the base year selected is 1935 as it may be taken as a fairly normal pre-war year.

Some Well-known Profits Indices

Profits, however, are one of the hardest kinds of income to measure, as they are the most variable and indeterminate of corporate incomes. Any business concern could easily state accurately the sums that it disburses during a year as wages, interest or rent, or even the amount of dividends that it distributes among its share-holders; but the profits of the enterprise itself are undefined sums arrived at out of past transactions, and they involve appraisal of the net changes in the position and prospects of the business as a whole. By their very nature, therefore, profits are uncertain and irregular. But apart from this difficulty, arising out of the theoretical analysis of profits, we also encounter other difficulties in respect of their measurement. It has, for instance, been found that there is no unanimity as regards the connotation and contents of profits. The typical difficulties encountered in the examination of the profits, even of Joint Stock Companies, are illustrated in the Economist's profits index which is formed out of a sample which does not remain uniform from year to year. In arriving at net profits we must also have a uniform measurement of the taxes paid by Joint Stock Companies; but the method adopted by different companies for providing for taxes is also not uniform, some companies recording the full amount of the taxes payable, others showing a sum too low to represent their assessment. In some cases, profits figures disclosed to the share-holders are allocated from or to unspecified internal reserves; while some companies pay tax-free dividends. Finally, it is well known that Directors may attempt to conceal trade secrets by keeping back profits in the form of secret reserves because many a business man, for obvious reasons, would like to refrain from revealing all his profits.

In spite of all these difficulties, however, we have some very interesting compilations of industrial earnings both in the United Kingdom and in the United States of America. The Economist's profits index has been described as "a unique contribution to economic statistics, though the material, owing to lack of uniform accounting practice, is rarely very simple to handle and sometimes positively intractable." Even this profits index suffers from a number of limitations, such as lumping

together of home and foreign concerns, deduction of debenture interest and the disproportionate size of the miscellaneous group. For such reasons, an exact comparison between the industrial profits of one country with those of another is not possible, let alone the peculiarities of company accounts and the differences in corporation taxes and varying assessments from year to year. In the U. S. A., on the other hand, we have a series of well-known indices, and regular sets of figures of profits are published in a number of Journals and Records, like the Federal Reserve Bulletin, the Survey of Current Business, the Bulletin of the National City Bank of New York and the Statistics of Income of the U. S. A. Treasury, to name only the leading few. The sample of the Federal Reserve Bulletin does not include any representation of small companies, and so it suffers from over-representation of the durable manufacturing concerns. It studies industrial earnings and dividends of a large number of industrial corporations (629) and provides detailed figures for the net profits of 152 concerns. The National City Bank of New York Bulletin provides data of industrial earnings, before and after the taxes are paid, in the composite balance sheets of 110 manufacturing concerns.

Review of the Trade of India Profits Index

In India, as we have seen, the only authoritative profits index worked out so far has been the one prepared by the Economic Advisor's Office. These profits indices are available for 8 industries (1) cotton mills, (2) jute mills, (3) cement, (4) tea, (5) iron and steel, (6) sugar, (7) paper, and (8) coal—separately, as well as for all the industries taken collectively. All these indices are worked out on a chain basis with 1928 as the base year. The index in 1929 was simply the ratio of the aggregate profits declared by the companies selected, to the aggregate profits of the same companies in 1928. Similarly, the index for 1930 relative to 1929 was worked out first and the product of this and the index for the previous year divided by 100 was the index for 1930 with the base 1928. By multiplying this index, by the ratio which the aggregate profits declared by companies in 1931 bore to the profits declared by the same companies in the previous year, and by dividing by 100 was obtained the

index for 1931 and so on.* As a chain index it possesses the advantage of the inclusion of new concerns and the exclusion of defunct ones with varying numbers every year. But there are a number of limitations to this profits index, because, in the first instance, the companies included here are those exclusively selected from the Investors' India Year Book of Messrs. Place, Siddons & Gough. The total number of companies included for the construction of the index are 72 cotton mills, 58 jute mills, 56 coal companies, 4 cement, 4 iron and steel, 8 paper mills, 29 sugar mills, and 126 tea companies; an effort is made to cover more than 60 per cent of the principal industries chosen by taking as many companies as would account for more than 60 per cent of the paid-up capital of these industries. But the main limitation is the definition of the net profits in respect of which the index number closely follows the figures given in the said Year Book and the net profits are described as the profits of manufacture less provision made for taxes, interest, commission and other miscellaneous items.† This means that depreciation charges are included in the net profits. Again, by selecting the Joint Stock companies the analysis of whose balance sheets are given in one Year Book only, regional representation of industrial units is bound to suffer.

* This will be clear from the following illustration :—

Cotton Mill Industry.

Profits for 1928	...	Rs. 123,02,000
Profits, same companies, for 1929	...	Rs. 121,97,000
Index of Profits for 1929 with 1928=100	...	99.1
Profits for 1930	...	Rs. 46,68,000
Profits, same companies for 1929	...	Rs. 121,97,000
Ratio of 1930 to 1929	...	38.3
Therefore, Index for 1930 with 1928=100	...	$\frac{38.3 \times 99.1}{100} = 37.9$

(Compiled from Review of the Trade of India 1943-44, p. 27)

†We have not made any detailed reference to the other study entitled, *The Trend of Profits—A Factual Analysis* by M. H. Gopal which covers the period 1918-1939. It contains very useful comparisons such as 'Profits' in U. K., U. S. A., and India during this period, but the figures for profits are only those of dividends declared by the Joint-Stock Companies and these are taken from the various Investors' Year Books.

The Balance Sheet Method

In order to obviate these short-comings and to have a clearer picture of the net earnings of industrial concerns in India, the only method with which we are left is the systematic and close study of the Balance Sheets and the Profit & Loss statements of the Joint Stock Companies. Even the income-tax returns or the occasionally published statements of the enterprises cannot be regarded as more dependable or exhaustive than these balance sheets. Although it may be contended that balance sheets and the profit and loss statements need not—and frequently do not—convey all the information required, they have to be regarded as the only authentic source for the compilation of profits figures. These balance sheets and P/L accounts alone would give us the requisite material for computing the proportion of profits to the turnover of goods and to the capital employed. It is true that in our country one has also to face the indescribable practical difficulty of even collecting the balance sheets of a number of concerns for a series of years; but this obstacle need not detain us here.

Net Profits Defined

If, therefore, a fresh inquiry has to be planned, the first requisite is the formation of a clear definition of net profits. There are a number of sets of figures which are given under the heading of net profits but the connotation of the term is not the same in all cases. For instance, in the Economist's* index of profits, net profit is defined as the amount of earnings, left after deducting taxes. The Federal Reserve Bulletin† index of large-scale Corporations computes net profits as "before dividends and after all charges including depreciation, interest, special reserves charged as expenses and all taxes." This definition is also largely followed in the Bulletin of the National City Bank of New York,‡ where net profit is shown as excluding depreciation, interest, taxes and other charges and reserves, but including dividends.

*Economist, February 26, 1944 ; p. 290

†The Federal Reserve Bulletin, March 1942, p. 214

‡The National City Bank of New York Bulletin, March 1944, p. 31.

In our country, in the Economic Advisor's Office Profits Index, net profits are intended to mean profits of manufacture *less* provision for taxes, interest, commission and other items. The contribution made towards depreciation and reserves is *not deducted* from this amount, but an allowance is made for the transfer of money towards profit account from contingencies and capital or reserve funds, from the sale of Government loans or from charges foregone by Managing Agents, Directors, Debenture Holders, etc. Again, in the case of the Economists' Profits Index (old series), net profits excluded capital profits and transfers from reserves and depreciation, if they were separately disclosed. In this way, there is a certain want of uniformity as to the definitions of net profits in these index-series. Moreover, in the case of the Economic Advisor's Index, net profits are taken to include depreciation as well. This obviously vitiates the whole concept of net profits, though the various amounts for which allowance is made are rightly excluded from net profits. These sums can easily form part of the total amount available for allocation as we shall presently see. But it is obvious that in order to obtain a correct picture of net earnings of companies, the depreciation charges must be excluded as well as the amount paid by way of (or provided for) taxes. We may thus define *net profits* as the amount arrived at *after deducting from the gross receipts, depreciation and other charges such as establishment expenses, interest on debentures and taxes*, but including dividend payments, allocation to reserves and other savings and carry-forward—at the same time excluding managing agents' commission and allowances, bonus to staff and items of an intangible nature which are written off., e.g., charities. Perhaps it may be questioned whether Managing Agents' Remuneration could also be included in net profits. This may be done if a distinction could be made in the figures in a profit and loss account between their "remuneration" as stipends for their work and "their remuneration" forming part of the profits of the enterprise. The former is clearly a standing charge, while the latter varies with the financial success of the undertaking. It is well-known that such a distinction is hardly possible in the case of the balance sheets and profit and loss accounts, as they are available ordinarily. Such series of net profits figures should clearly fulfil the two-fold purposes we have mentioned in the beginning of the Chapter. They will provide a reliable index of long-term progress of the

industry while from the short-term aspect, they should serve as indicators of business activity.

The Analysis

Having formulated a working definition of net profits, we must proceed to formulate an outline of the inquiries that we would like to conduct into the various balance sheets and the profit and loss statements. This outline is intended to show what details we would like to discover from the balance sheets and then to determine by looking at the balance sheets themselves how far these queries can be satisfactorily answered from these statements. If our demands are not satisfied, it will be necessary to formulate our queries in such a manner that the balance sheets and the profit and loss statements are made to answer our purpose.

The study of net profits can be conducted for different industries, separately, through selected samples of companies representing as many areas or regions as required and we can decide upon the number of these samples on the basis of the paid-up capital of the concerns taken. The results of the different units can then be totalled up and the net profits of manufacturing or mining industries can be computed as a whole. It may also be noted that the index number of gross profits as between different countries in a particular period can be usefully compared, while the index number of net profits enables us to examine the earning capacity of different industries at home. Thus we may begin by taking the income account and finding out the income before taxes by deducting expenses from gross receipts and from this amount deducting the amounts for (1) taxes, (2) depreciation and (3) other expenses, thus getting the net return. This net return may be compared with the appropriations which a company may make in the form of dividends on preferential and ordinary shares or general or specific reserves or other savings and carry forward.

A significant comparison can also be made about the percentage distribution of total earned profits of different industries among the important heads: (1) Dividends; (2) Taxation; (3) Reserves (4) Depreciation. A series of these figures will

indicate the proportion of earned profit (gross profits), distributed as between taxation, depreciation and distributed and retained profits. If we compare the amount of taxes paid with the gross profits, we may obtain a rough indication as to the incidence of corporation taxes and its floor and ceiling effects. But this comparison has to be followed up by the relationship between taxes and earnings available for distribution to investors.

Net Profits and Turnover

Another important criterion of measuring net profits is the turnover of the business, for the turnover of any business is the most important and determining factor as to whether or not it is a going concern. It will also be interesting to consider the effects of variations in the volume of turnover and net profits as some relationship can be established between the absolute amount of net profits and the turnover. Thus a significant measure, that can be made on a fairly comparable basis, is the ratio of net profits to the volume of sales. It is true that the rate of turnover to profits in any one industry is not indicative of the relative profitability in other industries but it is jointly an indication of rise or fall of efficiency of that industry. Net profits may also be conveniently related to the unit of sale or to the unit of the currency of the country, such as net profits per rupee of sale. In this way net profits can be shown as percentage of sales.

Net Profits and Capital

It would, however, be more useful for net profits of business to be related to its capital than to its turnover, for the comparison is somewhat definite here. Capital, as computed from balance sheets, generally differs from one establishment to another and there are various methods of arriving at the return on capital; the easiest of which, of course, is the share capital and the net profit is computed as earned on the share capital. Frequently, however, other capital is also invested and utilised in the business either from the undistributed profits in the form of various kinds of reserves, or the capital borrowed from the banks and other financial institutions. In American books on Corporation Finance, they adopt the method

of computing the "net worth" of a corporation which includes book value of the outstanding preference and ordinary shares and surplus account at the beginning of each year. The rate of net profits earned on the capital invested shows whether the industry utilises the entire capital invested with at least as much advantage as elsewhere, while the rate of return on net worth is indicative of relative efficiency and profitability. With the help of this index, one can also judge the ability of the industry to raise fresh capital.

The entrepreneur would also like to relate his net profits to the capital employed, whereas to the ordinary shareholder the rate of dividend is of greater importance. It is extremely difficult to find out from the balance sheets what is the extent of capital employed in a concern and it also raises the problem of defining accurately the term capital employed.* The capital employed by an undertaking would relate to all the assets of the undertaking, provided they are properly employed in the business and not in some extraneous business and a working definition of capital employed may be attempted as the figure arrived at by deducting from the

* "Capital Employed" means :

"The cost of fixed assets required in the business of electric supply, fairly acquired and available for use ; plus

The cost of intangible assets fairly arisen in promoting the business of electric supply ; plus

The costs of works in progress, stores, tools and instruments necessary for the business of electric supply ; plus

Working capital including the amount of sundry debts and payments in advance, investment, fixed and call deposits, bank balances and cash on hand."

(Recommended Principles in the Control of Public Utility Electric Supply and Finance, 1944).

But the cash and investments must necessarily be deducted because this Committee itself in the explanatory notes goes on to say, "Capital employed by the undertaking relates to all the assets of the undertaking provided that they are properly employed in the business of electric supply and not in some extraneous business". We cannot assume that these investments and bank balances are "properly employed in the Business".

total assets, investments, cash and bank balances as given in the balance sheets. The investors may lay more emphasis on the power and capacity of the company to earn real profit than would the share-holders who are generally interested in the rate of dividends. The tendency of future capital appreciation and increased business activity by retaining and re-employing that part of profit can easily be compared by two sets of data—the return on capital (both total and invested) and the rate of payment in the long run.

These broad headings may indicate the object with which we would analyse the balance sheets of joint stock companies. The first task will be making up a list of the joint stock companies in each industry or business and the most convenient way would be to classify them on the basis of their paid-up capital, say in the case of cotton textile mills, (a) above Rs. 25 lacs, (b) between 10 and 25 lacs, (c) between 7 and 10 lacs and (d) below 7 lacs. This list may be further re-grouped into 4 divisions according as their accounting year ends in the 1st, 2nd, 3rd or 4th quarter. The choice of the period may sometimes present difficulties but if we take up a period like the last world war, it would be necessary to take a series of years preceding the war, so that the profits trends in the abnormal periods may be studied in the background of comparatively normal years. In the case of India, it may also be noted, in passing, that after the amendment of the Indian Companies Act (1913) in 1936, great rigour has been enforced in the presentation of accounts of the joint stock companies. When, however, an analysis of the balance sheets is undertaken, it would be seen that the manner in which accounts are presented by different companies, even in the same industry, is not uniform. If, therefore, a uniform method of analysis is to be attempted, the skeleton of the analysis will have to be adjusted only by a process of trial and error. Thus even bearing the objectives, as we have defined in the foregoing paragraphs, in mind, we find that all these cannot be straightforwardly achieved by an examination of the balance sheets with the result that for a uniform tabulation of the figures of various companies, the analysis may have to be conducted for each year somewhat on the following lines:—

(1) Gross Profits, (2) Depreciation, (3) Provision for Taxes, (4) Net Profits, i.e. [(1)—(2+3)] (5) Amount Available for Allocation, (6) Dividends, (7) Reserves and other Amounts Appropriated and Unappropriated, (8) Carry Forward, (9) Sales, (10) Managing Agents' Remuneration, (11) Total Assets, (12) Investments, (13) Cash and Bank Balances, (14) Capital Employed, i.e. [(11)—(12+13)].

Here "Gross Profits" will be arrived at after deducting all other expenses excluding depreciation and taxes from "Gross Receipts". Thus "Gross Profits" is net profits plus taxes plus depreciation. In the case of taxes, we have to rely mainly on the provision made for taxes and not on actual amounts paid because balance sheets do not always show these amounts in a uniform manner and frequently this account is carried forward to succeeding years. In the item, Amount Available for Allocation, we include the Net Profits of the concern plus the carry forward of the preceding year and any amounts transferred from the reserves or shareholders' funds, which are accumulated from the profits made in the past. This amount is distributed among the three items, viz., Dividends, Reserves and other amounts appropriated and unappropriated and Carry Forward. Similarly, in the Reserves and other Amounts Appropriated and Unappropriated, we include reserves and other amounts appropriated under separate heads as also such unappropriated amounts as contingencies, but this excludes reserves for taxation as these are already included in a foregoing item.

Such an analysis would yield totals in respect of each industry over a series of years from which we can easily calculate a number of interesting ratios, such as, (i) net profits as percentage of gross profits, (ii) provision for taxes as percentage of gross profits, (iii) percentage of dividends to net profits (iv) net profits as percentage of sales, (v) managing agents' remuneration as percentage of net profits and (vi) percentage of net profits to capital employed. At the same time, a number of indices can be constructed with a selected year as the base year, such as those for net profits, for dividends paid, for sales and for capital employed.

Conclusion

The foregoing paragraphs have been intended to enter a plea for the revision of the industrial profits index on which we have so far relied in our country. Indeed this profits index is frankly not a general profits index but is primarily an unweighted index of gross profits earned by some important companies in India. In fact, it is not even planned on such an elaborate basis as is the security index or the wholesale price index included in the Monthly Survey of Business Conditions in India. It has also been contended that the balance sheets of joint stock companies are very often a race between the auditors and accountants of the company and the provisions of the company law and that in many cases it is possible to get round the provisions of the latter, in as much as many a balance sheet succeeds in concealing more from than conceding to the law giver. But this is a contention which cannot have much relevance here because a fair approximation will certainly serve most practical needs and over a series of years the so-called inaccuracies are bound to be minimised. Again, if a sufficiently large number of companies is chosen, the practices of one are likely to be cancelled out by those of another. Indeed, for practical purposes it is difficult to think of anything other than the balance sheets and the profit and loss account for the measurement of profits, unless it be the books of the companies themselves. It is also true that very often there are violent fluctuations in the rate of profits of individual enterprise, but these fluctuations, too, are bound to be smoothed out over a series of years. Any one acquainted with the market conditions is aware that the profits declared by one business concern influence the policies of other units in the same industry and in the enterprise as a whole and these cumulatively have a bearing on the fortunes of the financial structure of the Company. At a time, therefore, when the Government think of collecting in a handy form all statistical data which could throw light on business conditions in the country, including the census of production, one is justified in hoping that we may also obtain a reliable profits index at least of the larger industrial enterprises in India.

CHAPTER II

THE ANALYSIS (I)

SOME PROBLEMS OF THEORY

Theory of Profits

In the foregoing chapter we have confined ourselves to the problem of measuring profits trends, particularly in public limited (joint stock) companies; but in so doing we have—of set purpose—avoided one or two basic questions regarding profits and these may now be taken up here. Firstly, the student of economics will ask—and justly too—what kind of profits are we speaking of in our analysis? This undoubtedly opens out the long vista of the theory of profits, the end of which the orthodox economist has not yet found.* In answering this question, however, let us also remember that ours is an inductive study, concerned mainly with investigating net profits. Thus, it will not be necessary for us to enter into a full discussion of the various theories of profits, which have been developed, especially from the end of the last century to the present day. We may, therefore, content ourselves by recalling the various stages through which the main theory has passed and see how our net profits are

* "The theory of profits is still perhaps the darkest part of the whole subject of the economic distribution and though a voluminous controversy has been waged on the matter in America during the last 30 years, a body of agreed opinion is still lacking and little has been done to erect a synthesis from the various partial explanations of a perplexed and perplexing subject". (Maurice Dobb—*Capitalist Enterprise and Social Progress*, p. 62)

related to the *normal and pure profits* of the economist. From the time that the Continental—and later the American—Economists clearly emphasised the distinction between interest and profit,† we see the rise of the Risk Theory of Capital. This theory has indeed had a chequered history for, in the first instance, some economists of the last generation‡ asserted that wages of management and superintendence together with interest on capital and the reward for risk afforded a more or less complete explanation of profits. It was J. B. Clark's dynamic theory of distribution which eclipsed the Rent of Business Ability theory and provided a further impetus to the development of the Risk Theory of McCulloch, Mangoldt and Hawley in America. For, thereafter almost every economist discussed the risks of capital and the coordinating functions of the entrepreneur until Willet and Fisher further emphasised the characteristics of chance and drew a distinction between chance and risk. They showed that chance was a subjective matter, whereas risk, an objective concept. It was this analysis which was further taken up by Willet and Knight, who developed the view of chance as being a degree of probability and showed that it was different from a degree of uncertainty. Willet successfully established that risk is estimated by applying the laws of chance (or probability) to the accumulated results of past experience and both he and Knight showed that risk was remunerated by a sum sufficient to cover the actual loss involved and that this remuneration could not be mixed up with pure profits. F. H. Knight followed up these researches further

†Towards the end of the 19th century, Edwin Cannan, too, falls into the error of regarding profits as identical with interest (See especially his discussion on James Mill and McCulloch—Theories of Production & Distribution, pp.213, 229, 308 and 336).

‡e.g. Marshall said: "putting aside the gains of speculation.... it remains true that competition tends to secure to each ordinary employer, earnings of management equal to what his work adds to the efficiency of production, so much and no more". Taussig, who after a very close examination of the various functions of the employer concludes that it is best to regard all business earnings as returns to labour—"returns marked by many peculiarities, among which the most striking are the risks and uncertainties, the wide range, the high gains from able pioneering"—Principles of Economics, Vol. II. Book V, p. 193.

and explained profit as a reward for uncertainty-bearing. Like Willet, he, too, criticised the risk theorists for their failure to distinguish between risks in the sense of a measurable probability and an uncertainty which cannot be so measured, and asserted that profit was the reward for the latter and that without uncertainty there was no profit. Willet had followed a slightly different analysis with a view to show how it was possible to reduce uncertainty; and at the same time he averred that risk could be covered in various ways. There were risks which could be grouped into a class and could institutionally be met by insurance or speculation and thus the area of uncertainty could be substantially reduced. Knight, however, succeeded in showing that in spite of this, there were many risks, which could not be treated with the same degree of success, and uninsurable risks confront the business-man at various stages of his activity. These risks are of such a kind that they must be borne by him and he cannot shift them to specialist organisations, as they are inherent in the business itself. These risks carry with them an uncertainty which cannot be measured with any reasonable degree of accuracy, and the real importance of this uncertainty lies in its influence on supply. It is to this element of uncertainty that modern economists have attributed Pure Profits, for these arise out of the dynamics of the economic situation. Thus, the modern economist amplifies the Risk Theory by dividing profits into two parts—Normal Profits and Pure Profits. The latter, as we have just seen, are a peculiar return arising out of uncertainty-bearing. The former covers the reward for the organising and coordinating functions of the entrepreneur, other than his wages for superintendence and for measurable risks.* The reward for uncertainty-bearing arises because it represents disutility and because it is undertaken at a price.† As time elapses, this immeasur-

*“Risk which may be insured against and is determined by known parameters of a probability distribution” to use the words of Knight.

†“This price is usually called the risk premium and is a function of the dispersion of expectations about the mode, the skewness of the distribution, the amount invested and the time it is invested for. The risk premium is deducted from the average of all the expected receipts weighted by their probability, and the residual thus left has been called “effective” receipt”. (A Note on Profit and Uncertainty—by F.H. Hahn, *Economica*, August 1947).

able or uncoverable risk—uncertainty—can be diminished and to that extent the element of Pure Profits is diminished while that of Normal Profits increases.

Let us as well complete this theoretical argument about Pure Profits and Normal Profits before we come to relate them to our Net Profits. It has now been conceded that the theory of profits must rest on uncertainty and that this uncertainty exercises its influence on the supply side. At the same time, however, this theory is criticised for its vagueness. It is said that uncertainty is a subjective concept and therefore, too vague and too wide to admit of definite judgment or quantitative measurement.* It is, therefore, suggested that on the supply side where uncertainty is to be borne, people will differ in their willingness to bear it, but a scale of market preferences is to be drawn up and there will be a definite relation between any given uncertainty scheme and the quantity of the factors of production, which will be elicited by it. Similarly, on the demand side, there are various means by which people can expand or limit their liability to uncertainty according as they are influenced by their estimates of its profitability.† Apart from its lack of scientific precision, Knight's Theory of Uncertainty-Bearing is also criticised on the ground that too much importance is paid to risk and uncertainty, the existence of either of which is becoming

*See e.g. J.P. Beddy, who in his "Profits" compares the concept of uncertainty with pain in labour. "Pain and abstinence each affects costs of production, but wages and interest depend upon productivity on the side of supply and utility on the side of demand; and costs of production, with all their attendant influences, are not the determining factors, though they influence the supply of the factors of production, and the extent to which demand will be met.....The uncertainty-bearing is not recompensed only by way of an addition to interest. Economists have exhibited a curious reluctance to admit that, except in regard to capital, uncertainty has any important effect. Yet it is as reasonable to assume that the uncertainties borne by workers are just as important in their effects as those borne by the owners of capital" (See Chapter VIII-Section 2).

†See *Economica*, May 1931. J. R. Hick's Theory of Uncertainty and Profit, where he says that "an economic theory of Profit must be based on economics and not on metaphysics and psychology."

increasingly difficult to find.* We have here emphasised only the Risk Theory, which has held the centre of the field in the last few decades, though, of course, the other theories have continued to be discussed, namely the quasi-rent element in profits and the monopoly gains both of which arise out of inflexibility of supply.

A further besetting difficulty in this theory has been added by the emergence of joint-stock companies. Indeed, the manner in which the 19th century entrepreneur—the captain of industry—has been eclipsed by the public limited joint stock companies has been as swift as it is overwhelming and the joint stock company, by its size as a unit of production, by the sphere of its operations and by its elaborate system of corporation finance, has fundamentally modified the traditional theory of interest and profit. We need not expatiate on the economics of corporate enterprise here in order to show this. But it would be pertinent to reflect how the aforesaid theory of profits will have to be recast in accordance with the recent advances into the theory of duopoly and oligopoly. Thus, while from the point of view of company accounts, distinction between gross profits and net profits will be emphasised, the economist will further examine the surpluses arising out of imperfect competition. He will analyse the advantages which corporate enterprise enjoys over individual enterprise and distinguish between natural advantages and acquired advantages arising in various forms such as, (1) legal and political advantage, (2) secrecy, (3) mobility, (4) possession of capital, (5) location, (6) size, (7) separate markets, (8) market control (9) effects of advertising and (10) luck. He will also examine the imperfections of competition such as excess capacity and imperfection of capital market and therefore imperfect competition among potential entrepreneurs.†

But while the theory of profits is still indeterminate, we can attempt an answer to the economist's question as to what constitute

*See e.g., D.H. Macgregor's "Enterprise, Purpose & Profit"—Joint Stock Companies and the Risk Factor, p. 409.

†See for instance a note on Profit and Uncertainty, cited above. *Economica*, August 1947.

the Net Profits, which we are setting out to examine in the following pages. In the first instance, our net profits will obviously cover—at least partly—the remuneration of the entrepreneur that is functionally due to the directors of the companies including managing agents and legally to the shareholders, for the latter are also partners in the enterprise. It will be seen that we have already deducted the remuneration of the managing agents shown in the Profit and Loss Account from our net profits; but we have taken this part to be the wages of superintendence. Secondly, our net profits will also include interest on capital employed in business other than that for which interest has already been charged by way of expenses. That is the reason why our net profits include dividends, provision for reserves and carry forward, to all of which the shareholders lay a legal claim. Both these elements together cover very largely the Normal Profits as pointed out above. And thirdly, our net profits will also include Pure Profits—the reward for uncertainty-bearing, which we have tried to explain in the foregoing paragraphs. Our Net Profits in brief, therefore, clearly refer to the two distinct functions to which the traditional theory of profits relates the reward. The day-to-day or routine organising or managing work is often entrusted to salaried officials of the companies and is also covered by the managing agents' remuneration for office establishment, etc., besides the wages. The part that goes to the entrepreneur here is the reward for the general planning of output, market policies or the decisions regarding expansion or contraction of output. These functions, it will be seen, do carry an element of uncertainty which is not merely incidental as the critics of uncertainty theory assert. † For the question, here, is not whether other persons are or are not capable of bearing that uncertainty, but that someone has to do it and this falls to the lot of the entrepreneur. At the same time our Net Profits are thus a conglomerate of Normal Profits as well as Pure Profits.

†See Marshall: "In trades in which the speculative element is not very important so that the work of management consists chiefly of superintendence, the earnings of management will follow pretty closely the amount of work done in the business"—pp. 613-614 of "Principles of Economics."

Nature of Financial Statements

But if the answer to the theoretical question is somewhat indeterminate, our answer to the other query, namely, the importance of net profits from the point of view of corporation finance will be much more definite and explicit. We have already tried to show how our definition of Net Profits avoids the usual pitfalls and can be made quite workable in terms of the balance sheets and profit and loss accounts. Let us, therefore, proceed to assess its significance in the analysis of financial statements. In the preceding Chapter we have tried to show that our analysis of the Net Profits must also be a study of relationships amongst various financial factors, such as the percentage of Net Profits to Sales, percentage of Dividends to Net Profits, percentage of Provision for Taxation to Gross Profits, etc. as disclosed in the balance sheet and profit and loss account, and also of the trends of these factors over a period. Our attempt thus is to glean these trends from the usual financial statements which the joint stock companies make available to the public under the existing Company Laws. These financial statements are the result of historical developments of the financial summaries that have now culminated in the balance sheets and the profit and loss accounts which are annually published by the joint stock companies. Our results, therefore, must necessarily be conditioned by the strength as well as the limitations of the statutory statements of these companies. For, as we have already emphasised in the previous chapter, our method of enquiry takes account only of the "public documents" of these companies and does not seek any inside information or go behind these documents. In other words, our financial analysis is more external than internal, claiming no access to any books of accounts or any statements which the accountants of the company may prepare for their own use.

It is well known that all financial statements are ultimately a combination of (1) recorded facts, (2) accounting conventions and (3) personal judgments. Thus, both the balance sheet and profit and loss account have always to be read in the light of peculiar limitations that they possess. This must obviously be borne in mind before we interpret our analysis with a view to observe the various trends over our period. Let us then briefly review these

limitations in order to correctly assess the significance of our analysis and to see how far these limitations can be got over.

Their Limitations

Historically the balance sheet has grown out of a list of balances left in the ledgers after making closing entries and the law attempts to reduce the accounting practices to certain uniformities which can be enforced under it for the purpose of keeping the shareholders as properly informed about the financial position of their companies as possible*. Briefly, the accountant's object ordinarily is to aim at completeness and technical accuracy in the figures that are presented in the balance sheet which must be a comprehensive picture of the financial position of the company on the last day of the accounting period. With these questions of technical efficiency, however, we are not concerned; but it is well known that the approach of the financial analyst, or for that matter even that of the economist, is entirely different. For the latter aims primarily at extracting certain essential information and interpret the same for observing various trends. Thus, to take only one example, the attitude of the accountant to book values presents almost insurmountable difficulties to the economic analyst, and a good deal yet remains to be done for bringing the viewpoint of the accountants and the economists together.† If the balance sheet reflects the assets and liabilities as on a certain date—a cross section of the Company's position on that date—the profit and loss account shows the results achieved during a certain period. Thus the former is an instantaneous picture into which various account balances have necessarily to be concentrated for the purpose of summary on that day, while the other account aims at summarising the thousands

* The latest example of this statutory modification of the balance sheet is to be found in the New Companies (Amendment) Act in Great Britain which attempts to recast both the balance sheet and the profit and loss account in the light of past experience and which comes in force from July 1948.

† See e.g., Harry Norris in the *Economica*, August 1945 "Profit Accounting Theory and Economics", where the writer severely criticises the concept of income in Irving Fisher's "Nature of Capital and Income".

of operations during the year into a comparatively few items with a view to show how the company has made a profit or incurred a loss in these transactions. It is not surprising, therefore, that from the point of view of the analyst both these statements possess a number of inherent limitations. There is, for instance, the problem of valuation to which we have already referred. Thus "capital assets may be stated on the basis of cost or on the basis of a valuation. It may be a pre-war or a post-war basis. The cost may be a cost in cash or a cost in securities. If the latter, it may be a legal cost measured by a par value of a grossly inflated stock issue if the corporation was formed early in the century, or it may be greatly understated if the assets were acquired by a recent issue of stock without common (par) value"* . For our purposes it is not necessary to dwell at any greater length on the problem of valuation or price levels in either of these statements.† We have, however, used as our base either the capitalisation or the assets figures as shown by the balance sheets themselves, in respect of depreciation and of capital employed; but it will be easily seen that our interest in these accounts of individual companies lies mainly in so far as these figures contribute to or exercise an influence upon the value of the average in each industry.‡ Variations in accounting practices or arbitrary policies of valuation will certainly affect the balance sheets of individual companies, but these angularities will be chiselled off in the averages. It is also well known that more often

*G. O. May cited by R. C. Epstein "Industrial Profits in the United States", p. 526. Epstein also gives numerous details of the difficulties of the valuation of assets in Chapter 45.

†"It is accordingly evident that the values of assets in a balance-sheet and the amount of profit or loss in a Profit and Loss Account are arrived at by certain conventional methods which accountants in the course of time had developed through experience in dealing with the problem and also these stated values do not necessarily bear any relation to the market values of the assets of the business or the price at which they could be replaced"—J. N. Myer, *Financial Statement Analysis*, (Prentice Hall, 1946.) p. 18.

‡cf. Balance sheets are not primarily statements of valuations and the quantities set against the items are mainly the arithmetic result of adjusting profit calculations by setting reserves against costs—P. Taggart, *Profits & Balance Sheet Adjustments*, Chapter IX, — (Issac Pitman, 1934).

than not the Balance Sheet and the Profit and Loss account constitute a race between the Company Law requirements on the one hand and the skill of the accountants of the company on the other—the former emphasising as full a picture of the financial operations as possible and the latter often aiming at minimising the same. The profit and loss statement is undoubtedly more useful for the purpose of interpretation than a balance sheet from our point of view; for unlike the balance sheet which presents a static picture, it shows the operations of the concern over a certain period. Moreover, as our enquiry is spread over a sufficiently long period, the peculiarities of these statements for a single year need not present many difficulties for us. It is true, however, that there is almost a complete lack of uniformity in the presentation of this account, mainly because there is no statutorily fixed form for the presentation of this statement except for insurance companies. Again, the profit and loss statement relates to the internal working of the companies and so the lack of uniformity in such statements can at least be easily understood. But even as regards such broad items as sales or manufacturing or establishment charges or for that matter showing wages separately, there are all manners of variations. In fact, it is this difficulty which has prevented us from separately analysing the figures for wages and other important elements of cost of production and relating them to net profits or sales. Moreover, even from the Profit and Loss statement, it is clear that it aims at showing the financial status of the company more as determined in the realm of accountancy conventions than that unit's condition in the economic world. Underlying all these statements, of course, is the well-known convention of accounting mechanics—that the price factor in the assets and disbursements is taken to be constant; in other words the value of each rupee entered in the books had at the time the transaction took place, the same value as of other rupees entered in the book. Besides these limitations, we may also mention such others as incompleteness regarding the nature of distinction between capital expenditure and revenue expenditure, the latter of which alone is shown in Profit and Loss Statements. We may also note that after the Amending Act of 1936, the joint stock companies in India are obliged to show details regarding the provision for depreciation (total and current), net additions to or subtractions from the fixed assets. Normally, depreciation is based on the estimated average

of effective life of each asset. This does not take into consideration the rapid obsolescence of plants and machinery in the rapidly developing industrial conditions such as we have witnessed after the outbreak of the last war. We shall indeed have occasions to emphasise this in our analysis of individual industries; but here we would only note that the value of a plant therefore cannot be safely determined by first cost or by appraisal on the basis of reproduction cost, less normal depreciation. Of course, if the accounting practices are deviated from, the accountant is likely to dub such amounts as secret reserves.* Finally, we must also make a mention of the widely debated item of reserves. The size of reserves is also to a very large extent a matter of judgment. We have already referred in the preceding chapter to the system of creating secret reserves; but we may emphasise here that the distinctions drawn by companies between the various types of reserves, e.g. contingency reserve, reserve for development or general reserve, are seldom uniform in their adoption.

Proposals for Reform

It is because of these limitations that most writers on corporate earnings have entered a plea for widening the scope of information provided in the Balance Sheet and the Profit and Loss Account. Thus, for instance, under the Amended Company Law in Great Britain, to which we have already referred, a new obligation is imposed to classify the items under the headings, Capital, Reserves and Liabilities and Provisions (the latter are liabilities of which the amount cannot be ascertained with substantial accuracy), Fixed Assets and Current Assets.† The result of this will be that it should now be easier to see the relationships between the funds contributed directly by shareholders, those provided indirectly from accumulated profits and those borrowed or financed by normal trade credit. This amendment also deals at some length with the "secret reserves" which are no longer permissible, except for banking, discount and

* See e.g., the case cited on pp. 533 & 535—by Epstein, *Ibid.*

† See *Economist*, March 1948, p. 387. See also *Economist*, dated December 14, 1946, for comments on the provisions of the Company Law Amending Bill in Great Britain.

assurance companies. Similarly, proposals are made so that the Profit and Loss account may reflect, as closely as possible, the result of manufacture and trading. Thus under the first schedule of the aforesaid U. K. Act, specific information on several important points, such as (1) method of depreciation, (2) basis of the U.K. tax charged, (3) the manner of showing dividends (gross or net) (4) provision of comparative figures and (5) effects of exceptional transactions and (6) changes in the basis of accounting, is insisted upon. It also lays down that excess provision or reserves or transfer of amounts set aside in the past must be disclosed, "if material", and income from investments has to be shown separately.* Similarly in America proposals have been made for stabilised accounting in order to overcome the difficulties of price level problems.†

But it would take us far beyond our present theme to dilate on these proposals for reform, for we have adverted to these limitations of the Balance Sheet and Profit and Loss Account only to indicate the difficulties which an enquiry like ours must contend with.‡ The problem of financial analysis made from the company accounts must undoubtedly remain one of accounting mechanics versus economic interpretation, for, as we have noted before, this controversy is likely to linger long. We have on the other hand tried to overcome these difficulties firstly by depending much more on the profit and loss accounts than upon the balance sheet and secondly by supplementing these figures by references to the relevant reports of the Directors and the Chairmen's speeches. Thirdly, the peculiarities of the accounting methods are reduced

*See *Economist*, March 20, 1948, pp. 464 & 465.

†See e.g. *Proposals of H. W. Sweeney*, in J. N. Myer, *op. cit.* 29 & 30. See also, *Analysis of Accounting Records—Corporate Profits as shown by Audit Reports—by Patton*, pp. 109-113, Chapter VIII, 1935.

‡cf. Also the plea for more information regarding corporation accounts in Chapter 47, pp. 590-594. "The person who has not worked in the field of corporate earnings does not realise the paucity of published financial data"—R.C. Epstein, *op. cit.*

to a minimum when we take a fairly large number of units for the purpose of the average figure for an industry; further these averages are spread over a period long enough to enable us to judge the trends accurately. Of course, our analysis could certainly have been more detailed if we were able to take recourse to the manufacturing accounts also so as to examine the various items of the cost of production much more closely. We have, in the preceding chapter, referred to the Economist's Profits Index which is also based on the income tax returns submitted to the Board of Inland Revenue and we would indeed have liked it very much if similar returns were obtainable in our country also. But the foregoing limitations must be accepted under the present conditions and we have therefore only attempted to overcome these with a view to render our analysis as accurate as possible.

Ratio Analysis

Finally, before we pass on to examine our broad results, let us revert to the various ratios to which we have referred in the preceding chapter. The ten items of our analysis are closely inter-linked and the trend of Net Profits is related to Gross Profits, Reserves and Dividends, and to Capital Employed. Our Table No. 2 for each industry in the succeeding chapters is thus a measurement of trends of percentages, for the rate of change is often more useful than the absolute change. In the respective chapters on different industries, we examine the changes from year to year, but the ratio analysis refers mainly to trends, and may be distinguished from the Operating Ratios, which the cost accountants use for examining the managerial efficiency of their establishments. These operating ratios are the results of the analysis of the manufacturing and trading accounts and are useful for breaking down the various costs and expenses in order to indicate the general efficiency and the profitability of the operations. But they also throw light upon the manner in which the earnings are stated and when these are correlated with other factors dependent upon the interpretation of various items, they are very helpful in estimating the future earning power. Thus there are numerous operating ratios, such as (1) Funded Debt to Capital Stock or to Working Capital, (2) Inventory to Sales, (3)

Receivables to Net Sales, etc.† It will be seen, however, that we have selected a few of the “key ratios” which are not so much the results of interpretation as of factual trends. Thus the ratio of Dividends to Net Profits will reveal the conservatism or otherwise of the policy of distributing Dividends as against that of building up Reserves. The ratio of Net Profits to Sales has always been regarded as the most important of operating ratios. For, this ratio enables the analyst to relate the trend of earnings to the price factor and if the profits go up merely because of the rise in prices, so also will be the figures for sales in value. The percentage of Net Profits to Sales, therefore, will be a better measure of the profit trends than even the ratio of Net Profits to Gross Profits under these conditions. These key ratios, however, are not at all difficult to define or emphasise. But as regards the last one—the percentage of Net Profits to Capital Employed—we are again in the realm of controversy between accounting mechanics and economic analysis. In the previous chapter we have already defined the term “capital employed”, as shown in our tables. But it may be noted here that the accountant generally believes that it is not possible to arrive at a figure of working capital or that of total capital employed in a concern over a certain period.‡ As against this the economist

†e.g., Guthmann in his *Analysis of Financial Statements* (Prentice Hall, 1942) mentions no less than 25 Operating Ratios. He defines an operating ratio as under:

$$\frac{\text{Operating expenses} + \text{goods sold}}{\text{Sales}} = \text{Operating Ratio.}$$

‡“Of the true capital in the economist’s sense, employed by these companies there is no measure. In the long run, there is certainly a tendency for accounting capital and true capital to approximate to each other. In the short run, a company’s accounting capital is relatively constant and the apparent earnings returned upon it fluctuates mainly under cyclical influences. In the longer run, however, if a company’s shares are quoted well below or well above their par value on the stock exchange, its directors will tend either to write off a considerable part of its accounting capital as having been ‘lost’ or to issue bonus shares which, by watering the capital account, bring the apparent earning power ratio to what is considered to be the ‘Norm’. Thus in the long run, accounting capital tends to be based on actual earnings which it may be argued are the best long-term tests of the value of true capital.”

H. Parkinson in the *Economist*, dated 17-12-1938.

is entitled to argue that while over an accounting period, this may be so, it should not be difficult to arrive at a figure of total amount that goes into the undertaking, and the total value of capital that goes into the productive effort. The accountant, for instance, argues: How can one say what value of the fixed capital is utilised for manufacture, say in any financial year? Can it be equal to the depreciation amount only? It is true that here again we are faced with a number of valuation problems to which the economist can give no final answer. But the fundamental question that we have raised as to the total amount of capital that goes into the making of the products must be answered so that this amount may be related to the net earnings of the enterprise. It may be that in a single year it is not safe to regard all fixed capital of the accountant as being utilised in the undertaking, but over a period, this must form a substantial part of the capital employed. Thus all the assets of the undertaking, provided they are properly employed in the business and not to some extraneous purpose, can safely be taken as capital employed. We may also add that this figure alone, when related to the net earnings, should enable a financier to determine what should be the reasonable return on his capital. It will, therefore, be seen that on the whole, we are justified in regarding the "total assets" less "cash balances and investments" as "capital employed". If this is accepted, the importance of the percentage of net profits to this figure needs no further emphasis. In brief, this percentage shows the effectiveness of the capital in the same industry over a period and its relative effectiveness as between different industries. This ratio can also be utilised for ascertaining whether the industry is over-capitalised or not.

CHAPTER III

THE ANALYSIS (II)

BROAD FINDINGS

The Plan of the Enquiry

The various theoretical issues, which we have discussed in the preceding section, will also go to show that a plan of the measurement of profit trends has to be evolved, if need be by a process of trial and error. Bearing in mind the conditions in our country, therefore, we had, in the first instance, to delimit our enquiry to the results of joint stock companies only in our principal industries and further, for obtaining these balance sheets of about 250 companies,* the enquiry had to be completed in three stages, beginning with the Cotton Textile industry at Bombay, then at Calcutta for Jute, Coal and Sugar companies and finally rounding it off with the balance sheets of the rest of the corporations for Sugar, Iron and Steel, Paper and Cement. As our object was to measure the broad trends rather than obtain total amounts of profits of these industries, we tried to make our groups of companies in each industry as representative as possible. In the case of Iron and Steel, Cement and Paper, we could take a majority of the companies in these industries, while for the remaining, as will be seen from the respective chapters on these industries that follow, we have tried to see that the averages are quantitatively as well as qualitatively representative of these industries. Thus apart from taking as large a number of companies as possible, we have also borne in mind the size of the paid-up share capital and the regional factor.

*These companies are shown separately in the Appendix.

The Period Selected

It will be seen that the greater part of the nine years covered by our enquiry has been the period of the second world war. While, undoubtedly, this will be quite an interesting period in itself, the results would have been less useful if they were confined only to such an abnormal period. Not only do the pre-war years, 1936-39, therefore, afford a proper background for a study of the subsequent years, but the first two of these may be regarded as a comparatively normal period when the recovery from the Great Depression of the 'Thirties was well-nigh complete. But it will be seen further on that even out of these three pre-war years, it has not been possible to select one year as a uniform base for the indices of all the seven industries. Excepting in the case of Iron and Steel and Jute, however, we have taken 1938 as the base year; but it will be more useful if we take the average of all these three pre-war years in comparison with the subsequent years. Even the remaining years may be divided into two parts—1939 to 1941 and 1942 to 1944—for, though along with the rest of the world, war boom conditions started in India almost from the end of 1938, the hectic conditions of war production came to exist after the Pearl Harbour incident. Thus our enquiry naturally falls into three periods, the pre-war years, the early years of the conflict and the real war boom. The first of these can thus easily be made the basis of comparison with the subsequent two and the last one may further be distinguished by the increasing measure of controls under which operations of our industries were brought and the mounting difficulties of production and distribution of their commodities culminating, as we shall see, in almost scarcity conditions in the markets.

Scope of the Enquiry

Our enquiry covers the seven major industries in the country and relates to 71 Cotton Textile Mill companies, 60 Jute Mill companies, 54 Coal Mining companies, 48 Sugar Mill companies, 8 Paper Mill companies and 2 each in the case of Iron and Steel and Cement industries. In the case of the last two, our figures represent by far the larger part of these two industries. In the case of the remaining, it will be seen that our samples represent

Rs. 55.51 crores out of a total paid up share capital of Rs. 78.62 crores as shown here below:

Industry	Total paid up share capital*	Paid up share capital represented by our samples
(Figures in Crores of Rupees)		
1. Cotton Textile ...	37.23	20.78
2. Sugar Mills ...	9.79	7.98
3. Paper‡ ...	1.70	1.60
4. Jute ...	20.28	18.31
5. Coal ...	9.62	6.84
	78.62	55.51

Some Balance Sheet Peculiarities

In the preceding chapter, we have already commented upon the limitations of the balance sheet and the profit and loss account statements, in general, and our efforts to overcome them. Here, therefore, it is only necessary to refer, in passing, to the peculiarities of these statements in the various industries, as we have found them. Thus all the Jute and Coal companies and some Sugar companies publish half-yearly accounts, while in the case of the former two, a number of these companies are operated by the same firms of

*The figures of the total paid up capital for each industry are taken from the Joint Stock Companies in India (1937-38) p. iv. As we have noted above, it is hardly necessary for us to get similar figures for Iron and Steel and Cement; but it may be pointed out that in this publication the figure given for Iron and Steel includes Ship-building, and yet this is shown to be only Rs. 3.38 crores, (although the same publication on p. 222 indicates the paid-up capital of Tata Iron and Steel Company at Rs. 10.47 crores and Indian Iron & Steel Co. at 1.08 crores of rupees).

‡In the case of the Paper Industry, two more Companies were started after 1938 and these also have been included in our figures for subsequent years so that the paid up share capital represented by our samples comes to 2.00 crores towards the close of our period.

managing agents. In the case of Coal, some collieries are leased to some bigger collieries on some royalty basis and in these cases, the figures for sales naturally present difficulties. Similarly, some coal companies do not distinguish between sales and raisings, while a few do not generally show the movement of opening and closing stocks. In the case of jute companies, until 1940, many of them have shown small amounts against "Insurance Fund". But it is difficult to decide whether this is a special fund or an ordinary item of expenditure. In the case of the Cotton Textile Mills, there is, obviously, almost a bewildering variety of the presentation of these accounts, some of them giving an exceedingly detailed picture of their operations including wages, rates, rents and taxes; but unlike Jute and Coal companies, adjustments regarding the payments of dividends and contributions to reserves are incorporated in the balance sheets and not in many cases shown in the profit and loss appropriation account. A similar variety of presentation is found in the balance sheets of Sugar companies; for instance, not infrequently do we come across such items as establishment and labour charges or credit balances at the foot of the Profit and Loss account, as balance subject to income-tax, super tax and E.P.T. In order to find out a correct figure of the net profit for a year, therefore, it has been necessary in such cases to refer to one or two or more subsequent balance sheets to find out how much of the above mentioned "balance" was utilised for the payment of the taxes mentioned.

It was with a view to meet such difficulties that in the case of the largest industry—Cotton Textiles—we have tried to apply a test to the trends as disclosed in our tables by selecting a few of the 71 companies and comparing their averages with the main averages in our tables. These figures of the selected companies have therefore been shown along with the tables of the Cotton Textile industry in the next Chapter.

Graphs

Finally, with a view to observe the various trends as disclosed in our tables at a glance, we have appended five graphs in respect of each of these industries. The first of these graphs compares the

trends of Net Profits and Gross Profits, the second shows the movement of Taxation, the third movement of Dividends, the fourth of Sales and the fifth of Capital Employed. While this graphical representation from the averages of our tables will be found convenient in regard to cotton textiles, jute, coal, sugar and paper, the graphs in respect of the two remaining industries are bound to present some difficulty, because here we have had to deal with two companies only; so that the problem of averaging their earnings had to be specially considered. We have discussed this problem in the respective chapters that follow and it is necessary therefore to bear these discussions in mind while examining these graphs for these two industries. Though, in these graphs, we have taken the arithmetical averages, in the discussion of the Tables the results of the two companies have had to be treated more or less separately.

Average Figures for the Industries

In a few tables in this Chapter, we have tried to bring the average figures in the main tables on our different industries together, with a view to examine their broad findings. While the year-to-year fluctuations may be left to the respective chapters on the various industries that follow, let us confine ourselves to the broad trends which these tables reveal over the whole period. The statements in this Chapter are, therefore, intended to show briefly the trends of (1) Net Profits, (2) Provision for Taxation, (3) Dividends, (4) Contributions to Reserves, (5) the ratio of Net Profits to Sales and Capital Employed and of Gross Profits to Sales. We also compare the trends of Net Profits, Depreciation and Provision for Taxation as percentage of Gross Profits, the trends of Dividends, Reserves and Managing Agents' Remuneration to Net Profits, as also the trends of these profits to prices, especially during the war period.

Table I

Trend of Net Profits

(Averages in '000s of Rupees)

(Figures in brackets stand for indices with base years indicated in the case of each.)

	1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Cotton Textiles	91 (43)	1,36 (66)	2,08 (100)	1,38 (66)	2,37 (114)	5,58 (266)	9,00 (433)	13,02 (626)	14,65 (704)
2. Sugar ..	2,33 (156)	94 (61)	1,51 (100)	2,04 (135)	1,90 (126)	2,60 (173)	2,69 (178)	3,80 (252)	3,09 (205)
3. Iron & Steel	75,72 (42)	102,19 (55)	177,88 (95)	136,41 (73)	185,43 (100)	200,08 (108)	204,23 (110)	151,78 (82)	159,96 (87)
4. Paper ..	3,52 (129)	3,28 (119)	2,74 (100)	3,02 (110)	5,37 (197)	5,64 (206)	6,80 (248)	10,46 (382)	6,47 (236)
5. Cement ..	*		39,90 (100)	17,53 (44)	19,83 (50)	25,07 (63)	38,77 (98)	20,45 (51)	33,88 (85)
6. Jute ..	3,22 (279)	1,16 (100)	-1,68	1,47 (126)	5,41 (468)	4,94 (427)	5,18 (448)	4,25 (367)	4,50 (390)
7. Coal ..	51 (38)	66 (50)	1,33 (100)	1,11 (84)	86 (65)	90 (68)	84 (63)	81 (61)	1,77 (133)

*The averages for the Cement companies begin only from 1938, as the A.C.C. was established in 1936 and the Dalmia's in the following year.

Table I

From the point of view of absolute amounts of Net Profits per company, our seven industries easily range themselves in the following order:

- | | |
|--------------------|--------------|
| 1. Iron and Steel | 5. Jute |
| 2. Cement | 6. Sugar and |
| 3. Cotton Textiles | 7. Coal |
| 4. Paper | |

But the figures of absolute average amounts will have little significance, for the number of companies in the case of the first two—Iron and Steel and Cement—is hardly two or three and in the case of Paper only six or seven. From the point of view of steady rise of these earnings over the whole period, the Cotton Textile Industry easily stands out conspicuously from the rest, for except for 1939, it gives an uninterruptedly mounting curve. In fact, for obvious reasons, there is a notable advance in all the industries, though in the case of Jute and Coal, this rise is somewhat irregular. There are indeed variations in the rise between one industry and another, for, as we shall see, the conditions in these industries have not been uniform at all. Thus the interruption in this curve for the Sugar Industry for 1940 is explained by the sugar crisis of the previous year or the sudden fall in the case of Iron and Steel in 1943 by the abnormal events of 1942, such as the progress of the war in the East and the internal troubles in the country. Even a casual glance at the table will be enough to emphasise the three parts into which we have divided our period, 1936-1944. The average of the second part undoubtedly eclipses the first; but the averages of the latter are left far behind in the last three years.

There were, however, two industries in which the earnings of the base year have not exceeded at all, namely, Cement and Coal (except for 1944). The spectacular increases in the Cotton Textiles, Paper and Jute may be contrasted with the steadiness of this rise in the Coal, Cement and Sugar. At the same time, it is well worth noting that over the entire period, the jute mills alone display a loss on an average in the year 1938. In the case of Jute Industry moreover, it will be seen that the year of maximum Net

Table II

Trend of Provision for Taxation

(Averages in '000s of Rupees)

(Figures in brackets stand for indices with base years indicated in the case of each)

	1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Cotton Textiles	9 (28)	15 (47)	32 (100)	45 (145)	81 (253)	5,49 (1,715)	19,69 (6,153)	54,17 (16,928)	49,52 (15,475)
2. Sugar ..	43 (143)	29 (98)	30 (100)	53 (177)	65 (217)	84 (280)	1,23 (410)	2,98 (993)	2,36 (787)
3. Iron & Steel	14,84 (20)	16,27 (21)	33,25 (44)	44,00 (59)	74,50 (100)	148,00 (198)	237,25 (316)	187,00 (249)	234,00 (312)
4. Paper ..	70 (70)	1,17 (117)	100 (100)	99 (99)	4,54 (454)	10,77 (1,077)	14,08 (1,408)	26,19 (2,619)	15,00 (1,500)
5. Cement ..	*	*	11,33 (100)	5,59 (59)	4,15 (37)	8,39 (74)	19,23 (170)	23,62 (209)	36,31 (329)
6. Jute ..	26 (205)	12 (100)	0.1 (1.4)	27 (214)	4,21 (3,508)	6,42 (5,341)	9,70 (8,075)	8,33 (6,916)	11,18 (9,317)
7. Coal ..	11 (28)	8 (21)	39 (100)	47 (121)	73 (187)	58 (149)	86 (221)	1,33 (341)	4,61 (1,182)

*The averages for the Cement companies begin only from 1938, as the A.C.C. was established in 1936 and Dalmia's in the following year.

Profits is 1940 and not 1942 or there after as is the case with the remaining industries.

Table II

While turning to the next table on Provision for Taxation, let us also cast a glance at our graphs in respect of this item for all the industries, in order the better to appreciate the enormous amounts indicated in the latter half of our period. The sudden and swift rise of these curves, as we shall see, is accounted for, firstly, by the comparatively negligible—in some cases none at all—provision for taxation before the War and the steep rises in the corporation taxes after 1940. This marked rise in the curve explains not only the Excess Profits Tax from 1940, but the other taxes on corporate incomes as well. For, all these taxes together contributed, as we have seen, a third of the total tax revenue of the Government of India towards the close of the War. The very low provisions before the War thus account for the colossal index figure of 16,928 in 1943 in the case of Cotton Textiles and 9,317 in the case of Jute in 1944. As contrasted with these industries, the slow increases of Cement—and to a smaller extent Iron and Steel—are quite impressive, for, it is well known, that the Cement industry has paid during our period comparatively small amounts by way of Excess Profits Tax. As for the rise of these amounts in our tables, it is well known that in a regime of the Excess Profits Tax, the greater part of gross earnings goes to fill the coffers of the State. It would, therefore, be more interesting to turn to our next table, where we can compare the percentages of net profits, depreciation and provision for taxation in the different industries to their respective gross profits.

Table III

Both the net profits and depreciation percentages show an almost continuous decline, in marked contrast with the rise in the figures of taxation amounts—in fact the fall in the depreciation percentage is as continuous as is the rise in provision for taxation, except in the case of Cement where the figure has remained remarkably steady with an appreciable increase during the early war years (i. e., our second period.) The comparison between these three

Table III
Trends of Net Profits, Depreciation and Provision for Taxation as Percentages of Gross Profits
(Averages)

		1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Cotton Textiles										
Net Profits	...	48.1	48.0	52.0	39.0	46.1	37.5	26.9	18.3	21.8
Depreciation	...	47.2	46.7	40.0	48.2	38.5	25.3	14.3	5.4	4.3
Provision for Taxation	...	4.7	5.3	8.0	12.8	15.4	37.1	58.8	76.2	73.8
2. Sugar										
Net Profits	...	59.2	39.3	48.5	53.3	48.1	52.9	50.4	45.7	44.4
Depreciation	...	30.2	48.5	41.8	32.8	35.2	30.0	26.8	18.4	21.8
Provision for Taxation	...	10.6	12.1	9.7	13.9	16.5	17.1	22.8	35.7	33.6
3. Iron and Steel										
Net Profits	...	52.8	60.8	68.3	58.0	61.8	44.7	38.2	35.2	33.1
Depreciation	...	36.8	29.6	18.8	23.0	13.0	22.3	17.4	21.6	18.6
Provision for Taxation	...	10.4	9.6	12.7	18.8	25.1	33.0	44.4	43.4	48.3
4. Paper										
Net Profits	...	54.6	50.5	43.8	40.9	41.5	28.3	27.7	26.0	26.4
Depreciation	...	34.4	32.2	40.1	43.9	23.5	17.5	14.8	8.8	11.3
Provision for Taxation	...	10.9	17.3	16.0	15.2	35.0	54.0	57.4	65.1	62.5
5. Cement										
Net Profits	...	*	55.5	58.1	40.9	43.5	43.9	48.1	28.9	35.5
Depreciation	...	*	27.8	25.4	46.7	47.8	42.1	28.4	36.3	25.7
Provision for Taxation	...	*	16.7	16.5	12.5	8.7	14.0	23.4	34.8	38.8
6. Jute										
Net Profits	...	72.7	65.5	Loss	67.3	48.8	38.0	31.1	30.5	26.7
Depreciation	...	21.5	27.7	Loss	20.2	13.3	12.7	10.8	9.5	6.8
Provision for Taxation	...	5.9	6.8	Loss	12.4	37.9	49.3	58.1	60.0	66.3
7. Coal										
Net Profits	...	45.1	52.3	55.8	48.7	35.6	42.1	35.2	28.5	24.5
Depreciation	...	45.1	41.3	27.9	30.8	33.7	30.5	28.7	24.2	11.5
Provision for Taxation	...	9.8	6.4	16.3	20.5	30.5	27.3	36.1	47.2	63.9

*The averages for the Cement companies begin only from 1938 as the A. C. C. was established in 1936 and the Dalmia's in the following year. The figures for 1937 relate to the A. C. C. only.

trends in the table would certainly show that while these industries have earned huge profits, they have largely filled the coffers of the State by paying from 50 to 60 per cent, in some cases nearly 70 per cent, of their earnings to the State. The contrasting trend in depreciation percentages would certainly not show that the former rise was at the expense of the provision for depreciation; but the fall is too continuous and deep to escape attention. Indeed, in the case of Cotton Textiles, it is from 40 to 50 per cent in the first period to 14 and even 4 per cent in the last; in Jute from 20 to 7 per cent and in Coal from 45 to 11.5 per cent. It is for this reason that though in many cases, this fall is largely accounted for by the rise in gross earnings and not in the absolute amounts, bearing in mind the wear and tear of the war period, the danger of obsolescence and their high replacement costs after the War, we have stressed this; because in our country, frequently, depreciation amounts are decided almost mechanically in terms of income tax provision. But it is very necessary that to obsolescence of plants, especially in manufacturing concerns should be paid sufficient attention at a time when such questions as fair returns to capital or dividend policies and reserves etc., are being examined.

Table IV

In the following three tables we compare the trends of dividends and reserves and the percentages of both these are juxtaposed with the percentages of Agents' remuneration to net profits. A comparison of the trend of net profits to dividends and reserves will show what portion of the net earnings have been distributed as dividends and what have been retained in the form of reserves for various purposes. But before we do so, let us also remember that the trend of net profits in all these industries is not surprising when we bear in mind the period of the War, during which these have been earned. In the first instance, the war demands of the Government of India and of the Allies were large enough to engender boom conditions and indeed by 1942 India became the "Arsenal of the East". Such commodities as iron and steel and cement were practically commandeered, while cotton and jute fabrics had also to be statutorily controlled in respect of both production and distribution. Sugar, too, in the first instance,

Table IV

Trend of Dividends Paid

(Averages in '000s of Rs.)

(Figures in brackets stand for indices with base years indicated in the case of each)

	1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Cotton Textiles	98 (71)	1,13 (82)	1,37 (100)	1,19 (87)	1,50 (107)	2,73 (199)	4,69 (342)	6,45 (470)	5,41 (395)
2. Sugar ..	1,28 (108)	97 (82)	1,19 (100)	1,18 (99)	1,02 (86)	1,40 (118)	1,60 (135)	2,46 (207)	2,12 (178)
3. Iron & Steel	75,49 (57)	101,26 (75)	162,29 (121)	152,31 (114)	134,20 (100)	166,67 (125)	159,73 (119)	141,13 (105)	138,23 (103)
4. Paper ..	2,09 (98)	2,10 (98)	2,11 (100)	1,91 (91)	2,97 (141)	3,49 (161)	3,95 (187)	4,31 (204)	3,97 (186)
5. Cement ..	*	*	19,00 (100)	18,69 (98)	18,69 (98)	24,09 (127)	31,14 (164)	25,74 (135)	28,49 (150)
6. Jute ..	2,89 (136)	2,12 (100)	1,36 (64)	1,70 (80)	3,68 (173)	3,93 (185)	4,14 (195)	3,81 (180)	3,36 (159)
7. Coal ..	51 (52)	66 (68)	97 (100)	94 (98)	88 (91)	75 (77)	71 (73)	87 (90)	1,26 (130)

*The averages for the Cement companies begin only from 1938, as the A.C.C. was established in 1936 and the Dalmia's in the following year.

for the purpose of distribution, and later on when the area under sugarcane declined, for production as well—was brought under strict control and here also with the export of sugar to the Middle Eastern countries, famine conditions came to prevail within the country. There is one more notable factor in all these industries that has a bearing on net profits, namely, that after the failure of the six Price Control Conferences, by October 1941, despite the statutory controls, year after year, even the controlled prices had to be put up time after time; and we have later on emphasised how the Government itself started the hare and hound race of prices and wages (and costs in general) in the country as a result of their policy of financing the War largely by inflationary methods.* It will, therefore, be interesting to compare the indices of production and prices along with those of our net profits, particularly during the war period.

Comparative Indices for Production, Prices & Net Profits.†

Base: Production & Net Profits: 1938 = 100
(Iron & Steel, 1940 = 100).

Prices : Week ending 19th August. 1939 = 100

1939-40 1940-41 1941-42 1942-43 1943-44 1944-45

Cotton

Production	..	94	100	105	97	114	111
Prices	..	117	118	173	292	422	293
Net Profits	..	66	114	266	433	619	704

*Even in the coal industry, we shall see how on the one hand the coal mining industry feared internal competition and transport difficulties led to accumulation of stocks at the pitheads. The Government, on the other, statutorily raised the prices of coal.

†Indices of production are based upon "Capital Index of Industrial Activity" except for Cotton Textile, Sugar and Cement which are taken from "Statistics relating to India's War Effort". Figures for Iron & Steel and Coal (1941-42 to 1944-45) are estimated whereas those for Paper and Jute (1941-42 to 1944-45) are provisional. See Capital, dated 12th December 1946, p. 826; India's War Effort, p. 18.

	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45
Sugar						
Production ..	191	171	120	162	184	145
Prices ..	121	100	102	127	146	158
Net Profits ..	135	126	173	178	252	205
Iron and Steel						
Production ..	90	100	107	99	104	92
Prices ..	—	—	—	—	—	—
Net Profits ..	73	100	108	110	82	87
Paper						
Production ..	118	149	155	123	119	125
Prices ..	—	—	—	—	—	—
Net Profits ..	110	197	206	248	382	236
Cement						
Production ..	114	114	147	144	139	135
Prices ..	109	114	118	136	175	211
Net Profits ..	44	50	63	98	51	85
Jute						
Production ..	97	85	93	90	76	78
Prices ..	178	186	181	183	249	252
Net Profits ..	126	468	427	448	367	390
Coal						
Production ..	101	105	99	97	93	94
Prices ..	95	95	98	119	177	295
Net Profits ..	84	65	68	63	61	133

Indices of prices are compiled from The Reserve Bank of India Report 1945-46 (p.120). In the case of Coal, indices of prices are based upon the figures shown in the Mahindra Committee Report (Appendix VI).

Figures for Net Profits relate to calendar years.

The foregoing table will go to emphasise how in the case of cotton, jute, paper and towards the end coal, while the quantum of production falls, the prices rise steeply. But in the case of these industries, the trend of net profits shows a much higher rise still. In fact this gap between prices and net profits is found even in sugar, where the rise in prices is not very marked, though that of net profits is. In marked contrast with these trends, we find that though production and prices have steadily risen in cement, net profits have shown a perceptible decline in these years. Similarly, though production and prices have remained quite steady in coal, the net profits have shown a decline except in the last year. This table will easily show how the various industries have relatively benefited during the war period. Thus, cotton textiles, paper, jute and to a smaller extent sugar, undoubtedly earned high profits because of the scarcity conditions that came to prevail. The steadiness of the earnings of cement and coal are explained, in the case of the former by (1) the rate-war in the earlier years, (2) terms of the agreement imposing additional burdens on the A.C.C. and (3) the policy of this company of selling cement to Government at a specially reduced rate and to the public at as low a price as possible to popularise its use. This company also was able to keep its cost of production low by producing auxiliary machinery in its own factories. As regards coal, the industry failed to show spectacular profits firstly because only 23 out of the 54 companies were able to earn profits for all the 9 years. Fourteen companies were obliged to carry heavy deficit balances from 1936 onwards. In fact, beginning with such a deficit balance of Rs. 83.42 lakhs, these companies could not earn sufficient profits even to wipe out these balances, for even till 1944 they amounted to Rs. 66.8 lakhs. This picture, as we shall see, is slightly altered if we exclude these deficit concerns; but there were other factors also, which prevented the industry from benefiting as much from the war boom as did the others, such as the pessimistic outlook of the colliery owners themselves and their fear of internal competition and the comparatively lower rise in prices in coal. Indeed, the steadiness in the net earnings in coal is further emphasised by percentages of net profits to sales and to capital employed, as we shall soon proceed to examine. Another important factor in the industry was the transport bottleneck, as a result of which almost all other industries were left to clamour for the

supplies of coal, which they required and for which they had already obtained their permits from the Government.

Before leaving these general tables regarding the Net Profits, it may also be observed that the Percentage of Net Profits to Gross Profits is seen at its steadiest in the case of Iron and Steel and it also remains at a fairly high level throughout our period. In this respect Sugar industry comes next followed by Cement.* These can be contrasted with the variations of this percentage in the case of Cotton Textiles and Jute where the high percentages of the earlier years are balanced by the comparatively meagre ones of the last period; the other percentage of provision for taxation will easily explain this, for the high profits of the war years were subjected to the rigours of the E. P. T.

Table V

In the average amounts of Dividends Paid, Coal easily stands out conspicuously for its low levels. Similarly, the variations are also small in respect of this item in the case of Sugar throughout the period. Although in the case of Cement we begin with the year 1938, there too the dividend amounts are fairly steady. These may be contrasted with the trends in Cotton Textiles, Iron and Steel, Jute and Paper. In the case of Coal, however, as already noted above, the inclusion of 14 deficit companies does make a substantial difference. It will be, therefore, more useful to compare these here with the more corrected table in the Chapter relating to this industry.

In the case of Jute, it will be noted that although the industry on an average showed a loss of Rs. 1,68,000 in 1938, dividends were paid and in the succeeding year, too, the dividends exceeded the net profits. It is indeed a moot point how much of these high dividend rates were induced by the inflationary tendencies that prevailed during the War; but it is easy to see how in such a period along with other commodities, stock prices, too, appreciated fast in value. In fact, the Stock Exchange is regarded as one of the principal indi-

*The sudden fall of this percentage in 1943 was largely due to the loss incurred by one of the companies.

Table V

Trend of Contributions to Reserves

(Averages in '000s of Rs.)

(Figures in brackets stand for indices with base years indicated in the case of each.)

	1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Cotton Textiles	34 (56)	39 (64)	61 (100)	54 (88)	52 (85)	3,01 (493)	4,92 (806)	8,77 (1,426)	11,52 (1,885)
2. Sugar ..	85 (181)	14 (28)	47 (100)	84 (178)	86 (189)	86 (187)	98 (213)	1,22 (267)	1,19 (258)
3. Iron & Steel	3,78 (10)	2,78 (7)	12,75 (32)	nil (100)	40,00 (100)	39,00 (97)	51,56 (128)	19,12 (48)	30,19 (75)
4. Paper ..	1,43 (186)	1,07 (138)	77 (100)	1,05 (134)	1,36 (177)	1,80 (234)	2,73 (355)	5,74 (745)	2,69 (349)
5. Cement ..	*	*	16,65 (100)	75 (4)	1,43 (8)	2,93 (18)	6,95 (42)	3,50 (21)	4,25 (26)
6. Jute ..	18 (900)	2 (100)	3 (131)	28 (1,400)	82 (4,100)	81 (4,050)	1,04 (5,150)	89 (4,450)	1,21 (6,050)
7. Coal ..	4 (15)	12 (42)	28 (100)	20 (71)	12 (43)	9 (33)	9 (33)	15 (54)	49 (176)

*The averages for the Cement Companies begin only from 1938, as the A.C.C. was established in 1936 and the Dalmia's in the following year.

cators of the trends in money markets. Here, again, though the peak year for the net profits is 1940, the highest average dividends were distributed in 1942. Similarly, it will be noted that in the case of Iron and Steel, although the year 1942 is the peak year for net profits, the highest dividends were paid in 1938 and 1941. Here, however, as we have seen above, the averages in respect of this industry are governed by the fortunes or policies of one or the other of the two units only.*

Reserves

When we turn to the next table on the trends of Contributions to Reserves, the highest increase in the trends is seen in the Jute industry, for, from almost negligible reserves of the previous years, these reserves average more than 1.2 lakhs of rupees towards the close of the period. Similarly, in the Cotton Industry also from the rather low figures in the first period, they slowly increased their reserves to Rs. 11.5 lakhs on the average in 1944. In wide contrast with these industries, is Coal which shows meagre reserves throughout the period. In the case of Cement, although for other purposes the base year 1938 is convenient, in respect of reserves, this is the peak year, for, in that year one of the companies carried a substantial portion of its earnings to this account. It will be seen that the Iron and Steel did not provide any reserves for 1939, though this was made up by an impressive amount provided in the following year. Next to Cotton Textiles, therefore, the two industries that have increased their reserves substantially over the period are Jute and Sugar.

Table VI

But much more interesting than these individual trends will be a comparison between Dividends and Reserves as percentages of Net Profits, for this will show how much of the net earnings have

*For instance, upto 1939 October, the Tatas were obliged to pay off the arrears of dividends on their second preference shares and in 1941 the SCOB increased its dividends from Rs. 3.5 lakhs in the preceding year to Rs. 34 lakhs.

Table VI
Trends of Dividends Paid, Contributions to the Reserves, and Managing Agents' Remuneration
as percentages of Net Profits (Averages)

		1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Cotton Textiles										
Dividends Paid ...	...	106.6	83.1	65.8	86.2	63.3	48.8	52.1	48.8	36.7
Reserves ...	...	36.2	28.6	29.1	39.2	21.8	53.5	54.1	67.3	78.2
M. A. Remuneration ...	...	64.8	53.7	40.8	57.3	39.3	36.0	42.3	57.2	42.4
2. Sugar										
Dividends Paid ...	...	54.8	103.1	78.8	57.8	53.6	53.8	59.5	64.5	69.0
Reserves ...	...	36.3	14.8	31.1	41.1	45.8	33.1	36.6	32.1	38.9
M. A. Remuneration ...	...	17.9	40.8	27.9	22.2	23.0	18.8	21.9	19.6	22.6
3. Iron and Steel										
Dividends Paid ...	...	99.0	99.0	91.5	111.5	72.4	83.5	78.4	92.8	86.2
Reserves ...	...	4.8	2.8	7.3	Nil	21.6	19.5	25.5	12.5	18.7
M. A. Remuneration ...	...	7.1	10.7	10.2	19.2	13.5	17.5	18.1	20.4	20.0
4. Paper										
Dividends Paid ...	...	59.4	62.3	76.7	71.7	55.3	62.1	58.1	41.3	61.4
Reserves ...	...	40.0	31.3	28.1	39.2	25.8	32.1	39.7	54.3	41.5
M. A. Remuneration ...	...	41.2	47.8	39.5	25.5	32.0	38.1	38.6	33.5	35.7
5. Cement										
Dividends Paid ...	...	*	83.2	47.6	106.6	94.2	96.2	80.3	125.8	85.2
Reserves ...	...		13.3	42.5	4.3	7.3	12.0	17.8	17.1	11.8
M. A. Remuneration† ...	...		15.0	14.4	22.0	19.5	18.6	16.8	30.3	25.4
6. Jute										
Dividends Paid ...	...	89.7	182.8	Loss	115.6	68.0	79.6	79.7	90.4	74.7
Reserves ...	...	5.6	1.7	Loss	19.0	15.1	16.5	20.0	20.9	26.9
M. A. Remuneration ...	...	12.1	89.6	Loss	62.5	30.0	33.1	38.7	50.5	53.6
7. Coal										
Dividends Paid ...	...	98.2	100.3	72.4	85.1	102.4	83.2	84.9	108.5	71.0
Reserves ...	...	7.8	18.1	21.0	18.0	13.8	10.0	10.7	18.5	27.6
M. A. Remuneration ...	...	23.5	40.9	27.1	34.2	44.7	38.8	44.0	53.1	44.1

* The averages for Cement companies begin only from 1938, as the A. C. C. was established in 1936 and the Dalmia's in the following year.

† As the Dalmia Cement Co. Ltd., has not shown any amount under this heading till 1942, we have related the average amounts of this item for 1937 to 1941 to the Net Profits of the A. C. C. only.

been retained within the industry. Our Table No. IV, besides showing these percentages, also contains percentages of Managing Agents' Remuneration to Net Profits. For, this will be a very convenient place where this remuneration can be examined in relation to the net earnings of the companies and the amount distributed to the shareholders. Paper is the only industry in which the dividends paid have throughout been kept within the limits of the net profits. In all other industries they were required to draw on past reserves at least once and in the case of jute and coal thrice each. It is noteworthy that the percentage of Managing Agents' Remuneration remains fairly steady over the period in the case of Cotton Textiles followed by Paper, Coal, and Sugar whereas there are wide fluctuations in the case of Jute. This remuneration is the lowest in the case of Iron and Steel, Sugar coming next. It will also be noted that the highest figure is provided by Jute—89.6 per cent in 1939—and the lowest by Iron and Steel 7.1 per cent in 1936. It must, however, be seen that this percentage of managing agents' remuneration has not the same relative significance as the percentage of dividends or reserves to net profits because we have regarded this item as one of expenditure deductible from gross profits. We have only included it here to indicate a rough comparison between the trends of net profits and the trends of the remuneration.

It may as well be added for elucidating this table that dividends and reserves are ultimately paid out of the amounts available for allocation and this amount is arrived at after adding carry forward of the previous year to the net profits and the adjustments from the past reserves, if any, to pay dividends. Further, it must also be remembered in respect of these reserves that a part of these, after 1941, were formed out of the Compulsory Deposits under the Excess Profits Tax. But obligatory or otherwise, these amounts have certainly augmented the reserve funds of these companies. We have, therefore, not shown these Compulsory Deposits separately, for they partially affect the last two years only. Our table shows that a majority of these industries have followed a policy of distributing their profits by way of dividends rather than building up reserves over the greater portion of our period. This is not so to say that as in the case of the first World War all their earnings have been squandered away by dividends; but it cannot also be asserted that

over the whole period, they have adopted a conservative policy in regard to dividend payments, having regard to their post-war needs or problems. Iron and Steel and Cement have kept back very little of their earnings from their shareholders, for both of them have distributed nearly 90% of their profits in this manner, though in the case of the former, the figures are largely influenced by the policy of one of the three companies.* Conversely, therefore, as we have seen, reserve ratios in these industries are markedly low. The group that comes close to this is Coal and Jute. On the other hand, Paper and to a smaller extent Cotton Textiles have increasingly conserved their earnings, especially, during the second half of our period. Thus the charge of squandering away its earnings which was made against the cotton industry at the close of the first World War cannot certainly be made at the end of the second World War. It will be seen that in the last year, Cotton, Sugar, Jute and Coal, substantially increased their reserve ratios.

Relation of Profits to Sales and Capital Employed

We have already commented upon the price factor and the quantum of production so that it is needless to dwell at any length upon the principal features of our Table VII, which shows the Trends of Sales over our period. In the case of Iron & Steel, Cotton Textiles, and Sugar, the increases are continuous and obviously steep towards the end, while in the case of Jute, Paper and Cement, the rise is intermittent. These increases are accounted for almost wholly by the rise in prices for, as we have seen, except in the case of Coal, all the output of factories could find a ready market. Our object, however, is to relate our profit trends to the sales, for frequently the profits-sales ratio has been regarded as a "key ratio".

In the first instance, our net profits will serve little purpose here because the greater the earnings of the concern over the base period, the greater was the amount that they had to pay by way of

*The Tata Iron and Steel Co. did provide reserves for six years from 1940 onwards and the Indian Iron and Steel for seven years intermittently.

Table VII

Trend of Sales

(Averages in '000s of Rs.)

(Figures in brackets stand for indices with base years indicated in the case of each.)

	1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Cotton Textiles	40,32 (77)	46,70 (89)	51,94 (100)	50,44 (97)	60,72 (116)	88,57 (170)	128,24 (247)	218,23 (420)	224,75 (432)
2. Sugar ..	20,08 (95)	21,79 (103)	21,18 (100)	23,59 (111)	22,47 (106)	27,72 (131)	36,24 (171)	41,92 (198)	53,43 (252)
3. Iron & Steel	460,00 (48)	561,60 (60)	795,23 (80)	787,32 (79)	991,26 (100)	13,00,65 (130)	13,55,61 (136)	12,73,36 (127)	15,37,79 (155)
4. Paper ..	47,98 (79)	56,12 (91)	60,98 (100)	67,14 (110)	55,93 (92)	63,90 (105)	75,68 (125)	104,45 (171)	91,84 (150)
5. Cement ..	*	*	237,60 (100)	222,63 (94)	217,72 (92)	206,54 (87)	233,22 (98)	245,59 (103)	310,68 (131)
6. Jute ..	45,56 (92)	49,79 (100)	50,16 (101)	54,24 (107)	84,89 (171)	67,43 (135)	92,31 (185)	100,28 (201)	109,10 (219)
7. Coal ..	6,12 (69)	6,44 (72)	8,91 (100)	9,88 (111)	10,55 (118)	10,06 (113)	10,91 (122)	13,64 (153)	23,84 (266)

*The averages for the Cement companies begin only from 1938, as the A.C.C. was established in 1936 and the Dalmia's in the following year.

Table VIII
Trends of Gross Profits and Depreciation

(Averages in thousands of Rupees.)

		1936	1937	1938	1939	1940	1941	1942	1943	1944
1.	Cotton Textiles									
	Gross Profits	1,89	2,83	4,01	3,51	5,17	14,81	33,48	71,14	67,06
	Less Depreciation	89	1,32	1,60	1,69	1,99	3,74	4,79	3,96	2,89
	Net Gross Profits	1,00	1,51	2,41	1,82	3,18	11,07	28,69	67,18	64,17
2.	Sugar									
	Gross Profits	3,95	2,39	3,11	3,81	3,95	4,91	5,36	8,31	6,97
	Less Depreciation	1,19	1,16	1,30	1,25	1,39	1,46	1,44	1,53	1,52
	Net Gross Profits	2,76	1,23	1,81	2,56	2,56	3,45	3,92	6,78	5,45
3.	Iron & Steel									
	Gross Profits	143,55	167,50	259,03	234,68	298,93	447,98	533,99	431,28	483,96
	Less Depreciation	53,00	49,04	48,90	54,27	39,01	99,90	92,50	92,50	90,00
	Net Gross Profits	90,55	118,46	210,13	180,41	259,92	348,08	441,49	338,78	393,96
4.	Paper									
	Gross Profits	6,46	5,62	6,26	4,67	12,95	19,95	24,53	40,23	24,44
	Less Depreciation	2,23	1,81	2,51	2,05	3,04	3,53	3,64	3,59	2,97
	Net Gross Profits	4,23	3,81	3,75	2,62	9,91	16,42	20,89	36,64	21,47
5.	Cement									
	Gross Profits	*	108,38	68,73	44,32	45,68	57,13	81,27	68,68	95,63
	Less Depreciation	*	30,19	17,50	21,21	21,70	23,66	23,28	24,61	24,44
	Net Gross Profits	*	78,19	51,23	23,11	23,98	33,47	57,99	44,07	71,19
6.	Jute									
	Gross Profits	4,43	1,77	-1,40	2,18	11,09	13,00	16,68	13,91	16,79
	Less Depreciation	95	49	28	44	1,46	1,65	1,80	1,33	1,10
	Net Gross Profits	3,48	1,28	-1,68	1,74	9,63	11,35	14,88	12,58	15,69
7.	Coal									
	Gross Profits	1,13	1,26	2,40	2,28	2,40	2,13	2,37	2,82	7,21
	Less Depreciation	51	52	67	70	81	65	68	68	83
	Net Gross Profits	62	74	1,73	1,58	1,59	1,48	1,69	2,14	6,38

*The averages for the cement companies begin only from 1938, as the A. C. C. was established in 1936 and the Dalmia's in the following year. Figures for 1947 relate to the A. C. C. only.

Table IX

Trends of Profits* as Percentages of (1) Sales and (2) Capital Employed (Averages)

	1936	1937	1938	1939	1940	1941	1942	1943	1944
1 Cotton Textiles									
Sales (Net Gross Profits) ...	2.4	3.2	4.6	3.6	5.1	12.5	22.4	30.8	28.5
Sales (Net Profits) ...	2.5	2.9	3.8	2.7	3.7	6.7	7.0	5.9	6.7
Capital Employed (Net Profits)...	1.9	2.6	3.6	2.6	4.3	8.8	12.6	15.5	11.1
2. Sugar									
Sales (Net Gross Profits) ...	13.2	5.7	8.5	10.8	11.4	12.5	10.8	16.2	10.2
Sales (Net Profits) ...	11.4	4.2	7.1	8.6	8.4	9.3	7.4	9.1	5.7
Capital Employed (Net Profits)...	7.6	3.0	4.7	6.7	4.4	6.2	6.7	8.5	5.3
3. Iron & Steel									
Sales (Net Gross Profits) ...	19.8	21.1	26.5	22.9	26.1	26.7	32.6	26.6	25.6
Sales (Net Profits) ...	16.8	18.2	22.3	17.3	18.6	15.4	15.1	11.1	10.4
Capital Employed (Net Profits)...	8.1	6.3	10.4	6.0	8.0	8.3	7.5	5.5	5.8
4. Paper									
Sales (Net Gross Profits) ...	8.8	6.7	6.1	7.6	17.8	25.7	27.6	35.1	23.4
Sales (Net Profits) ...	7.3	5.0	4.4	5.5	9.6	8.8	8.9	10.0	7.1
Capital Employed (Net Profits)...	10.3	7.3	4.9	3.6	9.3	10.8	11.9	16.3	7.8
5. Cement									
Sales (Net Gross Profits) ...	†	18.9	21.4	10.6	11.0	16.4	24.8	17.8	22.8
Sales (Net Profits) ...		14.3	16.7	8.1	9.1	12.2	16.6	8.1	10.8
Capital Employed (Net Profits)...		7.8	9.0	3.7	4.3	5.5	8.8	4.4	6.8
6. Jute									
Sales (Net Gross Profits) ...	7.7	2.6	Loss	3.2	11.4	16.9	16.1	12.5	14.3
Sales (Net Profits) ...	7.1	2.3	Loss	2.7	6.4	7.3	5.6	4.2	4.1
Capital Employed (Net Profits)...	5.1	2.0	Loss	2.3	8.5	7.3	7.7	4.9	5.3
7. Coal									
Sales (Net Gross Profits) ...	10.1	11.5	19.7	16.0	15.0	14.7	15.5	15.7	26.8
Sales (Net Profits) ...	8.3	10.2	14.8	11.2	8.1	8.9	7.7	5.8	7.4
Capital Employed (Net Profits) ...	2.8	3.9	7.2	5.7	4.5	4.6	4.1	3.7	7.6

*Net Gross Profits -- Gross Profits - Depreciation. Net Profits -- Net Gross Profits - Taxation.

†The averages for the cement companies begin only from 1938, as the A. C. C. was established in 1936 and the Dalmia's in the following year. The percentages for 1937 relate to the A. C. C. only.

the Excess Profits Tax. So this ratio of Net Profits to Sales is rendered somewhat vitiated after 1940. We, therefore, take for the purposes of this ratio the gross profits into account and relate their trends to sales. Here, too, however, there is one more difficulty which has to be got over. If we take our gross profits, i. e., total earnings minus expenses or in other words gross receipts, we would be including depreciation also for examining the profits-sales ratio. It would be better to exclude this amount of depreciation as it is a necessary item of expenditure. We, therefore, deduct this item from our gross profits and relate this sum to the sales. Our Table VIII shows this amount after deducting depreciation from gross profits and this amount is related to sales in the following table which shows not only this ratio but also, for the sake of comparison, the net profits-sales ratio as well. We have further included in this table the ratio of Net Profits to Capital Employed.

Again, in ordinary times, the profits-sales ratio will undoubtedly reflect the efficiency of the business unit. But in a sellers' market, such as the one we have described above, this ratio loses much of its significance. At the same time, however, the ratio will undoubtedly indicate the relative profitability of the sales. It would therefore, be interesting to compare how the different industries have shaped during this period in regard to this ratio. The table will show the increasing profitability from one period to another, obviously reaching the peak in the last one. The highest profitability is shown in Paper in 1943 when the percentage reaches 35.1 followed by Iron & Steel in 1942 at 32.6. Iron & Steel, it will be seen, has maintained a fairly high ratio throughout, which means that its cost of production was proportionately low before the War, and during the remaining years, too, it did not rise more than in proportion to the rise in sales proceeds. Next in this respect is Cement.

In view, however, of our observations about the utility of the profits-sales ratio, it would be more interesting to turn to the Percentage of Net profits to Capital Employed. This will indicate the effectiveness of capital invested in the various industries or the relative return of the various doses of capital in these industries. Over the whole period this ratio is the highest in the case of Paper. The other two industries coming next are Iron & Steel and Cotton

Textiles. It will be seen that in 1943 this ratio reaches its peak in Paper falling somewhat precipitately in the last year as a result of the decline in profits.

In the preceding Chapters we have stressed the methodologies of profits indices of different countries which render useful comparisons between the trends of net profits in different countries somewhat difficult, unless they are accompanied by the relative explanations of the methods. In the case of these ratios, however, it will be very interesting to compare the trends, during our period, of the proportion of gross profits minus depreciation to sales and of net profits, as defined by us, to sales, in our country and in the United States of America.*

Table A
Ratio of Net Profits before
Income Taxes.

Table B
Ratio of Net Profits after
Income Taxes

	American 200 largest Corporations	800 others	Our General Ratios (Average of 7 industries)	American 200 largest Corporations	800 others	Our General Ratios (Average of 7 industries)
1936	10.9	9.7	10.3	9.1	8.0	8.9
1937	10.8	8.8	10.0	8.9	7.1	8.2
1938	6.8	4.7	11.9	5.5	3.5	8.8
1939	9.7	8.6	10.7	7.9	6.9	8.0
1940	12.3	11.3	13.9	8.5	7.5	9.1
1941	14.7	15.2	17.9	7.2	6.8	9.8
1942	12.4	13.4	21.4	4.7	4.1	9.8
1943	11.5	12.0	22.1	4.1	3.3	7.7
1944	10.3	10.1	21.7	4.1	3.0	7.4

*The United States figures are taken from the Survey of Current Business for August 1946 and September 1947, in which Mr. K. C. Stokes discusses the "Financial Performance of Large Corporations". This writer is particularly interested in comparing the results of the 200 "Giant Corporations" with those of the 800 intermediate size (other large manufacturing corporations) during the period 1936-1946.

In the case of the first table (A) our general ratio almost follows the trend of the American ratio (except in 1938) upto 1941. There is an increasing divergence, thereafter, which can be attributed largely to the soaring prices in India as compared with the increasingly controlled prices in the American War Economy. Almost the same things need be said about the other table—the decline in our net profits ratio being explained by the heavier taxation during our last period 1942-44.

Some Comparisons

We have so far summarised the main results of our enquiry, which we shall now proceed to discuss in detail in the following Chapters. It would indeed be of great interest if we could compare the general trends of our findings with results of some other analyses, both in regard to Indian conditions as well as outside. We have, in the first Chapter, dealt with, at some length, the trends as revealed in the Economic Adviser's Profits Indices in India and as that is the only systematic and continuous study of figures available in our country, we make frequent references to them in the succeeding Chapters too. It will therefore suffice our purpose here to assert that the trends as revealed in our figures are on the whole very similar to those indicated by this set of indices. For instance, our peak years for the various industries are the same, as also the magnitude of the rise in the various indices.

It would, however, be of some interest to review a few other enquiries also to which some reference has been made in the opening Chapter. Thus, we have adverted in passing to Dr. M. H. Gopal's study of dividend trends in a series of articles on that subject. His articles in the Mysore University Journal have also been largely reproduced in his recent work on "Theory of Excess Profits Taxation."*

As noted before, this is a fairly detailed study of dividend trends of different groups of enterprises and forms an exceedingly interesting study for the inter-war (1918-1939) period. We have,

*Bureau of Economic Research, Mysore, 1947.

however, seen that profits—particularly net profits—and dividends are two separate entities in corporate finance, though they may be related to each other. It is indeed surprising that while this author is well aware of the fact (to use his own words) “profits applicable to the equity capital are the residuum of residuum and the equity dividends may not accurately indicate the fortunes of the firm”,* he concludes : “that the declared dividends on ordinary shares are *generally lower* than the profits earned and may be taken as a safe guide indicating the tendency of profits established over a long period of uneven prosperity and depression”.† And this conclusion, in fact, is arrived at after noting the limitations of such an assumption, viz., (1) The variety of considerations that go into the declaring of dividends, (2) “Various methods of hiding profits such as the issue of bonus shares”, (3) Secret reserves and dividend equalisation funds, †† (4) Dividends being generally related to the face value of shares which is often different from that of market value, and (5) The difficulty of relating dividends to capital employed. All this reasoning perhaps strengthens the argument that where net profits can be found out, they are a better indication of the “true” profits of the enterprise than the ordinary dividends even over a fairly long period.‡ Perhaps our discussion in the foregoing Chapter will serve to emphasise that it is as necessary to distinguish between net profits and dividends, just as it is necessary to keep depreciation amounts out of profits such as are included in the Economic Adviser’s profits figures. These observations would seem to gain point when we come to examine Dr. Gopal’s article on Industrial Profits since 1939.‡‡

*p. 81 Ibid.

†p. 91 Ibid.

††The author himself on page 89 asserts: “it thus follows that the real earnings on the capital and enterprise in any year cannot be measured accurately by dividends—ordinary or preference—actually paid, because the rate of dividend amounts sometimes to more and sometimes to less than the true annual profits.”

‡Indeed, the present writer can easily appreciate the difficulties of collecting balance sheets of various companies, especially in the case of an individual enquirer.

‡‡Eastern Economist May 12, 1944.

In this paper the author discusses a number of interesting tables on (1) average net profits per concern, (2) index number of average net profits, (3) proportion of net profits utilised for dividends and (4) indices of reserve funds. Unfortunately, however, the term net profits has not at all been defined nor are we told whether the dividends taken into account are only ordinary dividends.*

In the case of the trends of reserve funds, however, the trends are very similar to those shown in our tables.†

In fact, such studies of dividend trends are not rare and are often taken up in the surveys of the prospects of various industries in the Annual Numbers of leading financial journals.†† For example Mr. P. C. Jain, in some Annual Numbers of the Capital, surveys the dividend trends of "Indian Joint Stock Enterprise".‡ He, too, classifies the industries according to the rates of ordinary dividends paid by them from year to year and arrives at an average dividend percentage per annum in the case of each industry. In fact his object is, "to judge the comparative prospects of the different industries, and the changes therein from year to year by means of these dividends", from a study of the Calcutta Stock Exchange

*Perhaps this is the reason why we come across such figures as an index figure of 926 for jute as against 645 for cotton in 1943, (1939-100), or only 73 for 1940 in the case of cotton. Similarly, in the case of sugar the net profits for 1940 are shown as having risen by 43% over 1939 despite the fact that 1939-40 was the year of crisis in that industry.

†"The growing conservatism in the distribution of net profits as well as the position of "Reserve Funds" in our industries casts doubts on the correctness of the criticism that our enterprises, especially cotton, do not provide enough for Reserves." *Eastern Economist*—12-5-1944-p. 731.

††It is indeed surprising that Dr. Gopal observes "There do not appear to be any indices of profits for India nor any systematic study been made of the problem" p. 135, Vol. III Pt. X of the Mysore University Journal 1943, and this remark is repeated on p. 77 of his book, although as we have shown the Economic Adviser's Profits Indices have been published since 1937-38.

‡c.g. Annual Numbers of Capital for 1942 and 1944.

Year Book and the Investor's Encyclopedia (Kothari & Sons).*

An equally interesting study of war-time profits is also found in Messrs. P. N. Nayer and S. N. Mishra's article on Industrial Profits in the pages of Indian Sugar.† In this paper an attempt is made to compare the war-time profits of the Sugar Industry with those in other 19 industries and to compare the levels of profits in the Sugar Companies themselves in the different regions. Here, the totals for the 5 years, 1939-40 to 1943-44 and as large a sample of each of 20 industries as possible is taken, with a view to compare their (1) total paid-up capital, (2) net block as percentage of paid-up capital, (3) reserves as percentage of paid-up capital, (4) average net profit as percentage of capital in the 5 year period, (5) average annual dividends during the period, (6) the average price of Rs. 100 ordinary shares and (7) the average dividend per Rs. 100 of market price of ordinary shares. Thus this analysis mainly centres round the return on paid-up capital and, though quite interesting in itself, would have gained in value if the term net profits had been defined and the year to year progress were shown. These writers, however, have largely confined their efforts to show that the Sugar Industry in respect of profits did not fare as well as other industries in the country.

In the present Chapter we have broadly summarised the trends of net profits, dividends, etc., over the whole period covered by our enquiry and instituted a few comparisons in these trends. For obvious reasons, there are wide and varying fluctuations in each of these industries during the period, and we therefore proceed to examine the significance of these year to year fluctuations in these industries, severally, in the light of their internal developments and in the context of the fast changing economic situation which largely brought them about.

*It is somewhat noteworthy that Dr. Gopal does not make use of his Eastern Economist article covering the war period at all in his book published in 1947.

†Indian Sugar (the official organ of the Indian Sugar Syndicate Ltd.) for July 1946.

CHAPTER IV

THE COTTON TEXTILE INDUSTRY

Position of the Industry on the eve of the Special Tariff Board, 1935.

The history of the industry—a story, as ancient as it is glorious—has been the subject of many dissertations. Even its more recent development, since the establishment of the first cotton textile mill in Bombay by C. N. Davar in 1851, is as well-known as the story of its earlier decline after the advent of the East India Company. For our purposes we might begin by saying that while for the world outside India occupies the position as a great producer of cotton textiles, at home during the last 25 years or so it has been a much debated and much investigated industry. For, on the one hand, by no stretch of argument can this industry be called an infant industry, it has on the other so often turned to Government in times of strain for active state aid, preferably through the Tariff.

At the beginning of our period, for instance, the industry had just emerged out of protracted trade negotiations with its biggest rivals, Japan and Great Britain. Thus on the assumption that the cotton duty was not increased above the prevailing level of half an anna per pound, it was agreed that (1) the Indian Textile Industry was entitled for its progressive development to a reasonable measure of protection against the imports of U. K. yarns and piecegoods. (2) It was also agreed that under the existing conditions, owing to lower costs and other factors operating in some foreign countries, the industry required a higher level of protection against them than against the U. K. (3) Further, as regards cotton piecegoods, it was agreed that if and when the revenue position of the country made it possible for the Government of India to remove the general surcharge on all imports, imposed in October 1931, the Indian side would not make fresh proposals with regard to the duties applicable to

the United Kingdom. In 1935, therefore, a special Tariff Board was appointed to recommend, on a review of the existing conditions, and in the light of the experience of the effectiveness of the existing duties, the level of duties necessary to afford adequate protection to the Indian textile industry against imports from the United Kingdom. In 1935 there were in all 365 cotton textile mills distributed over the country as under:—

Bombay City & Island	...	...	...	74
Ahmedabad	...	...	...	83
Rest of Bombay Presidency	...	...	...	65
Rest of the country	...	...	...	143
			Total	365

To these 365, we may add 42 that were in the course of erection or had been recently registered. The paid-up capital of these 400 odd mills was estimated at over 46 crores of rupees, while they consumed $\frac{3}{5}$ of the indigenous output of raw cotton totalling about 2400 million bales in weight. The annual output of the mills came to 3500 million yards of cloth and these factories employed about 5,00,000 workers.* Let us also take another statement—one issued by the Bombay Mill Owners' Association, summarising the position of the industry on 31st August 1936.

No. of mills	—	379 (+ 47 in the course of erection)
Spindles	—	9,857,000
Looms	—	200,062
Hands employed	—	418,000
Cotton consumed	—	3,109,618 (bales of 392 lbs. each)

Prices of the cotton manufactures, particularly after the depression, had been falling steadily, though as the Tariff Board pointed out "The Indian Textile position has been further complicated by keen internal competition in some lines where over-

*The output of the handlooms was estimated at 1500 million yards and these provided employment for about 6 million persons all over the country.

production by local mills has resulted in periodical accumulations of stocks and consequent temporary closing down of spindles and looms. The effect of this competition is reflected in the persistently low level of prices ruling in India for the lower grades of both yarn and cloth which in turn react on better qualities to the advantage of the consumer and the disadvantage of the manufacturers." This observation is largely borne out by the following figures issued by the Bombay Mill Owners' Association:

Average Price per yard of Cloth (Mill-made)

1929-30'	1930-31	1931-32	1932-33	1933-34	1934-35
As.	As.	As.	As.	As.	As.
3.81	3.15	2.87	2.77	2.64	2.41

This fall in price may be juxtaposed with the per capita consumption of cloth in India which varied from 13.8 in 1930-31 to 14.9, 17.5, 14.5 and 16.3 yards in the years that followed.*

By the time that we begin our survey, the industry had already attained a position of great prominence in the manufacturing world, for from the point of view of spindleage and loomage, India came to be ranked as the fifth largest and from that of cotton consumed, the second largest country in the world. On the other hand, its importance in the economy of the country may be further emphasised by remembering that the mills consumed more than 50% of our cotton crop, supported two lakhs of workers in the night shift (excluding the $4\frac{1}{2}$ lakhs day workers) and provided subsidiary employment to large numbers of persons engaged in various trades which directly depended upon the cotton textile industry.

Scope of our Enquiry

There is one more feature of the industry, on the eve of the war, which has a direct bearing on the results of the present study. It is well-known that one of the principal developments in the

*See M. P. Gandhi, *Indian Cotton Textile Industry—Its Past, Present & Future*, P. 166 (1937 Annual).

industry during the "inter-war" period was that the industry developed more in the up-country centres than in those where it had already been localised, viz., Bombay and Ahmedabad. In a study like ours, therefore, one would very much like to see that the "location factor" too was properly reflected in the statements. While we did bear this consideration in mind we had also to work under the limitations imposed by the difficulty of obtaining balance-sheets of all the companies that we would have like to include in the list. Indeed in the case of this industry, the making-up of a list would present no difficulty at all. We have, therefore, retained the names of those companies in our final list, which we have actually analysed, for here the selection had to be made only on the availability or otherwise of the balance-sheets. In spite of these limitations, it would be interesting to see how far this location factor has been preserved in our analysis. We may add that we would have welcomed a few more companies from Ahmedabad and one or two more from the South—owing to the recent developments in the industry there—and perhaps one or two companies from the North. But in the trial results which we obtained before proceeding with the final list, we found that the addition of a few here and there would not materially affect our averages. We, therefore, contented ourselves with the 71 units which we selected and hope that our results would typify the principal features of the financial developments in the industry during our period.

Regional Distribution of Companies.

	Total No. of cos. ana- lysed.	Group		
		A	B	C
1. Bombay Island (proper) ...	30	12	15	3
2. Ahmedabad ...	13	1	8	4
3. Bombay Presidency, excluding (1) and (2) above ...	9	1	7	1
4. Bengal ...	2	1	1	—
5. United Provinces & the Punjab ...	4	3	—	1
6. Madras & the South ...	7	2	2	3
7. Central Provinces & Berar ...	1	1	—	—

Regional Distribution of Companies. (Contd.)

8. Indian States: Hyderabad:	3	...				
Baroda:	1	...				
Indore:	1	...				
		—	...			
	5	...		5	2	3
						—
Total	...			71*	23	36
						12

In the case of these 71 units, we have further classified them, for the sake of convenience, under groups A, B, & C, on the basis of the amount of their paid-up share capital. Group A includes those companies whose paid-up share capital is above Rs. 25 lakhs; Group B, between Rs. 10 and 25 lakhs and Group C, below Rs. 10 lakhs. We also note herebelow the total paid-up share capital, represented in each group, so that it will be seen that Group A represents 65.8 per cent of the total paid-up share capital, covered by our list, Group B, 29.8 per cent and Group C, 4.4 per cent.

	No. of cos. analysed.	Paid-up share capital (In lakhs of Rs.)
Group A ...	23	13,69
Group B ...	36	6,18
Group C ...	12	91
	—	—
	71	20,78

*These 71 cos. own over 110 textile mills. It will, therefore, be useful to compare this table with the location of the different textile mills in the country in the year 1935-36 :

1. Bombay Island proper	— 68	6. Madras & the South	—70
2. Ahmedabad	— 77	7. C. P. & Berar	—12
3. Bombay Presidency (excl. I and 2 above)	— 62	8. Central India	—16
4. Bengal, Bihar & Orissa	— 32	9. Hyderabad State	— 6
5. U. P. & the Punjab	— 40	10. Rajputana	— 6
		Total ...	389

(Figures compiled from Indian Textile Journal, Golden Jubilee Souvenir, 1941. p. 18)

It may also be added that these 71 companies represent a paid-up share capital of 20.78 crores of rupees out of a total of Rs. 46 crores for the whole industry.*

Before proceeding with our observations on the tables that follow, let us also summarise briefly how the different units have fared during our period in respect of profits and losses. Over the whole period of 9 years from 1936 to 1944, we shall soon see that no company has shown a loss for more than 4 years—in fact from Group A none for more than 2 years. This feature may be contrasted with the record of some other large-scale industries, such as coal, jute and sugar. Two-thirds of our total companies, (i. e., 47) were able to make profits for all the 9 years. As against this, 1936 was the worst of the years when 18 companies were obliged to show losses in their working. These financial results are summarised in the following table. It may also be pointed out that in the last year 1944, we have analysed the working of 60 companies only, because when we began our enquiry, we were able to obtain the balance-sheets of these companies only up to 1943-44. The penultimate war year, 1944, was added at the end of our investigations largely for the sake of attaining uniformity in respect of all the seven industries.

Working of the Cotton Textile Companies.

Group.	Total No. of cos. analysed.	No. of cos. showing profits for all years 1936 to 1944.	No. of cos. showing losses for			
			1 year	2 years	3 years	4 years
A	23	15	6	2	—	—
B	36	24	5	2	2	3
C	12	8	2	—	2	—
	—	—	—	—	—	—
Total	71	47	13	4	4	3

*The slight divergence in this figure from the one cited in the previous chapter arises from the fact that the latter does not include the units in the process of erection and relates to the year 1937-38.

We have already commented upon the peculiarities of the balancesheets elsewhere, but it would be pertinent even here to refer to the wide divergence in the presentation of profit and loss accounts of the textile mill companies. This difference in presentation can be easily explained firstly because in this industry, unlike Jute and Coal, a few houses of Managing Agents do not control large groups of manufacturing units. Secondly, there are numerous items to be included (or excluded) in the presentation of the annual accounts. Thus, some companies like Bombay Dyeing, Madhusudan, Ahmedabad Advance and Buckingham & Carnatic Mills, give very detailed information even on such items as wages and salaries and other establishment charges. For us, however, this variety in the Profit & Loss Accounts and the Balance Sheets did present not a few difficulties, for the purpose of calculating the totals for the various items collected. We may instance these difficulties by referring to the amounts for the payment of taxation which were shown, in not a few cases, in the years subsequent to those to which they were related. We have tried to get over this difficulty by carrying back these figures to the appropriate years. In a similar manner we had to make adjustments regarding the contributions to the Reserves and Bonuses paid to staff.

We have begun by saying that the industry, when we commence our study, was just turning a corner from the depression of the early 'Thirties. This observation gains a further point from the small but steady rise in our exports from 56 million yards in 1933-34 to 102 million yards in 1936-37, particularly to markets in South Africa, East Africa, Uganda, Persia, Burma, etc. But the trends enumerated above would subdue that optimism as the industry had to face intensified competition from Great Britain and Japan* on the one hand and internal competition especially in textiles of higher qualities on the other. The Review of the Trade of India

*cf. Mr. V. N. (now Sir Vithal) Chandavarkar as Chairman of the Millowners' Association, said in March 1937, "a grave danger to the better class lines of cotton goods lies in the competition which has to be met from the cheap Japanese artificial silk piecegoods which, even with a fairly heavy import duty, are entering this country in rapidly increasing quantities".

Profits Index (1928=100), undoubtedly showed that the earnings of the industry were returning to the pre-depression level.

Indices of Profits (1928=100)	
1933—33.9	1935—89.1
1934—90.1	1936—98.4

1937

This year, as our tables would easily indicate, shows a marked improvement over the preceding year. Indeed from the point of view of our present study, this year is of especial importance, for on the one hand industrial production and profits have, on the whole, been on the increase while industrial prices have gone down. The Chairman of the Millowners' Association, Bombay, surveyed the year with a cheerful note: "all the available statistics show that 1937 may be regarded as the most prosperous year of the decade beginning with the Wall Street Crash."* We shall, for our purposes, content ourselves, therefore, by merely enumerating the principal factors that made this year so notable for the industry before examining our tables.

(1) An increasing tendency towards expansion in the Provinces of Madras and Bengal (2) a gradual rise to prominence of the artificial silk industry, (3) further rationalisation in the cotton mills (which was begun in 1933-34), (4) production became more diversified, (5) improvements in the technical equipment of a number of mills such as up-to-date bleaching and finishing methods and mechanical dyeing (6) a fall in the prices of raw cotton and (7) the Sino-Japanese war. The output of the cotton mills reached a record figure (4,084 million yards) while the index of production was 216, that is, double the figure of 1928-29. All

*In March 1938, the Chairman said, "the result of the year's (1937) working ought to be better than they have been over a decade as far as Bombay is concerned". The Review of the Trade of India 1937-38 said: "There is no doubt that conditions in the cotton mill industry are at present much healthier than they have been for a long time past and as far as the actual working of the year 1937 is concerned, it was perhaps the best year for the industry since the great depression began many years back".

the mills were reported to be working at full speed, while many of them worked double-shifts. The price of raw cotton fell by 32 per cent between March 1937 and March 1938, while the prices of cotton manufactures in the same period remained more or less unaltered.

As in the case of the other industries, here, too, we have taken 1938 as the base year for our indices. It will also be seen that 1936 was a year of depression for the industry, while 1937 was one of slight reaction to this; so that 1938 can be doubly justified as a base year, being the immediate pre-war year and one in which abnormal factors were not emphasised.

Our Tables

Turning to the chain indices in our tables, the highest rise is shown by the Provision for Taxation. This does not mean that all the mills have made such a provision, but in the previous year only a small number had separately shown this amount and this year a few more have provided still larger amounts. But the other more positive trends are seen in the chain indices for Net Profits, Sales and Dividends. It must, however, be added that our tables indicate that although 1937 showed undoubtedly a great improvement over the preceding year, it did not attain the levels reached in 1938—the base year for our tables on Indices. In fact our tables—chain indices as well as percentages—would go to show that 1938 was financially a still more successful year than 1937. This raises a very important question, for in the general surveys of the economic conditions of 1938, as also those for the cotton textile industry, it is pointed out that the 1937 conditions were reversed in 1938—in fact towards the end of 1937 misgivings were reported to have arisen and a set back was seen in the commodity and share markets.* It is for instance shown in the Review of the Trade of India for 1938-39 that for the cotton mill industry the two favourable factors of the preceding year (a) Japan's pre-occupation with the war and (b) a more active demand from the agriculturists whose income had

* See Review of the Trade of India (1937-38) p. 30.

increased as a result of the boom in the commodity markets—these factors had reversed in 1938-39.† Let us, therefore, first enumerate the factors which these general surveys would regard as depressing the industry :

1. The re-entry of Japan as a competitor in the Indian as well as overseas markets.‡
2. The recession in commodity markets that began towards the end of 1937 especially low prices of jute and floods in Bengal.
3. Labour troubles in Cawnpore and C. P.
4. New tax burdens like the Property and Sales taxes in Bombay.
5. Acceptance by Bombay and Ahmedabad Millowners of the recommendations of the interim report of the Bombay Labour Enquiry Committee regarding 12½% wage increases.
6. Uncertainty of raw cotton prices.
7. The nervousness engendered by the protracted negotiations regarding the Indo-British Trade Agreement.
8. The increased output of cloth—4,269 million yards in 1938-39 as compared with 4,084 million yards of the preceding year.

As against these there were of course the two well-known factors, viz., the inability of Lancashire to compete in the Indian market and the short range within which the prices of cotton fluctuated during the year.

We must now try to answer the question that we have raised. How is it that in spite of all these factors depressing the industry—and the apprehensions entertained even at the end of 1937—our

†Ibid, 1938-39, pp. 28-29.

‡Imports of Japanese textiles increased from 306 million yards in 1937-38 to 425 million yards in 1938-39. Exports declined from 244 million yards to 177 million yards in the period.

1938 results are better than those of the preceding year? The first answer is that these tendencies adversely affecting the industry gradually came on during the year and the real recession showed itself towards the end of the year so that their operation is more fully seen in the year 1939. Secondly, even the Review of the Trade of India Index of Profits for 1938 shows a great advance on that of 1937* (208.3 as compared with 138.2).

Our tables, then, cannot be taken to represent an untrue picture of the industry's financial position in the year 1938. In fact, more companies showed provision for taxation and the Net Profits as well as Reserves rose substantially over the previous year. On the other hand, while the amount of depreciation charges shows an increase from Rs. 88,455 in 1936 to Rs. 1,59,960 in 1938 on an average, its ratio to Gross Profits shows that this amount did not increase at the same rate at which the gross profits amount itself rose during the period. The importance of 1938 is further seen in the net profits as percentage of sales as also of capital employed. We may summarise this position of 1938 in the following statements:—

Indices (Base 1938 = 100)

	1936	1937	1938
1. Net Profits	43	66	100
2. Dividends	71	82	100
3. Reserves	56	64	100
4. Sales	77	89	100
5. Capital Employed	87	88	100

.Percentages

	1936	1937	1938
1. Depreciation as % of Gross Profits ...	47.2	46.7	40.0
2. Net Profits as % of Gross Profits ...	48.1	48.0	52.0
3. Net Profits as % of Sales ...	2.5	2.9	3.8
4. Net Profits as % of Capital Employed ...	1.9	2.6	3.6
5. Dividends as % of Net Profits ...	106.6	83.1	65.8
6. Reserves as % of Net Profits ...	36.2	28.6	29.1

*The figures are taken from the Review of the Trade of India 1943-44.

It will be seen that in 1936 the companies on an average actually had to pay more than the amount of their net profits, but the position improved in the two succeeding years. The percentages of reserves are noteworthy in the sense that for 1937 as well as 1938, they are lower than that of 1936. This is explained by the fact that in the latter years some companies had to wipe off their deficit carry forwards before providing for reserves.* Our conclusion then would be that both 1937 and 1938 taken together must be regarded as a period of substantial prosperity after the onset of the Great Depression and that the tendencies began to be reversed only towards the end of 1938 and not during the whole year as shown by the general surveys.†

1939

All these factors that we have enumerated above cumulatively brought about a recession in the industry. This was indeed a year of decisions on larger issues affecting the industry such as the Trade Agreements with U. K. and Japan, taxation policies resulting from programmes of prohibition in the provinces, enunciation of labour policies by provincial ministries and reports of labour enquiry committees. Some of these reports had based their conclusions on the assumption that the fall in cotton prices would continue or at any rate they would remain low.‡ But these hopes were not realised and in fact, whereas stocks began to accumulate, the prices of raw cotton rose by 111% between 23rd August 1939 and 10th January of the following year. This recession will be seen in our figures which show that the number of units incurring losses has again risen.

*Seven companies out of the 71 had a total negative carry forward of Rs. 103 lakhs at the end of 1935.

†See also Ahmedabad Millowners' Assn. Report for 1939, pp.14-18.

‡e.g. Bombay Labour Enquiry Committee reported that the industry was likely to have an 8% greater margin than in the preceding year 1937-38.

No. of cos. showing losses.

1936 ...	17	1939 ...	8
1937 ...	7	1940 ...	6
1938 ...	3	1941 ...	3

Our chain indices show this general decline in the position of the industry fairly clearly, for except in the case of provision for taxation, no figure in 1939 shows any advance upon the previous year. This tendency is almost reversed on the outbreak of the war— with a buoyancy about price trends and cessation of imports, and doubling of duty on raw cotton in the 1939-40 budget (from 6 pies per lb to one anna per lb.).

1940-42

The buoyancy of spirits on the outbreak of the War, to which we have just referred, undoubtedly led to some brisk trading and the mills were able to clear accumulated stocks, but as this trading was not sustained by any rise in demand, the fillip to the industry almost petered out in the beginning of 1940.* An indirect consequence of the optimism of the early months of the war was a vehement demand for higher dearness allowances and Bombay mills had to face a general strike that lasted for 40 days in March - April. The war brought in its wake the imposition of the Excess Profits Tax, while there were also some reductions of duties on imports of British Manufactures resulting from the previous year's Indo-British Trade Agreement. The Government also proposed the establishment of an Export Advisory Council. Thus upto September of 1940 there was a slight decline in prices which was to be

*With the fall in demand, stocks in the hands of mills also increased, the highest stocks coinciding with the period of greatest depression, the end of August, when mills had 126,000 bales of cloth and 24,000 bales of yarn. With the brisk export demand stocks began to diminish rapidly, the figures at the end of the year being 61,000 bales of cloth and 15,000 bales of yarn. These figures were the lowest since May 1937 in the case of cloth and December 1937 in the case of yarn.

followed by a period of recovery and boom to which we shall now turn.†

The War Boom

The full impact of the war was felt by the industry towards the end of 1940, especially after the fall of France and the deliberations on the Eastern Group Council.‡ In fact from this time onwards the industry mounts a wave of prosperity which reaches its peak in 1943. We might, therefore, for the sake of convenience, take the remaining part of 1940 together with 1941 and 1942. We would deal separately with 1943 for though the trends of these years are continued therein, too, the results are so outstanding that this peak year would need separate discussion.

Thus if we revert to 1940 for a second we have to note two opposite trends during the year. The petering out of the artificial boom that started towards the end of 1939 is seen especially in the sudden crash of Broach cotton from Rs. 250 in April to Rs. 147 in about a month's time.¹ The recovery started somewhere in May

†Index Nos. of Prices of Cotton Manufactures at the end of each Month.

September 19, 1931=100

1939—40		1940—41		1939—40		1940—41	
April	... 89	105	October	... 92	98*		
May	... 88	103	November	... 95	100		
June	... 88	100	December	... 116	101*		
July	... 87	97*	January	... 108	103*		
August	... 86	95*	February	... 106	105*		
September	92	95*	March	... 105	113*		

(*Estimated—See Review of the Trade of India 1940—41, p. 42.)

‡See also the remarks of the Chairman of the Ahmedabad Millowners' Association on 1-4-1941 (pp.iii-iv Report 1949) & Bombay Millowners' Association (speech dated 5-3-1941).

¹ See Ahmedabad Millowners' Association Chairman's speech (1940). The index number of wholesale prices advanced from 135 in August 1939 to 181 in December and the prices of cotton touched 341 in January 1940. The index number of cotton manufactures declined from 131 to 119 between January and April 1940.

and the prices of piecegoods exceeded the levels attained at the height of the speculative boom of December 1939. In December 1940 the production of cotton piecegoods reached a level not attained in any month during the previous ten years.† Mill consumption of Indian cotton in India during the last 7 months of 1940-41 amounted to 2,004,000 as compared with 1,744,000 bales in the corresponding period of the preceding year.‡‡

Obviously, the most sustained fillip was obtained from the requirements of the Supply Department and the demand for exports. In 1940-41 the former were double those of the preceding year, totalling 700 million yards. On the other hand, imports were substantially curtailed from 647 million yards to 447 million yards during the period. The exports especially to Eastern countries rose rapidly, in spite of shipping difficulties, and such countries as East Africa, West Africa, South Africa, Straits Settlements and Australia—with their imports from Europe altogether cut off—came to rely mainly on Indian piecegoods. Egypt and the Netherlands East Indies, too, were obliged to take keen interest in these goods. The intensification of the war with China placed a much greater strain on Japan's ability to compete with Indian exports and for these two or three years, India exported her cotton piecegoods at a rate which could hardly have been even dreamt of by the industry in pre-war years.

Exports of Piecegoods

(In millions of yards)

1938-39	—	177	1940-41	—	390
1939-40	—	221	1941-42	—	772

† Reaching 267 (1928-29 = 100)—See Review of the Trade of India 1940-41, p.39.

‡‡ "The signs of the moment are no doubt encouraging. From August last year, the position has improved. At the end of January this year (1941), unclaimed stocks with mills were comparatively low and our market reports indicate that stocks with merchants are not heavy. Prices of both cloth and yarn have risen to more than reasonable levels and if this state of affairs continues, the industry should make fair profits in 1941"—Chairman, Millowners' Association, Bombay, 1940, p.iii.

Imports*(In millions of yards)*

1938-39	—	647	1940-41	—	447
1939-40	—	579	1941-42	—	181

Before we pass on to the next two years 1941 and 1942, it may also be noted that there were one or two adverse factors against which the industry had to contend. There was, in the first instance, a steep rise in the costs of production and new taxes such as the E. P. T. and the increases in the corporation taxes (as also the rise in railway and postal rates). But all these factors were more than covered by the "scarcity" conditions that soon came to prevail in the piecegoods markets. Thus, for example, exports of cotton piecegoods to Aden and the Dependencies amounted to nearly 26 million yards in 1941-42 as against less than a million in 1940-41. Australia, which hardly imported 1 million yards in the pre-war years, took 23 million yards of Indian cotton goods in 1940-41 and 75 million yards in 1941-42.

The Industry's Opportunity

Equally important, as we have seen, were the orders placed by the Government of India and the Eastern Group Supply Council. The Indian Cotton Mill Industry was thus called upon simultaneously to make up the deficiency at home and to supply increasing quantities of ready goods for defence and export purposes. The total value of orders placed by the Supply Department alone, upto 30th December 1941, since September 1939, was Rs. 50.4 crores. The mill consumption of cotton, therefore, increased from 3,338,000 bales in 1940-41 to 3,938,000 bales in 1941-42. In fact, production was not able to keep pace with the increasing demand for goods. Sixty out of 66 mills in Bombay had to work night shifts, while in Ahmedabad the number was still larger. The Factory Act had to be suspended and a conference had to be convened in May 1941 between the millowners and the Supply Department in order to devise means for a regular supply, especially of Government (defence) requirements. Incidentally, the U. K. Cotton industry was placed on a war footing and the British exports were thus rigidly controlled. On the other hand, since July 1941, all Japanese imports ceased

after the Freezing Order of that month. In India, too, a number of mills were reported to be exclusively working for Government orders and the then Supply Member (Sir H. P. Mody) formed a compact organisation, with the planning and purchase side of the Supply Department located at Bombay.

The obvious improvement in the financial working of the companies may, therefore, be summarised as under:

Indices (Base 1938 = 100)

			1939	1940	1941
Net Profits	...	...	66	114	266
Dividends	...	...	87	107	199
Reserves	...	...	88	85	493
Sales	...	...	97	116	170
M. A. Remuneration	...	...	93	109	237

Percentages

			1938	1939	1940	1941
Net Profits as % of Sales	...	...	3.8	2.7	3.7	6.7
Net Profits as % of Capital Employed	...	...	3.6	2.6	4.3	8.8
Dividends as % of Net Profits	...	...	65.8	86.2	63.3	48.8
Reserves as % of Net Profits	...	...	29.1	39.2	21.8	53.5

In the face of the foregoing facts, there is no wonder that scarcity conditions came to prevail, so far as civilian requirements were concerned. We shall presently advert to this aspect, together with that of prices, but we may note here, in passing, that the per capita consumption in the country declined in 1941-42 to 15.10 yards as compared with 16.23 in 1939-40.

It will be seen that the cotton mill industry had almost reached a monopolistic position in more than half the globe and whatever else was left in this was completed with the outbreak of war with Japan. It is true that the tremendous successes of the Japanese armies caused some disturbance in production and the loss of the export markets in the East. On the whole the tendencies noted in

the previous year were all intensified: steadily increasing demand from overseas,—such as from Australia, Ceylon, Africa and the Middle East,—an equally precipitous fall in imports (to the nominal figure of 13 million yards) and the phenomenal orders of the Supply Department—1,000 million yards—which had to be reduced to 700 million—were the highlights of the year 1942-43. For some time it was expected that the industry would still further increase its output to say 4,494 million yards. But the nervousness engendered by the Japanese victories, especially in the leading industrial towns, and later the strikes and disturbances that came in the wake of the Quit India Movement of August 1942 dashed all hopes of further expansion in production. In fact the production for 1942-43 has been put down at 4,100 million yards. There were 27 strikes in 1942 as compared with 15 in 1941. It was not until December 1942 that the tempo of production was resumed.

Prices and Inflationary Process

In the face of all these developments the price trends can be more imagined than described. Again, superimposed on the scarcity was the Government of India's resort to inflation as its method of war finance. Here we shall only content ourselves with delineating the facts of the situation. "For a considerable time, prices for export goods were so high and the profits so good, as compared with prices of goods for internal consumption that the trend of trade appeared to lead merchants to contract goods for export".* Despite all efforts to increase production and evolve a scheme of "standard cloth" for civilian use, a cloth famine stalked the land and the galloping cloth prices necessitated the intervention of the Government for the control of production. Unbleached leopard cloth which sold at about As. 9 per lb. in the pre-war years, was quoted at Re. 1-5-0 in August and later Rs. 2-14-0 in December 1941, to be further quoted at Rs. 3-5-6 in May 1943—a rise of 600% over the pre-war rate. Prices of bleached long cloth, which were about Rs. 7-8-0 per piece before the War, later rose through several stages to Rs. 50/- per piece in the first quarter of 1943.†

*A quotation cited in Messrs. Harkissondas Lukhmidas's (Share-brokers) Note on Indian Textile Industry in the War 1944, p.2.

†Ibid.

Trend of Prices‡

Index Nos. of wholesale prices (In India)
(Week ending 19th August 1939=100)

	1940	1941	1942		1943			
	Dec.	July	Apr.	Aug.	Dec.	March	April	June
Raw Cotton ...	120	166	105	130	174	250	242	261
Cotton Manufactures	117	169	193	258	414	437	469	513

Our object in surveying these general conditions forming the background in which the cotton mills worked during these three years 1940 to 1942 has been to examine the developments in the industry from as many viewpoints as possible—whether it is the output of the industry or it is exports or price-trends or the conditions of competition or want thereof or the general economic trends or financial policy in a war economy. This is very necessary because from 1941 onwards we turn to a set of figures whose extraordinary rises have to be carefully understood and interpreted. Having the indices of the other industries, which we have surveyed, also in mind, the almost staggering figures in our present tables would call aloud for explanation. Our survey of the general conditions in the foregoing paras would go at least to show (i) that by 1942 the industry was placed, let us add by forces beyond its control, under conditions of virtual monopoly, (ii) that in a war economy, which became a bye-word for its mis-management, civilian requirements were altogether subordinated to the needs of the Allies in the War and (iii) scarcity conditions in other commodities too—famine in food, cloth famine, sugar famine—did not deter the Government from pursuing a policy of unbridled inflation—as a method of war finance. If these three considerations are properly kept

‡Capital Index Numbers. Also compare :

Wholesale prices of some typical varieties of cloth.

August 18, 1939. March 13, 1942 May 20, 1943.

1. Longcloth (standard cloth) per lb.	Rs. 0-8-6	Rs. 1-2-10	Rs. 2-10-0
2. Domestic per lb.	0-7-0	1-2- 2	2- 8-0
3. Dhories 32"×9" yds of 1½ lbs	0-9-6	1-2- 0	2-14-0
4. Yarn No. 10½ S. per lb.	0-4-5	0-9- 7	1-11-6
5. Yarn No. 20s. per lb.	0-6-1	0-15-0	2-13-0

(Eastern Economist, 22nd Oct. 1943, p.812)

in view, the precipitously rising array of indices from 1941 onwards will undoubtedly impress, but not surprise us.

We have already emphasised how from 1940 the cotton mill industry mounted a wave of prosperity such as perhaps it never saw before. In 1941 out of our list of 71, three mills showed a loss, but thereafter there was none. Taking the three years 1940-42 together, the most notable increases are to be found in 1941.* From the chain indices table, it will be evident that taking the advance in the Net Profits and Reserves (231 and 578 respectively) and also Provision for Taxation, if we may—this year must be regarded as financially the most successful. At the same time from this year, too, it will be apparent that by far the largest portion of the Gross Profits is set apart for taxation (especially the E. P. T.).† Our graph relating to Provision for Taxation, too, will bring out the fact easily that in a very large measure what the industry has collected from the buyers has largely filled the coffers of the Government.

The Peak Year, 1943-44

In the last two years—in 1943 particularly—we reach the peak years of our period. A glance at the table of indices would perhaps be enough to attract our attention to the year 1943:

* Chain Indices:

		1940	1941	1942
Provision for Taxation	...	180	678	359
Net Profits	...	172	231	161
Dividends	...	127	182	171
Reserves	...	96	578	163
Sales	...	119	147	144
M. A. Remuneration	...	117	215	191
†Percentages :				
		1940	1941	1942
Net Profits as % of Gross Profits	...	46.1	37.4	6.9
Depreciation as % of Gross Profits	...	38.5	23.3	14.3
Provision for Taxation as % of Gross Profits	...	15.4	37.1	58.8
Dividends as % of Net Profits	...	63.3	48.8	52.1
Reserves as % of Net Profits	...	21.8	53.5	54.1
Net Profits as % of Sales	...	3.7	6.7	7.0
Net Profit as % of Capital Employed	...	4.3	8.8	12.6

				(1938 = 100)			
				1941	1942	1943	1944
Net Profits	...	...	266	433	626	704
Provision for Taxation	...	...	1,715	6,153	16,928	15,475
Dividends	...	...	199	342	470	395
Reserves	...	...	493	806	1,426	1,885
Sales	...	...	170	247	420	432
M. A. Remuneration	...	...	237	448	876	730

We may arrange these spectacular rises in the order of their importance; (1) Provision for Taxation, (2) Net Profits, (3) Reserves, (4) Managing Agents' Remuneration, (5) Dividends and (6) Sales. The first two need no longer be dilated upon, but the trend of Reserves must be regarded as a very satisfactory development in the industry. It will be seen that from 1940, the percentage ratio of Dividends to Net Profits has fallen in contrast with that of Reserves. One may, therefore, be justified in drawing the conclusion that the industry has tried to profit by its mistakes during the first world war and not frittered away its earnings in distributing fantastic dividends.

Such optimism would be completely justified if these figures were supported by the trend of provision for Depreciation. A glance at our Table I, however, will show that while the amount of depreciation for the average unit indicates a steady increase up to 1942, even this absolute amount has shown a decline in the last two years from Rs. 4.79 lakhs in 1942 to 3.96 lakhs and 2.89 lakhs in the subsequent years. In fact, the percentage of Depreciation to Gross Profits shows a decline, almost as spectacular as that of Net Profits or Reserves, to which we have just referred. It is true that this percentage ratio cannot and need not rise *pari passu* with that of the other two—that might amount to hiding the profits. But the fall in the absolute amount to which we have referred will easily prove that the financial strength shown by the reserves and net profits is not supported by the provision for depreciation. Let us also bear in mind the enormous wear and tear to which plants in the textile mills, together with those in other industries, were subjected almost day and night, so that one would be justified in looking for a higher percentage of depreciation than those

preceding the year 1942. Unfortunately, during those years in which the Government continued to talk about increased industrial output, it was forgotten that this increase was obtained at a very heavy sacrifice.* As regards the Reserves, it has to be added that in the earlier years, these were quite small so that the percentage rise would appear to be more impressive than absolute amounts would warrant. Secondly, these reserves were largely in the form of optional and compulsory Excess Profits Tax Deposits with the Government which were refundable after the war. The prosperity of this period is also indicated in our tables by the percentage of the Net Profits to Sales and more particularly to Capital Employed, from 1941 onwards, the latter reaching the peak of 15.5% in 1943. In a foregoing paragraph, we have already referred to the trend of prices in the first half of 1943. A very cogent explanation of these figures for 1943 is also to be found in the margin left to the spinner as compared with the prices of raw cotton. In fact, the prices of Indian yarn and textiles set up a full-fledged inflationary pattern for other commodities to follow.† It has also to be noted that while increasing

*“There has certainly been some increase in total output and prosperity in many industries, but in some respects, this has hampered and not advanced the country's progress. The increased production arose from the reckless overworking of existing plant and machinery and more man-hour shifts without, except to a minor extent, the setting up of additional productive capacity, as in other belligerent countries. The result of this heavy overworking of plant and machinery, as well as railways and other equipment, is that the task of replacement has now reached almost unmanageable proportions.” (Sir Badridas Goenka's Presidential Address at the opening of the 19th Annual Session of the Federation of Indian Chambers of Commerce & Industry)

It is thus surprising that while basking in the warmth of prosperous years, some writers have been led to conclude that the finances of many Indian mills substantially improved during 1943-44. (See for example, Commerce, dated 7th July 1945)

†Before the war, mills used to secure a margin of 3 to 6 pies per lb. During the course of the season 1942-43, it had increased to more than a rupee (192 pies) per lb. In third week of March 1943, cotton piecegoods were selling at a premium of roughly Rs. 600 per candy of 784 lbs. over raw cotton. Even in the third week of August, 1943, the profit margin on 20's yarn was reported to be 10 annas per lb. or approximately Rs. 500 per candy in terms of cotton. (Chunilal Mehta & Co's "Indian Cotton Review" for the season 1942-43, p. 13)

dividends have been paid to shareholders, the managing agents too have tried to benefit from the prosperous era. They have indeed more than reimbursed themselves for the sacrifices undergone in the three years preceding the war.

Reserves vs. Dividends

An important development of these years is the policy of several managing agency firms of issuing bonus shares by capitalising reserves rather than of distributing larger dividends. It is true that this policy was actually put into effect from 1944 onwards, but there can be no doubt that the reserves built up during these years (1940-43) led to the adoption of that policy. We may cite a few cases in support of the view as under:—

Dividends Declared*

(in Rupees)

			1938	1942	1943	1944	1945
Bombay Dyeing	...	...	50	100	100	75	65
Central India	...	...	8	14	25	20	15
Gokak	...	...	9	22	23	15	15
Kohinoor	...	...	16	27	40	28	28
India United	...	...	nil	1-2-0	1-9-0	1-4-0	0-15-0

1943-44 Cloth Control

We have already referred to the growing difficulties of civilian consumers because of a veritable cloth famine that came into existence in this country. In the words of Mr. M. S. A. (now Sir Akbar) Hydari "a more comprehensive approach to the problem of cloth shortage and the rise in prices of cloth" was required and this will be a very convenient place to refer briefly to the various measures the Government devised and which finally culminated in the Cloth and Yarn (Control) Order of 1943.

* (See Manu Mehta's Bombay Stock Exchange Year Book, 1946-47, p. 115)

For the first year and a half of the war period, the Government found little difficulty in obtaining its requirements for military purposes. The old Tender System of the Indian Stores Department worked with success for a time, but when the conditions of scarcity came to exist, the Government was obliged to enter into contracts with individual mills from April 1941. But this new system did not meet with any great success and the then Supply Member, Sir H. P. Mody, convened a conference of mill-owners in September 1941 in order to enlist their support for a regular supply of cotton manufactures. As a result of this Conference, the Cotton Textile Section of the Supply Department was shifted to Bombay and a Cotton Textile Advisory Panel was formed to assist the Textile Directorate in its double task of purchasing and planning. In the meantime, at the Meeting of the 3rd Price Control Conference in October in the same year (1941), a scheme of "standard cloth" was first discussed, but it did not meet with the approval of the Government then. In the following year, however, the Government was obliged to accept that scheme and from January 1943, the Textile Directorate placed the following Orders for the production of Standard Cloth:—

January 1943	—	1 crore of yards
Feb. to April '43	—	2.5 crores of yards
May to July '43	—	15 crores of yards
Aug. '43 to July '44	—	102 crores of yards

From November 1941, the Provincial Governments were also requested to issue orders under the Factory Act permitting an increase in the working hours in the mills up to 60 per week and a scheme was sought to be evolved for the distribution of the Standard Cloth. The Government of India charged $1\frac{3}{4}\%$ for its services and the Provincial Governments were allowed $1\frac{1}{2}\%$ for their functioning as wholesalers, while the retailer was permitted to charge 3%. In brief, this meant that the consumer was charged $6\frac{1}{4}\%$ over the ex-mill price. Towards the end of 1942 after a conference with the producers, it was agreed to devote 60% of the productive capacity to the manufacture of cloth to Government purposes and the remaining 40% for supplying civilian requirements. As these measures failed to achieve the desired object, the Cotton Cloth and Yarn (Control) Order was promulgated in June 1943.

The principal features of this Order were as under:—

1. Appointment of a Textile Commissioner with very wide powers to regulate Prices, Production and Distribution of Cloth.
2. The Constitution of the Textile Control Board with 25 members representing different interests to advise the Central Government on all matters connected with the purposes of the Order.*
3. A time limit was fixed for the disposal of stocks.
4. Ceiling prices were fixed for various varieties including yarn and cloth.

Subsequently this Control Order had to be amended in order to meet numerous difficulties that were found in its working. Thus the Board was obliged in 1943 to fix the prices of all varieties of cloth and yarn produced in India and mark ex-mill and retail ceiling prices on all cloth produced after the 1st December 1943.† Some Provincial Governments also adopted concurrent measures for preventing blackmarkets and for encouraging genuine trading. Thus, for example, the Government of Bombay promulgated the

*This Board set-up 7 statutory committees :

1. Industries Committee
2. Distribution Committee
3. Cotton Movements Committee
4. Cotton Committee
5. Export Committee
6. Handloom Committee
7. Transport Committee

†The various amendments to the original order principally were:

- (a) Cotton Cloth and Yarn Forward Contracts Prohibition Order, 1943.
- (b) Cotton Cloth Movements Control Order, October 1943.
- (c) Cotton Cloth & Yarn Contracts Ordinance, January 1944.
- (d) Cotton Cloth and Yarn Transport Order, April 1944.
- (e) Cotton Cloth & Yarn Transmission by Post Prohibition Order, July 1944.
- (f) Cotton Cloth and Yarn Export Control Order, July 1944.

Bombay Cloth Dealers Licensing Order (1943) and the Bombay Hand Printers Licensing Order (1944). This is not the place to comment upon the nature of the instrument of the control thus devised, nor upon the methods of its operation, but it is well-known that it did not succeed in preventing blackmarkets.† Consequently, the Committee of the Textile Control Board published another scheme in April 1944. This scheme took 1940, 1941 and 1942 as base years and it sought to make compulsory to every mill to sell to those wholesale agents who had purchased from the mill in the aforesaid standard years. The quantity to be sold to each dealer was to be based on the present rate of production in proportion to what was sold in those basic years. The wholesalers were to sell in a similar manner to the retailers. The object was to eliminate the undesirable elements who were reported to have entered the trade in 1943 in order to reap abnormal margins.‡

Thus while on the one hand, the Cloth Control Order sought to solve the problems of high prices and of equitable distribution, on the other, a substantial portion of the productive capacity of the mills came under the control of the Government. The mills voluntarily agreed to place 20% of their capacity at the disposal of the Government for the manufacture of Standard Cloth, while the Supply Department reduced their requirements from 1000 million yards to 700 million yards. In the year 1943-44, 570 million yards were supplied by the Central to the Provincial Governments and the States and 357 million yards of cloth were sold under Government auspices.*

1944

As we have pointed out before, for this year we have taken

†See the remarks of the Chairman of the Control Board on 7-4-1944, Indian Textile Journal, April 1944, p. 265.

‡This, however, could not prevent the payment of cash premiums. The Madras Textile Commissioner commandeered the production of two mills at Coimbatore, which were suspected of malpractices, while the Bombay Textile Commissioner cancelled the licence of 38 Cloth and Yarn Dealers and froze their stock.

*See Review of the Trade of India 1943-44, p. 26.

the averages of 60 companies instead of 71. As the peak had already been passed in the previous year, there is obviously some fall in the general indices; but it will be seen that in respect of Net Profits, Reserves, Sales and Capital Employed, there are actual increases. The rise in the chain index for net profits is also explained by the smaller provision for Depreciation as compared with the previous year (from Rs. 3.96 lakhs to Rs. 2.89 lakhs) and the same point explains the figure for the Reserves. Sales have remained practically stationary; but the Capital Employed shows a substantial increase. This is largely accounted for by the capitalising of reserves to which we have already made a reference. In other respects the conditions in 1944 do not materially differ from those of 1943, except that as a result of the institution of the Control, the rise in prices of cotton manufactures was arrested. This can be seen from the following table:-

Index Nos. of wholesale prices in India†

(prices for week ending 19th Aug. 1939

= 100)

	1943					1944				
	May	June	July	Oct.	Dec.	May	June	July	Oct.	Dec.
Raw Cotton ...	259	261	247	240	200	188	188	187	182	190
Cotton Manufactures ...	505	513	493	417	381	321	321	300	285	285

†Capital Index Numbers. These can be compared with the following prices quoted by Mr. K.M.D. Thackersey, Mr. D.M. Khatau, and Mr. Shantilal Mangaldas.

	May-June 1943 wholesale prices.	Ex-Mill Ceiling Prices.		% reduction over pre- control.
		Aug. 1943.	Dec. 1945 & 1946	
	Rs.	Rs.	Rs.	Rs.
Bleached mulmul (20 yds)	42 0 0	24 14 0	17 3 0	59.08
Grey longcloth (38 yds)	49 0 0	31 8 0	22 11 0	53.70
Grey leopard (38 yds)	42 10 0	25 5 6	16 5 0	61.73
Grey dhoti (10 yds)	12 8 0	7 12 9	5 8 6	56.00
Bld. longcloth (40 yds)	37 8 0	24 6 0	16 14 0	55.00
Coloured poplin (20 yds)	21 10 0	12 10 9	8 6 0	61.27
Bld. nakshi (8 yds)	11 0 0	6 7 3	4 13 9	55.68
Coloured Sari (5 yds)	5 8 0	3 2 9	2 1 6	61.36
Grey drill (40 yds)	50 3 0	30 6 0	21 11 0	56.79
Sateen (22½ yds)	25 0 0	14 10 0	8 13 0	64.75

(From the Indian Cotton Textile Industry—Some Criticisms Answered, p.13)

TABLES & GRAPHS

Table I

THE COTTON

Totals and

	1936 Rs.	1937 Rs.	1938 Rs.	1939 Rs.
1. Gross Profits :				
Total	1,33,88,069 (71)	2,00,60,823 (71)	2,84,36,997 (71)	2,49,49,118 (71)
Average	1,88,564	2,82,546	4,00,521	3,51,396
2. Depreciation :				
Total	62,80,283 (71)	93,65,062 (71)	1,13,57,146 (71)	1,19,85,937 (71)
Average	88,455	1,31,902	1,59,960	1,68,816
3. Provision for Taxation :				
Total	6,61,953 (71)	10,58,329 (71)	22,88,568 (71)	31,74,766 (71)
Average	9,323	14,906	32,230	44,715
4. Net Profits :				
Total	64,45,833 (71)	96,37,432 (71)	1,47,91,283 (71)	97,88,415 (71)
Average	90,786	1,35,737	2,08,331	1,37,865
5. Amount Available for Allocation :*				
Total	-29,86,271 (71)	-18,76,964 (71)	28,64,864 (71)	26,00,988 (71)
Average	-42,061	-26,436	40,350	36,633

N.B.—Figures in brackets indicate the number

*By excluding the figures of 7 companies which had a total
1935, we get the follow-

1936 Rs.	1937 Rs.	1938 Rs.	1939 Rs.
88,73,807 (64)	1,05,59,540 (64)	1,33,28,081 (64)	1,19,78,523 (64)
1,38,653	1,64,993	2,08,253	1,87,164

TEXTILE INDUSTRY

Averages

1940 Rs.	1941 Rs.	1942 Rs.	1943 Rs.	1944 Rs.
3,66,79,132 (71) 5,16,608	10,51,42,694 (71) 14,80,883	23,76,82,440 (71) 33,47,640	50,51,15,643 (71) 71,14,303	40,23,70,355 (60) 67,06,172
1,41,56,843 (71) 1,99,392	2,65,29,339 (71) 3,73,653	3,40,04,525 (71) 4,78,937	2,81,13,932 (71) 3,95,971	1,73,64,328 (60) 2,89,405
57,29,604 (71) 80,698	3,89,80,270 (71) 5,49,018	13,97,80,686 (71) 19,68,742	38,45,79,946 (71) 54,16,619	29,71,01,096 (60) 49,51,685
1,67,92,685 (71) 2,36,517	3,96,33,085 (71) 5,58,212	6,38,97,229 (71) 8,99,961	9,24,21,765 (71) 13,01,713	8,79,04,931 (60) 14,65,082
92,15,836 (71) 1,29,800	4,10,13,841 (71) 5,77,660	6,60,55,276 (71) 9,30,356	10,65,58,022 (71) 15,00,817	10,15,88,841 (60) 16,93,147

of companies to which the totals refer.

negative C/F of Rs. 103 lakhs (approximately) at the end of
ing figures for 1936-39.

Table I (Contd.)

THE COTTON

	Totals and			
	1936 Rs.	1937 Rs.	1938 Rs.	1939 Rs.
6. Dividends :				
Total	69,32,481 (71)	80,30,797 (71)	97,46,996 (71)	84,78,856 (71)
Average	97,640	1,13,109	1,37,281	1,19,421
7. Reserves :*				
Total	23,79,318 (71)	27,83,813 (71)	43,04,812 (71)	38,37,341 (71)
Average	33,511	39,208	60,631	54,047
8. M. A. Remuneration :				
Total	31,00,810 (53)	48,50,575 (66)	54,53,114 (64)	52,43,583 (66)
Average	58,505	73,493	85,204	79,448
9. Sales :				
Total	24,99,70,273 (62)	31,29,19,524 (67)	35,31,72,214 (68)	33,79,53,998 (67)
Average	40,31,778	46,70,440	51,93,709	50,44,089
10. Capital Employed :				
Total	27,41,06,047 (56)	27,60,17,114 (56)	31,37,28,005 (56)	29,60,17,857 (56)
Average	48,94,750	49,28,877	56,02,286	52,86,033

N. B.—Figures in brackets indicate the number

*Includes contributions to Reserves and other amounts appro-

TEXTILE INDUSTRY

Averages

1940 Rs.	1941 Rs.	1942 Rs.	1943 Rs.	1944 Rs.
1,06,20,299 (71) 1,49,581	1,93,67,692 (71) 2,72,784	3,33,19,893 (71) 4,69,294	4,57,87,411 (71) 6,44,893	3,24,72,834 (60) 5,41,213
37,10,678 (71) 52,263	2,13,90,718 (71) 3,01,274	3,49,50,394 (71) 4,92,259	6,22,99,832 (71) 8,77,462	6,91,16,010 (60) 11,51,933
61,50,114 (66) 93,183	1,32,34,956 (66) 2,00,529	2,58,88,466 (68) 3,80,712	5,06,69,504 (68) 7,45,140	3,72,68,656 (60) 6,21,144
40,68,49,385 (67) 60,72,378	58,45,71,565 (66) 88,57,145	85,92,42,793 (67) 1,28,24,415	144,03,48,905 (66) 2,18,23,468	132,60,23,245 (59) 2,24,74,970
30,98,93,529 (56) 55,33,813	35,27,82,148 (56) 62,99,681	39,55,90,628 (56) 70,64,118	45,63,83,486 (56) 81,49,705	81,23,29,993 (60) 1,35,38,833

of companies to which the totals refer.

appropriated and unappropriated, excluding the amount carried forward.

THE COTTON TEXTILE INDUSTRY

Table II

Percentages

		1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Net Profits as % of Gross Profits	...	48.1	48.0	52.0	39.0	46.1	37.5	26.9	18.3	21.8
2. Depreciation as % of Gross Profits	...	47.2	46.7	40.0	48.2	38.5	25.3	14.3	5.4	4.3
3. Provision for Taxation as % of Gross Profits		4.7	5.3	8.0	12.8	15.4	37.1	58.8	76.2	73.8
4. Dividends as % of Net Profits	...	106.6	83.1	65.8	86.2	63.3	48.8	52.1	48.8	36.7
5. Reserves as % of Net Profits	...	36.2	28.6	29.1	39.2	21.8	53.5	54.1	67.3	78.2
6. M. A. Remuneration as % of Net Profits	...	64.8	53.7	40.8	57.3	39.3	36.0	42.3	57.2	42.4
7. Net Profits as % of Sales	...	2.5	2.9	3.8	2.7	3.7	6.7	7.0	5.8	6.7
8. Net Profits as % of Capital Employed	...	1.9	2.6	3.6	2.6	4.3	8.8	12.6	15.5	11.1

THE COTTON TEXTILE INDUSTRY

Table III

Chain Indices

					1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	...	...	...	...	148	142	88	148	287	226	212	94
2. Provision for Taxation	...	...	...	...	167	213	145	180	678	359	270	93
3. Net Profits	...	...	...	...	149	153	66	172	231	161	145	113
4. Dividends	...	...	...	...	115	121	87	127	182	171	138	83
5. Reserves	...	...	...	...	115	158	88	96	578	163	178	133
6. M. A. Remuneration	...	...	...	...	125	116	93	117	215	191	198	83
7. Sales	...	...	...	...	116	112	97	119	147	144	170	103
8. Capital Employed	...	...	...	...	100	115	94	105	113	113	116	166

THE COTTON TEXTILE INDUSTRY

Table IV

Index Numbers

(Base 1938 = 100)

				1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	..	..	..	47	71	100	88	129	370	837	1,778	1,675
2. Provision for Taxation	..	..	..	28	47	100	145	253	1,715	6,153	16,928	15,475
3. Net Profits	..	..	..	43	66	100	66	114	266	433	626	704
4. Dividends	..	..	..	71	82	100	87	107	199	342	470	395
5. Reserves	..	..	..	56	64	100	88	85	493	806	1,426	1,885
6. M. A. Remuneration	..	..	..	69	86	100	93	109	237	448	876	730
7. Sales	..	..	..	77	89	100	97	116	170	247	420	432
8. Capital Employed	..	..	..	87	88	100	94	99	112	126	145	241

TABLES & GRAPHS

Table V

THE COTTON

Totals and

(Based upon the figures of

	1936 Rs.	1937 Rs.	1938 Rs.	1939 Rs.
1. Gross Profits :				
Total	26,65,403 (9)	35,22,802 (9)	46,84,013 (9)	39,41,007 (9)
Average	2,96,154	3,91,423	5,20,446	4,37,889
2. Depreciation :				
Total	11,03,755 (9)	13,36,736 (9)	16,00,656 (9)	15,96,735 (9)
Average	1,22,639	1,48,526	1,77,851	1,77,415
3. Provision for Taxation :				
Total	3,42,555 (9)	4,90,000 (9)	6,69,283 (9)	6,35,094 (9)
Average	38,061	54,444	74,365	70,566
4. Net Profits :				
Total	12,19,093 (9)	16,96,066 (9)	24,14,074 (9)	17,09,178 (9)
Average	1,35,454	1,88,452	2,68,230	1,89,909
5. Amount Available for Allocation :				
Total	-98,124 (9)	6,915 (9)	6,89,894 (9)	5,30,675 (9)
Average	-10,903	768	76,655	58,964

N.B.—Figures in brackets indicate the number

*The nine companies selected here are :—

- (i) Kohinoor, (ii) Madhusudan, (iii) E. D. Sassoon, (iv) Gold Mohur,
(vii) Elgin (Cawnpore) (viii) Mohini (Bengal)

†Balance Sheet of Arvind for 1944 was not available.

TEXTILE INDUSTRY

Averages

*nine selected Cos. only)**

1940 Rs.	1941 Rs.	1942 Rs.	1943 Rs.	1944† Rs.
46,93,994 (9) 5,21,555	1,35,69,161 (9) 15,07,685	3,27,10,277 (9) 36,34,474	7,57,64,501 (9) 84,18,278	4,88,62,442 (8) 61,07,805
16,05,633 (9) 1,78,404	26,82,179 (9) 2,98,021	44,73,708 (9) 4,97,078	34,93,546 (9) 3,88,172	17,17,689 (8) 2,14,711
8,71,000 (9) 96,777	52,32,754 (9) 5,81,417	2,15,59,808 (9) 23,95,534	6,03,03,753 (9) 67,00,417	3,71,40,153 (8) 46,42,519
22,17,363 (9) 2,46,373	56,54,228 (9) 6,28,247	66,76,762 (9) 7,41,862	1,19,67,202 (9) 13,29,689	1,00,04,602 (8) 12,50,575
8,82,788 (9) 98,087	43,11,263 (9) 4,779,029	74,91,238 (9) 8,32,360	1,28,79,453 (9) 14,31,050	1,06,27,924 (8) 13,28,490

of companies to which the totals refer.

from Bombay (v) Arvind, (vi) Ahmedabad Advance from Ahmedabad and (ix) Jayashankar (Barsi/Bombay.)

Table V (Contd.)

THE COTTON
Totals and
(Based upon the figures of

	1936 Rs.	1937 Rs.	1938 Rs.	1939 Rs.
6. Dividends :				
Total	9,08,000 (9)	9,41,313 (9)	10,88,376 (9)	11,24,770 (9)
Average	1,00,888	1,04,590	1,20,930	1,24,974
7. Reserves :*				
Total	8,15,428 (9)	8,62,807 (9)	10,99,013 (9)	8,98,565 (9)
Average	90,603	95,867	1,22,112	99,840
8. M. A. Remuneration :				
Total	5,82,721 (7)	6,66,656 (9)	8,40,369 (9)	5,99,692 (9)
Average	83,246	74,073	93,374	66,632
9. Sales :				
Total	3,64,10,986 (8)	5,00,79,890 (9)	4,69,37,044 (9)	4,64,54,369 (9)
Average	45,51,373	55,64,432	52,15,227	51,61,596
10. Capital Employed :†				
Total	4,24,35,058 (8)	4,06,14,761 (8)	4,73,41,960 (8)	4,91,92,770 (8)
Average	53,04,382	50,76,845	59,17,745	61,49,096

N. B — Figures in brackets indicate the number

*Includes contributions to reserves and other amounts appro-

†Does not include figures of "Gold Mohur."

TEXTILE INDUSTRY

Averages

(nine selected Companies only)

1940 Rs.	1941 Rs.	1942 Rs.	1943 Rs.	1944 Rs.
13,52,322 (9)	22,51,575 (9)	33,27,875 (9)	60,69,285 (9)	37,61,497 (8)
1,50,258	2,50,175	3,69,764	6,74,365	4,70,187
10,04,735 (9)	21,99,355 (9)	41,48,132 (9)	69,89,926 (9)	67,66,429 (8)
1,11,637	2,44,372	4,60,903	7,76,658	8,45,803
8,63,715 (9)	17,07,789 (9)	33,73,352 (9)	72,95,874 (9)	50,46,466 (8)
95,968	1,89,754	3,74,817	8,10,653	6,30,808
5,77,01,371 (9)	8,21,52,522 (9)	11,57,32,087 (9)	19,84,93,566 (9)	19,09,93,043 (8)
64,11,263	91,28,058	1,28,59,121	2,20,54,840	2,38,74,130
5,10,64,210 (8)	6,02,67,902 (8)	6,82,96,935 (8)	8,32,77,660 (8)	6,82,31,174 (7)
63,83,026	75,33,488	85,37,117	1,04,09,707	97 47,310

of Companies to which the totals refer.

appropriated and unappropriated—excluding amount carried forward.

THE COTTON TEXTILE INDUSTRY

Table VI

Percentages

(Based upon the figures of 9 selected companies only)

		1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Net Profits as % of Gross Profits	...	45.6	48.1	51.5	43.4	47.1	41.6	20.3	15.5	20.3
2. Depreciation as % of Gross Profits	...	41.5	38.2	36.2	40.4	34.1	19.7	13.8	4.6	3.5
3. Provision for Taxation as % of Gross Profits		12.8	13.9	13.2	16.2	18.7	38.5	65.8	79.8	76.1
4. Dividends as % of Net Profits	...	74.1	55.6	45.1	65.8	60.9	39.7	50.0	50.4	37.6
5. Reserves as % of Net Profits	...	67.3	51.1	45.6	52.6	45.5	38.8	62.1	58.6	68.0
6. M. A. Remuneration as % of Net Profits	...	61.5	39.4	34.7	35.2	39.0	30.2	50.5	60.8	50.4
7. Net Profits as % of Sales	...	2.9	3.6	5.7	3.9	3.7	6.9	5.7	5.8	5.2
8. Net Profits as % of Capital Employed	...	2.4	3.8	4.5	3.2	3.7	8.2	8.2	12.5	12.8

THE COTTON TEXTILE INDUSTRY

Table VII

Chain Indices

(Based upon the figures of 9 selected companies only)

				1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	...	...	...	130	133	84	118	290	241	232	72
2. Provision for Taxation	...	...	...	147	137	96	138	600	412	279	70
3. Net Profits	...	...	...	139	142	70	129	252	118	179	94
4. Dividends	...	...	...	104	115	102	120	167	148	181	70
5. Reserves	...	...	...	105	127	83	112	218	191	175	109
6. M. A. Remuneration	...	...	...	89	126	72	143	195	194	219	77
7. Sales	...	...	...	121	93	100	123	142	141	171	108
8. Capital Employed	...	...	...	94	115	104	102	117	113	122	94

THE COTTON TEXTILE INDUSTRY

Table VIII

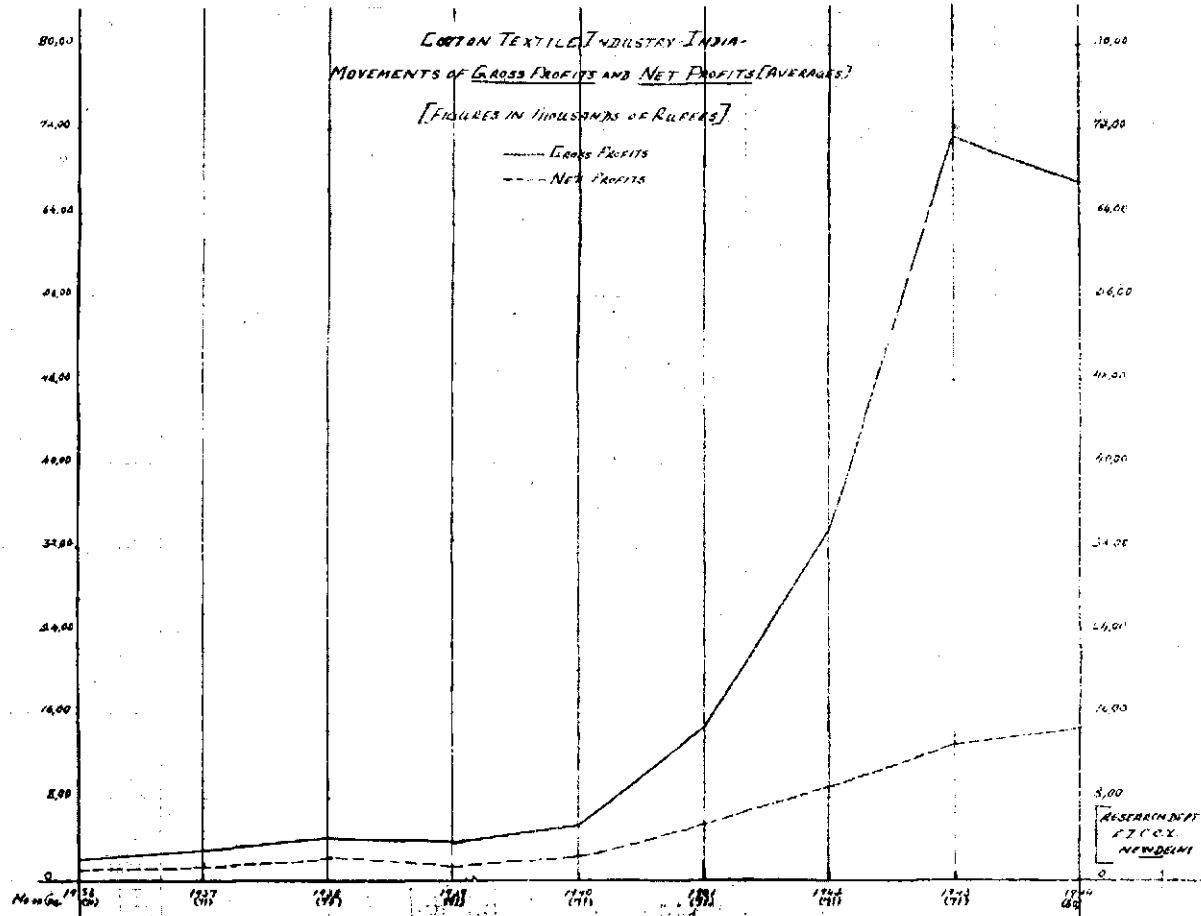
Index Numbers

(Base 1938 = 100)

(Based upon the figures of 9 selected companies only)

	1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits ...	56	75	100	84	100	288	700	1,614	1,170
2. Provision for Taxation ...	50	73	100	96	131	785	3,224	9,054	6,274
3. Net Profits ...	49	70	100	70	93	233	274	493	463
4. Dividends ...	83	84	100	102	125	208	308	558	391
5. Reserves ...	75	80	100	83	91	200	378	637	693
6. M. A. Remuneration ...	88	77	100	72	103	204	403	871	678
7. Sales ...	88	105	100	100	123	175	248	425	460
8. Capital Employed ...	89	87	100	104	106	128	145	177	164

GRAPH I



THE COTTON TEXTILE INDUSTRY
GRAPH II

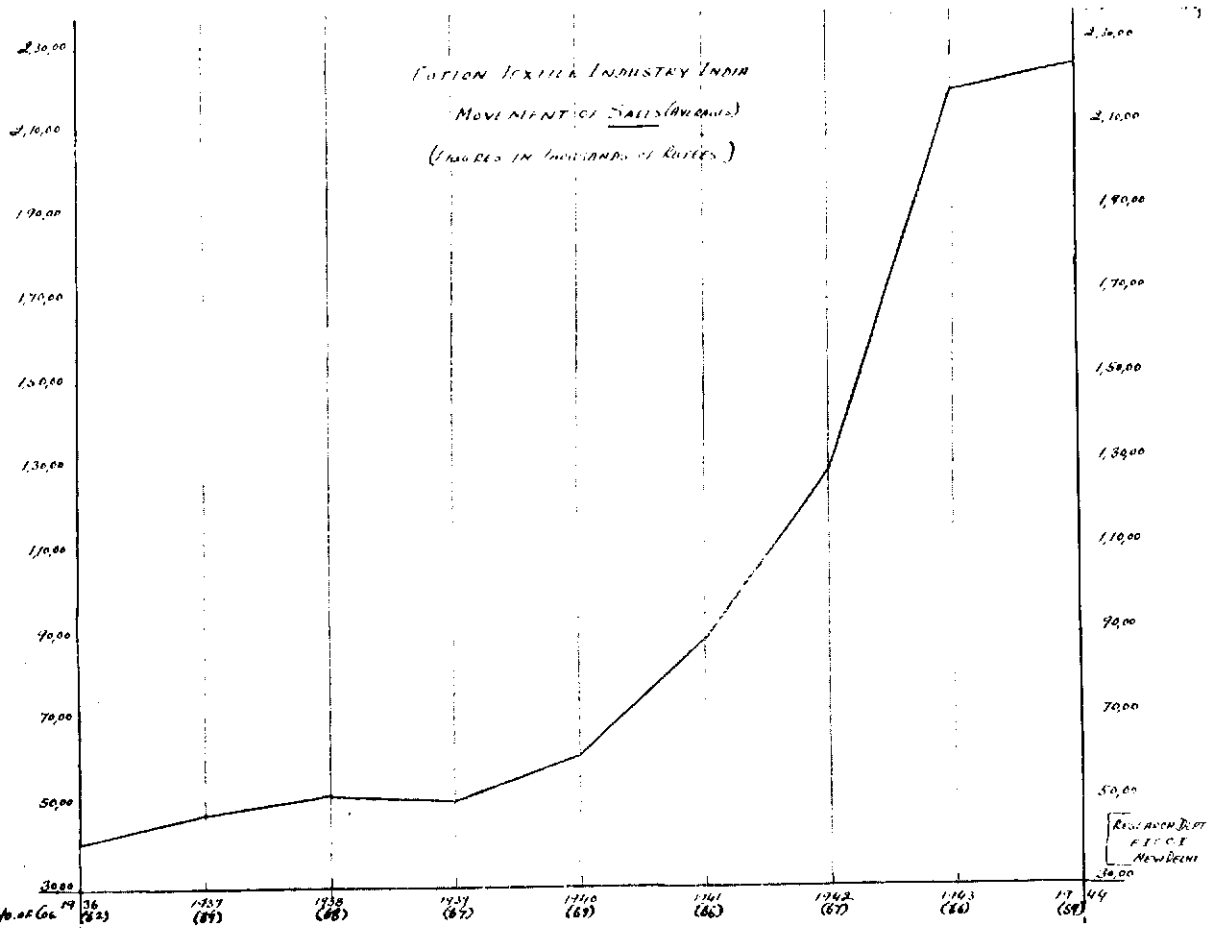


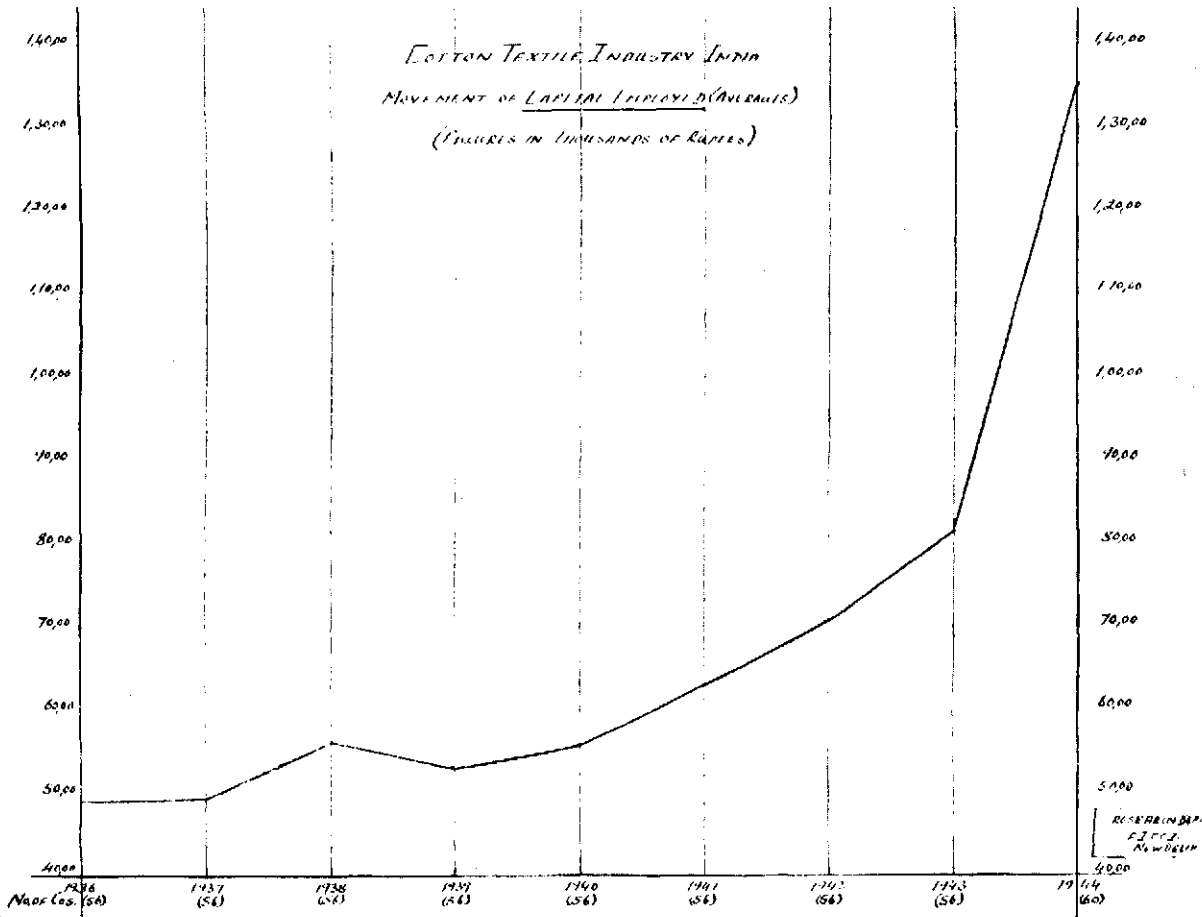
THE COTTON TEXTILE INDUSTRY

GRAPH III



THE COTTON TEXTILE INDUSTRY
GRAPH IV





THE COTTON TEXTILE INDUSTRY
 GRAPH V

CHAPTER V

THE SUGAR INDUSTRY

Introduction

While it is well-known that the cotton industry in India is a supreme example of India's "arrested economic development" in the XIX century, it is seldom realised that India—the birth-place of sugarcane—was one of the principal sugar producing, and from the end of the XVIII century sugar exporting, countries until the middle of the last century. Indeed, by the beginning of the present century, the situation had so transformed that in 1908 sugar represented 53.3 per cent of the total value of articles of food and drink imported into the country.* But the rest of the story of how India lost her position to Java in the output of sugarcane, of imports first of Mauritius sugar and then of bounty—fed beet sugar, the International Sugar Convention of 1902 resulting from the crisis in the international sugar market, the sugar famine of the first World War and the slow beginnings of the industry in India after the Indian Sugarcane Committee Report of 1920, cannot be recalled here. We might rather begin with the phenomenal development of the industry in India after 1931, which has rightly been regarded as one of the major triumphs of protectionism in our country. The number of sugar mills rose from 32 in 1931-32 to 137 in 1935-36 and their output increased from 4,78,000 to 11,77,000 tons, whereas the imports declined from 4,39,000 to 87,000 tons during the same period. It is equally well-known that this record achievement reached its zenith by 1936, after which the industry was compelled to face some serious problems of internal organisation such as over-production and marketing. In fact, 1936 may be regarded as the peak year, after which the problems of stabilisation compelled increasing attention.

* See the present writer's "Sugar Industry & the War", pp. 1 and 2.

Besides the fact that the sugar industry stands next only to the cotton textiles in size as a large-scale industry, it is equally well-known that nearly three-fourths of the sugar factories are located in the United Provinces and Bihar. Here again, therefore, the problem of selecting companies from the point of view of the location factor presented little difficulty. We originally selected 64 companies with a total paid-up share capital of Rs. 9.7 crores (out of a total of Rs. 12 crores for the whole industry)* but ultimately had to rest content with 48 companies representing a total share capital of 8 crores of rupees. Out of these 48 companies, balance sheets for the entire period were obtained only for 33, but to these we may add 10 more, as in the case of the latter, we have analysed the balance sheets for eight out of the nine years.†

As in the case of other industries, we have again grouped these 48 companies according to the amount of their paid-up share capital into three classes, A, B and C. The first group (A) includes those companies whose paid-up share capital exceeds Rs. 20 lakhs; Group (B) those companies whose paid-up share capital amounts to Rs. 10 lakhs and over up to Rs. 20 lakhs; while in Group (C) we have included the smaller companies with a capital below Rs. 10 lakhs.

Grouping of Companies

Group	No. of Cos.	Paid-up share capital (in lakhs of Rs.)
A	12	3,72
B	26	3,52
C	10	75
	—	—
Total	48	7,99

The foregoing table will show that Group A, with 12 companies,

*The Figure for the total paid-up capital is calculated from 'Recent Social and Economic Trends in India', pp 64-66.

†It may also be noted that out of the sixty-four companies originally selected, three were not included in the Tnacker's Directory for 1940-41, so that these appear to have ceased to exist in the interval.

accounts for over 46 per cent of the total paid-up share capital in our list of companies, whereas Group B, with more than double that number, represents 44 per cent. We have already observed that the location factor does not present any great difficulty in this industry. All the same, we have tried to include a few companies from other provinces like Bombay, Madras and the Indian States and the following table summarises the regional representation of the 48 companies included in our analysis:—

Regional Distribution of Sugar Cos.

		Group	Group	Group	Total
		A	B	C	
1.	United Provinces ..	4	12	4	20
2.	Bihar	2	10	6	18
3.	Bombay	2	2	—	4
4.	Madras	2	1	—	3
5.	Indian States: ..				
	Gwalior	1	—	—	1
	Mysore	1	—	—	1
	Rajputana	—	1	—	1
		—	—	—	—
	Total	12	26	10	48

It may also be added that our list includes some of the oldest concerns—started between 1875 and 1900; but the majority are those companies that were incorporated between the late 'Twenties and the early 'Thirties. We have also included one company, the East India Distilleries and Sugar Factory Ltd., which has its paid-up share capital in sterling, viz., £2,80,000.

As in the case of cotton textiles, let us summarise the financial working of these companies with a view to show how they have fared in their working in respect of profits and losses throughout our period:—

Group	No. of cos. analysed	No. of cos. showing profits for all the years 1936-44	No. of cos. showing losses for							
			1 Yr.	2 Yrs.	3 Yrs.	4 Yrs.	5 Yrs.	6 Yrs.	7 Yrs.	8 Yrs.
A	12	8	2	1	1	—	—	—	—	—
B	26	13	5	5	1	1	—	—	1	—
C	19	4	3	3	—	—	—	—	—	—
Total.	48	25	10	9	2	1	—	—	1	—

It will be apparent that more than half the companies selected showed profits throughout our period, whereas for the remaining, barring two years (1937 and 1939), the entire period can be regarded as one of steady earnings.

Our Tables

Our figures show that the Net Profits on the average declined from Rs. 2,33,000 in 1936 to Rs. 94,000 in 1937—a fall of some 60%. This fall is relatively more spectacular than that of Gross Profits which was 40%. In order to explain this, let us begin by remembering that 1937 was the year in which the problem of over-production had, for the first time, to be squarely faced by the industry. In fact, there was an increase in the world production of sugar from 12,994,000 tons in 1935-36 to 20,451,000 tons in 1936-37, and India's share in this latter year was 32% of the total cane-sugar production of the world. Sugar factories in India worked, on an average, for 138 days in the year, i.e., 12 days more than in 1935-36. The sugar factories were induced to work for a longer period as the Governments of Bihar and the U. P. reduced the statutory prices of cane with a view to dispose of the standing crops. Moreover, sugarcane crop for 1936-37 was a very good one and more land was brought under the cultivation of the cane.* All these factors explain the rise in the official estimate of cane production in 1936-37 to 11,11,400 tons, as compared with 9,32,100 tons in the previous year. Production was also increased as a result of the establish-

*See M.P. Gandhi's Annual, 1937, p.20. Also "Indian Sugar Industry and the War" by the present writer, pp.9-17.

ment of new mills, addition to existing plants and machinery by the old ones, which thus improved their cane-crushing capacity.

Thus the total production was estimated at 1,230,900 tons as against the estimated consumption of 1,200,000 tons only. The sugar manufacturer could find no outlet for this excess, as under the International Sugar Convention of 1937, India was debarred from exporting her sugar to foreign countries. A scramble for markets inevitably followed, and, as we shall presently see, there was a steady decline in the price of sugar. The mills were eager to dispose of the stocks in order to meet the seasonal advances from the banks.

Another important event affecting the industry was the increase in the Central Excise Duty from Rs. 1-5-0 per cwt. to Rs. 2 per cwt., in the Budget for 1937-38. This step was taken by the Government, as the Finance Member said, in order to compensate the Exchequer for the reduction in the customs revenue resulting from the almost total disappearance of sugar imports. This increase in the duty naturally upset the calculations of the manufacturers and reduced their profit earning capacity by increasing their cost of production. The manufacturers found it difficult to shift the burden to consumers as the prices were falling.

For all these reasons (including a sharp fall in the price of sugar) the Net Profits show a decline of 60%. The decline in Gross Profits too was 40%, whereas the amount for Depreciation remained stationary. This naturally meant that the financial burden of depreciation was much higher in 1937 as compared with the previous year:—

Average Depreciation

		1936	1937
		Rs.	Rs.
Actual amount	.. ..	1,18,719	1,16,020
Percentage of Gross Profits	.. ..	30%	48%

For similar reasons, it is not difficult to see how the figure of Provision for Taxation has declined from Rs. 43,000 to Rs. 29,000

on the average. These results are reflected in the rate of dividends paid. It will be seen that not only had the whole amount of the Net Profits (Rs. 94,000) to be spent by way of Dividends, but even a little more, which was paid out of reserves of the past years. Our table (No. II) shows Dividends, as percentage of Net Profits, at 103% for 1937. This trend is further emphasised by the decline in the amount of the Reserves for 1937 from Rs. 85,000 to Rs. 14,308 on the average. The percentage rate of Reserves to Net Profits therefore declined from 36.3 to 14.8.

The ratio of Net Profits to Sales shows another spectacular fall from 11.4% in 1936 to 4.2% in 1937. This is due to the fact that whereas the Net Profits have fallen as shown above, the Sales, despite the fall in prices, went up by 8%.

M. A. Remuneration

In the light of what has been stated above, perhaps the figures for Managing Agents' Remuneration for 1936 and 1937 call for special attention. In the first instance, although 31 concerns actually showed profits for 1936, the amount of M. A. Remuneration was separately shown by 16 companies only; so that the average for this year should not be Rs. 6,76,926 divided by 31, but this total divided by 16 only. Even then, this figure shows a trend quite opposite to the one emphasised above—a rise from 17.9% of Net Profits to 40.8 per cent in the subsequent year. This contrast between the fall in the Net Profits and the rise in the ratio of M. A. Remuneration is largely explained by two factors. The Indian Companies' Act of 1913 was amended in 1936 and came into force from the 1st July 1937. This amended Act required the Joint Stock Companies to show this item as clearly as possible in the Profit and Loss Account. One need not then be surprised that out of the 31 companies, for which we collected figures for 1936, we could clearly get the figures for this item (in 1936) for 16 companies only. We must, therefore, add that the figure for 1936 in respect of this item should be treated with caution, for it is difficult to imagine that in a good year like 1936 many Managing Agents charged no remuneration. If it is true that this figure was not separately shown in the balance sheets, the average for 1936 will be Rs. 42,308 and not Rs. 21,836

which can be arrived at if we include all the 31 companies that showed profits in respect of the total of this item. Indeed, the former figure seems more plausible and in 1937 the Managing Agents' Remuneration shows a decline of 10% as can be seen from our Table III.

1938

During this year, conditions show marked improvement over the previous one, though they nowhere approach those of 1936. The chain index of Net Profits stands at 161, while that of Dividends at 124. As against these, the Sales show, on the average, a decline from Rs. 21,78,000 to Rs. 21,18,000. The figures for Gross Profits and Net Profits, therefore, show a slight recovery in the industry. During the year, production on the one hand had gone down, owing to the curtailment of the season, and on the other, with the working of the Sugar Syndicate in Cawnpore, surplus stocks were disposed of and a certain measure of improvement in prices was achieved. It will also be seen that this year the rise in Net Profits was higher than that of Gross Profits. This is explained by the fact that though the Gross Profits rose, the amounts for Depreciation and Taxation remained more or less stationary. Hence the ratio of Net Profits to Gross Profits shows an improvement of 9%. The Sales show a slight decline in the absolute amount (about 3%), but the ratio of Net Profits to Sales shows an improvement from 4.2% to 7.1%. Reserves as related to Net Profits also show a similar improvement from 14.8 to 31.1%, and on the whole, therefore, in 1938 the sugar mills show a more successful year than the preceding one. The reserve position, too, strengthens this conclusion for, a lesser percentage of profits than the previous year has been spent on the dividends—though the latter by themselves show an improvement of 24% over the previous year.

The foregoing remarks will also go to show that for measuring the trends over our period 1936-44, 1938 would serve as a base year better than 1937 or 1936.

1939

This year the progress of the industry, which was seen in the

previous one, could not be maintained. The internal developments, which we shall presently enumerate, did not materially affect the financial side of the industry as much as one would expect, but it will be easily seen that 1939 was a lean year for all the companies taken together. The financial results as seen from the tables would indicate that as against the forces of the gathering storm, the signs of which the industry could hardly read, it appears to have been buoyed up by the expectations of a general boom resulting from an imminent outbreak of War. There does not seem to be any other explanation except this, because the two years 1939 and 1940 witnessed, perhaps, the greatest crisis in the industry.

Before, however, we come to these developments, we turn to our tables. The index of Net Profits has gone up by 35%, the Dividends have been maintained, as the Sales show an improvement of about 11%. On the other hand, the 1938-39 season was very unfavourable, particularly for the factories in the U. P. and Bihar, where production was further curtailed as a result of the shorter crushing season and the lower recovery of sugar from cane (the average daily crushing capacity of the factories in the U. P. declined from 710 to 680 tons, and in Bihar from 720 to 710 tons).* In these two provinces, besides bad weather, the industry also experienced labour troubles, and the cost of production was materially affected by the cane-tax of six pies per maund levied by the Provincial Governments.

But the conditions outside the U. P. and Bihar, that is in Bombay, Mysore and Madras, were favourable and the mills situated in these areas actually showed some progress. For, in these parts, apart from the immunity from the cane-tax, the mills paid lower prices for cane than in the aforesaid provinces. In fact, as a result of these adverse conditions, India was obliged to import, once again, more than 275,000 tons from Java and other countries, our output of factory sugar having declined from 9,30,000 to 6,60,000 tons. Even this summary enumeration of the adverse factors in the industry will be enough to raise doubts as to the picture

*See Indian Sugar Industry and the War p. 12 and Gandhi's Annual (1939) p. 124.

of stability that is likely to arise from our figures. Apart from the compensatory influences in other provinces, that we have mentioned, the principal explanation is to be found in the appreciable rise in the price of sugar from Rs. 8/8 to Rs. 10/12 per maund. Another reason is to be found in the fact that as a result of the fall in production, the mills did not carry large stocks. This, incidentally, also explains the rise in the ratio of Net Profits to Capital Employed (from 4.7 in 1938 to 6.7 in 1939). These reasons would also account for the rise in the percentage of Net Profits to Gross Profits as compared with the previous year, though the figure of 1936 (59.2) was not reached. The explanation of this ratio will be found by comparing the ratio of Depreciation to Gross Profits in the following manner :—

	1936	1937	1938	1939
Ratio of depreciation to gross profits ..	30.2	48.6	41.8	32.8
Ratio of net profits to gross profits ..	59.3	39.3	48.5	53.3

We have already adverted to the rise in the figure of average Sales by about 11%. For similar reasons, the dividends were maintained at the previous year's level and the higher profits were utilised for reserves and for providing a larger sum for taxation. It will be seen that in 1939, the Reserves reached the 1936 figure.

The Crisis in the Industry

At this stage, it may not be out of place to refer to the crisis which enveloped the sugar industry in 1939-40. We have already studied this crisis in greater detail, elsewhere,* but it will not be inappropriate to refer to its principal causes and features here.

The higher prices of sugar were further stimulated by reports of unfavourable cane crops early in 1939-40. With a view to meet the situation arising out of the imports, the Syndicate lowered its price of sugar, but the high prices of cane, that were

*See "Sugar Industry and the War" by the present writer.

already fixed, prevented an appreciable decline in the market prices of sugar.

A little later, the Syndicate advised all its members to sell out their stocks before the beginning of the next season, but before any results of the step could be seen, the War broke out in Europe. The impending crisis had already attracted the attention of the Tariff Board of the previous year which had recommended a full-fledged control of the industry by the Central Government, with rationalisation as its final aim. The Government of India Budget, 1940-41, raised the Excise Duty from Rs. 2 to Rs. 3 per cwt. The sliding scale of cane prices, which was given up in 1937, had to be brought back with modifications viz: 5 annas per maund of cane related to an average price of Rs. $7/12$ per maund of sugar, rising up to Rs. 0-9-9 related to Rs. $11/14$ up to Rs. $12/1$ per maund of sugar. The sliding scale was severely criticised by the Sugar Syndicate, but Government did not agree to any alteration in these rates. As a result of the war boom, the Syndicate again raised the price to Rs. 12 per maund and a fierce controversy, as regards the working of the sliding scale, ensued between the Syndicate and the Government. A period of wild fluctuations in the prices of sugar, especially in the U. P. and Bihar, followed, in which the control measures of the Government and sale regulations of the Syndicate equally proved ineffective. At the beginning of 1939-40, there were little stocks owing to the short production of the previous year and the bullish tendency in the market was given a further fillip during the War, but during the last three months, signs of over-production became apparent and demand continued to be disappointing. The situation was rendered more piquant by the maintenance of high prices in the face of a poor demand, the season's estimates being 1,241,700 tons. In order to weather the storm, Government began reducing the price of cane from March 1940 onwards. But the reduction was regarded as inadequate by the Syndicate and the stocks of sugar were considered too large, so that Government was compelled to grant further reductions.

It is not necessary for us to dilate on the causes of this crisis, but they may be broadly described as the hare and hound race

between cane prices and the sugar prices; the internal conflicts in the Indian Sugar Syndicate and the halting attitude of the Central Government in evolving an All-India plan for the control of the industry.

The Carry Forwards

There is one other point that needs some special mention at this stage. It will be seen that both in 1938 and 1939 the Amount Available for Allocation is exceeded by the total of reserves and Dividends paid. The explanation is to be found in the negative amounts (losses) that were carried forward by several important sugar mills, such as Upper Doab Rs.—76,394, Ryam Rs.—2,64,842, Samastipur Rs.—3,44,313, New India Rs.—1,94,026 in 1938 and Shri Radhakrishna* Rs.—3,75,463, Carew Rs.—3,37,099 in 1939. It may be added that these represent figures not of absolute amounts of losses incurred by these companies, but the net amounts (after utilizing previous positive carry forwards, e. g., Champaran, and Ryam). The number of companies which actually incurred losses during these years was therefore a little larger still viz. 6 in 1938 and 5 in 1939. We may summarise the position regarding the profits and losses incurred by the various companies in our list during these three years as under:-

	1938	1939	1940
No. of companies showing profits ..	36	40	38
Amount of profits .. Rs.	69,91,275	1,00,43,555	94,65,823
No. of Cos. showing losses ..	6	5	8
Amount of the losses .. „	6,57,529	8,83,362	7,02,863
Total Profits (Net) .. „	63,33,746	91,60,193	87,62,960
Total No. of Cos. ..	42	45	46
Average Profits (Net) .. „	1,50,803	2,03,560	1,90,499

1940

In the light of the foregoing observations, it is easy to see the decline in the rate of growth of Gross Profits (103 chain index) as

* This seems to be the only company which incurred losses throughout the period 1937-1944.

compared with the two previous years 1939 and 1938. In fact even the figure for Sales shows a fall of about 4%—a fall which is explained by the decrease in price from Rs. 10-12-0 to Rs. 10-8-0 per maund. The reintroduction of the sliding scale of cane prices had a steadying influence on costs of production, with the result that the ratio of Net Profits to Sales has remained virtually at the figure of 1939 (8.4). It may, incidentally, be added that the cost of cane constitutes anywhere between one-half to two-thirds of the total costs of sugar manufacture.

Another interesting feature of 1940 figures is the share of Net Profits that was retained by way of contributions to Reserves. From 41.1% of the Net Profits carried to Reserves in the previous year, (and 31% in 1938) the ratio increased to 45.8. This explains the fall in the average amount expended on dividends from Rs. 1,17,650 to Rs. 1,02,450. This tendency is also reflected in the higher proportionate amount set aside for the payment of taxes.

Capital Employed

But much more striking than the figures for Reserves are those for Capital Employed. There has been a spectacular rise of 41% over the previous year. It is difficult to offer a complete explanation of this rise, but it may be remembered that during this period, abnormal stocks of sugar had to be carried by the companies and this rise must have materially affected the amount for assets in the balance sheets. This will be seen from the following official estimates of the total carry-over of stocks of sugar at the beginning of November in the various years:

Year	Stocks.* Tons
1936	— 159,000
1937	— 211,000
1938	— 202,000
1939	— 105,000
1940	— 390,000

*Gandhi's Annual 1941, Table No. 25.

Stocks with factories in the U. P. and Bihar at the end of October 1939 and 1940 were 22,223 and 3,85,060 tons respectively.† The average figures for the years 1938-39 and 1939-40 (November to October) for these stocks were 128,000 and 432,000 tons respectively (May 1940 showing 672,356 tons) as against 29,590 tons at the end of November 1939.‡

The aforesaid conclusion that the rise in the amount of Capital Employed for 1940 was mainly due to the heavy stocks of sugar, referred to above, is further strengthened by comparing the amount of stocks of sugar and bank over-drafts (on the security of the former) as shown in the balance sheets of the following 10 companies at the end of 1939 and 1940. It will be seen that whereas the total stock of sugar held by these companies increased by about 308 %, the amount of loans that they were required to raise went up by 548% between 1939 and 1940.

Name of the Co.	Stock of Sugar at the end of		Bank over-draft on the security of stock of sugar at the end of	
	1939 Rs.	1940 Rs.	1939 Rs.	1940 Rs.
1. Kesar ..	3,95,026	16,88,458	2,55,780	14,61,282
2. Raza ..	2,25,216	14,29,662	—	4,75,000
3. New Swadeshi	4,81,570	10,24,325	2,51,343	5,44,331
4. Punjab Sugar	49,847	6,38,700	8,53,577	17,17,667
5. Harinagar ..	5,18,015	15,71,937	—	11,22,759
6. Balrampur ..	3,21,168	10,96,688	—	14,07,502
7. Champaran	7,32,852	32,39,658	—	24,42,446
8. New Savan	3,16,092	18,45,923	—	9,25,333
9. Samastipur Central ..	3,73,144	17,41,834	5,41,838	12,35,968
10. Carew ..	4,93,240	16,60,224	78,245	15,11,750
Total ..	39,06,170	1,59,37,409	19,80,783	1,28,44,038

†Indian Sugar Manual 1941 p. 138.

‡Sugar Industry and the War, p. 41.

1941 & 1942

We are now approaching two of the most important developments in the industry from the point of view of the present study : (i) The institution of the Sugar Control all over the country and (ii) the year 1943 which is the peak year for the Sugar Industry as well. There are, again, not many striking developments as between 1941 and 1942 and we may, for the sake of convenience, examine the trends in these two years together, as far as possible. For, from the point of view of Net Profits, Depreciation, Dividends and even Capital Employed, the changes between these two years are not remarkable.

In order, however, to appreciate the trends of the remaining years let us review in brief the principal developments in the industry before the introduction of the Control. The 1940-41 season was the first one in which the fortunes of the industry were directly affected by the War. Until the middle of 1941, there were few significant developments resulting from the War as such, thanks to the British Government's insistence upon the International Sugar Convention of 1937 and the internal troubles of the industry itself.* The failure of the efforts for exporting sugar, the stocks that had accumulated—the fear of over-production (as a result of the high percentage of recovery from the fields)—had led the Governments of the U. P. and Bihar to attempt regulation of the industry with the help of the Indian Sugar Syndicate. But just when things appeared dark, the clouds dispersed and after the outbreak of the Russo-German war a regular boom developed in the wake of rising prices. The Anglo-Soviet Alliance, the fears that Java supplies to the Persian Gulf markets would be cut off, gave a further fillip to the market. The result of all these factors can be seen in the fact that in November 1941, the stocks at the mills were estimated at 2.6 lakhs of tons only, despite the allotment of production quotas to sugar mills in the U. P. and Bihar—in these and other provinces production was estimated to be higher. But events were moving too fast to allow estimates or expectations to come true. In fact,

*For greater details such as the efforts to export sugar, see our Sugar Industry and the War, pp.57 et seq.

the Syndicate had to make efforts to curb bullish tendencies in the market.

Contrary to expectations the surplus stock of 1940 was sold off by May 1941 and after this the Syndicate raised the minimum prices of sugar by As. 5 to 6. This move together with reports of the progress of the War, raised the price of sugar to Rs. 9-15-0, at least for a time. It is, therefore, not difficult to see the figure for Sales go sharply up (24%). They were the highest so far (in value), in spite of the fact that production declined by about 12% and the mills, on the average, worked for 113 days as against 129 in the previous season. It is not then surprising that for the first time the 1936 figures of Net Profits are exceeded in 1941—and the latter are 41% above those of the preceding year.

For like reasons Dividends, too, show an upward trend, but they are not higher than the previous year's, in their proportion to the Net Profits. With the full operation of the E. P. T., the trend of greater Provision for Taxation, which begins in 1939, has had to be continued. The proportion of Reserves to Net Profits during this year shows an appreciable fall.

The year 1942 shows only an intensification of these tendencies, in Sales, Net Profits, Dividends paid, and the amount provided for Taxation—the last accounting for the highest rise, and the Net Profits the lowest. This year is well-known for the introduction of the Sugar Control as also for the great demand for Indian Sugar in the Middle Eastern countries resulting from the fortunes of the War. These factors coincided with a bad cane crop and a spectacular fall in sugar production from 10,95,400 tons in 1940-41 to 778,100 tons in 1941-42. We can mention, only in passing, the extremely trying years through which the country passed because of the chaotic manner in which the Control actually operated. Of course, not a few of the difficulties of its operation arose out of the almost complete breakdown of the transport system in the country.

The remarkable rise in the Provision for Taxation (47% over the previous year) as against that of only 9% in Gross Profits, naturally reduced the amount available for allocation. The rise in

the amount of Dividends distributed has, in this year, started a tendency that is continued in the succeeding years, namely, of giving out a greater percentage of Net Profits to the shareholders. The rise in the Sales figures, as will be seen from the foregoing remarks, is entirely explained by the higher prices of sugar. It must, however, be noted that the increased cost of production resulting from higher wages, higher prices of chemicals, etc., reduced the Net Profits—which show a decline in relation to sales from 9.3% to 7.4% of the sales figures.

1943

The steady improvements in the working of the sugar companies reach their culminating point in 1943, the peak year of the period. The steep mounting of all the curves loudly proclaims the significance of this year. Indeed, the working of the sugar companies, during these three years, reminds one of the early years of protection 1932-36.* In every item of our tables, there is an advance during this year, the most notable being in the Provision for Taxation, Net Profits and Dividends—the first of these being easily accounted for by the increases in the E. P. T. rates in 1942 and 1943. In fact, it will be seen that because of a still further E. P. T. charge in 1944, the figure for the last year is proportionately even higher than that of 1943. We need not go far to seek the reasons for these all-round increases during this year. The Government had learnt quite a few lessons in Sugar Control and made strenuous attempts to profit by them. For instance, they also promulgated the Gur Control Order, thus preventing the side-tracking of cane from the sugar mills to gur-making (which for want of control had become very profitable). Now the Government aimed at maximizing sugar production with a view not only to meet the internal demand but their requirements of the defence services also. Thus the U. P. and Bihar Governments, too, gave up their restrictionist policies and fixed the cane prices at As. 10 per md. at the maximum. With India as the base of

*Although our statements would show that five companies incurred losses in this year, two of them had to show losses because they paid the arrears of E. P. T. and other taxes in that year. These two companies were the Upper Doab and the Upper Jumna.

operations for the Middle East Campaigns, one can easily imagine the play of the demand factor. Government further encouraged manufacturers by increasing the price of sugar by Rs. 2-3-0 per md. in December 1942.* As a result of these measures, the production of factory sugar increased from 7,78,100 tons to 10,70,700 in 1942-43. There was no difficulty in disposing of the stocks, despite the transport bottle-neck, which still acted like a big clog in the successful operation of the Sugar Control. It was widely asserted then—and not without reason—that the sugar mills in India would have made still larger profits, if they were allowed to export the commodity, especially, to the countries of the Middle-East.† Another factor leading to the steadying of the demand during the year must have been the introduction of rationing in urban areas.

Sales and Net Profits

It will be noted that the net profits index shows a much higher rise than that of sales. The chain index for the former shows an advance of 41 points over the previous year—the Sales having gone up by 15% only. This means that prices were more remunerative for the mills and this is also indicated by the percentage of Net Profits to Sales which has risen from 7.4 to 9.1 during the two years.

In view of these considerations, it is not surprising that dividend ratios also show a marked improvement over the previous years. As compared with 1938 (the base), they have more than doubled. Their percentage ratio with net profits has gone up from 59.6 to 64.5; that is nearly 2/3 of the net profits during this year were distributed among the shareholders. It will be noted that though a higher sum than the previous year was set aside for Depreciation, the increase was nowhere in proportion to the rise in Gross Profits.

*The price of standard quality C.24 as fixed by the Sugar Controller was as under.

28-11-1942	—	Rs. 12-5-0	per md.
1-1-1943	—	„ 14-8-0	„
10-11-1943	—	„ 15-3-0	„

We refer to the controlled price only.

†This raises the controversy about the activities of the U.K.C.C. which cannot be taken up here. A reference may, however, be made to our Sugar Industry and the War pp.66.

As against this, it must be noted that the percentage of Net Profits to Gross Profits has declined from 50.4 to 45.7—largely because a much larger sum has been provided for taxation. The boom conditions in the industry have served to augment the provision for Reserves—though perhaps in a very moderate degree—the average Reserves showing an increase from Rs. 98,450 to Rs. 1,22,201. Thus the Reserves as percentage of Net Profits have declined from 36.6 to 32.1 between 1942 and 1943.

1944

Our observations, for the previous year, will largely account for the general decline in almost all the figures that we see in 1944. This year, following the peak, shows a small rise only in respect of Sales and Capital Employed. At the beginning of the 1943-44 season, the mills were in a fairly stable condition as the stocks carried over from the previous season amounted to 133,000 tons only.* The policy of maximizing production was continued and the Gur Control, too, came under way. Transport difficulties, especially as regards the supply of coal, began to ease and the average period of the crushing season increased from 101 days to 117 days. All these factors explain the higher output of factory sugar, *viz.*, 12,60,000 tons, an increase of more than 20%.

The question then arises as to why the sugar companies could not improve upon the performances of the previous year—nay there is a comparative set back in their earnings. The principal reason for this decline is to be found in the all-round rise of the costs of production. In December 1943 cane prices were raised from As. 10 to As. 12,[†] per md. But at the same time the price of sugar ex-factory was also increased by As. 13 per md. As against these increases in cane and sugar prices, a special excise duty of As. 13

* See Gandhi's Annual (1944) Table No. 20, Official Estimates of Total Carryover of Stocks.

† The rise was necessitated by the apprehension that, because of famine conditions in the country, farmers would find other crops more remunerative and the area under sugar cane would decrease. The representatives of the cane-growers had recommended an increase up to Rs. 1-4-0 per maund, whereas the manufacturers As. 14/- per md.

was levied on stocks of sugar held by factories and wholesalers, in order to prevent them from disposing of the sugar produced in the previous (1942-43) season, with the margin provided by the new prices. The sugar manufacturers complained that the As. 13 increase in the price of sugar was insufficient to warrant an increase of two annas in cane. They had suggested an increase of Rs. 0-14-0. But the Government replied by saying that the previous increase of Rs. 2-5-0 was quite liberal and would easily enable the manufacturer to cover his cost. In fact, they contended that the factories outside the U. P. and Bihar would earn additional profits. The Governments of the U. P. and Bihar had another surprise for the industry and that was the increase in the cess on cane by Anna 1 per maund in 1943-44. This came in at a time when manufacturers were entertaining hopes of a reduction in the cess of 9 pies on cane to 3 pies, as the factories had repaid the rebate of Rs. 150 lakhs granted to them in 1940-41 and for which a special cess of 6 pies was levied. It is true that this latter special cess was discontinued by the Government; but the increase in the ordinary cess of one anna per maund of cane added to the costs of production in the industry. It may, however, be of interest to note that the Chairman of the Sugar Commission of the U. P. and Bihar assured the industry that "the proceeds of the cess, though credited to General Revenues, will in due course be utilized for the benefit of the industry and growers."* Another factor also added to the cost of production, *viz.*, a fall in the recovery of sugar especially in the U. P. and Bihar factories :—

Year.			India Average.	U. P. Average.	Bihar Average.
1942-43	..	..	10.28	10.16	10.93
1943-44	..	..	10.02	9.92	10.53†

Sugar mills met with increasing difficulties in the supply of sulphur and lime of the requisite quality, whereas they were obliged to pay higher sums by way of wages and allowances.

*See M. P. Gandhi's Sugar Annual 1943. p.xix.

†See Our Sugar Industry and the War p. 12 and Gandhi's Annual 1944 p.iii.

In the light of the foregoing paragraphs, it is not difficult to note a substantial rise in the index number of Sales 252 (1938-100) on the one hand, the fall in percentage of Net Profits in relation to Sales (from 9.1 to 5.7) on the other. In like manner, Dividends show a fall of 14% as against the previous year. They show, however, that a greater percentage of Net Profits was distributed to the shareholders than even in the previous (peak) year. At the same time, however, the Reserves show no appreciable fall—and looking to the smaller Net Profits—show an actual increase in their proportion to Net Profits. As against this, it may be noted that whereas in 1943, the average amount carried forward was about Rs. 60,000, in 1944 it fell to about Rs. 40,000.

As for the figures of Provision for Taxation, we may only recall to mind that the 13 1/3% of compulsory deposit was raised to 19/64 in 1944, this amount being made to constitute a fund that was returnable after the War for purposes of rehabilitation.

TABLES & GRAPHS

TABLE I

THE SUGAR

	1936 Rs.	1937 Rs.	1938 Rs.	Totals and 1939 Rs.
1. Gross Profits:				
Total ...	1,38,31,093	95,50,265	1,30,57,325	1,71,66,950
	(35)	(40)	(42)	(45)
Average...	3,95,178	2,38,756	3,10,888	3,81,488
2. Depreciation:				
Total ...	41,55,118	46,40,827	54,51,983	56,19,422
	(35)	(40)	(42)	(45)
Average...	1,18,719	1,16,020	1,29,809	1,24,876
3. Provision for Taxation:				
Total ...	15,15,368	11,51,607	12,71,596	23,87,336
	(35)	(40)	(42)	(45)
Average...	43,296	28,791	30,276	53,052
4. Net Profits:				
Total ...	81,60,607	37,57,831	63,33,746	91,60,193
	(35)	(40)	(42)	(45)
Average...	2,33,163	93,945	1,50,803	2,03,560
5. Amount Available for Allocation:				
Total ...	86,99,995	42,49,591	64,55,945	87,91,634
	(35)	(40)	(42)	(45)
Average...	2,48,571	1,06,240	1,53,713	1,95,369
6. Dividends:				
Total ...	44,92,773	38,77,816	49,85,891	52,94,281
	(35)	(40)	(42)	(45)
Average...	1,28,365	96,945	1,18,711	1,17,650
7. Reserves: *				
Total ...	29,74,633	5,72,327	19,67,484	37,84,951
	(35)	(40)	(42)	(45)
Average...	84,990	14,308	46,844	84,110

N. B.—Figures in brackets indicate the number of companies to which the
*Includes contributions to Reserves and other amounts appropriated and

INDUSTRY

Averages

1940 Rs.	1941 Rs.	1942 Rs.	1943 Rs.	1944 Rs.
1,81,80,723 (46) 3,95,233	2,30,57,603 (47) 4,90,587	2,57,07,883 (48) 5,35,580	3,90,70,787 (47) 8,31,293	3,06,50,485 (44) 6,96,602
64,14,330 (46) 1,39,442	68,70,176 (47) 1,46,174	69,29,951 (48) 1,44,374	71,99,977 (47) 1,53,191	67,01,552 (44) 1,52,308
30,03,433 (46) 65,292	39,66,379 (47) 84,391	58,87,078 (48) 1,22,647	1,40,00,047 (47) 2,97,873	1,03,73,257 (44) 2,35,756
87,62,960 (46) 1,90,499	1,22,21,048 (47) 2,60,022	1,28,90,854 (48) 2,68,559	1,78,70,763 (47) 3,80,229	1,35,75,676 (44) 3,08,538
88,67,873 (46) 1,92,780	1,24,28,629 (47) 2,64,439	1,48,47,062 (48) 3,09,313	2,00,66,905 (47) 4,26,955	1,62,77,716 (44) 3,69,948
47,12,637 (46) 1,02,449	65,83,117 (47) 1,40,066	76,94,690 (48) 1,60,306	1,15,54,285 (47) 2,45,836	93,07,634 (44) 2,11,537
39,81,139 (46) 86,546	40,46,891 (47) 86,104	47,25,603 (48) 98,450	57,43,467 (47) 1,22,201	52,40,035 (44) 1,19,092

totals refer.

unappropriated, excluding the amount carried forward.

TABLE I

THE SUGAR

Totals and

	1936 Rs.	1937 Rs.	1938 Rs.	1939 Rs.
8. M. A. Remuneration:				
Total ...	6,76,926	14,98,614	16,00,043	19,51,594
	(16)†	(39)	(38)	(43)
Average...	42,308	38,426	42,106	45,386
9. Sales:				
Total	5,62,26,033	7,40,71,330	7,62,48,290	9,20,03,886
	(28)	(34)	(36)	(39)
Average...	20,08,075	21,78,569	21,18,008	23,59,074
10. Capital Employed:				
Total	10,47,81,181	12,26,94,656	12,62,89,944	13,47,07,588
	(35)	(40)	(40)	(45)
Average...	29,93,748	30,67,366	31,57,248	29,93,502

N. B.—Figures in brackets indicate the number of companies to which the
 † See our explanation in the Chapter p. 118.

INDUSTRY (Contd.)

Averages

1940 Rs.	1941 Rs.	1942 Rs.	1943 Rs.	1944 Rs.
18,93,004 (43) 44,023	22,09,654 (45) 49,103	26,53,429 (45) 58,965	33,61,858 (46) 73,083	28,47,393 (41) 69,448
8,98,71,283 (40) 22,46,782	11,36,33,706 (41) 27,71,554	14,49,70,076 (40) 36,24,252	17,18,65,480 (41) 41,91,841	20,30,29,288 (38) 53,42,876
19,51,88,995 (46) 42,43,239	19,69,60,788 (47) 41,90,655	18,73,69,589 (47) 39,86,587	20,95,36,156 (47) 44,58,216	24,10,20,150 (42) 57,38,575

totals refer.

THE SUGAR INDUSTRY

Table II

Percentages

		1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Net Profits as % of Gross Profits	..	59.2	39.3	48.5	53.3	48.1	52.9	50.4	45.7	44.4
2. Depreciation as % of Gross Profits	..	30.2	48.6	41.8	32.8	35.2	30.0	26.8	18.4	21.8
3. Provision for Taxation as % of Gross Profits		10.8	12.1	9.7	13.9	16.5	17.1	22.8	35.7	33.6
4. Dividends as % of Net Profits	..	54.8	103.1	78.8	57.8	53.6	53.8	59.5	64.5	69.0
5. Reserves as % of Net Profits	..	36.3	14.8	31.1	41.1	45.8	33.1	36.6	32.1	38.9
6. M. A. Remuneration as % of Net Profits		17.9*	40.8	27.9	22.2	23.0	18.8	21.9	19.6	22.6
7. Net Profits as % of Sales	..	11.4	4.2	7.1	8.6	8.4	9.3	7.4	9.1	5.7
8. Net Profits as % of Capital Employed	..	7.6	3.0	4.7	6.7	4.4	6.2	6.7	8.5	5.3

*See our explanation in the Chapter, p. 118.

THE SUGAR INDUSTRY

Table III

Chain Indices

	1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	61	132	123	103	125	109	155	84
2. Provision for Taxation	68	103	177	121	128	147	242	79
3. Net Profits	40	161	135	94	141	103	141	81
4. Dividends	76	124	99	87	137	115	153	86
5. Reserves	16	313	178	104	103	114	125	97
6. M. A. Remuneration	90*	111	107	98	111	118	123	93
7. Sales	108	97	111	96	124	132	115	127
8. Capital Employed.	103	103	95	141	97	95	112	127

*See our explanation in the Chapter, p. 118.

THE SUGAR INDUSTRY

Table IV

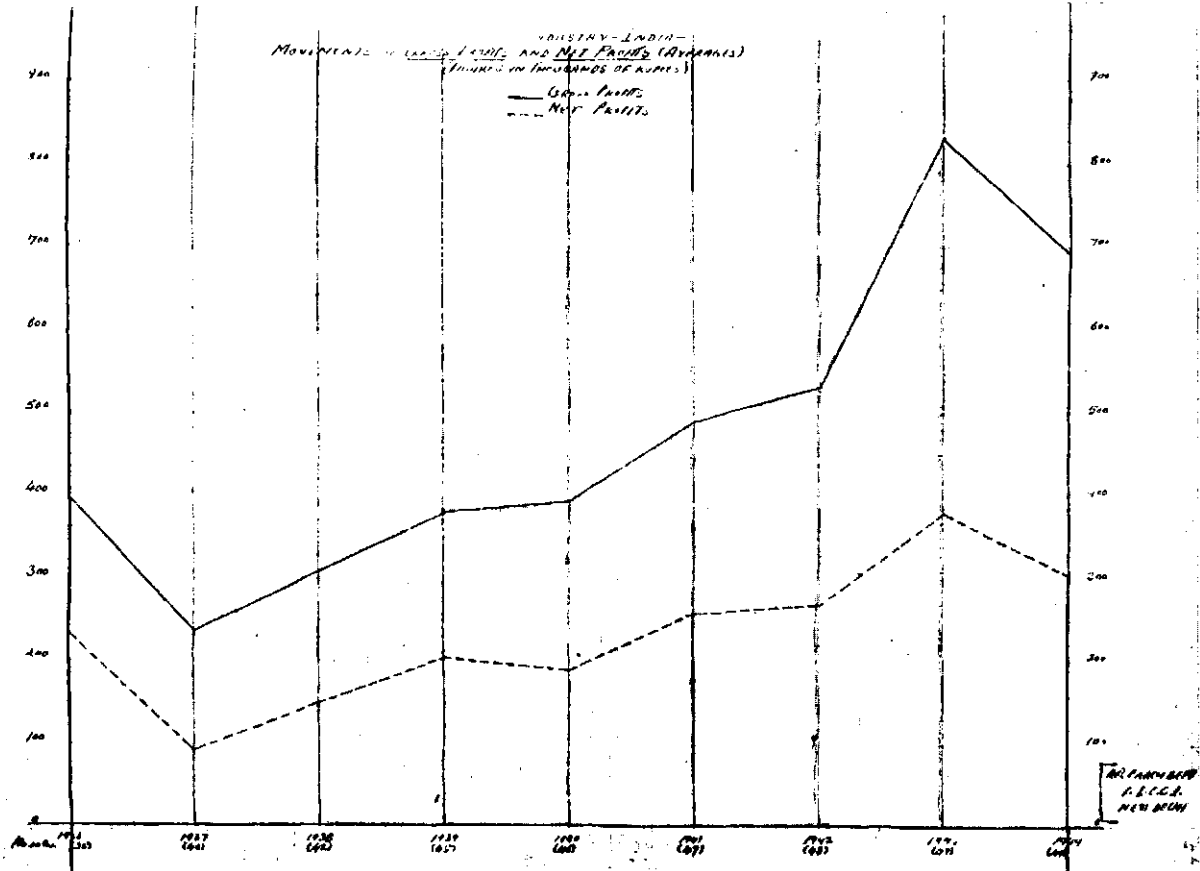
Index Numbers

(Base 1938=100)

				1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	..	..	..	127	77	100	123	127	158	173	268	223
2. Provision for Taxation	..	..	..	143	98	100	177	217	280	410	993	787
3. Net Profits	..	..	..	156	61	100	135	126	173	179	253	206
4. Dividends	..	..	..	108	82	100	99	86	1181	35	207	178
5. Reserves	..	..	..	181	28	100	178	189	187	213	267	258
6. M. A. Remuneration	..	..	..	100*	90	100	107	105	117	140	174	164
7. Sales	..	..	..	95	103	100	111	106	131	171	198	252
8. Capital Employed	..	..	..	95	97	100	95	134	133	126	141	182

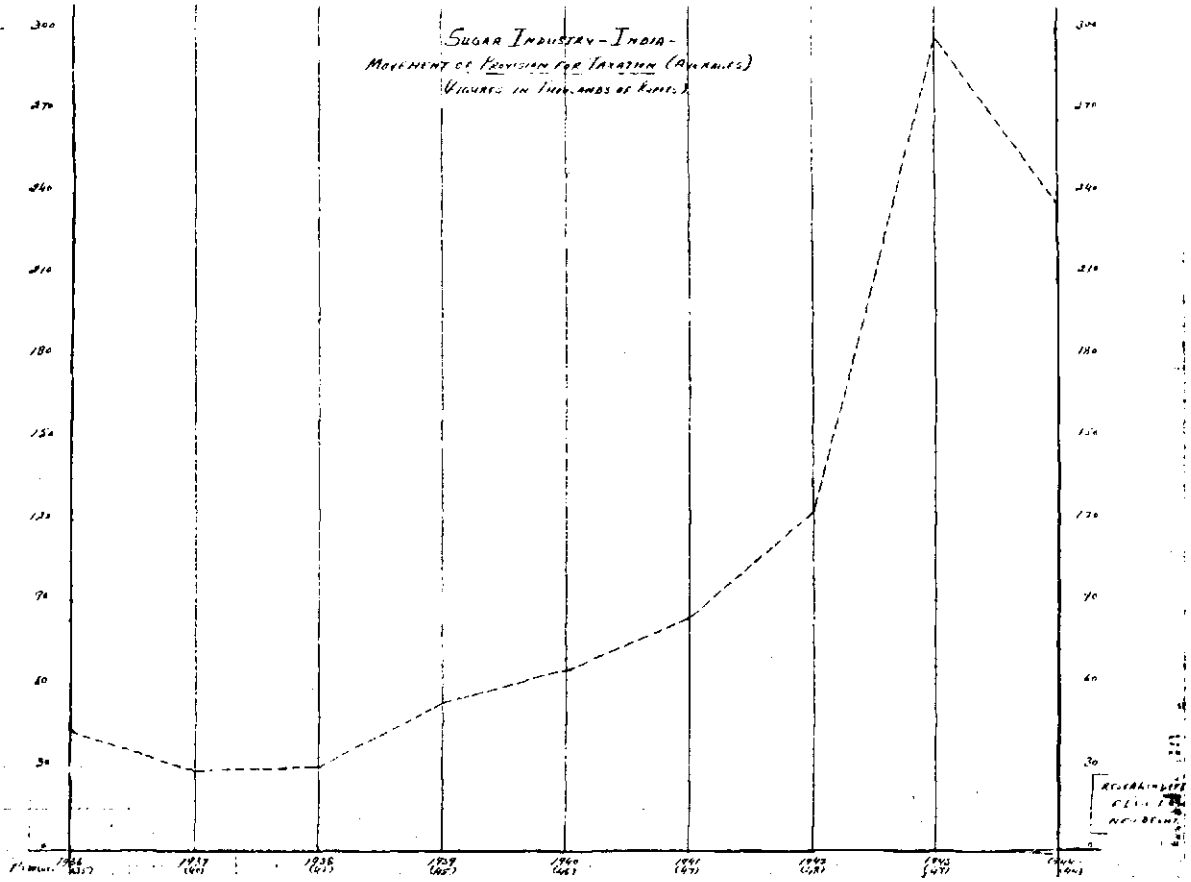
*See our explanation in the Chapter, p. 118.

THE SUGAR INDUSTRY
GRAPH I



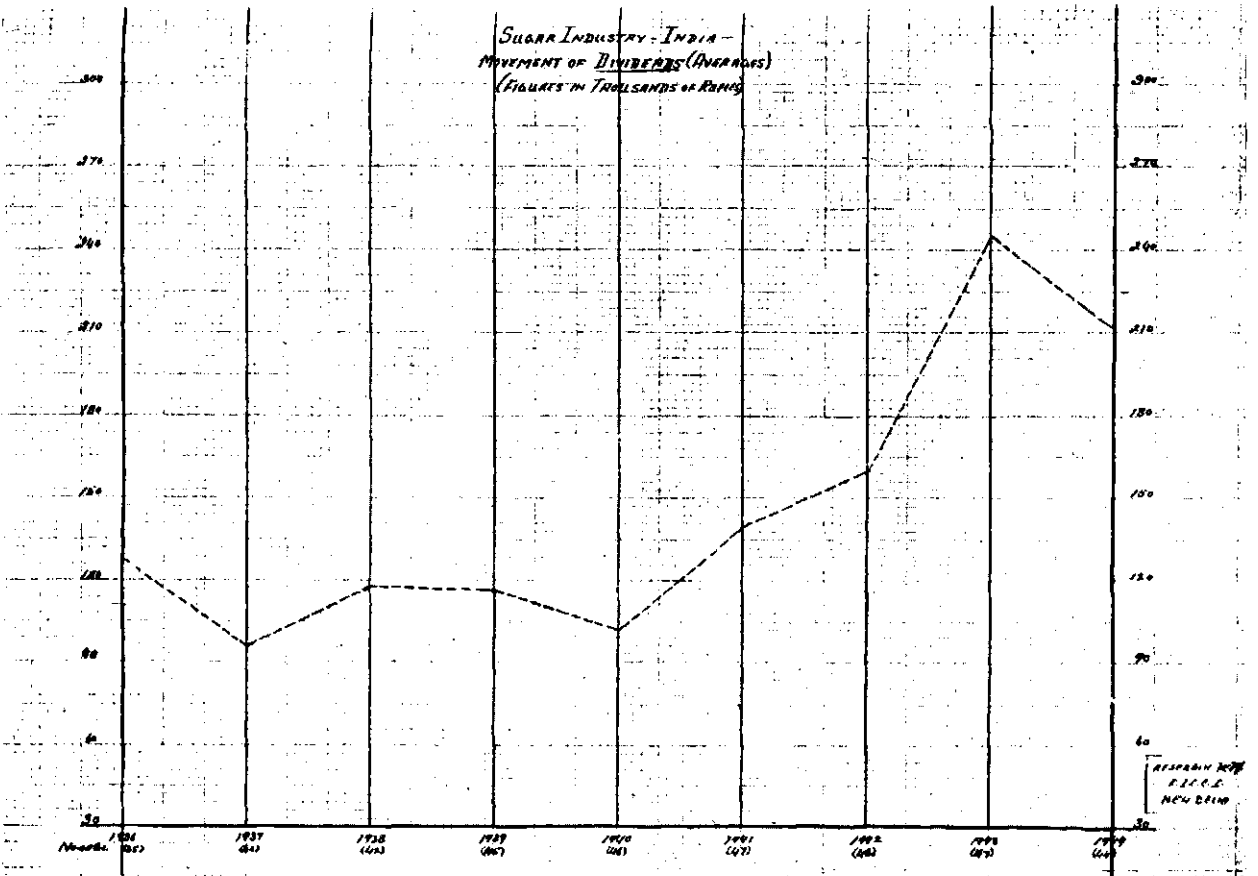
THE SUGAR INDUSTRY
GRAPH II

SUGAR INDUSTRY-INDIA-
MOVEMENT OF PROVISION FOR TAXATION (IN LAKHS)
(FIGURES IN THOUSANDS OF RUPEES)



REVENUE DEPARTMENT
GOVERNMENT OF INDIA

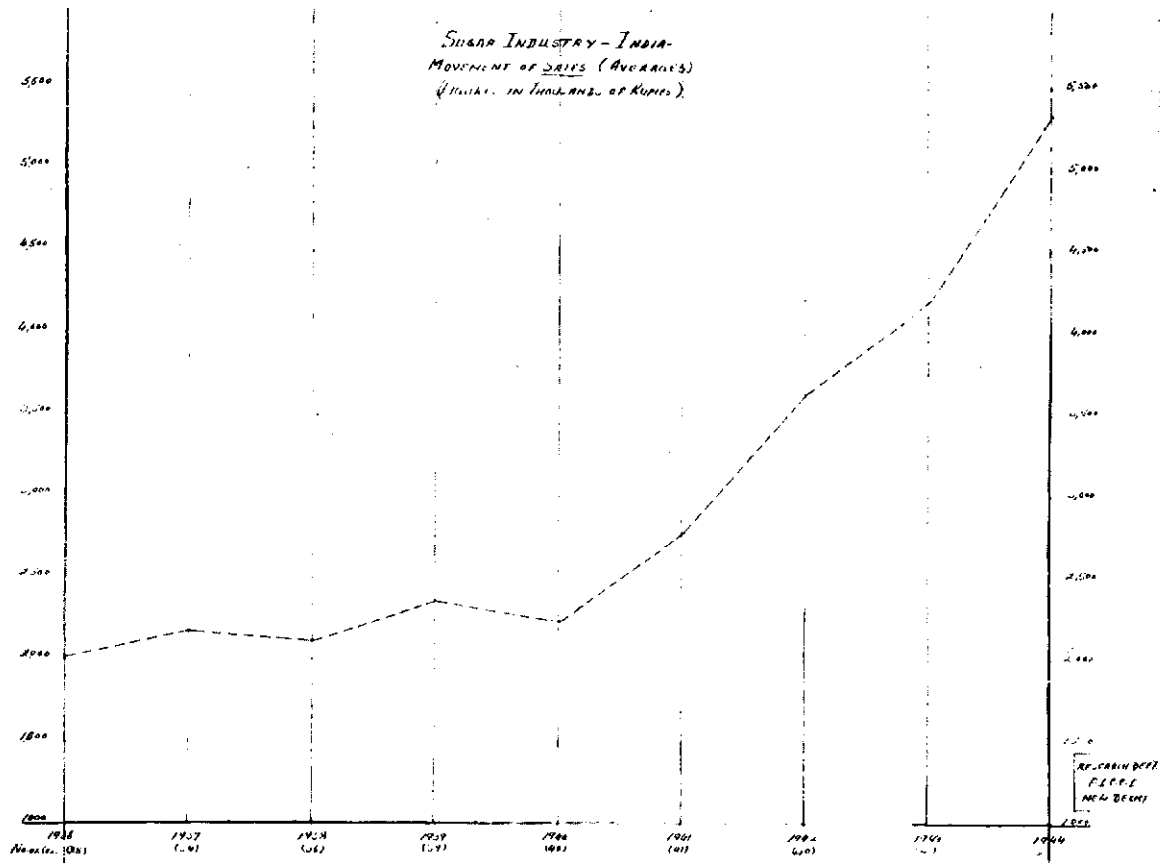
SUGAR INDUSTRY - INDIA -
 MOVEMENT OF DIVIDENDS (AVERAGES)
 (FIGURES IN THOUSANDS OF RUPEES)



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 NEW DELHI

THE SUGAR INDUSTRY

GRAPH IV



GRAPH V



CHAPTER VI

THE IRON AND STEEL INDUSTRY

Introduction

The Iron and Steel Industry justly occupies a unique position in the history of industrialization in all the countries in modern times, for, indeed, the output of steel has been considered a barometer of industrial growth since the advent of the Industrial Revolution. In India, though large-scale Iron works were first founded at Barakore (near Raniganj) in 1875 by the Bengal Iron and Steel Co. Ltd., the "romance" of the Indian Steel Industry begins with the early years of the present century, when the pioneering efforts of the late Jamshedji Tata culminated in the founding of the Tata Iron and Steel Co., in 1907, and in the commencement of steel production at Sakchi in 1913. The importance of the industry was naturally brought into greater relief in the World War I (1914-18), and by 1916-17 the aforesaid Tata Company had already carved for itself a unique position in the industrial set up of the country—a position which it still enjoys. By the end of the war, the importance of the Iron and Steel Industry as a key or basic one was fully realised; for, when after 1920-21 the Tata Company began to experience rough weather, the Indian Fiscal Commission specifically cited this as an outstanding example of industrialization and of successful Indian enterprise which could rightly claim tariff protection. Significantly enough, this was the first industry that was investigated by the Indian Tariff Board and the first industry to receive protection.* We shall have occasion, a little later, to cite another unique feature of this industry also, namely, that it was the first one in which a concern publicly announced that it could do without further tariff protection in the ordinary course of things.

*This industry, again, is the one most enquired into by the Tariff Board—in 1924, 1926, 1934 and 1947; Supplementary Enquiries in 1924, 1925, 1930 and Special Enquiries in 1924, 1927, 1929, 1933.

We may, for our purposes here, summarise the growth of this industry until the beginning of the Second World War in the following Table :—

Consumption of Iron & Steel in India

Year.	Total Pro- duction.†	Imports. (Tons)	Consump- tion.
1914	Negligible	1,293,000	1,293,000
1929	400,105	1,251,553	1,651,658
1933	483,212	327,642	810,854
1934	556,049	332,065	888,114
1935	600,239	373,665	973,904
1936	603,905	453,666	1,057,571
1937	624,438	366,545	990,983
1938	702,620	374,266	1,076,886
1939	781,678	280,417	1,062,095

Note.—Figures taken from the First Report of the Iron & Steel (Major) Panel 1946 p.1.

The output of pig iron rose from 0.2 million tons before 1914 to 1.8 million tons in 1939, whereas the production of steel ingots and castings, increased to 1 million tons. It may also be added that the Tata Company has supplied an increasingly large proportion of the Indian market, their share of Indian consumption of the types of steel manufactured by them having increased from 17.6% in 1923-24 to 76.2% in 1937-38.

Before the outbreak of the Second World War, there was some disorganisation in the internal market for Iron and Steel and the re-rolling mills from Southern India had begun complaining of

† Based on ingot production less production of steel castings, less 30 per cent wastage.

severe cut-throat competition from the bigger units in the North. But the chief producers of steel, the Tatas, the Bengal Steel Corporation (SCOB) and the Mysore Company arrived at a working agreement about prices as also about production. This step had materially improved the interal organisation of the industry and the fears of over-production were overcome even before the Second World War broke out.

Thus, unlike both sugar and paper, the iron and steel industry was just entering upon a period of prosperity in the years with which we commence our study. The iron and steel industry, all the world over, had just turned a corner (from its plight in 1933-34) and this was largely due to the beginnings of the armaments boom. Indeed, 1937 was a pre-war record year for the industry. It may also be added that, being a key industry, it has been held in no little esteem both by the Government and the people and its largest unit had the unique distinction of declaring in 1937 that so far as they were concerned, they could do without further tariff protection after the expiry of the existing duties in 1941—the Infant had come of age! Before, however, this declaration—(we have called it unique because tariff history hardly provides such cases) could be consummated, the War intervened. Our period, therefore, coincides with one of development which may be said to begin almost with the extension of protection in 1934. The Tata Iron and Steel Co. Ltd., as a matter of fact spent 8½ crores of Rupees on its development programmes between 1935 and 1941* and their production in 1941-42 reached 8,24,238 tons, recording an efficiency of 97% of their total production capacity. Further the expansion schemes, for obvious reasons, were put into effect, in spite of (shall we say because of) war conditions—unlike the other industries. Thus a new 1000-ton Blast Furnace replaced the old ones in 1939-40. A plant for the production of Railway wheels, tyres and axles (so important for the large scale manufacture of locomotives) was installed in 1941. An additional steel-making plant and a 50-ton Acid Open Hearth were put into operation in 1942, thus increasing the ordinary steel-making capacity of the plant and bringing out acid steel from Indian

* See Iron & Steel Industry in India in "Industrial India" (Ed. Sir C.B. Mehta and M.V. Murthy) p.301.

materials.† Some additions were made on behalf of the Government, for, after the War broke out, the steel industry placed all its resources at the disposal of the Government. We will only content ourselves, here, by saying that the experience of the War should enable the industry to play a still more important role in the years of peace, in the development of such industries as aircraft, automobiles, locomotives and machinery production down to cutlery, engineering and hardware manufacture.*

Companies Analysed

Here, too, our problem has been similar to that of the cement industry, for there are only three important iron and steel concerns in India, Tata Iron and Steel Co. Ltd., the Indian Iron and Steel

†The result of these improvements are reflected in the output of the principal products of the Tata Iron and Steel Co., Ltd.

Output of Principal Products of the Tata Iron & Steel Co.
(Figures in '000 tons)

	Pig Iron	Steel Ingots
1938-39 ...	10,20	9,47
1939-40 ...	11,40	10,18
1940-41 ...	11,80	10,84
1941-42 ...	12,37	10,82
1942-43 ...	11,06	10,01
1943-44 ...	11,48	10,92
1944-45 ...	8,60	9,54
1945-46 ...	10,06	10,14

(Compiled from the Tariff Board Report on the Continuance of Protection to the Iron & Steel Industry, 1947, p.36)

*In spite of these developments, our comparative position in the Iron and Steel manufacture of the world is:

	Area in sq. miles	Population	Production of Steel Ingots & Castings. (tons)	Per capita production per annum. (ton)
U.S.A.	17,839,000	136,497,000	81,160,000	0.58
U.K.	244,000	48,000,000	13,239,000 (1943)	0.27
Canada.	19,569,000	11,812,000	2,744,000	0.23
India.	4,096,000	388,998,000	1,600,000 (1943)	0.004
U.S.S.R.	21,175,000	172,000,000	21,000,000	0.21

(Industrial India, p.311)

(Contd. on next page)

Co. Ltd., and the Mysore Iron and Steel Works at Bhadravati. Unfortunately, we have not been able to get the balance-sheets of the last company—for all the years of our period. It is a Mysore Government—controlled company and, for obvious reasons, its balance-sheets are difficult to be obtained. We shall presently see, however, that the other (three) companies, which we take into account, represent by far the greater output of the industry.

The Indian Iron and Steel Co. was floated in 1918, but was amalgamated with the Bengal Iron Co. in 1936. In 1939-40 the actual pig iron production of Indian Iron and Steel Co. was 645,000 tons whereas that of the Tisco, was 1,140,000 tons. The above amalgamation brought into existence the Steel Corporation of Bengal in 1937, which set up a steel plant adjacent to the blast furnaces of
(Contd.)

The British Iron and Steel Federation have published, for the first time since the beginning of the war, their periodical statistical bulletin. It contains some interesting information. Here is its record of steel production throughout the world since 1937, the figures representing millions of tons.

	1937.	Peak War year.	Latest month 1945 (Annual rate)
U.K.	12.984	13.031	12.372 (last quarter)
U.S.A.	50.6	80.1	65.2 (Dec.)
Canada	1.4	2.7	2.2 (Oct.)
India	0.9	1.4	1.2 (Nov.)
France	7.8	...	2.7 (Nov.)
Belgium	3.8	...	1.4 (Oct.)
Luxemburg	2.5	...	0.5 (Oct.)
Sweden	1.1	...	1.3 (Oct.)
Germany	19.8	28.2	... ..

The increased U.S.A. output since 1937 is partly due to a higher operating rate but also to a 22 per cent increase in capacity. In France, Belgium and Luxemburg current production is not more than 33 per cent of capacity because of coal shortage. French coal output is back to pre-war level, but French coal exports, which in 1937 accounted for 40 per cent of output, are nil. German output is now controlled by the Allies and the figure which it should be permitted to reach has not yet been agreed, though production has begun. Britain wants to permit a larger output than her allies will tolerate. It is considered that assuming production in Western Europe to regain its pre-war level and German production to reach 7,500,000 tons a year (the figure proposed by Britain), there will still remain a large unsatisfied demand for steel.

the Indian Iron and Steel Co.* This company began to produce steel towards the end of 1939. The SCOB take hot metal from the Indian Iron and Steel Co. under an arrangement and produce structurals, heavy rails, sheets, bars, spring steel and tools and they began with a capacity of 200,000 to 250,000 tons per annum. The TISCO produced 1,018,000 tons of steel ingots in 1939-40. There was a further working arrangement between the TISCO and the SCOB regarding the sale of common products from 1939.

It will thus be seen that if we take these three or rather two companies, we take by far the major part of the industry. The picture up to 1940 is almost entirely that of the Tata Co., while even for subsequent years, owing to its larger size, the results are dominated by this company. This raises the question of the averages. At first sight, it would seem that we should only take weighted averages based on the respective capacities of the companies. This would normally be the proper solution, but for the present we have proceeded with the arithmetic average because after 1939, the Steel Industry—as we shall presently see—was controlled and almost all its products were commandeered by the Government. The two companies had, therefore, to cease as competitive units. Under such circumstances an arithmetic average would not give incorrect results regarding the trends in the industry as a whole.

Soon after the outbreak of the War, Government appointed an Advisor on Steel Supplies, who later on came to be called Iron and Steel Controller, under the Iron and Steel (Control and Distribution) Order of 1941. After some time the entire production of iron and steel was brought under control and a Board was appointed to administer the control scheme. An elaborate system thus came into being for the planned production and distribution of iron and steel through a system of licenses. This culminated, in July 1944,

*The arrangement between the Indian Iron & Steel Co. and SCOB provides that (i) the whole of the Corporation's requirements of hot iron available for steel making purposes should be supplied by Indian Iron and at a price equal to the cost of manufacture plus 5% and (2) 1/5 of the net profits of the Corporation are to be given to the Indian Iron and Steel Co. in return for the above service. The Indian Iron and Steel Co. hold Rs. 110 lakhs out of Rs. 280 lakhs of ordinary shares issued by the Corporation.

in almost all categories of steel being issued at uniform rates to all parties, irrespective of their being Government Departments or other license holders.

In the case of this industry, therefore, we shall first deal with the averages based on the results of these three companies. There is one other point about this industry which may also be disposed of here. In the case of an iron and steel company, not only is it usually a really very large-sized productive unit, but it is very frequently a combination of productive units, turning out a product and making different uses of that product itself in plants that form a part of the whole concern. This is indeed a feature of the iron and steel industry the world over, which is generally cited as a case of vertical combinations. The principal Indian companies are no exception to this. The Balance Sheets of these companies show the results of a variety of operations and in some cases the subsidiaries are clearly shown as such. With a view to check our results, in the light of these considerations, we take 3 concerns (National Iron and Steel Co., Steel Products and Indian Steel and Wire Products) which are not only much smaller than the other three, but are either engineering companies or largely using the products of the bigger companies. Our figures may thus be checked with the combined averages in order to watch the trends in the Iron and Steel industry.*

The Tables

It will be seen that the whole period—from 1936 onwards—shows a steady growth of the industry. We have taken one more year, 1945, as the Steel Corporation of Bengal actually commenced production in 1939. Our averages, therefore, represent two concerns up to 1937 and thereafter all the three, subject to the arrangement between the Indian Iron and Steel Co. and the Steel Corporation of Bengal, referred to above. For similar reasons, we have taken 1940 as the base year for our indices and not 1938. The selection of this year also enables the early effects of the armaments boom to be properly spread out, though it cannot be called quite a normal year because of the War. It must also be remembered that out of three companies, the financial year of the two closes in March and there-

*See Table Nos. V to VIII.

fore the financial results of a particular year reflect the business conditions of the preceding year. Thus the boom of 1937 is reflected in the figures of 1938 or the political turmoil of 1942 in those of 1943.

Before we come to the war years, then, it is not difficult to show how there is an abnormal improvement in 1938, as compared with the previous two years. Net Profits, Dividends, Provision for Taxation, Managing Agents' Remuneration, all show a marked rise. The percentage of Net Profits to Gross Profits was higher in 1938, but in 1939 the Provision, both for Taxes and Depreciation, was substantially more than in 1938. The percentage of Dividends to Net Profits (111%) is interesting and needs some comment. It will be seen that in these pre-war years, the reserves were kept very low and most of the earnings were spent in the distribution of dividends. The inclusion of the Steel Corporation of Bengal with its losses brings down the figure of profits—whereas all the three companies charged the Managing Agents' Remuneration. Thirdly, the Tata Company also includes the refund of income-taxes of the previous year in the amount available for allocation and so distributable to the shareholders.* Perhaps the most striking thing in the table on percentages is the percentage of Net Profits to Gross Profits, throughout the period. This percentage is certainly much higher than in any of the other industries with which we have dealt. We may also compare this trend with the percentage of Net Profits to Sales, which also is the highest in a similar way. Closely related to this may be taken the percentage of Dividends to Net Profits. This

* Thus in 1939 the Net Profit is Rs. 2,42,91,349. To this were added Rs. 21,65,348 as Income tax recovered from Dividends on Preference Shares (1937-38), Rs. 4,98,956 carry forward of the previous year and Rs. 24,395 as amount standing to the credit of the 2nd Preference Shares—Dividend Account. The amounts of Income Tax recovered from dividends on Preference Shares for the remaining years were shown as under :—

1939	—	Rs.	21,65,348
1940	—	„	24,68,892
1941	—	„	8,83,382
1942	—	„	11,77,842
1943	—	„	13,25,093
1944	—	„	14,72,303
1945	—	„	15,90,087

is explained by the fact that the Tata Company laid by little reserves — till 1940.† The average of the reserves in 1938 has suddenly shot up because the Indian Iron and Steel Co. provided a large sum of Rs. 25 lakhs by way of reserves in that year. The high percentage of net profits indicates that there is a higher return in this industry on capital than in the others which we have studied. This observation will be borne out by the percentages of Net Profits to Capital Employed also.

A point well worth noting is the decline in the dividends-rate in 1939 as compared with the previous year. This is wholly accounted for by the Indian Iron and Steel Co., whose net profits fell from Rs. 1,12 lakhs to Rs. 43 lakhs and whose dividends from Rs. 85.81 lakhs to Rs. 37.95 lakhs (from 35% to 15% on ordinary shares). In this year, 1938-39, the Indian Iron had to contend with two difficulties—a fall in the prices of products and labour troubles in June and July. These resulted in a fall in the production of Pig Iron from 701,250 tons to 530,348 tons. The fall in the percentage of Net Profits to Sales in 1939 is explained by the entry of SCOB and the consequent fall of Net Profits average, Sales remaining constant.

1940-42

We now come to the second part of our period 1940 to 1942, with the beginning of which we take the full working of all the three concerns, Tatas, Indian Iron and SCOB. 1940 is indeed a better year than 1939, except in the amount distributed by way of dividends. But this fall is really no fall at all, because even SCOB, which now came into the market, was able to declare a dividend (Rs. 3.50 lakhs). In this year, however, the Tatas had wiped out the arrears of dividends on 2nd Preference Shares (by October 1939) and they, therefore, paid

†e.g. The Chairman of the TISCO in the Annual General Meeting in August 1940 observed :

“We have this year (1939-40) taken the first steps towards the policy of building up our reserves as you will notice from the large appropriation to the Reserve Fund and the increased amount carried forward.”

out Rs. 2.14 crores in 1940, as against Rs. 2.66 crores in the previous year. As a matter of fact the dividend on Ordinary Shares went up from Rs. 63 lakhs to Rs. 87.50 lakhs (from Rs. 18 per share to Rs. 25) and on Deferred's from Rs. 45.65 lakhs to Rs. 70.15 lakhs (from Rs. 93-10-5 to Rs. 143-14-7).

From 1941, the percentage of Net Profits to Gross Profits shows a steady decline right up to 1945. This is almost entirely accounted for by the higher amounts that had to be provided for taxes, as will be seen from Table II on Percentages. As against this there is a notable rise in the dividend amounts, as also in the sales. The former rise is largely explained by the dividends paid by SCOB, which increased the amount from Rs. 3.5 lakhs in 1940 to Rs. 34 lakhs in 1941. This company, for the first time, could pay a dividend on ordinary shares at 10% (the total amount being Rs. 28 lakhs).

In the next year the percentage of Reserves to Net Profits shows a remarkable rise, but this is due to the fact that the Net Profits have remained stationary. Whereas the Tatas increased their provision for reserves by 35% (from Rs. 75 lakhs to 100 lakhs), the other company kept them almost at the same level as in the previous year. We may note here in passing that the SCOB have not shown any reserves up to 1945. This year (1942) continues, for obvious reasons, the previous year's trend in the Provision for Taxation (chain index 198 and 161).

1943-45

This steady advance made by the Iron and Steel industry—now brought almost under complete control by the Government—received a set back in 1943. This sudden reversal of the erstwhile trends is accounted for almost entirely by internal troubles such as the great strike of 1942 at Jamshedpur and the failure of one of Tata's generating plants early in January 1943. In common with other industries, this industry too witnessed a labour exodus following the panic of 1942. These factors, therefore, explain an abnormal production fall in iron and steel.

	1941-42. tons.	1942-43. tons.
Pig Iron	2,015,000	1,804,000
Steel Ingots	1,363,000	1,299,000
Finished Steel	1,357,000	1,253,000

The TISCO which was idle for nearly 3 months saw its Sales go down from Rs. 18 crores to 16 crores and its Net Profits from Rs. 3 crores to 2 crores. This company, as a result, reduced the provision for reserves from Rs. 1 crore to Rs. 35 lakhs (though the others maintained the previous year's level). This will explain the halving of the percentage of Reserves to Net Profits in our tables.

This retardation, however, was overcome in 1944 and we see the resumption of the upward trends in the remaining two years. It will be noted, however, that the rate of Net Profits to Gross Profits does not reach the former level in spite of increased sales. This is mainly due to the fact that though higher prices were fixed for steel during the period, the mills were producing at higher costs and with difficulties arising out of coal shortage. The following comparative figures for the Tata concern will illustrate this point:-*

(Year ended 31st March).

	1942	1943	1944
	(Figures in crores of Rs.)		
Gross Profits ..	8.95	6.89	8.05
Net Profits ..	3.68	2.72	2.86
Provision for Taxation ..	3.82	2.92	3.99
Depreciation ..	1.25	1.25	1.20
Wages and Salaries ..	2.49	3.08	3.62
Coal .. ..	..	47.80 (lakhs).	79.39 (lakhs).
Total working expenditure ..	9.26	10.71	13.20

*Commerce, dated 22nd July, 1944, p. 127.

(Based upon the figures of three companies only.)

	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Gross Profits :										
Indian Iron	13,40,557	45,89,593	1,48,17,411	63,69,004	77,07,845	1,04,37,898	1,38,05,206	1,18,41,985	95,36,025	91,58,199
SCOB	..	..	..	—12,23,880	22,28,911	92,57,271	1,06,86,691	1,07,41,002	1,11,93,676	1,19,57,461
TISCO	2,73,69,573	2,89,09,574	3,69,89,339	4,17,91,349	4,98,50,204	6,99,01,139	8,23,06,083	6,36,73,525	7,60,61,407	7,95,71,814
Total	2,87,10,130	3,34,99,167	5,18,06,750	4,69,36,473	5,97,86,960	8,95,96,308	10,67,97,980	8,62,56,512	9,67,91,108	10,06,87,474
Average	1,43,55,065	1,67,49,583	2,59,03,375	2,34,68,236	2,98,93,480	4,47,98,154	5,33,98,990	4,31,28,256	4,83,95,554	5,03,43,737
2. Depreciation :										
Indian Iron	8,00,000	5,08,888	9,79,930	8,50,000	13,00,000	14,80,000	25,00,000	25,00,000	25,00,000	25,00,000
SCOB	..	..	..	4,391	15,01,389	35,00,000	35,00,000	35,00,000	35,00,000	40,00,000
TISCO	98,00,000	93,00,000	88,00,000	1,00,00,000	50,00,000	1,50,00,000	1,25,00,000	1,25,00,000	1,20,00,000	1,25,00,000
Total	1,06,00,000	98,08,888	97,79,930	1,08,54,391	78,01,389	1,99,80,000	1,85,00,000	1,85,00,000	1,80,00,000	1,90,00,000
Average	53,00,000	49,04,444	48,89,965	54,27,195	39,00,694	99,90,000	92,50,000	92,50,000	90,00,000	95,00,000
3. Provision for Taxation :										
Indian Iron	nil	nil	26,50,000	13,00,000	14,00,000	28,00,000	53,00,000	40,00,000	25,00,000	28,25,000
SCOB	..	..	..	nil	nil	23,00,000	39,50,000	42,00,000	44,00,000	46,50,000
TISCO	29,67,077	32,53,109	40,00,000	75,00,000	1,35,00,000	2,45,00,000	3,82,00,000	2,92,00,000	3,99,00,000	3,99,00,000
Total	29,67,077	32,53,109	66,50,000	88,00,000	1,49,00,000	2,96,00,000	4,74,50,000	3,74,00,000	4,68,00,000	4,73,75,000
Average	14,83,538	16,26,554	33,25,000	44,00,000	74,50,000	1,48,00,000	2,37,25,000	1,87,00,000	2,34,00,000	2,36,87,500
4. Net Profits :										
Indian Iron	5,40,557	40,80,705	1,11,87,481	42,19,004	50,07,845	61,57,898	60,05,206	53,41,985	45,36,025	38,33,199
SCOB	..	..	..	—12,28,271	7,27,522	34,57,271	32,36,691	30,41,002	32,93,676	33,07,461
TISCO	1,46,02,496*	1,63,56,465*	2,41,89,339	2,42,91,349	3,13,50,204	3,04,01,139	3,16,06,083	2,19,73,525	2,41,61,407	2,71,71,814
Total	1,51,43,053	2,04,37,170	3,53,76,820	2,72,82,082	3,70,85,571	4,00,16,308	4,08,47,980	3,03,56,512	3,19,91,108	3,43,12,474
Average	75,71,526	1,02,18,585	1,76,88,410	1,36,41,041	1,85,42,785	2,00,08,154	2,04,23,990	1,51,78,256	1,59,95,554	1,71,56,237
5. Amount Available for Allocation :										
Indian Iron	7,55,247	46,35,954	1,12,25,549	43,13,036	55,25,038	66,11,512	86,07,145	59,24,362	50,55,791	41,04,466
SCOB	..	..	..	—12,28,271	7,27,522	38,34,937	36,66,168	32,94,230	34,71,942	38,98,410
TISCO	1,51,20,226	1,63,79,285	2,43,83,654	2,69,80,048	3,10,53,184	3,29,18,438	3,39,83,096	2,44,62,369	2,65,76,812	2,96,19,446
Total	1,58,75,473	2,10,15,239	3,56,09,203	3,00,64,813	3,73,05,744	4,33,64,887	4,42,56,409	3,36,80,961	3,51,04,545	3,76,22,322
Average	79,37,736	1,05,07,619	1,78,04,601	1,50,32,406	1,86,52,872	2,16,82,443	2,21,28,204	1,68,40,480	1,75,52,272	1,88,11,161

N.B.—For the purpose of arriving at 'averages' Indian Iron and SCOB are treated as one unit (company) and the totals are, therefore, divided by two only.

*The Profit and Loss Accounts for these two years do not specify the amount of taxes paid, which were shown only in the subsequent Balance Sheet.

THE IRON AND STEEL INDUSTRY TABLE I--(Contd.)

	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
6. Dividends :										
Indian Iron	nil	40,42,636	85,81,517	37,95,843	50,71,424	57,09,573	57,12,741	50,79,956	44,46,124	38,25,894
SCOB .. .. .	..	..	..	nil	3,49,866	34,05,460	34,12,940	31,25,964	31,80,993	32,58,501
TISCO	1,50,97,406	1,62,09,676	2,38,75,545	2,66,66,370	2,14,19,267	2,42,19,267	2,28,19,345	2,00,19,267	2,00,19,267	2,00,19,267
Total	1,50,97,406	2,02,52,312	3,24,57,062	3,04,62,213	2,68,40,557	3,33,34,300	3,19,45,026	2,82,25,187	2,76,46,384	2,71,03,662
Average	75,48,703	1,01,26,156	1,62,28,531	1,52,31,106	1,34,20,278	1,66,67,150	1,59,72,513	1,41,12,593	1,38,23,192	1,35,51,831
7. Reserves :†										
Indian Iron	7,55,247	5,55,249	25,50,000	nil	nil	3,00,000	3,12,027	3,24,640	3,38,400	nil
SCOB .. .. .	..	..	..	nil	nil	nil	nil	nil	nil	nil
TISCO	nil	nil	nil	nil	80,00,000	75,00,000	1,00,00,000	35,00,000	57,00,000	85,00,000
Total	7,55,247	5,55,249	25,50,000	nil	80,00,000	78,00,000	1,03,12,027	38,24,640	60,38,400	85,00,000
Average	3,77,623	2,77,624	12,75,000	nil	40,00,000	39,00,000	51,56,013	19,12,320	30,19,200	42,50,000
8. M. A. Remuneration :										
Indian Iron .. .. .	..	3,54,344	1,90,083	5,42,777	6,22,460	7,74,063	9,72,281	8,43,214	6,37,485	6,90,583
SCOB .. .. .	..	..	..	1,80,000	1,80,000	5,45,870	5,71,456	6,87,628	6,80,878	7,37,389
TISCO	10,13,884	20,43,210	33,71,831	40,53,531	42,63,731	56,54,764	61,36,521	46,31,980	52,19,189	61,78,953
Total	10,13,884	23,97,554	35,61,914	47,76,308	50,66,191	69,74,697	76,80,258	61,62,822	65,37,552	76,05,935
Average	5,06,942	11,98,777	17,80,957	23,88,154	25,33,095	34,87,348	38,40,129	30,81,411	32,68,776	38,03,467
9. Sales :										
Indian Iron	1,74,35,133	2,19,36,948	4,99,58,178	3,66,54,617	5,01,58,822	5,30,99,504	5,26,05,292	4,95,33,394	4,63,29,347	4,82,96,044
SCOB .. .. .	..	..	..	nil	1,52,06,017	3,27,24,057	3,68,01,309	4,35,44,557	4,84,89,375	4,95,34,383
TISCO	7,45,64,706	9,03,82,138	10,90,87,243	12,08,10,238	13,28,88,426	17,43,06,101	18,17,14,884	16,15,94,143	21,27,39,257	20,95,87,321
Total	9,19,99,839	11,23,19,086	15,90,45,421	15,74,64,855	19,82,53,265	26,01,29,662	27,11,21,485	25,46,72,094	30,75,57,979	30,74,17,748
Average	4,59,99,919	5,61,59,543	7,95,22,710	7,87,32,427	9,91,26,632	13,00,64,831	13,55,60,742	12,73,36,047	15,37,78,939	15,37,08,874
10. Capital Employed :										
Indian Iron	2,34,13,467	4,64,65,498	4,83,33,366	5,45,40,572	5,45,87,844	6,29,54,214	6,84,07,444	6,10,35,760	6,38,26,319	6,28,83,649
SCOB .. .. .	..	..	..	5,13,85,600	5,80,99,676	5,90,33,890	7,09,53,212	7,40,07,703	7,09,89,688	7,08,94,225
TISCO	16,39,48,276	27,92,33,497	29,12,32,540	30,73,92,276	33,94,76,283	36,03,34,052	38,17,32,907	40,92,82,710	42,90,28,397	46,48,96,882
Total	18,73,61,743	32,56,98,995	33,95,65,906	41,33,18,448	45,21,62,803	48,23,22,156	52,10,93,563	54,43,26,173	56,38,44,404	59,86,74,756
Average	9,36,80,871	16,28,49,497	16,97,82,953	20,66,59,224	22,60,81,401	24,11,61,078	26,05,46,781	27,21,63,085	28,19,22,202	29,93,37,378

N.B.—For the purpose of arriving at 'averages' Indian Iron and SCOB are treated as one unit (company) and the totals are, therefore, divided by two only.

†Includes contributions to reserves and other amounts appropriated and unappropriated, excluding the amount carried forward.

THE IRON AND STEEL INDUSTRY

Table II

Percentages

(Based upon the averages of two companies only)

	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
1. Net Profits as % of Gross Profits ..	52.8	60.8	68.3	57.9	61.8	44.7	38.2	35.2	33.1	34.1
2. Depreciation as % of Gross Profits ..	36.8	29.6	18.8	23.3	13.0	22.3	17.4	21.6	18.6	18.8
3. Provision for Taxation as % of Gross Profits	10.4	9.6	12.7	18.8	25.1	33.0	44.4	43.4	48.3	47.1
4. Dividends as % of Net Profits ..	99.0	99.0	91.5	111.5	72.4	83.5	78.4	92.8	86.2	79.1
5. Reserves as % of Net Profits ..	4.8	2.8	7.3	nil	21.6	19.5	25.5	12.5	18.7	24.4
6. M. A. Remuneration as % of N. P.	7.1	10.7	10.2	19.2	13.5	17.5	18.1	20.4	20.0	22.5
7. Net Profits as % of Sales ..	16.8	18.2	22.3	17.3	18.6	15.4	15.1	11.1	10.4	11.2
8. Net Profits as % of Capital Employed	8.1	6.3	10.4	6.0	8.0	8.3	7.5	5.5	5.8	5.8

THE IRON AND STEEL INDUSTRY

Table III

Chain Indices

(Based upon the averages of two companies only)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
1. Gross Profits	117	155	91	127	149	119	81	112	105
2. Provision for Taxation	106	206	133	170	198	161	79	125	101
3. Net Profits	135	173	77	136	108	102	74	105	107
4. Dividends	133	160	94	88	125	96	88	98	98
5. Reserves	77	457	nil	*	98	133	37	158	143
6. M. A. Remuneration	240	150	133	104	140	109	81	103	115
7. Sales	122	141	99	126	130	104	94	120	100
8. Capital Employed	177	106	123	109	104	108	104	103	106

*Rs. 40 lakhs.

THE IRON AND STEEL INDUSTRY

Table IV

Index Numbers

(Base 1940 = 100)

(Based upon the averages of two companies only)

			1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
1. Gross Profits	..	..	48	56	86	78	100	149	178	144	161	168
2. Provision for Taxation	..	..	20	21	44	59	100	198	316	249	312	316
3. Net Profits	..	..	42	55	95	73	100	108	110	82	87	93
4. Dividends	..	..	57	75	121	114	100	125	119	105	103	101
5. Reserves	..	..	10	7	32	nil	100	98	128	48	75	107
6. M. A. Remuneration	..	..	20	48	72	96	100	140	156	124	132	152
7. Sales	..	..	48	60	80	79	100	130	136	127	155	155
8. Capital Employed	..	..	40	70	74	91	100	104	116	118	122	130

TABLE V

THE IRON AND STEEL

	Totals and			
	<i>(Based upon the</i>			
	1936	1937	1938	1939
	Rs.	Rs.	Rs.	Rs.
1. Gross Profits :				
Total	2,87,10,130	3,46,66,152	5,37,36,966	4,60,80,608
	(2)	(5)	(6)	(5)
Average	1,43,55,065	69,33,232	89,56,161	92,16,121
2. Depreciation :				
Total	1,06,00,000	1,00,60,111	1,00,75,700	1,11,99,286
	(2)	(5)	(6)	(5)
Average	53,00,000	20,12,022	16,79,283	22,39,857
3. Provision for Taxation :				
Total	9,67,077	34,71,726	71,61,988	92,50,000
	(2)	(5)	(6)	(5)
Average	14,83,538	6,94,345	11,93,665	18,50,000
4. Net Profits :				
Total	1,51,43,053	2,11,34,315	3,64,99,278	2,56,31,322
	(2)	(5)	(6)	(5)
Average	75,71,526	42,26,863	60,83,213	51,26,264
5. Amount Available for Allocation :				
Total	1,58,75,473	2,16,47,227	3,67,44,828	3,11,21,166
	(2)	(5)	(6)	(5)
Average	79,37,736	43,29,445	61,24,136	62,24,233

N.B.—Figures in brackets indicate the number of companies to which the

INDUSTRY**Averages***Figures of six companies)*

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
6,32,46,811 (6)	9,56,42,385 (6)	11,24,74,375 (6)	9,11,73,937 (6)	9,42,83,745 (5)
1,05,41,135	1,59,40,397	1,87,45,729	1,51,95,656	1,88,56,749
82,94,359 (6)	2,09,80,912 (6)	1,94,85,027 (6)	1,92,61,487 (6)	1,54,64,215 (5)
13,82,393	34,96,818	32,47,504	32,10,248	30,92,843
1,59,00,000 (6)	3,22,00,000 (6)	5,05,23,583 (6)	3,99,86,417 (6)	4,81,30,000 (5)
26,50,000	53,66,667	84,20,597	66,64,403	96,26,000
3,90,52,452 (6)	4,24,61,473 (6)	4,24,65,765 (6)	3,19,26,033 (6)	3,06,89,530 (5)
65,08,742	70,76,912	70,77,628	53,21,005	61,37,906
3,89,86,201 (6)	4,57,78,874 (6)	4,50,91,976 (6)	3,54,49,980 (6)	3,37,98,169 (5)
64,97,700	76,29,812	75,15,329	59,08,330	67,57,634

totals refer.

TABLE V (Contd.)

THE IRON AND STEEL

Totals and

	1936	1937	1938	1939
	Rs.	Rs.	Rs.	Rs.
6. Dividends :				
Total	1,50,97,406 (2)	2,08,25,475 (5)	3,33,75,036 (6)	3,14,35,808 (5)
Average	75,48,703	41,65,095	55,62,506	62,87,162
7. Reserves :*				
Total	7,55,247 (2)	6,55,249 (5)	28,64,329 (6)	27,000 (5)
Average	3,77,624	1,31,050	4,77,388	5,400
8. M. A. Remuneration :				
Total	10,13,884 (1)	25,41,278 (5)	37,77,468 (6)	50,70,329 (5)
Average	10,13,884	5,08,253	6,29,578	10,14,066
9. Sales :				
Total	9,19,99,839 (2)	11,89,85,986 (4)	16,69,60,864 (4)	16,65,44,955 (4)
Average	4,59,99,919	2,97,46,496	4,17,40,216	4,16,36,239
10. Capital Employed :				
Total	18,73,61,743 (2)	33,18,22,566 (5)	37,17,28,017 (6)	42,03,31,492 (5)
Average	9,36,80,371	6,63,66,513	6,19,54,669	8,40,66,298

N.B.—Figures in brackets indicate the number of companies to which the

*Includes contributions to Reserves and other amounts appropriated

INDUSTRY

Averages

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
2,81,18,226 (6)	3,49,22,506 (6)	3,33,18,079 (6)	2,96,10,740 (6)	2,59,13,194 (5)
46,86,371	58,20,417	55,53,013	49,35,123	51,82,639
85,50,000 (6)	84,00,000 (6)	1,05,75,043 (6)	40,34,640 (6)	65,88,400 (5)
14,25,000	14,00,000	17,62,507	6,72,440	13,17,680
54,34,062 (5)	75,69,917 (5)	82,37,934 (6)	66,65,102 (6)	68,34,809 (5)
10,86,812	15,13,983	13,72,989	11,10,850	13,66,961
19,86,06,992 (6)	27,55,69,072 (6)	29,31,87,077 (6)	27,50,90,314 (6)	28,42,20,206 (5)
3,31,01,165	4,59,28,179	4,88,64,513	4,58,48,386	5,68,44,041
46,00,42,868 (6)	49,08,52,873 (6)	53,07,46,429 (6)	55,56,27,829 (6)	50,73,97,855 (5)
7,66,73,811	8,18,08,812	8,84,57,738	9,26,04,638	10,14,79,571

totals refer

and unappropriated, excluding the amount carried forward.

THE IRON AND STEEL INDUSTRY

Table VI

Percentages

(Based upon the averages of six companies)

	1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Net Profits as % of Gross Profits ..	52.9	60.9	67.9	55.6	61.7	44.4	37.8	34.8	32.3
2. Depreciation as % of Gross Profits ..	36.8	29.0	18.8	23.8	13.3	22.0	17.5	21.1	16.4
3. Provision for Taxation as % of Gross Profits	10.3	10.1	13.4	20.6	25.1	33.7	44.7	44.1	51.2
4. Dividends as % of Net Profits ..	99.1	98.2	91.4	122.6	72.0	82.2	78.5	92.8	84.4
5. Reserves as % of Net Profits ..	4.8	3.1	8.2	0.1	21.5	19.7	25.3	13.0	21.3
6. M. A. Remuneration as % of Net Profits ..	13.1	11.9	10.0	19.6	16.8	21.1	19.7	20.8	23.0
7. Net Profits as % of Sales ..	16.5	14.1	14.3	12.2	19.6	15.5	14.8	11.6	10.9
8. Net Profits as % of Capital Employed ..	8.2	6.3	9.8	6.0	8.5	8.6	8.0	5.7	5.9

THE IRON AND STEEL INDUSTRY

Table VII

Chain Indices

(Based upon the averages of six companies)

	1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	40	129	102	115	150	118	81	123
2. Provision for Taxation	46	177	155	145	200	155	80	144
3. Net Profits	56	145	84	128	108	100	74	115
4. Dividends	54	133	113	75	125	97	89	107
5. Reserves	35	364	1 28,500	98	128	389	197	
6. M. A. Remuneration	50	121	160	107	139	91	81	123
7. Sales	65	141	100	79	138	106	94	124
8. Capital Employed	71	94	136	92	108	107	105	110

THE IRON AND STEEL INDUSTRY

Table VIII

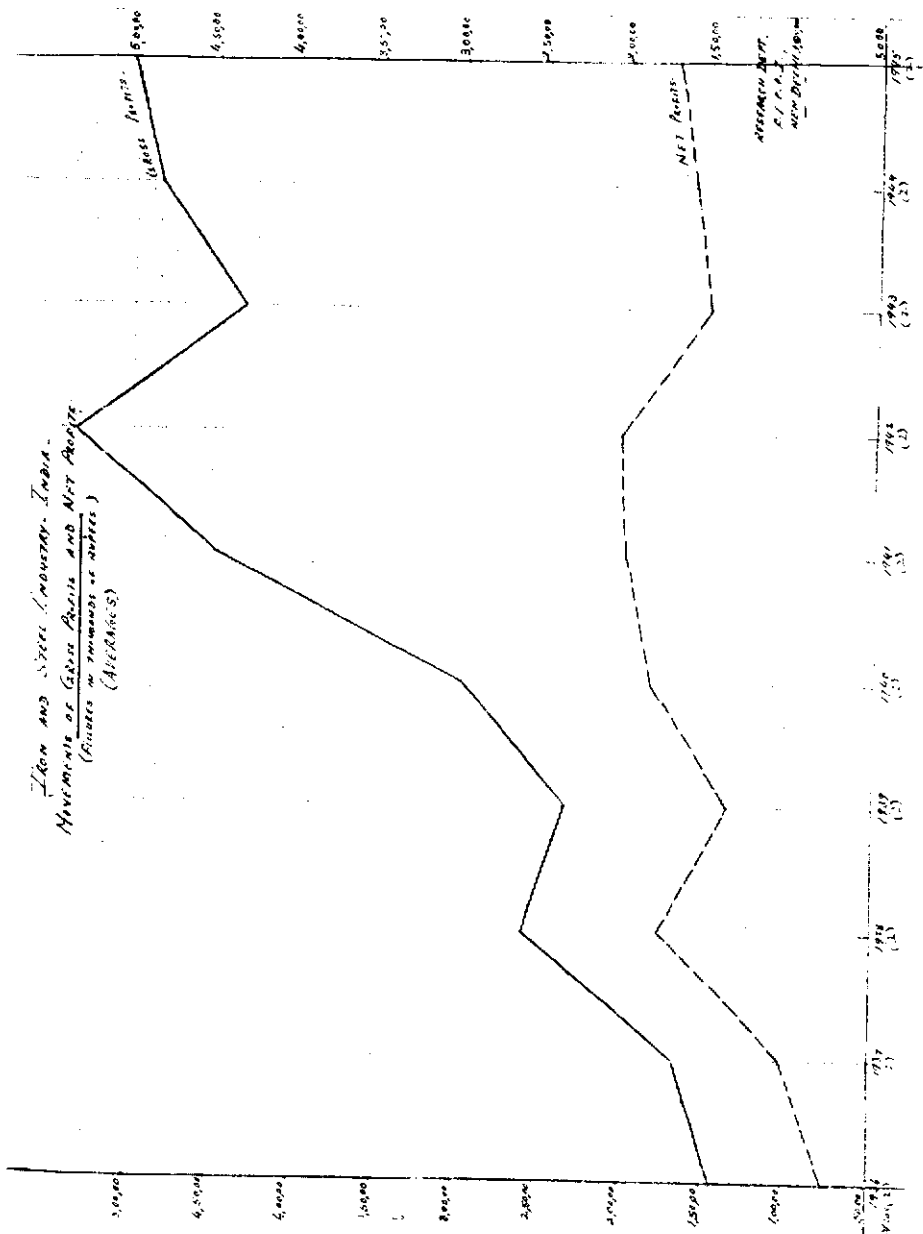
Index Numbers

(Base 1938 = 100)

(Based upon the averages of six companies)

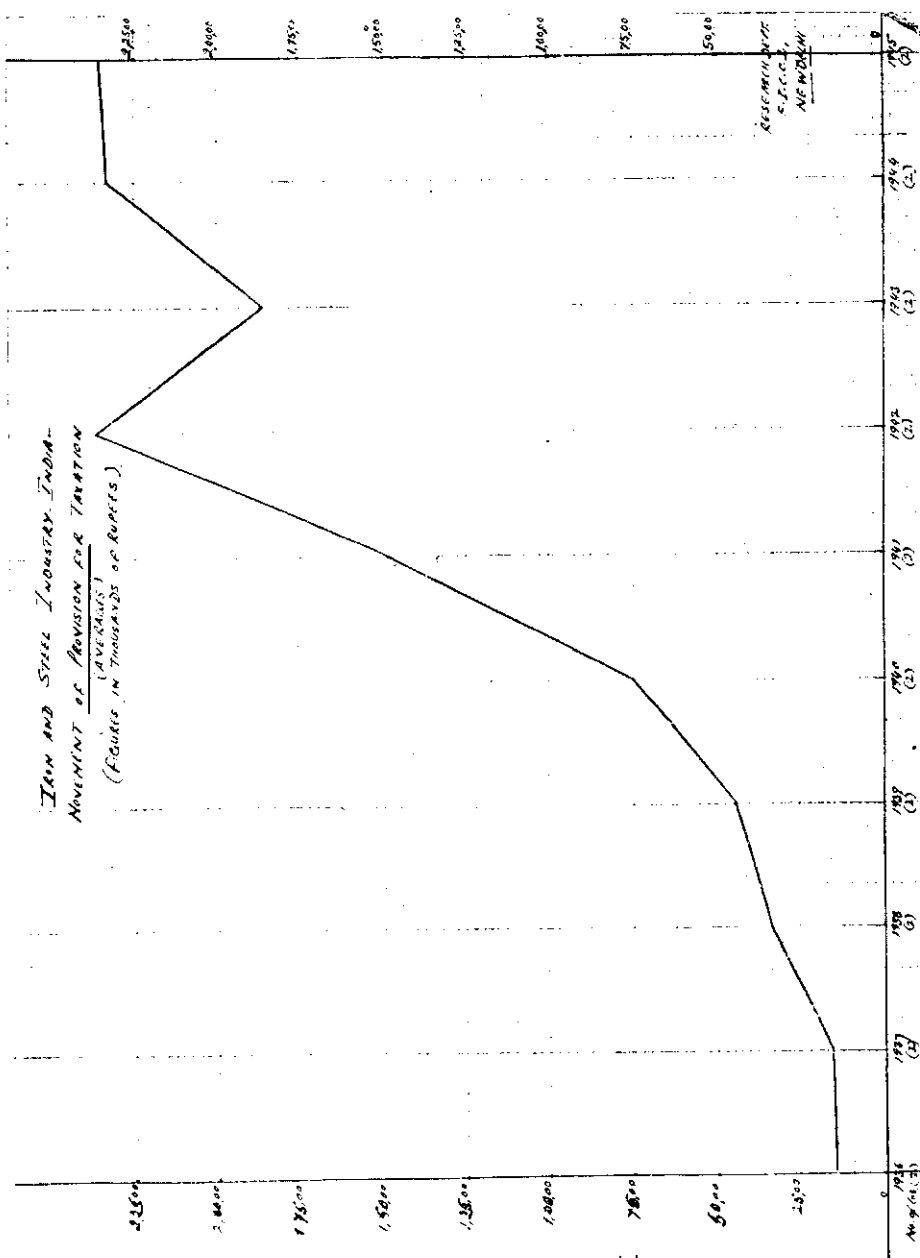
	1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	160	64	100	102	117	177	209	170	210
2. Provision for Taxation	125	58	100	155	223	449	700	558	800
3. Net Profits	125	70	100	84	107	116	116	88	101
4. Dividends	136	75	100	113	86	105	100	89	93
5. Reserves	79	28	100	1	300	293	368	141	277
6. M. A. Remuneration	180	90	100	180	193	269	244	198	243
7. Sales	110	71	100	100	79	110	117	110	136
8. Capital Employed	151	107	100	136	124	132	143	148	164

GRAPH I

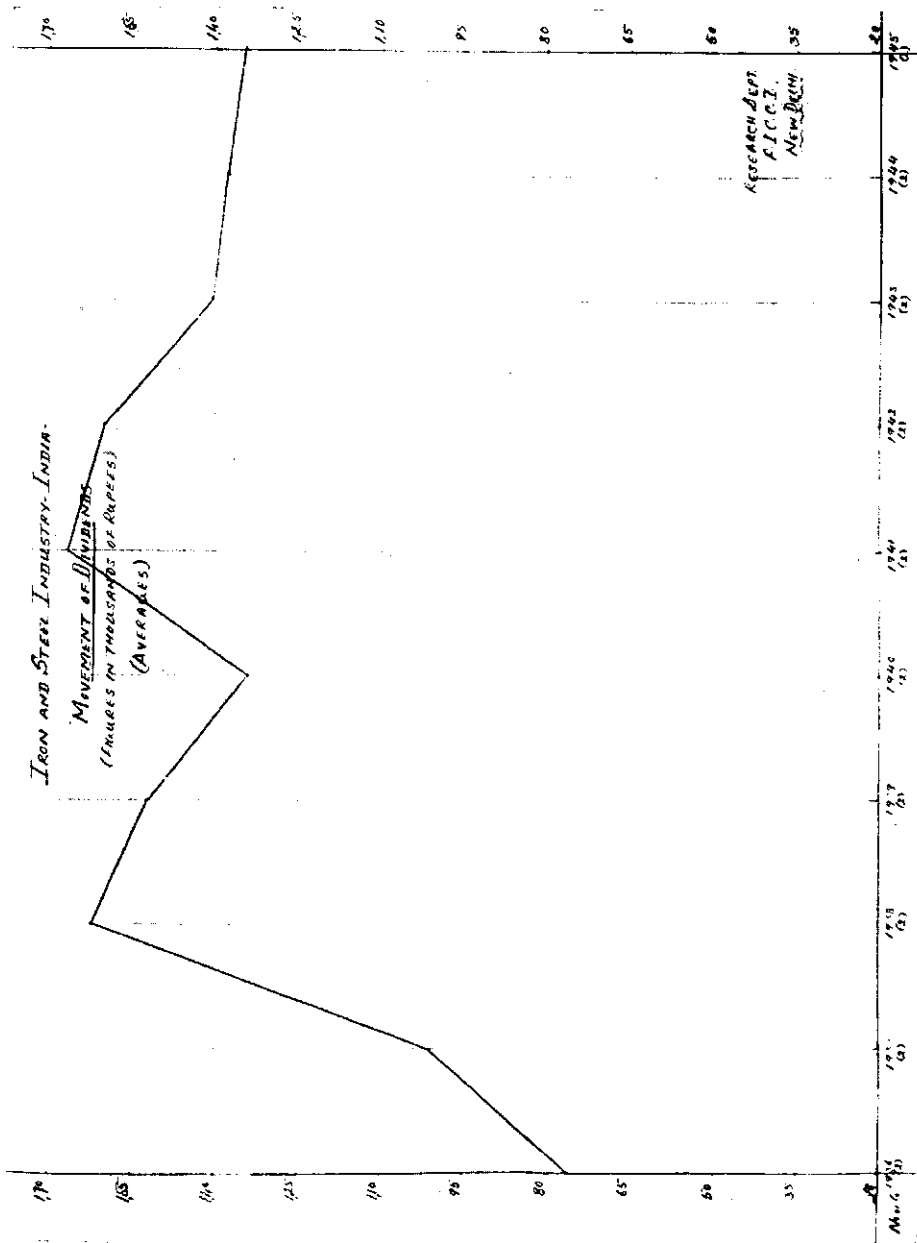


THE IRON AND STEEL INDUSTRY

GRAPH II

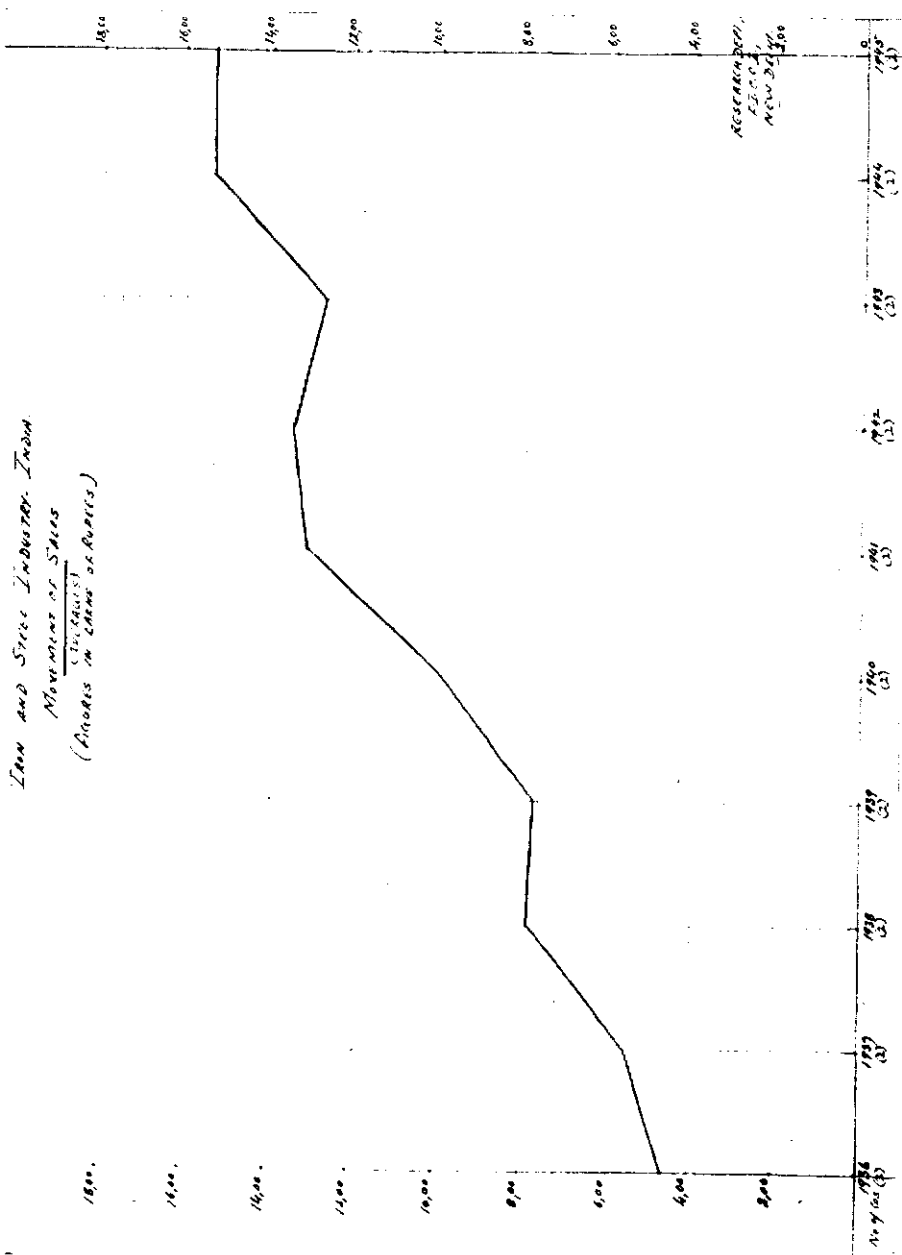


GRAPH III



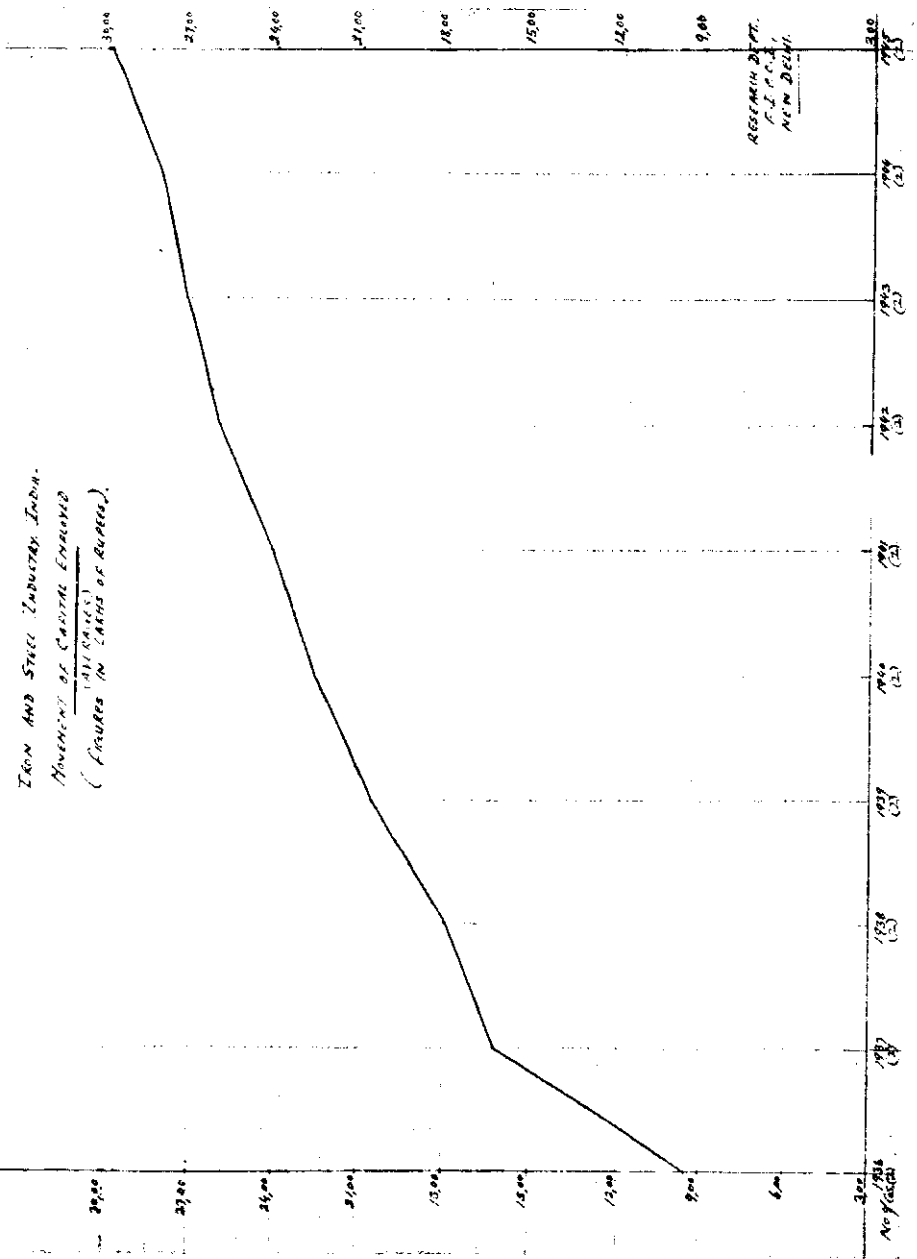
THE IRON AND STEEL INDUSTRY

GRAPH IV



GRAPH V

IRON AND STEEL INDUSTRY, INDIA.
 MOVEMENT OF CAPITAL EMPLOYED
 (FIGURES IN LAKHS OF RUPEES).



RESEARCH DEPT.
 I. I. T. C. I.
 NEW DELHI.

CHAPTER VII

THE PAPER MILL INDUSTRY

The Industry and The Tariff

Though paper-making in India can be traced to antiquity and the beginnings of paper manufacture on the modern lines were made in 1867, our paper industry came into some prominence only after the World War I. For, while the second paper mill was erected in 1879, in 1925—the year in which the industry applied for protection—there were only 9 mills in existence (with two more projected). In that year the Government accepted the Tariff Board's recommendations for protective duties on certain classes of paper,* (though they rejected their proposal to grant financial assistance). The 25% revenue surcharges on import duties, levied in 1931, raised the (specific) duties levied on different classes of paper and in the following year, on the termination of the protective period, the question was again referred to the Tariff Board. This Board found that there were ample supplies of bamboo available in India and Burma, not only to meet the whole Indian demand for pulp, but also to develop a large export trade. But the development of the industry had been delayed because the difficulties in the mechanical treatment of bamboo had proved greater than anticipated. At the same time, considerable experiments had been made in the use of bamboo pulp, instead of imported wood pulp, and some progress was achieved. As for auxiliary materials, an appreciable increase in the use of indigenous materials

*The Bamboo Paper Industry (Protection) Act was passed in September 1925, granting protection to "Printing Paper (excluding chromes, marble, flint, poster and stereo) all sorts containing less than 65% of mechanical wood-pulp, to writing paper of all sorts, including ruled or printed forms and account. and manuscript books and the binding thereof".

had occurred and most of them were obtainable in India at economic prices. Similarly it was found that a large increase had taken place in the use of wood pulp by the Indian mills. On the recommendations of the Tariff Board, therefore, the existing protective duties were continued for a period of seven years. Thus, when the next statutory inquiry by the Tariff Board was ordered in 1938—almost on the eve of the War—the number of mills actually at work (in 1937-38) was 10. There was no marked increase in paper-making capacity of the mills, but except in 1932-33, there was a steady improvement in the output.† Further, when this Tariff Board reported, important new developments in the industry were under way—the reconditioning of 2 mills which had ceased to manufacture, 4 more were under construction and were expected to begin work by 1939. Three of these proposed to use bamboo or bamboo and grass as their principal material for the manufacture of pulp (one, in Orissa, one in Bihar and one in Mysore) while the fourth in the U.P. was to use grass only. One of the new mills was designed to manufacture ‘kraft’ wrapping paper. There were a few other projects also even in 1940; but, the number of mills had not gone beyond eleven. The relatively high capital outlay, as also the difficult technical processes involved, had tended to keep down the number of mills in the country, though they could count upon a steady and an increasing domestic market for their sales. With the help of the protective duties Indian mills were able gradually to capture a greater part of the market for protected classes of writing and printing paper, though foreign paper was still imported to the extent of 12,000 tons in 1936-37. As against this, Indian mills produced over 5,000 tons of unprotected classes of paper in competition with foreign paper (cartridge paper, packing and wrapping paper and blotting paper). Mechanical pulp, of course, had not yet been manufactured, so that the question of competing for printing paper, containing 70% mechanical pulp, with imported products did not arise. The total market for Indian paper was estimated by the Tariff Board (1938) at about 90,000 tons taking protected and

†See Table on p. 8 of the Report of the 1938 Tariff Board on Paper and Paper Pulp Industries. The quantity of bamboo pulp increased in the previous six years from 5,228 tons to 19,281 tons, of grass pulp from 9,049 to 11,510 and of pulp made from indigenous materials from 5,992 tons to 7,919 tons.

unprotected classes together, but excluding newsprint. As against this, the output in the country was stated to be 48,000 tons in 1936-37. It may also be noted that between 1929-30 and 1936-37, consumption of paper in the country increased by 6,656 tons (an annual average of 951 tons) and the Board estimated an increase of 1500 tons a year for the next few years (for both the classes, protected and unprotected).

We, therefore, start our analysis at an extremely interesting stage in the development of the industry. In fact, the first spurt of its progress is seen in the output of the industry between 1936-37 and 1938-39 from 48,000 to 59,200 tons (an increase much greater than was anticipated by the Tariff Board of 1938).

The Tables

In the examination of our tables regarding the Paper Industry, we have again to emphasise a few qualifications that have to be borne in mind. In the first instance, here, too, the number of companies is small and therefore the inclusion or exclusion of even one or two companies will make an appreciable difference in the averages—in fact, if it is the case of an important concern like the Titaghur, the averages are naturally affected. Thus, for 1939, the figures have to be read in the light of what has been observed in these paragraphs. We were not able to get one half-yearly balance sheet of the Titaghur Co. for 1939 and so in the table, that company has been omitted for that year. But as it is an important company, we shall gain take this figure up in these discussions on the basis of the other half-yearly figures.

Secondly, although we have begun in 1936 with only 4 companies, as we go on the number has increased, and upto 1943 we have taken as many as 8 companies out of 11, so that the averages can be regarded as quite representative of the trends in the Paper Industry.

Thirdly, as has been indicated above, a majority of the paper companies have half-yearly balance sheets. Equally important in the consideration of these Tables is the fact that some companies which, though working in 1936 and 1937, actually attained capacity production (and even expanded this) after 1938-39 and 2 com-

panies*, though they started earlier, began producing paper in 1939.

Finally, it has to be added that in the earlier years of our period the sales figures have been difficult to obtain, but after 1939 we have shown the sales figures for all the companies chosen, excepting one.†

1936-38

As we have already seen in the opening paras, the pre-war years formed an eventful period in the history of the industry—when production was increasing apace, the annual rise according to the Tariff Board being distributed over the protected and unprotected classes in the ratio of 62: 38. Thus between 1937-38 and 1939-40, Indian mill production rose from 53,800 tons to 70,800 tons. Unfortunately our figures from the balance sheets of the four to six companies do not show such a striking rise in sales, though the growth in sales is quite marked. This is because separate sales figures could not be obtained for all these companies. For 1936 we have obtained the figure for 1 company only, while for 1937 and 1938 for 3 companies out of 8 selected.

Apart from the sales figures, let us examine the financial working of the companies and in order to get a clearer picture let us take the working of the same four companies with which we have begun in 1936. These figures then will be—

Average Net Profits.

(In 000's of Rs.)

	1936	1937	1938
Averages shown in our Tables ..	3,52	2,83	2,74
Averages on the basis of the same four companies.	3,52	4,03	3,88

It will be seen that this picture is different from what we get in our tables.

It may perhaps be wondered then as to what the value of these figures is. In reply to this we may only quote a few observations

*These companies were (1) Star Paper Mills (U.P.) and (2) Mysore Paper Mills.

†Mysore Paper Mills.

from the Review of the Trade of India as to the availability of these figures; "Prices of paper are not readily available and the indices of profits and security prices have to be based on the returns of three or four companies."* As against a Government Department's inability to get more detailed information, the failure of an individual can be easily understood ! Our figures indicate that the companies were unable to show any marked trend of progress, judged either by the figures of Net Profits or Dividends, though their earnings remained quite steady. In the case of our indices, it will be seen that we have compared them by taking once 1937 as the base year and then in common with other industries 1938 as base. We took the former year as in that year we had a larger number of companies and that the figures would thus be a little more representative than with the total of companies at 5 (in 1938) and that would thus facilitate comparison with the subsequent years. In the case of 1938, the profits declared during that year were largely those earned during 1937-38. Upto the middle of 1938 the paper mills were able to maintain their earnings but it soon became evident that they were entering upon difficult times. Production was steadily mounting—new mills were soon to start work—and the demand remained more or less at the same level. Internal competition threatened the immediate future, though in the long run an expanding market could almost with certainty be predicted. Just at this time prices of imported paper declined and the Indian mills, too, were compelled to reduce their prices. Thus, conditions in 1938 had deteriorated from those of 1936 and 1937.

1939

But 1939 is obviously the worst year of our period. The Government of India accepted the recommendations of the Tariff Board for the continuance of Tariff Protection, but at a reduced rate (from 11 to 9 pies a lb.). Just before the outbreak of the War, therefore, the paper mills had to pass through a very critical period (and this will be easily seen from our Tables), especially in the first half of that year, when the prices receded by Rs. 35 per ton. In addition to this, several new mills started work, who were prepared to sell almost at any price so that members of the

*Review of the Trade of India (1938-39) p. 52.

Indian Paper Makers' Association were led to complain that the prices fixed by their Association had become ineffectual. The reduction in the import duty also increased the initial difficulties of the new plants.†

Our tables thus show a precipitate decline in all the items. This year's figures, however, as indicated in the table, have to be qualified as they do not include the results of Titaghur Paper Co. Ltd., which had been responsible for a large part of the profits in the previous year's average. This year undoubtedly includes one more mill, *viz.*, Mysore Paper Mills Ltd., but this company commences with a net loss of Rs. 2,34,636. If we, therefore, adjust the 1939 figures for the Titaghur Co. Ltd.,‡ we obtain the following averages of Net Profits and other items for the same five companies for the three years 1937 to 1939:—**

	1937	1938	1939
	Rs.	Rs.	Rs.
1. Gross Profits	6,55,263	6,25,610	6,87,524
2. Depreciation	2,10,150	2,51,258	2,86,232
3. Provision for Taxation ..	1,17,100	1,00,320	99,400
4. Net Profits	3,28,012	2,74,032	3,01,891
5. Dividends	2,09,597	2,11,298	1,91,902
6. Reserves	1,07,197	77,400	1,05,213

In these figures (averages), we have included the same five companies throughout *viz.*, (1) Orient, (2) Titaghur, (3) Upper India (4) Bengal Paper and (5) Shree Gopal Mills. These averages show that 1939 is not so good a year as the previous one, but certainly not so bad as is seen in our main table (Table I). In fact for Gross Profits, Sales and Reserves this year must be regarded as an improvement on the 1938 figures. It must, however, be added that these improve-

†See, for instance, the Chairman's speech, Mysore Paper Mills Ltd., 23-12-1939 (4th Ordinary General Meeting.) In this year this mill, after the previous year's trial operations, actually commenced manufacture.

‡We have computed the figure of the net profits from the figures available in the Place, Siddons & Gough Year Book.

** See Table III.

ments came about in the second half of 1939, when buoyant conditions prevailed in the market on the reports of gathering war-clouds.* It may be noted incidentally that Dividend amounts have gone down appreciably while the Reserves have markedly increased.

1940

When we turn to 1940, we have a much clearer picture than in 1939 for, we now take 7 companies into consideration. In fact, 1940 is a distinctly favourable year from every point of view. This was the year in which the full effects of the War were felt and the paper industry certainly attained a height it had never reached before. The fall of Norway and Denmark and the complete stoppage of imports from Sweden had left the market free of competition entirely to the Indian Mills. In fact, the Baltic countries, which had depended upon imported wood pulp, were compelled to reduce their exports considerably. On the other hand, as a result of war activities the demand for paper within the country was rapidly rising. Against these factors must be set the rising costs of production, resulting from higher prices of imported chemicals and other stores. In respect of these, however, the older mills were certainly at an advantage over the new units.† The prices were rising fast and the Government set about devising plans for instituting paper control. As contrasted with 1937 and 1938, instead of fear of over-production, there were fears of a shortage necessitating a stringent control. The Chairman of the Indian Paper Makers' Association at its Annual Meeting in April 1941 declared, "today paper coming off the machine goes straight to the consumer with very little delay." Production in India increased from 11,84,000 cwts. in 1938-39 to 17,53,000 cwts. in 1940-41.‡ These remarks are borne out in

*e. g., Shree Gopal Mills whose sales increased from Rs. 9 lakhs in the first half of 1939 to 19 lakhs in the other and earned a net profit of Rs. 1,62,000 as against a loss of Rs. 1,90,000 in the first half. Similarly Titaghur Co. increased its net profit from Rs. 5,67,000 to Rs. 9,03,000.

†The buoyancy in the future development of the industry may be illustrated by the decision of one company—Titaghur—to issue bonus shares to its share-holders (capital bonus) by capitalizing the amount of Rs. 17,50,750/- standing to the credit of the Reserve Fund.

‡See Statistics relating to India's War Effort (Govt. of India) p. 18.

our tables when we compare the Percentages for 1939 (amended)** with those of 1940. Whereas in the case of the former they differ only slightly from those of the previous year (1938), in 1940 there are distinct advances in Provision for Taxation, and percentages of Net Profits to Sales and to Capital Employed. The rates of Dividends and Reserves to Net Profits show a decline owing to the fact that the higher earnings were utilized for wiping out the losses of 1939. Incidentally, it will also be noted that the ratio of Depreciation to Gross Profits has been steadily going down from this year onwards.

1942

We have referred, in passing, to the contemplation of paper control by Government. This was rendered necessary for another reason as well. After the imports from the Scandinavian countries were practically cut off, U. S. A. and Canada became the principal suppliers of paper and paste board and the imports from these two countries shot up from 267,000 cwts. in 1939-40 to 1,499,000 cwts. in the following year. The heavy imports involved an enormous use of foreign exchange resources which were required for other purposes too. Consequently, from the end of 1940 imports of paper and paste board were restricted and from March 1941 newsprint, too, was included in this control. This gave a still wider field to the Indian mills and the starting of new mills, which were planned earlier, was welcomed on all sides.*

We might as well take the subsequent 3 years together, because the period is one in which the intensification of short supply position and the difficulties of imports led to an increasing degree of control by Government. The difficulties may be illustrated by the fact that whereas in 1940-41, imports of wood pulp for the use of Indian paper mills amounted to 89,000 cwts., in the following year, they

**See Table III

*The Chairman of the Mysore Paper Mills in January 1941 thus answers the criticism of the Titaghur Chairman, made a couple of years ago : "During the last four years the establishment of the newer paper mills has been in some quarters considered a great calamity to the industry and the country at large. But I hope that the experience during the present emergency has proved that these fears were groundless and that the newer mills have been of great service to the country."

declined to 58,000 cwts.—U. S. A. alone supplying 57,000 cwts.† The Indian mills (16 in all) tried their best to expand their sales, but their production increased only by 7% from 1,753,000 cwts. in 1940-41 to 1,871,000 in 1941-42. On the other hand, the demand for paper rapidly increased with the progress of the War, paper being needed in increasing quantities by Central and Provincial Governments, the fighting and defence services in India and abroad, as also by the munitions factories. The import control, to which we have already referred, had to be gradually developed into a full-fledged Paper Control. Thus in May 1941, the Newsprint Paper Control Order was promulgated and in January 1942 the News Paper Control Order fixed the maximum sizes for newspapers in relation to the prices at which they were to be published. The Government, on finding that a great deal of profiteering had been flourishing in the civilian field, issued a notification fixing the maximum prices of certain bulk line papers and authorized the Provincial Governments to do likewise. The situation still continued to be grave and in December 1942 the Government of India decided to reserve 90% of the mill production for meeting Government requirements, though this percentage was subsequently reduced to 70.

In the light of these developments it will suffice our purpose if we summarise the principal trends for these three years in the following manner from our tables :—

Index Numbers of Profits and Sales.

(Base 1938 = 100)

	1940	1941	1942	1943
Gross Profits ..	207.2	319.6	392.3	643.3
Net Profits	196.5	205.8	248.0	381.7
Provision for Taxation	454.0	1077.0	1408.0	2619.0
Sales	91.8	104.9	124.6	171.1
Dividends	140.7	160.6	187.2	204.1

There is an all-round increase, the most spectacular growth being shown by Provision for Taxation—and a steady growth

†See Review of the Trade of India (1941-42) p. 118.

by Gross Profits, Net Profits, Dividends and Managing Agents' Remuneration. Between 1940 and 1943 Dividends' increased on the average by 45%, all the companies paying dividends by 1942. The figures for Provision for Taxation are explained not only by the E. P. T., but by the very scant provisions made in the earlier years. As against these, the steadily rising figures for Managing Agents' Remuneration hardly need comment. With the concerns showing mounting profits, the Agents, obviously, took an increasing share of the net earnings of the companies.

1943

As in the case of the other industries, it will be seen that 1943 is the peak year of our period for the paper industry as well. It is well worth noting, however, that the financial results of this year were almost wholly due to the rise in prices and the acute shortage of paper. For, in the sphere of production, the difficulties of the previous years were indeed intensified—shortage of coal, which affected all the Indian industries, added to the problems of the paper industry, such as scarcity of raw material, imported as well as indigenous, for, bamboos were in great demand for military purposes too. Even the limited supplies available to the paper mills were rendered difficult by the want of transport facilities. Government tried to assist the industry and increase production through rationalization. The paper mills were asked to confine production to a few standard varieties and fix certain standard substances of paper best suited for each particular machine with a view to obtain maximum production.* Early in 1943, Government also came to the assistance of civilian consumers by reducing their share of production from 90% to 70%, instead of themselves releasing surplus quantities of paper for the use of civilian consumers. But the work of distributing this larger quota to the public was left to the industry itself, which, with the approval of the Government, formed a new distributing organization, *viz.*, Indian Paper Control and Distributing Association with its head-quarters at Calcutta. Being a joint organization of Indian Paper Makers' Association and the Indian Paper Mills' Association, its main function was to ensure the equit-

*See also Review of the Trade of India (1942-43) p.42-44.

able distribution, at controlled rates, of the 30% of the total production released for civilian use.

It is not surprising, in view of these developments, to notice a decline in the quantum of paper production in the country.

				Production.	Imports into British India. (000 cwts.)
1940-41	..	..	..	1,763	2,103
1941-42	..	..	..	1,871	1,308
1942-43	..	..	..	1,821	420
1943-44	..	..	..	1,752	482

Turning to our Tables, we find all the indices showing a rise during this year. While this common trend hardly needs to be laboured upon, we must refer to the ratios relating to this year where there are some striking changes. There has been, during this year, the largest Provision for Taxes of the period—nearly 2/3 of the Gross Profits of the year. This will explain the slight fall of the ratio of Net Profits to Gross Profits, the marked fall in the rate of Dividends to Net Profits, the larger contribution to Reserves (from 40 to 55% of Net Profits). In the case of the percentage of Net Profits to Capital Employed, the explanation is to be found in the relatively small expansion in this amount as compared with the rise in Net Profits (155 in Net Profits Chain Index as against 113 in that of Capital Employed).

1944

The slight recessions in all the figures for this year are to be explained by the intensification of the difficulties of the industry, already referred to above. As a matter of fact, mills were obliged to work for a shorter period* than before, owing to the shortage of coal, as also of electric power and the increased costs of manufac-

*See Chairman's speech, Mysore Paper Mills Ltd., on 30-11-1944.

ture and the lack of essential raw materials such as salt for bleached and better quality of paper. Mills were asked to incur additional expenditure on account of food subsidies to workers and provision for war risk insurance. Some units also complained that the prices of supplies to Central Government were fixed at very low rates and claimed reimbursement on their showing later that the margin of profit was lower than what the Government themselves had allowed.† It will be seen from our Tables that in point of earnings, the industry was brought back to the position of 1942. The slightly higher figure for Sales is obviously the result of the rise in prices, we have referred to above.

† Ibid. (Mysore Mill's Chairman's speech)

TABLES AND GRAPHS

Table I

THE PAPER MILL

	Totals and			
	1936	1937	1938	1939*
	Rs.	Rs.	Rs.	Rs.
1. Gross Profits :				
Total	25,83,238	33,70,442	31,28,052	6,33,226
	(4)	(6)	(5)	(6)
Average	6,45,809	5,61,740	6,25,610	1,05,538
2. Depreciation :				
Total	8,93,917	10,83,778	12,56,290	6,16,397
	(4)	(6)	(5)	(6)
Average	2,23,478	1,80,630	2,51,258	1,02,733
3. Provision for Taxation :				
Total	2,80,000	5,85,500	5,01,600	47,000
	(4)	(6)	(5)	(6)
Average	70,000	97,583	1,00,320	7,833
4. Net Profits :				
Total	14,09,321	17,01,164	13,70,162	-30,171
	(4)	(6)	(5)	(6)
Average	3,52,330	2,83,527	2,74,032	-5,028
5. Amount Available for Allocation :				
Total	14,46,420	17,26,757	14,46,416	-1,87,415
	(4)	(6)	(5)	(6)
Average	3,61,605	2,87,793	2,89,283	-31,236
6. Dividends :				
Total	8,34,226	10,47,984	10,56,493	2,19,500
	(4)	(6)	(5)	(6)
Average	2,08,556	1,74,664	2,11,298	36,583

N.B.—The figures in brackets indicate the number of concerns to

* See our explanation about this table regarding the omission of the Tita- and see Table II.

INDUSTRY

Averages

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
90,65,031 (7)	1,59,59,668 (8)	1,96,23,577 (8)	3,21,86,627 (8)	1,71,08,198 (7)
12,95,004	19,94,958	24,52,947	40,23,328	24,44,028
21,28,208 (7)	28,26,555 (8)	29,15,031 (8)	28,71,337 (8)	20,78,943 (7)
3,04,029	3,53,319	3,64,379	3,58,917	2,96,992
31,80,713 (7)	86,19,840 (8)	1,12,64,840 (8)	2,09,51,175 (8)	1,05,00,694 (7)
4,54,388	10,77,480	14,08,105	26,18,897	15,00,099
37,56,110 (7)	45,13,273 (8)	54,43,706 (8)	83,64,115 (8)	45,28,561 (7)
5,36,587	5,64,159	6,80,463	10,45,514	6,46,937
36,41,638 (7)	47,98,873 (8)	60,51,715 (8)	88,92,934 (8)	53,24,953 (7)
5,20,234	5,99,859	7,56,464	11,11,617	7,60,708
20,76,266 (7)	27,94,912 (8)	31,56,498 (8)	34,49,963 (8)	27,82,452 (7)
2,96,609	3,49,364	3,94,562	4,31,245	3,97,493

which the totals refer.

ghur Paper Mill which has affected this year's averages considerably (p.179)

TABLE I (Contd.)

THE PAPER MILL

	Totals and			
	1936	1937	1938	1939
	Rs.	Rs.	Rs.	Rs.
7. Reserves : †				
Total	5,70,000	5,35,984	3,87,000	51,000
	(4)	(6)	(5)	(6)
Average	1,42,500	89,331	77,400	8,500
8. M. A. Remuneration :				
Total	2,89,888	5,37,423	4,32,362	1,98,482
	(2)	(4)	(4)	(4)
Average	1,44,944	1,34,355	1,08,091	49,621
9. Sales :				
Total	47,98,151	1,68,38,803	1,82,96,472	95,23,325
	(1)	(3)	(3)	(5)
Average	47,98,151	56,12,934	60,98,824	19,04,665
10. Capital Employed :				
Total	1,01,95,700	1,95,83,069	2,73,39,442	2,47,59,905
	(3)	(5)	(5)	(6)
Average	33,98,566	39,16,614	54,67,888	41,26,651

N.B.—The figures in brackets indicate the number of concerns to

†Includes contributions to Reserves and other amounts appropriated and

INDUSTRY

Averages

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
9,49,845 (7)	14,43,500 (8)	21,86,400 (8)	45,89,841 (8)	18,85,000 (7)
1,35,692	1,80,438	2,73,300	5,73,730	2,69,286
10,29,331 (6)	15,05,225 (7)	18,33,884 (7)	24,47,338 (7)	16,20,055 (7)
1,71,555	2,15,032	2,61,983	3,49,619	2,31,436
3,35,56,885 (6)	4,47,30,800 (7)	5,29,76,556 (7)	7,31,12,968 (7)	6,42,86,670 (7)
55,92,814	63,90,114	75,68,079	1,04,44,709	91,83,810
4,04,29,000 (7)	4,13,44,581 (8)	4,54,75,185 (8)	5,15,27,309 (8)	5,76,90,441 (7)
57,75,571	51,68,073	56,84,398	64,40,914	82,41,492

which the totals refer.

unappropriated, excluding the amount carried forward.

Table II

THE PAPER MILL

				Totals and	
				(1936-40)	
				1936	1937
				Rs.	Rs.
1. Gross Profits :					
Total	...	...	25,83,238	32,56,840
			(4)	(4)	
Average	...	...	6,45,809	8,14,211
2. Depreciation :					
Total	...	...	8,93,917	9,98,871
			(4)	(4)	
Average	...	...	2,23,478	2,49,718
3. Provision for Taxation :					
Total	...	...	2,80,000	5,85,500
			(4)	(4)	
Average	...	...	70,000	1,46,375
4. Net Profits :					
Total	...	...	14,09,321	16,72,469
			(4)	(4)	
Average	...	...	3,52,330	4,18,117
5. Amount Available for Allocation :					
Total	...	...	14,46,420	16,98,062
			(4)	(4)	
Average	...	...	3,61,605	4,24,515
6. Dividends :					
Total	...	...	8,34,226	10,18,829
			(4)	(4)	
Average	...	...	2,08,556	2,54,707

N.B.—Figures in brackets indicate the

INDUSTRY

Averages

(Revised)

1937	1938	1939	1939	1940
Rs.	Rs.	Rs.	Rs.	Rs.
32,76,316 (5) 6,55,263	31,28,052 (5) 6,25,610	34,37,621 (5) 6,87,524	32,67,863 (7) 4,66,838	90,65,031 (7) 12,95,004
10,50,753 (5) 2,10,150	12,56,290 (5) 2,51,258	14,31,163 (5) 2,86,232	14,31,163 (7) 2,04,452	21,28,208 (7) 3,04,029
5,85,500 (5) 1,17,100	5,01,600 (5) 1,00,320	4,97,000 (5) 99,400	4,97,000 (7) 71,000	31,80,713 (7) 4,54,388
16,40,063 (5) 3,28,012	13,70,162 (5) 2,74,032	15,09,458 (5) 3,01,891	13,39,700 (7) 1,91,386	37,56,110 (7) 5,36,587
17,33,716 (5) 3,46,743	14,46,416 (5) 2,89,283	13,83,175 (5) 2,76,635	11,64,548 (7) 1,66,364	36,41,638 (7) 5,20,234
10,47,984 (5) 2,09,597	10,56,493 (5) 2,11,298	9,59,513 (5) 1,91,902	9,59,513 (7) 1,37,073	20,76,266 (7) 2,96,609

number of Cos. to which the totals refer.

Table II (Contd.)

THE PAPER MILL

				Totals and	
				(1936-40)	
				1936	1937
				Rs.	Rs.
7.	Reserves :*				
	Total	...	...	5,70,000	5,35,984
				(4)	(4)
	Average	...	...	1,42,500	1,33,996
8.	M. A. Remuneration :				
	Total	...	...	2,89,888	4,80,615
				(2)	(2)
	Average	...	...	1,44,944	2,40,308
9.	Sales :				
	Total	...	...	47,98,151	55,53,049
				(1)	(1)
	Average	...	...	47,98,151	55,53,049
10.	Capital Employed :				
	Total	...	...	1,01,95,700	1,41,99,133
				(3)	(3)
	Average	...	...	33,98,566	47,33,044

N.B.—Figures in brackets indicate the

*Includes contributions to Reserves and other amounts appropriated

†In this revised table we compare the figures for one year with

INDUSTRY

Averages

(Revised)

1937	1938	1939	1939	1940
Rs.	Rs.	Rs.	Rs.	Rs.
5,35,984	3,87,000	5,26,064	5,26,064	9,49,845
(5)	(5)	(5)	(7)	(7)
1,07,197	77,400	1,05,213	75,152	1,35,692
3,02,640	2,28,091	1,63,037	1,98,482	6,27,255
(3)	(3)	(3)	(4)	(4)
1,00,880	76,030	54,346	49,621	1,56,814
1,68,38,803	1,82,96,472	2,01,44,329	2,07,03,067	3,35,56,885
(3)	(3)	(3)	(6)	(6)
56,12,934	60,98,824	67,14,776	34,50,511	55,92,814
1,41,59,303	1,20,70,324	1,28,96,400	3,75,92,794	4,04,29,000
(3)	(3)	(3)	(7)	(7)
47,19,767	40,23,441	42,98,800	53,70,399	57,75,571

number of Cos. to which the totals refer.

and unappropriated, excluding the amount carried forward.

the results of the same companies in the subsequent year.

THE PAPER MILL INDUSTRY

Table III

Percentages

	1936	1937	1938	1939*	1939**	1940	1941	1942	1943	1944
1. Net Profits as % of Gross Profits	54.6	50.5	43.8	-5:105	40.9	41.5	28.3	27.7	26.0	26.4
2. Depreciation as % of Gross Profits	34.4	32.2	40.1	98.1	43.9	23.5	17.5	14.8	8.8	11.3
3. Provision for Taxation as % of Gross Profits	10.9	17.3	16.0	6.6	15.2	35.0	54.0	57.4	65.1	62.5
4. Dividends as % of Net Profits ..	59.4	62.3	76.7	37:-5	71.7	55.3	62.1	58.1	41.3	61.4
5. Reserves as % of Net Profits ..	40.0	31.3	28.1	8.5:-5.0	39.2	25.8	32.1	39.7	54.3	41.5
6. M. A. Remuneration as % of Net Profits	41.2	47.8	39.5	50:-5	25.5	32.0	38.1	38.6	33.5	35.7
7. Net Profits as % of Sales ..	7.3	5.0	4.4	-5:1,905	5.5	9.6	8.8	8.9	10.0	7.1
8. Net Profits as % of Capital Employed	10.3	7.3	4.9	-5:4,126	3.6	9.3	10.8	11.9	16.3	7.8

* See our explanation on the table regarding the omission of the Titaghur Paper Mill which has affected this year's averages considerably. Figures in actual amounts (ooo Rs).

**These are revised after incorporating Titaghur Paper Mill and therefore can be compared with 1940 which includes the same concerns as the former.

THE PAPER MILL INDUSTRY

Table IV

Chain Indices

					1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	..	..	..	..	125	98	108	274	154	123	165	68
2. Provision for Taxation	..	..	..	..	208	85	99	640	238	131	186	58
3. Net Profits	..	..	..	..	120	84	110	284	105	121	155	62
4. Dividends	..	..	..	..	122	101	91	214	115	114	109	91
5. Reserves	..	..	..	..	93	72	135	181	133	150	211	48
6. M. A. Remuneration	..	..	..	..	165	75	71	314	126	121	134	67
7. Sales	..	..	..	..	118	109	110	160	114	119	137	88
8. Capital Employed	..	..	..	..	138	86	107	108	84	109	113	129

THE PAPER MILL INDUSTRY

N.B. For obvious reasons Chain Indices for 1937 to 1940 are based on the revised averages as shown in Table II.

THE PAPER MILL INDUSTRY

Table V

Index Numbers

(Base 1937 = 100)

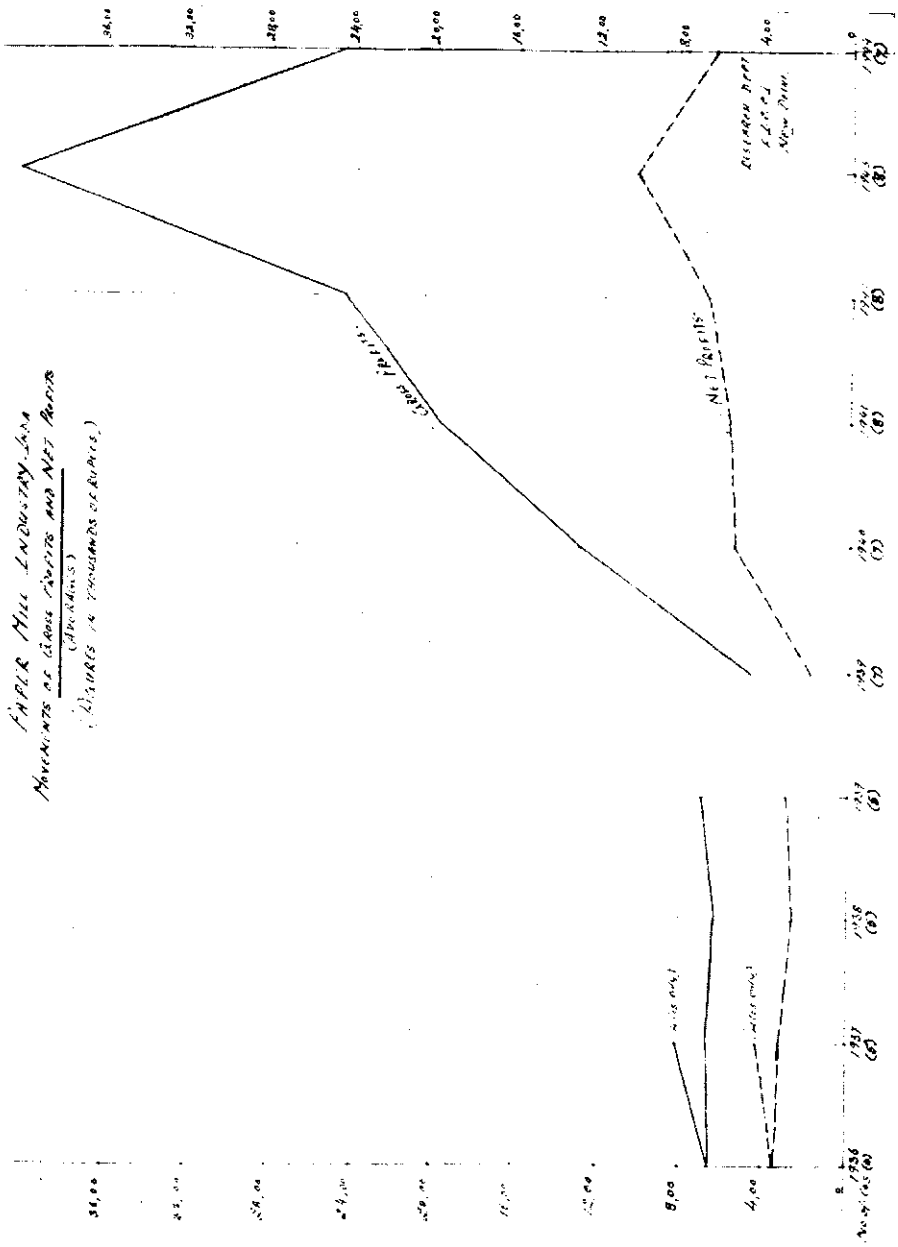
	1936	1937	1938	1939*	1940	1941	1942	1943	1944
1. Gross Profits	115	100	111	19	231	355	436	716	435
2. Provision for Taxation	72	100	103	8	468	1100	1429	2692	1531
3. Net Profits	126	100	97	-5:283	193	200	240	369	227
4. Dividends	119	100	121	21	170	199	226	247	227
5. Reserves	162	100	86	10	153	201	307	645	302
6. M. A. Remuneration	108	100	81	34	128	160	195	261	172
7. Sales	85	100	109	34	100	114	135	186	164
8. Capital Employed	89	100	140	106	147	132	145	164	210

(Base 1938 = 100)

1. Gross Profits	103	90	100	17	207	320	392	643	391
2. Provision for Taxation	70	98	100	8	454	1077	1408	2619	1500
3. Net Profits	129	104	100	-5:274	197	206	248	382	236
4. Dividends	99	83	100	17	141	161	187	204	186
5. Reserves	185	116	100	11	177	234	355	745	349
6. M. A. Remuneration	134	124	100	46	169	200	242	323	214
7. Sales	78	92	100	32	92	105	125	171	150
8. Capital Employed	63	72	100	76	107	96	106	119	152

*See our explanation about the table regarding the omission of the Titaghur Mill Co. which has affected this year's figures considerably.

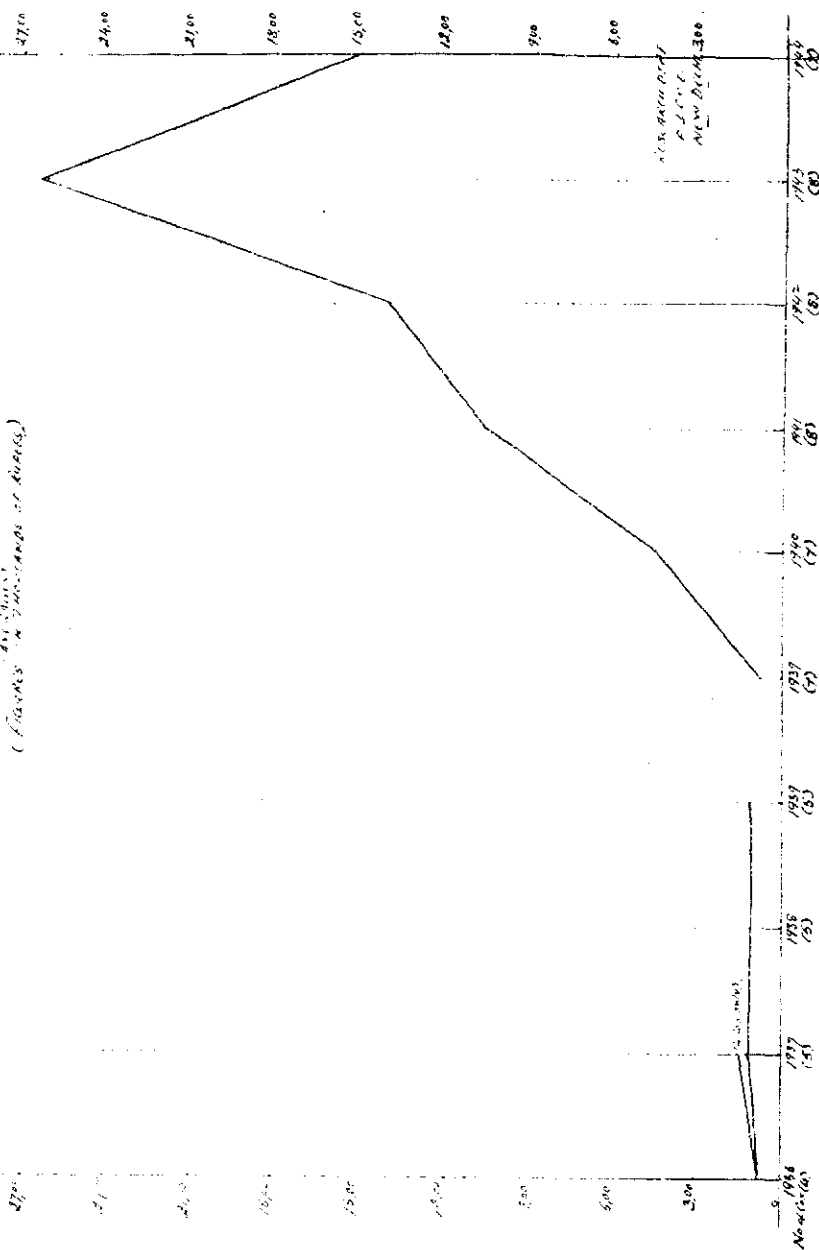
GRAPH I



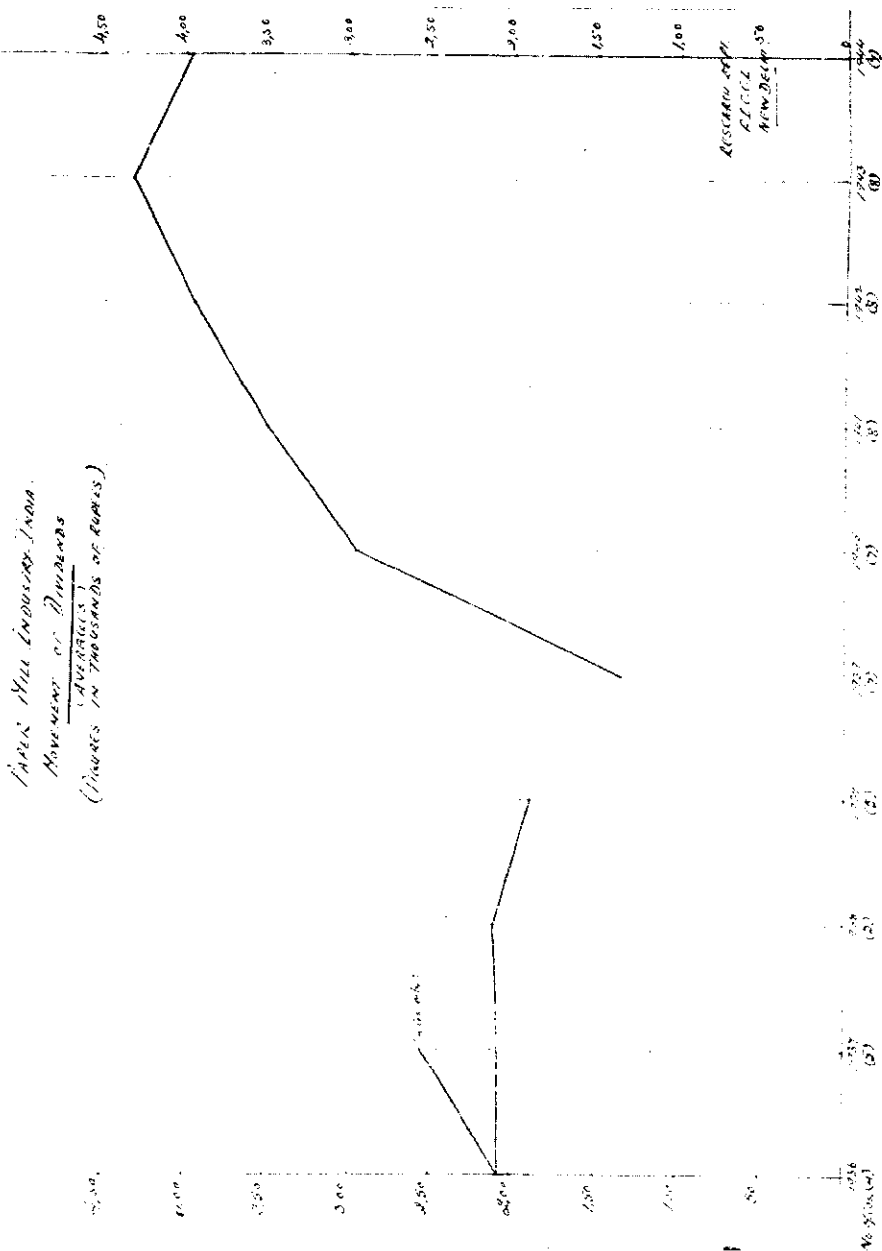
THE PAPER MILL INDUSTRY

GRAPH II

PAPER MILL INDUSTRY, INDIA
 MOVEMENT OF PRODUCTION FOR EXPORT
 (FIGURES IN THOUSANDS OF TONS)



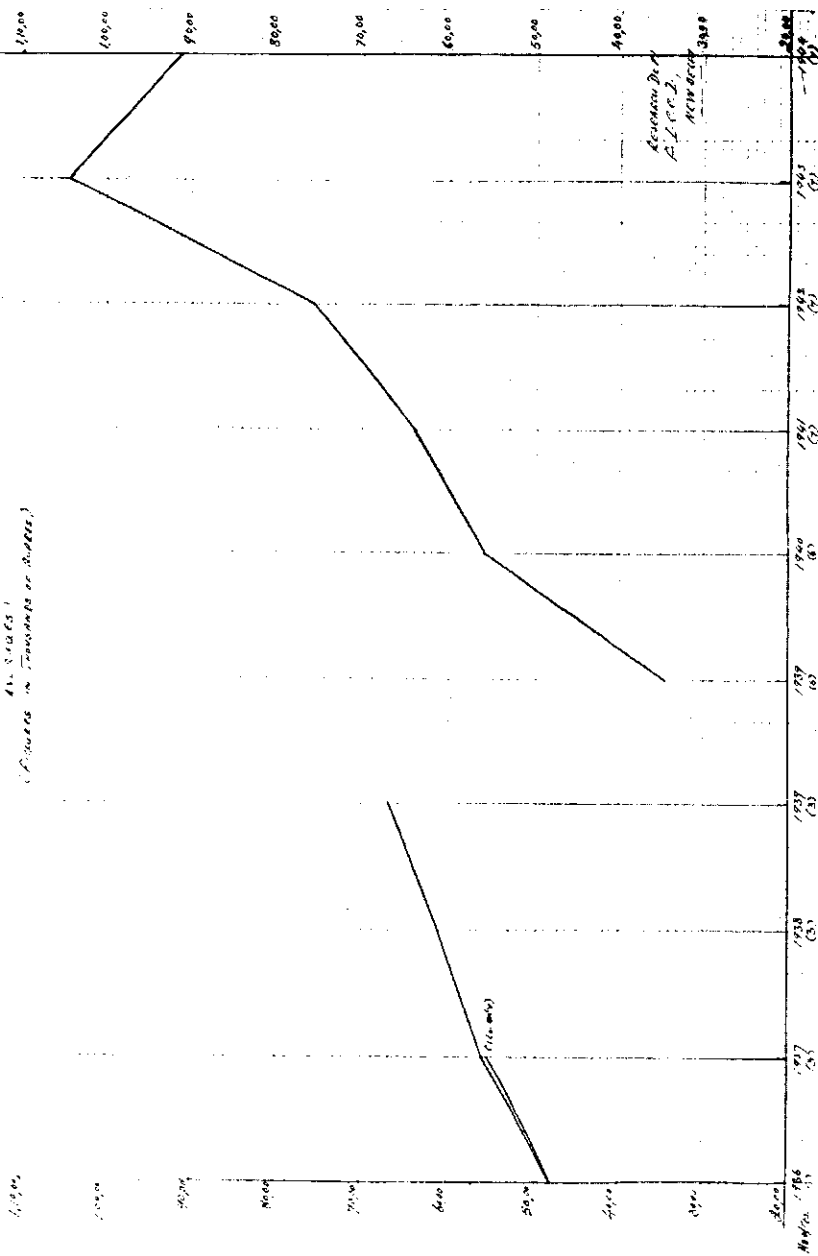
GRAPH III



THE PAPER MILL INDUSTRY

GRAPH IV

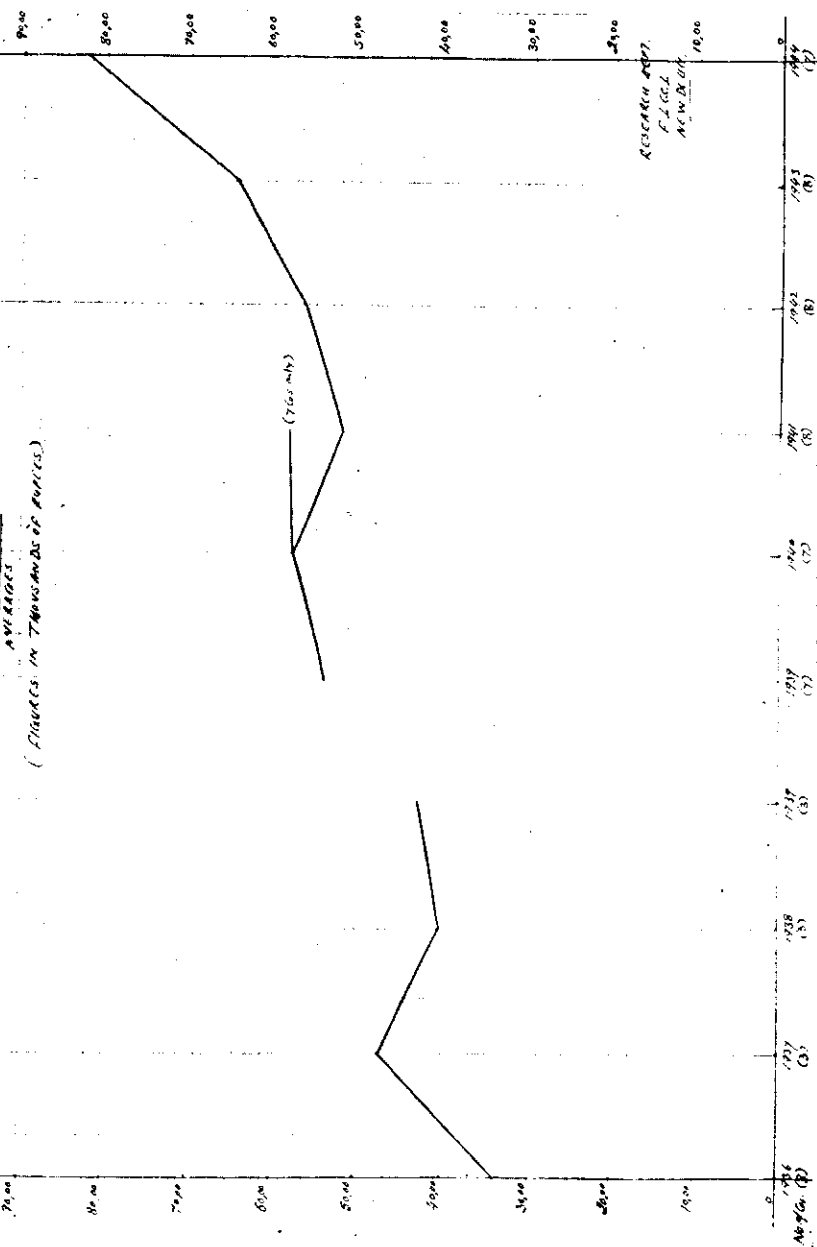
Value of Machinery and
 Fixtures of Mills
 in Thousands of Dollars
 (Source in Thousands of Dollars)



THE PAPER MILL INDUSTRY

GRAPH V

PAPER MILL INDUSTRY, INDIA.
 MOVEMENT OF GROSS EMPLOYED
 AVERAGES
 (FIGURES IN THOUSANDS OF PERSONS)



CHAPTER VIII

THE CEMENT INDUSTRY

Introduction

The growth of the cement industry in India may not have been as 'romantic' as that of sugar, or as imposingly chequered as that of cotton textiles. But with a sale of 145 tons in 1914* to 886,267 in 1935-36 (which incidentally meant about 95% of the total consumption in the country), the progress can at least be described as sound as well as steady. It must also be added that cement was one of the few industries that unsuccessfully applied for tariff protection in the early years of Discriminating Protection. By 1936-37, the manufacturing capacity of the 12 companies† had grown to 14,65,000 tons.‡ With a view to amalgamate manufacture and sales as also to regulate production along with centralized purchases and administration, ten of the leading manufacturing companies were amalgamated into the Associated Cement Co. Ltd., Bombay, with Cement Agencies as its Managing Agents.‡‡ The principal cement companies having been liquidated, we had only this company, which was registered on 1st August 1936, so that in the case of this industry we have to leave

*Portland cement was first manufactured in India in 1904 (at Madras) but the first factory was established in 1912.

†Dwarkanand Cement Co. Ltd. was the latest then to come into the field (in 1935-36.)

‡See the History of Cement Industry in India—a pamphlet issued by the Associated Cement Companies Ltd. p.3.

‡‡The Managing Agency was jointly controlled by Messrs. Killick, Nixon & Co., F. E. Dinshaw Ltd., Tata Sons Ltd., and Mulraj Khatau & Sons Ltd.

out 1936 altogether. It is not necessary for our purpose to recount the story of the merger ; but it is pertinent for a discussion of our tables to refer to the rise of another group of 4 companies that came into the field in 1937, for, by the end of that year the A. C. C. and the Dalmia Group practically controlled all the output of cement in the country. Though the two joint-stock companies had as many as 16 producing units, spread over different parts of the country, we had to content ourselves with two balance-sheets only. We could have obtained two more for two other joint-stock companies, viz., The Andhra Cement Co. Ltd., and the Sonevalley Cement Co. Ltd. The difficulty, however, of procuring their balance-sheets could not be easily surmounted and we have had to be satisfied with the two major companies that produce 80 to 85% of the cement output,* for, indeed, the inclusion of the aforesaid two companies would hardly have made any appreciable difference. The two balance-sheets, however, raise quite a number of important issues, which have to be carefully examined and borne in mind in interpreting the tables. Firstly, when there are only 2 companies, it is obvious that the results of the working of one are bound to affect the simple averages quite substantially. One may show a very successful year while the other a lean one—and the averages may reflect a true picture of neither. Secondly, taking our whole period together we can easily assert that the manufacturing capacity of the A.C.C. is almost three times that of the Dalmia group. From this it may be suggested that the solution of the statistical difficulty may lie in taking the weighted averages only. Indeed, we have attempted such a solution. But in taking weighted averages, a number of other questions too would have had to be answered. Is there a difference only of magnitude between the two concerns ? Are not the balance-sheets of the two concerns the averagings of the results of their respective units ? Are the selling policies of the two

*The existing (before Partition) capacity of the Cement industry in our country is estimated at 27,82,000 tons, distributed as follows :

Associated Cement Company	...	...	18,62,000 Tons.
Dalmia Cement	...	...	5,60,000 "
Other Works	...	...	3,60,000 "
			Total 27,82,000 "

(See Report of the Advisory Planning Board.)—(Dec. 1946) p.p. 162-

companies entirely uniform ? In the selling agreement between the two companies, does the larger partner help the smaller or the weaker ?

There is another way out of the difficulty that we have raised, and that is by discussing the figures of each of these companies separately in these paragraphs, so that any vitiated emphasis in the arithmetical averages may be rectified. While we shall partly resort to this method of discussing the results of the two separately, we must emphasise that it would militate against our practice in all the other industries, *viz.*, avoiding a discussion of individual concerns or identifying our figures with any one company. There is also a further difficulty that needs to be mentioned. The Dalmia group entered the field of the cement market as a new company and—as was to be expected—a rate-war ensued. This tussle, again as was to be expected, culminated in an agreement as to the marketing of the product and there was thus a single loose horizontal combine in the industry.

Our Tables

If we begin our discussion by having a glance at Table I, it will be apparent that the industry has passed through a chequered period—in fact except for the Provision for Taxation—after 1940—no curve shows a steady or uninterrupted rise, such as we saw in the other industries we have studied.

Our figures for 1937, for obvious reasons, show the results of the A. C. C. only. As regards the next year, 1938, it has to be added that for this company whose financial year ends in July, the year was not as bad as the one still to follow *viz.*, 1938-39. In fact, as compared with the previous year (1936-37), the Company carried nearly Rs. 32,80,000 to the Reserves, *i.e.*, nearly 42% of its Net Profits. This also explains why with a Net Profit that was 25% up, Dividends declined to 70% of the previous year. Incidentally, this will also show why we have chosen 1938 as the base year for the indices of the cement industry.

1938-39 and 1939-40

The rate-war started in the middle of 1938 and its effects are

to be seen in the substantial fall in prices*—(though the A. C. C. sales in quantity had risen from 10.7 lakhs tons in 1937-38 to 11.3 lakhs in 1938-39). In October 1938, the cement prices declined by 30% as compared with those two months earlier. The year 1939 was a good one for the Dalmia group—for it increased its Sales (in value) by over 200%. The A. C. C. Sales, on the other hand, declined by 12% which resulted in a fall of their Net Profits by 60%—whereas these profits for the Dalmia's were stationary. It must, however, be added that the Dalmia group started as a full-fledged unit in 1939, this also being the year in which their Karachi factory worked in full swing. In this year this company utilised only 64% of its Net Profits for Dividends and carried forward 20% after providing 15% for Reserves. On the other hand, the A. C. C. had to draw upon the previous year's big Carry Forward of Rs. 9.2 lakhs in order to maintain the 1938 dividend-rate.

The figures for the Managing Agents' Remuneration require some comment. In the case of the Dalmia Group no remuneration by the Agents is shown till the year 1942. (Presumably, therefore, these agents have foregone their share). It would, however, not be safe to take the A. C. C. amount alone for the total of both for the purpose of the average. We, therefore, relate the percentage of this remuneration to the net profits of this concern—A. C. C. only—up to 1941. In so doing, we find that this ratio has gone up from 14.4 in 1937-38 to 22.0 in 1938-39. This is due to the fact that A. C. C. did not reduce the amount of this remuneration in the same proportion as the fall in their Net Profits during this period. Finally, the results of the rate-war are also conspicuously seen in the percentage of Net Profits to Sales and to Capital Employed during these two years. The fall in the case of the A. C. C. was from 16.4 to 7.6 in respect of the Net Profits ratio to Sales and from 28.4 to 8.1 for

*The Industry was also on the brink of an over-production-crisis when the Dalmia factories came into the field. The A.C.C. had a production capacity of nearly 18 lakhs of tons,—taking into consideration the factories under construction then, against a maximum consumption of 13 to 14 lakhs of tons in the country. The entry of Dalmia factories would, it was feared, take the production capacity in the country to about 24 lakhs of tons.

(Times of India, 4-7-1938).

the other company. The ratio of Net Profits to Capital Employed declined from 9.9 to 3.8 and 3.6 to 2.1 in the case of the A. C. C. and the Dalmia's respectively.

The next year witnessed an intensification of the rate-war which is largely reflected in the results of the A. C. C. During this year both the groups had new factories working in addition to their existing works, so that the total capacity of the cement industry in the country rose to over 28 lakhs of tons which was 42% in excess of the sales then.* The Gross Profits of the A. C. C. remained steady—though their Sales declined by 7%. They were able to keep up their profits by various economies and by reducing the amount for Depreciation and Taxation (from 48.4% and 12.3% of Gross Profits in 1938-39 to 46.0 and 9.8 in 1939-40 respectively), they raised their Net Profits by 13%. As against this, the Dalmia group increased its Sales by nearly half the 1939 level (in value) with a consequent rise in Gross Profits of 30%. But their Net Profits improved by 10% only, as they set aside nearly 63% of their Gross Profits towards Depreciation (though they too reduced their Provision for Taxation from 10.1 to 2.4% of Gross Profits). The A.C.C. continued its policy of setting aside an unimpressive amount for reserves though it again carried forward large amounts for meeting any unforeseen contingency. The Dalmia's, on the other hand, by maintaining the previous year's rate of dividend, was able to increase the contribution to General Reserves from 15% to 55% of its Net Profits in 1940. On the whole, therefore, though this year showed some improvement over the previous one, the internal troubles were not over until the rate-war came to an end in December 1940. The prices did show some rise but that was largely due to the increase in the railway freights by 12½% from March 1940.

The selling agreement between the A. C. C. and the Dalmia groups came at an extremely opportune moment, for, otherwise the pressure of surplus capacity would have continued to depress prices. It is also true that some opposite influences were at work in the cement industry during this period. Building activity, especially in

*See The Chairman's speech at the 4th Annual General Meeting of the A.C.C. held on 17-1-1941.

Bombay had considerably declined, mainly owing to the rise in the cost of other building materials. As against this, there were increased requirements of the Government and other industries and the A. C. C. itself had secured large contracts. The efforts of the Concrete Association of India, too, were beginning to bear fruit. Between September 1939 and December 1940, the A. C. C. exported 100,000 tons to Iraq, Ceylon, Dutch East Indies, Malaya and other markets.* This was indeed a development of great significance to the future of the cement industry.

The agreement between the two groups provided for a scheme for a joint selling organization under the Cement Marketing Co. of India. The arrangement allowed for the division on a percentage basis of the total sales of the two concerns on an agreed formula. The Dalmia's received a smaller, but gradually increasing, percentage of their eventual quota and the prices were to be fixed by negotiation from time to time.

We have now come to the end of an important period in the history of the cement industry and are beginning a new one. With the integration of the sales organisation of the two main groups of factories (even the small ones Andhra Cement Co. and the Bengal-Assam Cement Co. came to a similar arrangement), the era of competition was practically over. But more important for our purposes was the steady requisitioning by the Government of the cement supplies for defence purposes. About 90% of the total production of the cement industry was absorbed by Government buying and even the remaining 10% for civilian use was to be released as ordered by the Government. This meant that the factories had to work to their full capacity and surrender their output to the Government. From this time onwards, therefore, there will be little of significance that need be added regarding the general conditions and development in the industry such as we have been describing in the case of the other industries, with the exception of Iron and Steel. We shall, therefore, find that the problem of the averages to which we referred in the beginning of this section becomes much less baffling. A more detailed discussion of the working of each of these companies becomes more apposite than before.

*Review of the Trade of India, 1940-41, p. 63.

1941

This is definitely a better year than the previous one, particularly for the Dalmia's. This group not only raised its Provision for Taxation substantially (from Rs. 25,000 to Rs. 2,25,000), but the Net Profits, too, were more than double the previous year's sum. In fact in this year, 1941, the Dalmia's paid dividends on the ordinary shares for the first time at the rate of $6\frac{1}{4}\%$. The A. C. C., too, raised its rate of dividends as compared with the previous three years from 5 to 6%. It may also, at the same time, be noted that from 1938-39 to 1940-41, the A. C. C. Sales declined by 14% while on the other hand, the Dalmia's Sales increased by 65% between 1939 and 1941, (i.e., 5 times the figure of 1938). This is due to the terms of the Agreement, which provided an increasing share to this group in the first years of the Agreement. The A. C. C. moreover sold cement to the Government at specially reduced rates as a part of their War Effort. But the prices too remained more or less steady—moving from March-July 1941 at Rs. 37 per ton to Rs. 39 in August-December in the same year. This steadiness is accounted for partly by the Agreement and partly by the policy of the A. C. C. of keeping prices as low as possible with a view to popularise the use of cement. The small rise of Rs. 2 per ton is no doubt explained by the higher working costs (higher prices of coal, stores, packing and railway surcharges).

1942

The tendencies were more or less reversed in this year. In the matter of Sales, Net Profits, Reserves, Dividends (and even Provision for Taxation), the A. C. C. results far excel those of the other group. The A. C. C. further increased its rate of dividend from 7 to 8%, as also its reserve percentage to net profits from 9.4 to 18.3%. The Sales figures would clearly emphasise that the year was much better for the A. C. C. than for the other group, although by the end of 1942 the whole industry was commandeered by Government.

During this year the Dalmia's show the remuneration of the Managing Agents for the first time, viz., Rs. 58,500, while the A. C. C. increased that amount during the year by 60%. This year is in many ways a very successful one for the A. C. C. for it shows the

highest percentage of the Net Profits to Gross Profits after the Agreement, as also that of the Net Profits to Sales for the whole of our period. This company was able to keep its costs of production low by producing stores and other materials required for the production of cement in their own factories. It is true, however, that the costs of distribution were at the same time kept low owing to the successful working of the Agreement. The percentage of Net Profits to Capital Employed almost reaches the highest of the period since 1938. There is no wonder then that the shareholders obtained the highest return on their investments from the A. C. C., *i.e.*, 8%.

1943

In contrast with the other industries in our group, this is a year of failure for cement, for, unlike other industries, not only is that not a peak year of the period, but it is a very lean one—in fact, for the Dalmia group, one of great reverses. The A. C. C. was somehow able to keep its end up despite coal shortage, labour troubles and transport difficulties, together with additional expenses, by way of dearness allowances and war risk insurance. But the Dalmia group shows a Net Loss of Rs. 14.33 lakhs, as compared with the previous year's Profit of Rs. 6.25 lakhs owing to high manufacturing expense on raw materials and coal, repairs and wages. In fact, the company had to be assured by the Supply Department that it would be reimbursed for its losses for the year ended October 1943. The amount of Rs. 16.1 lakhs was later on paid to the company by the Government. In the case of the A. C. C., whilst there is a small rise in Sales, there is an appreciable decline in its Net Profits and Dividends (a fall greater than that of Gross Profits because of the higher amount provided for Taxation). The percentage of Net Profits to Sales reverts to the figure of 1941, indicating the higher costs of manufacturing cement.

1944

During this year the marketing organisation was extended by the opening of four branches of the Cement Marketing Co. of India. Several factories were improved and the A. C. C. effected major improvements in their Coimbatore factory by means of a purchase and conversion of a piece of machinery that was originally designed

for a different purpose; and the conversion added 50% to the factory's manufacturing capacity. The Dalmia group, having been reimbursed for the losses of the previous year to the extent of Rs. 16 lakhs and encouraged by a substantial improvement in their Sales, proceeded to declare the preference dividend of Rs. 2,10,000 (for both the years) and the year's ordinary dividend amounting to Rs. 4,50,000 (which was not paid at all in the previous year). This year shows the highest Managing Agents' Remuneration shown by this group including Rs. 37,000 for office allowance and expenses. It may also be noted that this year shows the highest percentage of Taxation to Gross Profits and consequently the lowest percentage of Net Profits to the Gross Profits. The main reason for this improvement in the results of this Company is to be sought in the revision of the terms of the Contracts with the Government in favour of the former.

THE CEMENT INDUSTRY

Table I

Statements of Analysis

Year ending 31st July.

A. C. C. LTD.

	1937 Rs.	1938 Rs.	1939 Rs.	1940 Rs.	1941 Rs.	1942 Rs.	1943 Rs.	1944 Rs.
1. Gross Profits ...	1,08,38,464	1,32,17,968	80,70,932	81,09,783	96,03,089	1,49,40,678	1,41,71,680	1,63,39,753
2. Depreciation ...	30,19,363	33,73,112	38,55,463	37,00,000	38,66,054	40,66,146	39,25,230	40,19,595
3. Provision for Taxation ...	18,50,000	22,15,000	10,37,000	8,04,000	14,53,000	37,45,000	47,23,000	64,12,000
4. Net Profits ...	59,69,101	76,29,856	31,78,469	36,05,783	42,84,035	71,29,532	55,23,450	59,08,158
5. Amount Available for Allocation ...	59,69,101	77,29,606	41,01,393	40,79,670	47,49,669	72,36,007	57,76,106	60,46,317
6. Dividends (ord.)	50,28,158	35,27,105	35,27,105	35,27,105	42,32,526	56,43,368	49,37,947	49,37,947
7. Reserves ...	8,41,194	32,79,575	1,00,400	86,931	4,10,668	13,39,983	7,00,000	7,00,000
8. M. A. Remuneration	9,20,166	11,02,713	6,97,247	7,15,425	7,94,781	12,40,783	11,99,046	14,28,424
9. Sales ...	4,10,94,174	4,62,89,286	4,08,39,921	3,79,47,075	3,52,36,122	4,10,26,168	4,36,73,341	4,98,45,013
10. Capital Employed	7,68,17,430	7,78,20,568	8,04,10,477	7,67,77,087	7,45,98,873	7,21,65,709	7,35,71,684	7,93,93,387

THE CEMENT INDUSTRY

Table I (Contd.)

Year ending 31st December.			DALMIA CEMENT LTD.						
			1938 Rs.	1939 Rs.	1940 Rs.	1941 Rs.	1942 Rs.	1943 Rs.	1944 Rs.
1. Gross Profits	...		5,27,213	7,93,601	10,25,963	18,22,046	13,13,998	-4,36,525	25,86,741*
2. Depreciation	...	...	1,27,336	3,85,926	6,39,921	8,66,717	5,88,876	9,96,709	8,68,077
3. Provision for Taxation	...		50,000	80,000	25,000	2,25,000	1,00,000	nil	8,50,000
4. Net Profits	...	...	3,49,877	3,27,675	3,61,042	7,30,329	6,25,122	-14,33,234	8,68,664
5. Amount Available for Allocation			3,49,877	3,54,757	4,55,799	7,76,128	6,41,250	13,76,980	8,41,548
6. Dividends (Pref:)	...	...	2,72,795	2,10,000	2,10,000	2,10,000	2,10,000	2,10,000†	2,10,000
	(Ord:)	...	nil	nil	nil	3,75,000	3,75,000	nil	4,50,000
7. Reserves	...	...	50,000	50,000	2,00,000	1,75,000	50,000	nil	1,50,000
8. M. A. Remuneration	...		nil	nil	nil	nil	58,500	44,100	2,76,025
9. Sales	...	...	12,30,165	36,86,176	55,96,631	60,70,945	56,17,140	54,43,965	1,22,90,663
10. Capital Employed	...	...	1,09,80,498	1,40,20,222	1,52,10,874	1,54,62,768	1,57,51,820	1,65,82,301	1,99,40,980

*Excluding Rs. 16.09 lakhs, being Compensation received by the Company from Government for its 1943 losses.

†Paid in 1944.

THE CEMENT INDUSTRY

Table II

Percentages. (Individual Companies)

A = A.C.C.

D = Dalmia.

	1937		1938		1939		1940		1941		1942		1943		1944		
	A	D	A	D	A	D	A	D	A	D	A	D	A	D	A	D	
1. Net Profits as % of Gross Profits	55.3	—	57.5	66.4	39.5	41.8	44.4	35.0	44.1	38.9	47.7	47.5	39.0	loss	36.2	33.5	
2. Depreciation as % of Gross Profits	27.8	—	25.7	24.1	48.2	48.4	46.0	62.7	40.6	50.0	27.5	44.7	27.6	loss	24.5	33.5	
3. Provision for Taxation as % of Gross Profits	...	17.0	—	16.6	9.5	12.3	10.0	9.8	2.4	15.3	11.1	24.8	7.6	33.4	loss	39.2	33.0
4. Dividends as % of Net Profits	...	83.3	—	46.1	78.0	109.1	64.0	97.2	58.4	97.7	80.1	79.0	92.0	89.0	loss	83.1	76.0
5. Reserves as % of Net Profits	...	13.3	—	43.5	14.2	3.1	15.2	2.1	55.0	9.4	23.8	18.3	8.0	12.8	loss	11.9	17.2
6. M. A. Remuneration as % of Net Profits	...	15.0	—	14.4	—	22.0	—	19.5	—	18.6	—	16.6	9.4	21.8	loss	23.8	31.7
7. Net Profits as % of Sales	...	14.3	—	16.4	28.4	7.6	8.1	9.0	6.5	12.2	11.5	17.3	10.8	12.6	loss	11.8	7.1
8. Net Profits as % of Capital Employed	7.8	—	9.9	3.6	3.8	2.1	4.7	2.6	5.8	4.5	9.8	3.1	7.3	loss	7.5	4.3	

THE CEMENT INDUSTRY

Table III

Chain Indices. (Individual Companies)

	A=A.C.C.						D=Dalmia.						
	1938	1939		1940		1941		1942		1943		1944	
	A	A	D	A	D	A	D	A	D	A	D	A	D
1. Gross Profits ...	122	61	151	100	130	118	180	155	72	95	Loss*	114	Rs. 25.87 lakhs
2. Provision for Taxation	115	46	160	80	31	188	900	253	44	124	Nil	136	Rs. 8.5 "
3. Net Profits ...	125	42	94	113	110	120	202	165	86	78	Loss†	105	Rs. 8.69 "
4. Dividends ...	70	100	79	100	100	120	279	133	100	88	37	100	314
5. Reserves ...	390	3	100	87	400	473	87	326	29	52	Nil	100	Rs. 1.50 lakhs
6. M. A. Remuneration	120	64	Nil	105	Nil	112	Nil	160	‡	99	74	116	625
7. Sales ...	110	88	308	93	149	92	108	111	92	107	97	114	224
8. Capital Employed	101	103	127	96	108	98	102	96	102	102	105	108	118

*Rs. 4.36 lakhs.

†Rs. 14.33 lakhs.

‡Rs. 58,500.

Table IV

THE CEMENT

		Totals and		
		1937	1938	1939
		Rs.	Rs.	Rs.
1. Gross Profits :				
Total	.. ..	1,08,38,464	1,37,45,181	88,64,533
		(1)	(2)	(2)
Average	.. ..	1,08,38,464	68,72,590	44,32,266
2. Depreciation :				
Total	.. ..	30,19,363	35,00,448	42,41,389
		(1)	(2)	(2)
Average	.. ..	30,19,363	17,50,224	21,20,694
3. Provision for Taxation :				
Total	.. ..	18,50,000	22,65,000	11,17,000
		(1)	(2)	(2)
Average	.. ..	18,50,000	11,32,500	5,58,500
4. Net Profits :				
Total	.. ..	59,69,101	79,79,733	35,06,144
		(1)	(2)	(2)
Average	.. ..	59,69,101	39,89,866	17,53,072
5. Amount Available for Allocation :				
Total	.. ..	59,69,101	80,79,483	44,56,150
		(1)	(2)	(2)
Average	.. ..	59,69,101	40,39,741	22,28,075
6. Dividends :				
Total	.. ..	50,28,158	37,99,900	37,37,105
		(1)	(2)	(2)
Average	.. ..	50,28,158	18,99,950	18,68,552

N. B.—Figures in brackets indicate the number of companies to which

*For obvious reasons, we have excluded Rs. 16.09 lakhs compensation the Company as shown by its Profit and Loss Account, viz., Rs. 41.97 lakhs

INDUSTRY

Averages

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
91,35,748 (2)	1,14,25,135 (2)	1,62,54,676 (2)	1,37,35,155 (2)	1,89,26,494* (2)
45,67,873	57,12,567	81,27,338	68,67,577	94,63,247
43,39,921 (2)	47,32,771 (2)	46,55,022 (2)	49,21,939 (2)	48,87,672 (2)
21,69,960	23,66,385	23,27,511	24,60,969	24,43,836
8,29,000 (2)	16,78,000 (2)	38,45,000 (2)	47,23,000 (2)	72,62,000 (2)
4,14,500	8,39,000	19,22,500	23,61,500	36,31,000
39,66,827 (2)	50,14,364 (2)	77,54,654 (2)	40,90,216 (2)	67,76,822 (2)
19,83,414	25,07,182	38,77,327	20,45,108	33,88,411
45,35,469 (2)	55,25,797 (2)	78,77,257 (2)	42,48,872 (2)	68,87,865 (2)
22,67,734	27,62,898	39,38,628	21,24,436	34,43,932
37,37,105 (2)	48,17,526 (2)	62,28,368 (2)	51,47,947 (2)	56,97,947 (2)
18,68,552	24,08,763	31,14,184	25,73,973	28,48,973

the totals refer.

received by Dalmia from Government for the 1943 losses from the profits of (Gross Profits).

Table IV (Contd.)

THE CEMENT

	Totals and		
	1937	1938	1939
	Rs.	Rs.	Rs.
7. Reserves : †			
Total	8,41,194	33,29,575	1,50,400
	(1)	(2)	(2)
Average	8,41,194	16,64,787	75,200
8. M. A. Remuneration :			
Total	9,20,166	11,02,713	6,97,247
	(1)	(1)	(1)
Average	9,20,166	11,02,713	6,97,247
9. Sales :			
Total	4,10,94,174	4,75,19,451	4,45,26,097
	(1)	(2)	(2)
Average	4,10,94,174	2,37,59,725	2,22,63,048
10. Capital Employed :			
Total	7,68,17,430	8,88,01,066	9,44,30,699
	(1)	(2)	(2)
Average	7,68,17,430	4,44,00,533	4,72,15,349

N.B.—Figures in brackets indicate the number of companies to which

†Includes contributions to reserves and other amounts appropriated and

INDUSTRY

Averages

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
2,86,931	5,85,668	13,89,983	7,00,000	8,50,000
(2)	(2)	(2)	(2)	(2)
1,43,465	2,92,834	6,94,991	3,50,000	4,25,000
7,15,425	7,94,791	12,99,283	12,43,146	17,04,449
(1)	(1)	(2)	(2)	(2)
7,15,425	7,94,791	6,49,641	6,21,573	8,52,224
4,35,43,706	4,13,07,067	4,66,43,308	4,91,17,306	6,21,35,673
(2)	(2)	(2)	(2)	(2)
2,17,71,853	2,06,53,533	2,33,21,654	2,45,58,653	3,10,67,831
9,19,87,961	9,00,61,641	8,79,17,529	9,01,53,985	9,93,34,367
(2)	(2)	(2)	(2)	(2)
4,59,93,980	4,50,30,320	4,39,58,764	4,50,26,992	4,96,67,183

the totals refer.

unappropriated, excluding the amount carried forward.

THE CEMENT INDUSTRY

Table V

Percentages

			1937	1938	1939	1940	1941	1942	1943	1944
1. Net Profits as % of Gross Profits .. ..	..	..	55.5	58.1	40.9	43.5	43.9	48.1	28.9	35.5
2. Provision for Taxation as % of Gross Profits ..	..	..	16.7	16.5	12.5	8.7	14.0	23.4	34.8	38.8
3. Depreciation as % of Gross Profits .. ..	..	..	27.8	25.4	46.7	47.8	42.1	28.4	36.3	25.7
4. Dividends as % of Net Profits .. ..	..	..	83.3	47.6	106.6	94.2	96.2	80.3	125.8	85.2
5. Reserves as % of Net Profits .. ..	..	..	13.3	42.5	4.3	7.3	12.0	17.8	17.1	11.8
6. M. A. Remuneration as % of Net Profits*	..	..	15.0	14.4	22.0	19.5	18.6	16.8	30.3	25.4
7. Net Profits as % of Sales .. ..	..	..	14.3	16.7	8.1	9.1	12.2	16.6	8.1	10.8
8. Net Profits as % of Capital Employed .. ..	..	..	7.8	9.0	3.7	4.3	5.5	8.8	4.4	6.8

*As the 'Dalmia Cement Co. Ltd.,' has not shown any amount under this heading till 1942, we have related the average amounts of this item for 1937-41 to the Net Profits of the 'A.C.C. Ltd.' only.

THE CEMENT INDUSTRY

Table VI

Chain Indices

						1939	1940	1941	1942	1943	1944
1. Gross Profits	..	..	..	..	..	65	103	124	142	85	139
2. Provision for Taxation	..	..	..	..	..	59	74	203	228	123	153
3. Net Profits	..	..	..	..	..	44	114	122	154	53	165
4. Dividends	..	..	..	..	..	98	100	126	130	83	111
5. Reserves	..	..	..	..	..	4	191	207	237	48	120
6. M. A. Remuneration	..	..	..	..	..	64	105	107	81	99	138
7. Sales	..	..	..	..	..	94	98	95	113	106	126
8. Capital Employed	..	..	..	..	..	106	98	98	96	104	111

THE CEMENT INDUSTRY

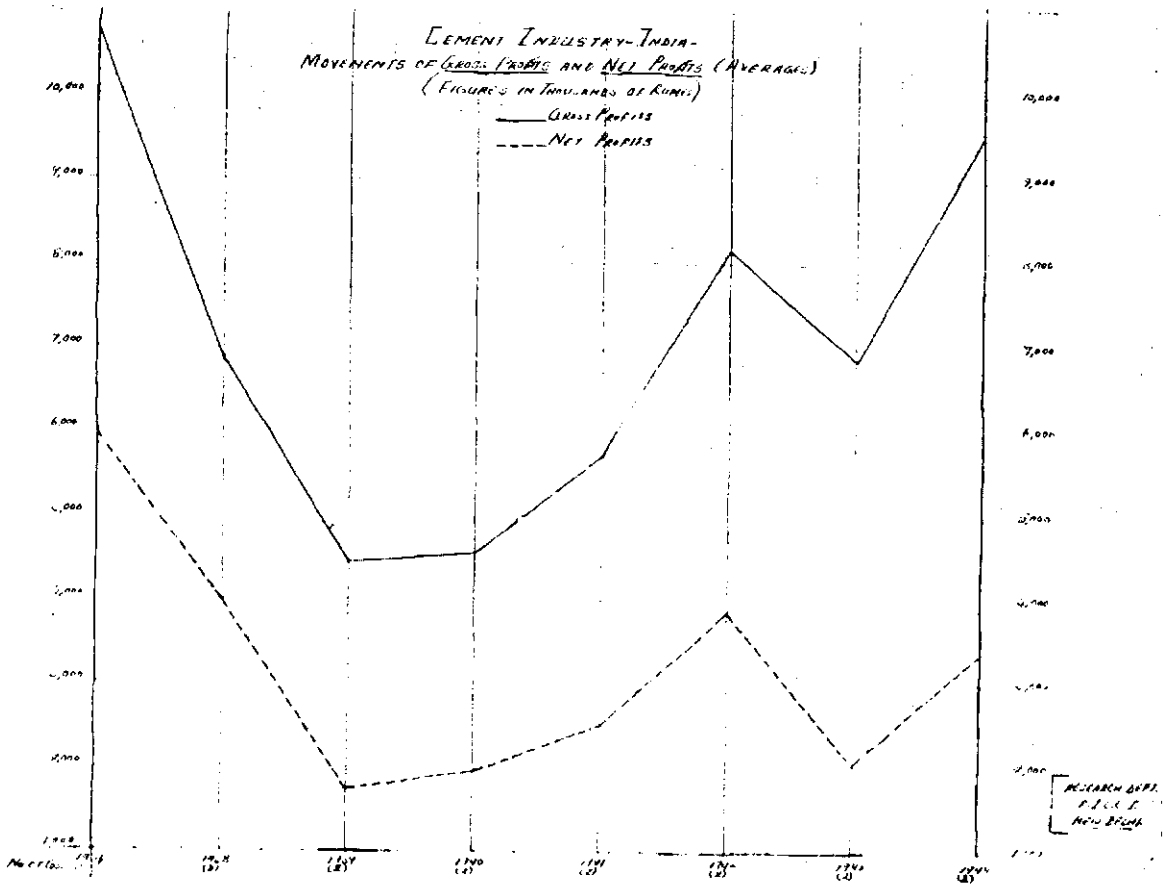
Table VII

Index Numbers

(Base 1938=100)

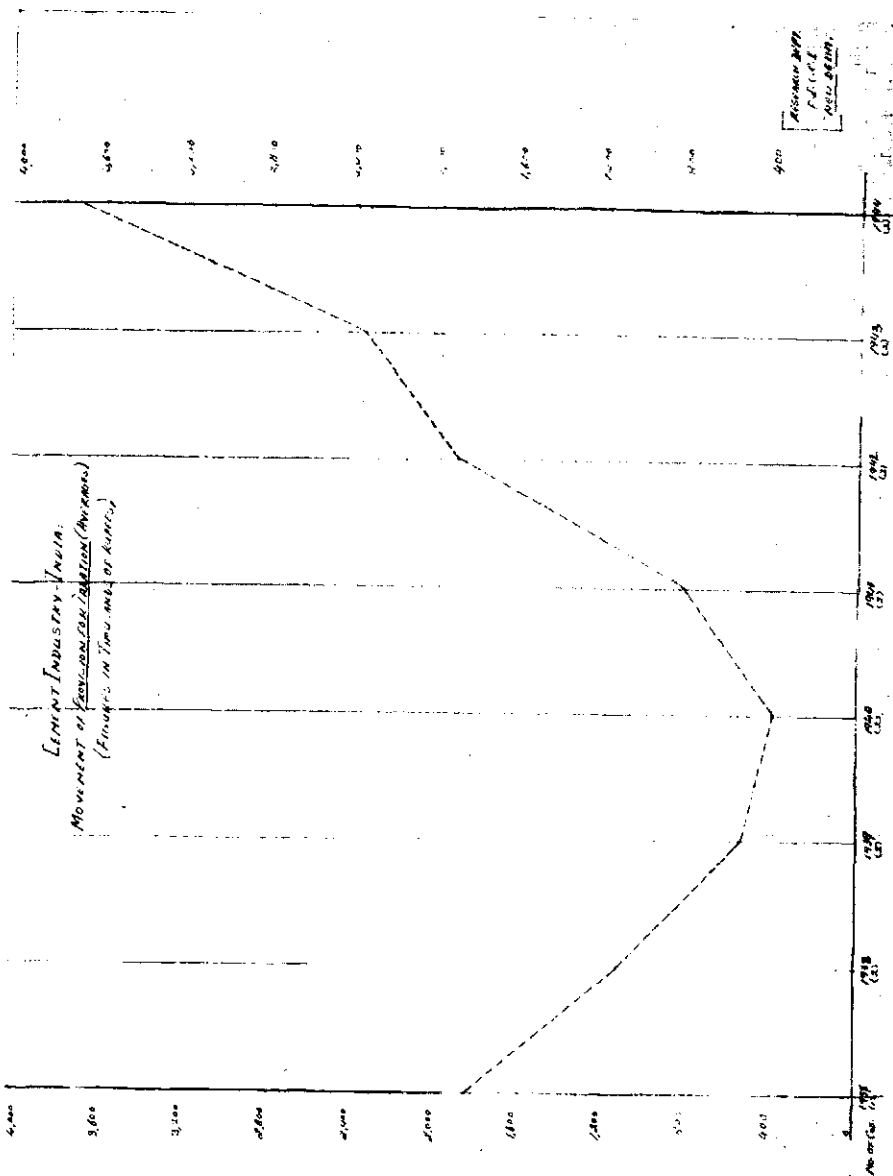
					1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	..	..	..	..	100	65	67	83	118	100	139
2. Provision for Taxation	..	..	..	..	100	59	37	74	170	209	329
3. Net Profits	..	..	..	..	100	44	50	63	98	51	85
4. Dividends	..	..	..	..	100	98	98	127	164	135	150
5. Reserves	..	..	..	..	100	4	8	18	42	21	26
6. M. A. Remuneration	..	..	..	..	100	64	67	73	59	56	77
7. Sales	..	..	..	..	100	94	92	87	98	103	131
8. Capital Employed	..	..	..	..	100	106	104	101	97	101	112

THE CEMENT INDUSTRY
GRAPH I

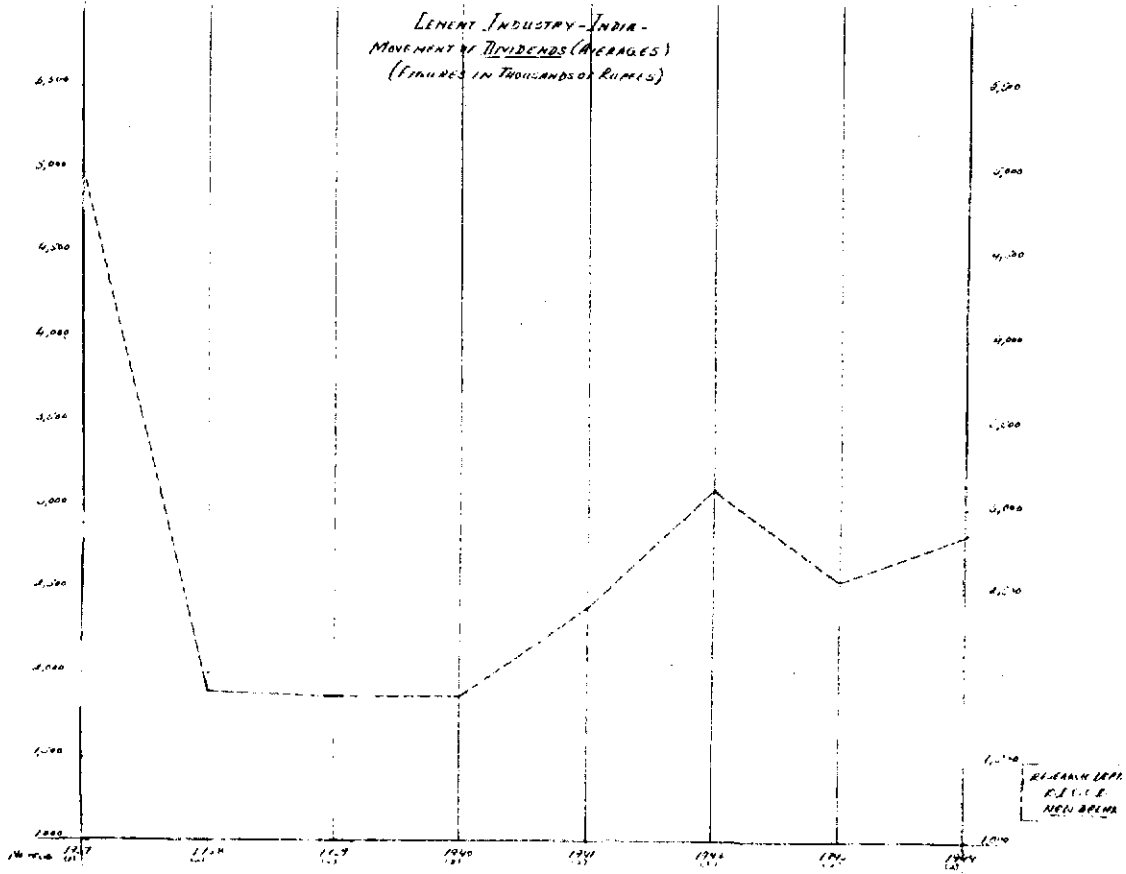


THE CEMENT INDUSTRY

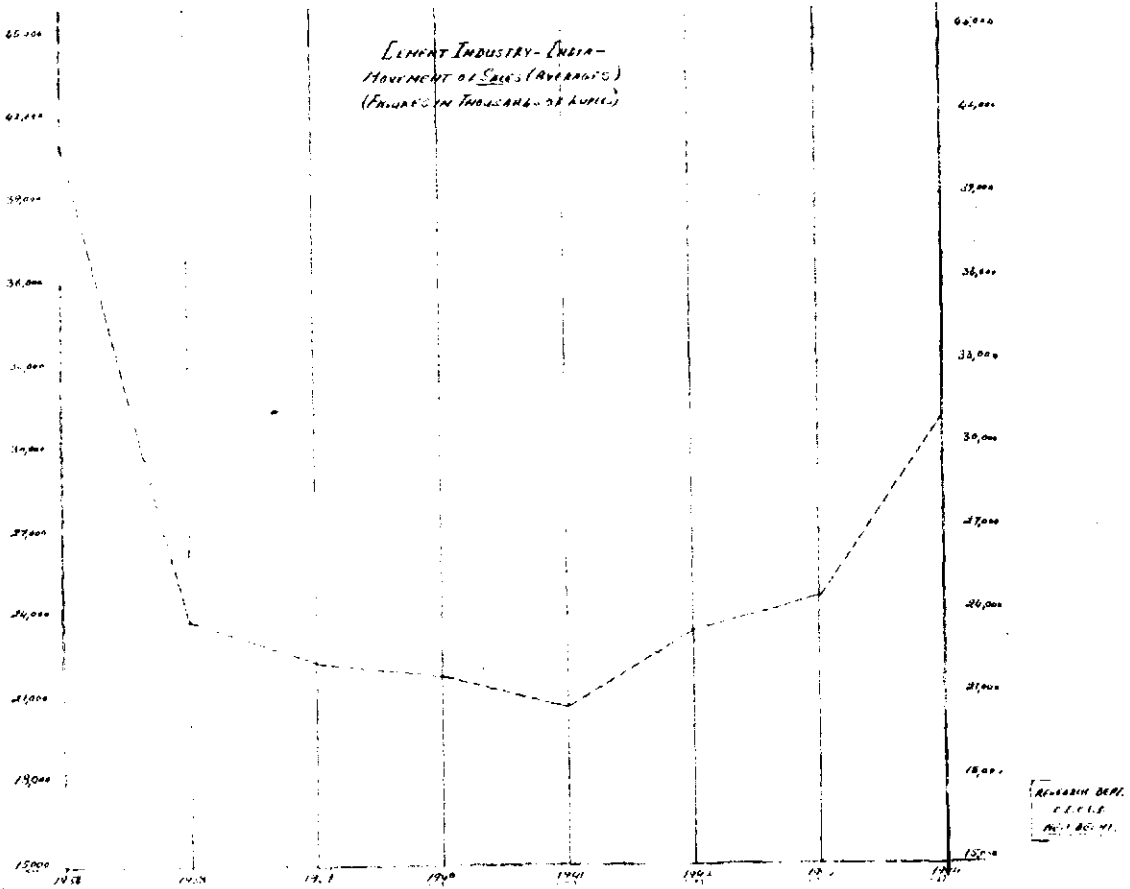
GRAPH II



THE CEMENT INDUSTRY
GRAPH III



THE CEMENT INDUSTRY
GRAPH IV



CHAPTER IX

THE JUTE MILL INDUSTRY

Introduction

It is a paradox that while all kinds of fables grew around "the wool that grows on plants" (Cotton), little was heard in the past of jute, the other fibre that now forms the basis of the second largest textile industry in the country, whose products formed our earliest manufactured goods in our export trade in the modern times. This paradox is underlined when we remember that within a century of the discovery of its use—from 1809—and the beginnings of its manufacture at Dundee in 1822—jute came to exercise an important influence on the economic life of the whole province of Bengal with some 50 million people and both raw jute and jute manufactures came to occupy the most important place in our export trade and India has continued to enjoy an unbroken monopoly in this raw material up to the present times. It is not necessary for us to recall what is known as the "romance of jute"*; but it must be noted that even before the cotton textile industry attained its present importance, the jute industry had already become known as the best organised industry in the country, and that its place of importance was largely due to the foreign capital that went into the making of it and the position these manufacturers occupied in the industrial and commercial interests in the Eastern Presidency. It is not surprising, therefore, that after passing through a number of vicissitudes in its early stages from 1855 to 1885 and from 1885 to 1914, the industry attained more or less a state of equilibrium by the beginning

*The title of a book by D. R. Morris.

of the first World War, when the various companies interested in the trade and industry—mills, middlemen and the cultivators—obtained a reasonable return of their respective shares in the organisation.* According to the Minority Report of the Bengal Jute Enquiry Committee, in the decade following the first World War, Jute alone provided the Bengal agriculturists with half the total purchasing power, which they secured from the annual sales of the crop. On the other hand, in the early 'Thirties, the Indian Jute Mills accounted for about 57 per cent of the total number of jute looms in the world. We have referred to these leading features of the jute industry, however briefly, with a view to appreciate the significance of the principal problems with which the industry is faced from time to time—the twin problems of mal-adjustment of supply and demand—(and also foreign competition as part of this problem) and the success or otherwise of the voluntary and statutory controls. For, despite its early organisation and the local industry's ability to influence the prices of our jute in the world market, it has time and again been caught in the meshes of depressions from which it has sought to extricate itself by internal control and sometimes governmental help in the form of increased export duty on raw jute, etc. A lowering of the prices of raw jute has meant, on the one hand, a good margin for the jute manufacturers, but this also brings, on the other, more severe foreign competition especially from Dundee. The working of controls—voluntary and statutory—resulted in a premium on inefficiency and the entry of new units.

But a few years before we commence our study, the jute mills in India were passing through a crisis which required not a few heroic measures. It is well-known that the quinquennium preceding our period showed the industry as perhaps the most pathetic victim of the Great Depression. The agriculturist in Bengal, as we have seen, derives nearly half of his purchasing power from Jute; so his income fell from Rs. 40 to Rs. 13 per annum. There is no wonder then that the industry came face to face with all its elemental problems when the gap between demand and supply began to widen year after year.

*See Economics of Jute—J. N. Sen Gupta, p. 103.

Jute Statistics relating to Production and Consumption and Export from Bengal.†

Year.	Yield	Mill consumption	Stocks accumulated during the previous year	Export of Jute (Raw.)	Total export and Mill consumption.
(Lakhs of Bales).					
1922-23 ..	63.89	46.15	41.00	29.02	75.17
1927-28 ..	111.50	56.33	36.00	44.86	101.19
1933-34 ..	79.90	43.00	46.50	43.00	86.00

Between 1929-30 and 1933-34 the fall in the export of raw jute was only 7%, whereas exports of manufactured jute declined by 30.8%. Even such measures as the reduction of hours of work in the mills from 54 to 40 and the sealing of 15% of the looms proved inadequate to meet the situation. In fact, new problems arose as a result of the greater fall in the prices of raw jute than those of the manufactured products and of the efforts of the millowners to make the most of the margin between the fibre and the fabric. The failure to fix a parity between the two prices naturally led to the establishment of new factories and the consequent aggravation of the supply-demand position. While the Association Mills agreed to work on the basis of a control scheme, the non-association members kept out and the disagreement between the two groups led to the annulment of the restrictions of hours of work and of loomage. In fact, this breakdown of the voluntary restriction scheme would have led to a further decline in prices, but the general improvement in trade and industrial conditions led to a larger overseas demand which absorbed the increased production of the year 1935-36. From April 1936, the pre-agreement conditions were nearly re-established, though the dangers to which the industry had been exposed, had by no means passed.

†Economics of Jute—by J. N. Sen Gupta, p. 30.

Our Analysis

Before, however, we pass on to our tables, let us briefly refer to the analysis in respect of the 60 jute companies, whose results we have examined. For the purpose of our investigation, we had originally selected 82 jute companies, out of 84 in the country. Out of these 82, we finally analysed 60 and these 60 companies have been further sub-divided into three groups, as in the case of other industries, on the basis of the paid up capital of each company.

	No. of Cos.	Total paid-up capital. Rs. (Lakhs.)
Group A—Over 30 lakhs of Rs.	.. 20	10,23
Group B—Between 20 and 30 lakhs of Rs.	.. 21	5,36
Group C—Below 20 lakhs of Rs.	.. 19	2,72
Total ..	60	18,31

Originally, we had included 5 non-rupee companies also, but out of these, we have been able to analyse only two companies in full. It may be noted in passing that in the case of jute mills, most companies publish half-yearly balance-sheets, which means that if in the case of a particular year, unless both the half-yearly balance-sheets are obtained, the analysis for that year remains virtually incomplete. One of the non-rupee companies, referred to above, is the Barnagore Jute Factory Co. Ltd., Calcutta, and we have included this in Group A in the foregoing table. We have also included a French company, incorporated in 1892, in Group C. Our list of 60 companies may thus be regarded as large enough to reflect all the trends in the industry. The sterling company just mentioned is one of the oldest and our list also includes 14 companies, which were started in the last quarter of the 19th century.

Let us also briefly refer to the regional distribution of the companies selected in our list. We have already referred to the fact that apart from the majority of jute mills in the world being situated in India, the mills are almost wholly concentrated round about Calcutta on the banks of the river Hooghly, so that 95% of the jute loomage is found in the neighbourhood of Calcutta. The distribution of Jute loomage in different provinces can be summarised as under :—

Province.	Looms.	Percentage.
Bengal	65,521	95.5
Bihar	1,144	1.7
Madras	991	1.4
U. P.	870	1.2
C. P.	150	0.2
	68,676	100.0

For the above-mentioned reasons, however, the question of distribution over various provinces is only of minor significance in the case of this industry.

In the case of the non-rupee companies, we did meet with difficulties in the obtaining of their balance-sheets and out of the 60 companies analysed the balance-sheets of a few were unobtainable for one half year or two. But we have tried to make up for these deficiencies, wherever possible, by resorting to the well-known Stock Exchange Year Books, such as those published by Messrs. Place, Siddons and Gough, or by the Calcutta Stock Exchange, or by Messrs. Kothari and Sons (Madras). The adjustment will be clear from the following table :—

	No. of cos. selected.	No. of cos. completed for all the years.	No. of companies partially done.
Group A	20	15	5
Group B	21	17	4
Group C	19	14	5
Total	60	46	14

It must also be noted that out of the 60 companies only 11 companies show no loss for any one of the years during our period—1936 to 1944. While we shall explain the reasons in the course of the paragraphs that follow, it will be seen that this period cannot be regarded as uniformly prosperous for all the units of the industry, as it has been in the case of some of the other industries that we have studied. In fact, in this feature the jute industry resembles coal more than any other industry. The general position in respect of the other companies over the period can be indicated as follows :—

Group.	No. of cos. show- ing profits for all the years.	No. of cos. showing losses for			
		1	2	3	4
		Year.	Years.	Years.	Years.
A (20) ..	4	10	5	1	..
B (21) ..	5	8	5	3	..
C (19) ..	2	6	5	3	3

1937

Thus when we commence our study, three different trends in the industry have to be carefully noted. The lifting of the Great Depression had led to an improvement in the demand both for raw and manufactured jute in the foreign markets. This improvement was not appreciably reflected in the Indian industry, owing chiefly to the failure of the various sections of the industry to come to an agreement, not that the solution had baffled them; and thirdly, raw jute growers had begun benefiting from the brisker export trade. The Economic Advisor's Profits-Index (1928 = 100), therefore, shows a steady decline from 39.8 in 1935 to 25.9 and 11.1 in 1936 and 1937 respectively. Our figures thus show a decline of nearly 60% in Gross Profits and of 64% in Net Profits. In this year (1937), out of the 55 companies analysed, 18 companies, most of which showed some profits in the preceding year, incurred losses. It will be seen that Sales per concern have gone up from Rs. 45,56,000 to Rs. 49,79,000—a rise of 8.7%,

as contrasted with the decline in profits (60%). This means that sales must have been effected at lower prices—as is indicated by percentage of Net Profits to Sales which has fallen from 7.1 to 2.3 between 1936 and 1937. As against these declines, the Dividends have fallen only by 25%. There is a remarkable steadiness in the Dividends as compared with other trends and this is explained by the mills drawing on the Reserves which they had accumulated before the Great Depression. These lean years, again, obviously, show a dwindling of their Reserves and so also their Provision for Taxation. This may be briefly indicated by the chain indices for the year 1937 as also by the percentages for the two years as under :—

Chain Indices.

	1937
1. Gross Profits	40
2. Net Profits	36
3. Dividends	74
4. Reserves	11
5. M. A. Remuneration	270
6. Sales	109

Percentages.

	1936	1937
1. Net Profits as % of Gross Profits ..	72.7	65.5
2. Reserves as % of Net Profits	5.6	1.7
3. Dividends as % of Net Profits	89.7	182.8
4. M. A. Remuneration as % of Net Profits	12.1	89.6
5. Net Profits as % of Sales	7.1	2.3
6. Net Profits as % of Capital Employed	5.1	2.0

As in the case of the other industries, here too, for 1936, the figure for the Managing Agents' Remuneration has to be accepted with caution. It was the amendment to the Companies Act which more than any other factor accounts for the sudden rise from Rs. 39,169 to Rs. 1,03,761 on the average. For, in 1936 only 9 companies had stated distinctly the remuneration paid to their

Managing Agents, whereas in 1937 as many as 51 clearly provided for these amounts in their Profit and Loss Accounts.

1938

The various forces, already adverted to before, of over-production resulting in stocks being piled up month after month,—both profits and prices declining—came to a head in 1938 and we get the leanest year of our period—perhaps the worst, too, in the history of the jute industry in the country. The gravity of the situation may best be indicated by referring to the fact that when the industry appeared to be heading for a major crisis, dragging with it the jute growers and jeopardising Bengal's economic position as a whole, the Bengal Government felt obliged to intervene by promulgating an ordinance. It could no longer be a silent witness to what appeared to be the tragedy of the industry almost destroying itself through lack either of enlightened self-interest or industrial statesmanship or both. This Ordinance of 1938 regulated the working hours to 45 per week and sought to control the operation of the factories. This had a salutary effect on the industry itself, for a new Agreement was arrived at between the producers, providing a number of stringent conditions,* backed by sanctions, for the regulation of loom-hours, production and competition. These developments, which in themselves, opened a new chapter for the industry, were soon followed by larger orders for sandbags from the United Kingdom and with the war-clouds gathering in Europe, there were expectations of even more lucrative orders.

In turning to our tables, we may now bear the trends of production, too, in mind.

Jute Manufactures.

Production in India.

(000 tons.)

1935-36	..	1,011.2	1940-41	..	1,108.1
1936-37	..	1,253.1	1941-42	..	1,258.1
1937-38	..	1,311.6	1942-43	..	1,052.9
1938-39	..	1,221.5	1943-44	..	946.7
1939-40	..	1,276.9	1944-45	..	975.0

*See Review of the Trade of India, 1938-39, pp. 33-34.

With a Gross Loss of nearly $1\frac{1}{2}$ lakhs per company, we can hardly expect the mills to provide for Taxation or even Depreciation. In fact the average figure for Taxation (Rs. 182) in our Table I gives only an incomplete account ; for the total of Rs. 10,000 is provided by one company only (Birla Jute Mills). Similarly, Depreciation could be provided only by 15 mills. In this year out of the 55 units chosen, only 13 could earn profits. As against most of the negative figures the small fall from Rs. 2,11,770 to Rs. 1,35,561 in the amounts distributed as Dividends is striking. This is to be explained, again, by the fact that during these lean years the jute mills turned to their past reserves in order to pay to their shareholders—both preference and ordinary.*

1939

We have already referred to the turning of the tide since September 1938. In fact the orders for sandbags from the British Government ushered in boom conditions so that by the end of this year—1939—prices of raw jute and jute manufactures soared up to levels not seen for many a long year.† There were three important instalments of these orders for sandbags ; the first in February 1939 for 200 million, the second in September for 60 million‡ and the third in November for 500 million bags. In April 1939 the price of ready jute was Rs. 60/12/-per 400 lbs.—almost twice the previous year's level. In fact the Government had to step in (on 10-5-1940) with a view to regulate these prices in the futures market.

In our tables we need not pay much attention to the chain indices because the negative figures of the previous year are here contrasted with the good results of 1939. It will also be seen that we have selected 1937 rather than 1938 as our base-year for the various indices—for reasons, upon which we need no longer dilate now. The following table will easily show that the industry having

*cf. also the Profits Index in the Review of the Trade of India for 1940-41, pp. 46-47. It is -9.8 for 1938 (with 1928=100) as against 11.1 for 1937.

†Ibid, for 1938-39, pp. 34-35.

‡The September order led to the unsealing of all the looms and to the increase in hours of work from 40 to 45 per week.

turned the corner was now making increasing Provision for Taxation, Depreciation and Reserves.

Percentages.

	1936	1937	1939
1. Taxation as % of Gross Profits	5.9	6.8	12.4
2. Depreciation as % of Gross Profits.	21.5	27.7	20.2
3. Reserves as % of Net Profits	5.6	1.7	19.0
4. Dividends as % of Net Profits	89.7	182.8	115.6

It will be seen that though on the average a company was able to contribute nearly 20% of its Net Profits to its Reserves in 1939, it was still largely dependent upon its past reserves for paying Dividends.

1940

We are now entering upon what may be termed a wave of prosperity for the jute industry. But we may as well pause to reflect upon the nature of this prosperity—which stands more or less in wide contrast to the boom enjoyed by cotton textiles or for that matter even iron and steel. During all these years with which we are concerned, we find two periods, September 1939 to February 1940 and April 1941 to March 1942, when the peak was reached largely due to the war orders of the Government at home or from abroad.* The structural problem remained to be tackled and even the Central Government indicated its concern by constituting an Indian Central Jute Committee, while the Bengal Government appointed a Jute Enquiry Committee in 1939. Further the war orders did not or could not flow in a continuous stream while ex-

*We may also compare the figures of production given in a foregoing para with those of exports.

Jute Manufactures: (in 000 tons)

	1938-39	1939-40	1940-41	1941-42
Production ...	1,222	1,277	1,108	1,259
Exports ...	936	1,078	924	893

Total exports of manufactures for the year September 1939 to August 1940 amounted to 11,22,580 tons as against 9,63,738 tons during the corresponding 1938-39 period. It was estimated that from September 1939 to the end of 1940 Indian mills supplied 972 million bags for war purposes.

ports also depended upon the availability of transport, more especially shipping space. Thus in 1940 we have to bear both these tendencies in mind, war orders, more favourable exports especially to U. S. A. and better prices and the postponement of the war orders by Government in September and the restrictionist policy of production which came into force in the same month. In this year the Bengal Government, under the Jute Regulation Act, appointed an Advisory Committee to advise Government on the fixation of quotas in respect of the following year's acreage.

1941

The year 1941 shows almost a continuation of the previous year's trends, though there is a slight fall in the figures of Sales. This is largely explained by the decline in the quantum of production (resulting from the restrictionist policy above referred to) from 11,55,839 tons in 1940 to 11,13,500 tons in 1941. According to the All-India Final Review of the Jute crop for 1941-42 (published in September 1942), the total area under jute in 1941 was 2.13 million acres against 5.67 million in the preceding year. The output estimated therefore was 54.2 lakhs of bales (of 400 lbs.) as against 132 lakhs in 1940-41. But the prices for jute manufactures ruled quite favourably.

Index No. of Prices of Jute Manufactures.

July 1914 = 100

January 1939	..	..	73
November 1939	..	..	175
January 1940	.	..	146
March 1940	..	..	114
August 1940	..	..	85*
September 1940	..	..	101
October to December 1940			100-107
March 1941	..	..	131
September 1941	..	..	167
December 1941	..	..	153
January 1942	..	..	149

*Postponement of the delivery for the sand bag orders.

In the early months of 1941, there appeared to be a scarcity of ready made goods and there were broad enquiries as well as Government orders for Hessian cloth and sand bags. The year 1941-42 opened with very small stocks and closed similarly despite the fact that the mills were working for 60 hours per week for the major part of the year.

In our tables, almost all the figures for 1941 show an advance over the previous year except those for Net Profits and Sales. Net Profits show a decline because much higher provision has been made for Taxation (50%) and Depreciation. The fall in the Sales is rather intriguing, but can be attributed to slightly lower quantum of production and the regulation of prices. The production of jute manufactures by member-mills of the Indian Jute Millowners' Association may be summarised as under:—

1940	..	..	..	..	11,55,839 tons.
1941	..	..	..	..	11,13,500 „
1942	..	..	..	..	12,09,074 „
1943	..	..	..	..	10,12,729 „

Let us then review the position in respect of these three years and compare the indices for each of them as also the percentages over the same period.

Indices of Averages

(Base : 1937 = 100)

	1939	1940	1941
1. Gross Profits	123	625	733
2. Net Profits	126	468	427
3. Provision for Taxation ..	214	3,508	5,341
4. Dividends	80	173	185
5. Reserves	1,400	4,100	4,050
6. Sales	107	171	135

Percentages

	1939	1940	1941
1. Taxation as % of Gross Profits	12.4	37.9	49.3
2. M. A. Remuneration as % of Net Profits.	62.5	30.0	33.1
3. Net Profits as % of Sales ..	2.7	6.4	7.3
4. Net Profits as % of Capital Employed.	2.3	8.5	7.3

1942

The most notable increases in 1942 relate to Reserves, Sales, Managing Agents' Remuneration and Provision for Taxation. It will also be noted that though larger amounts are provided for Depreciation, this percentage ratio to Gross Profits has been going down from 1940 onwards. This is explained by remembering that in a period of rising profits, the proportion of depreciation provision cannot keep pace with say reserves or dividends or under E. P. T. with the amounts provided for taxation. We have referred to this here only to indicate that, by contrast, the jute mills have been setting aside a larger proportion for Reserves every year after 1940. The figures for Dividends will also go to confirm our observation that the proportion of Dividends to Net Profits has remained quite stationary after 1940.

It must also be remembered that the above results for this year were obtained despite the difficult conditions that prevailed in the first half of the year, such as the loss of the Eastern markets, the exodus of labour to countryside, the partial closure of the port of Calcutta. Arrangements were made for the mailing of jute goods from Calcutta to the West Coast ports, but this entailed an enormous strain on the internal transport system. The stock position in September 1942 was also disquieting,* but in the last quarter large orders were received (from Africa, Australia and the West Indies) and the Jute Mills' Association reduced the number of working hours from 60 to 54.

*See Review of the Trade of India, 1942-43, pp. 28-29.

1943

The trends begun in 1939 were almost reversed in 1943, though of course 1938 conditions could not be repeated while the War was on. In fact most of the difficulties of the industry arose on account of the War conditions. The greatest obstacle seemed to be the shortage of fuel. More than half the total number of the 68,000 looms engaged in spinning jute were steam-driven and shortage of coal supplies brought down the output of yarn substantially. It is no wonder, then, that in 1943 the industry showed the smallest out-turn of manufactures for the War-period. It was 12,09,074 tons in 1942 and came down to 10,12,000 in 1943 for the member mills. These member mills alone required 65,000 tons of coal, which quantity they reduced by fuel economy methods to 54,000; but the Government could grant only 46,000 tons and that too of an inferior quality—with the result that several mills had to close down for lack of fuel. These difficulties had to be encountered at a time when the U. S. A. placed an order for 70 crores yards of hessians and prices were steadily rising (August 1942: 159 and March 1943: 220). The Jute Mills' Association with a view to accelerate production unsealed all the looms, but prevented the speculators from pushing up the price of raw jute to unreasonable levels. It must also be noted that the United States had already fixed ceiling prices for jute manufactures and the new orders had to comply with these fixations. Besides the occasional labour troubles the jute mills had to contend with another difficulty, *viz.*, the migration of healthy labour to Assam where more lucrative employment was offered to it on the Assam front. Finally, during the various stoppages after July till about the end of the year, the mills were required to pay food subsidies for the days on which work had to be stopped. This undoubtedly added to their costs of production.

In our Tables we find that as against a general decline for 1943, the Sales have shown a slight increase. This is accounted for by the higher prices that ruled for the greater part of the year. Reference needs also to be made to the Managing Agents' Remuneration which has steadily increased during all these war years and in 1943 it amounts to 50% of the Net Profits. There is in this year a substantial rise in the Capital Employed. This can be explained by

the small stocks and the production hurdles which the mills had to cross, especially in the second half of the year.

As we have done in an early paragraph, we may summarise the indices for 1943 and compare the various percentages with 1939 so as to get a connected picture of the changing financial position of the industry between 1939 and 1943.

Indices for 1943

	Base Index Nos. (Base 1937).	Chain Index Nos.
1. Gross Profits	784	84
2. Provision for Taxation..	6,916	86
3. Net Profits	367	82
4. Dividends	180	86
5. M. A. Remuneration ..	209	108
6. Sales	201	108
7. Capital Employed ..	144	127

Percentages

	1939	1942	1943
1. Provision for Taxation as % of Gross Profits.	12.4	58.1	60.0
2. Depreciation as % of Gross Profits.	20.2	10.8	9.5
3. Net Profits as % of Gross Profits.	67.3	31.1	30.5
4. Dividends as % of Net Profits	115.6	79.9	90.4
5. M. A. Remuneration as % of Net Profits.	62.5	38.7	50.5
6. Net Profits as % of Sales	2.7	5.6	4.2
7. Net Profits as % of Capital Employed.	2.3	7.7	4.9

1944

The new year opened with improved conditions in the industry and a steady demand was again witnessed for jute manufactures particularly in the form of regular orders placed by the U. K. C. C. and later by the Representative of the U. K. Ministry of Supply for South Africa. But the industry was coming under increasing control of the Government. In January, the Government of Bengal and the Government of India decided to fix the minimum prices of raw jute and the maximum prices of jute manufactures. In fact, after the Jute (Price Control) Order of 1944, and the earlier requisitioning of mills, the control was well-nigh complete. The mills, too, were trying to remedy the frequent stoppages resulting from labour troubles and coal shortages. The Indian Jute Mills' Association organised the Industrial Pool—which came to be maintained from the rents paid to the mills requisitioned by Government *plus* a two-anna cess per loom hour on all the running mills.* Besides this, those mills, which were in a position to work extra hours, were able to buy loom hours from the Industrial Pool at the rate of As. 12 per loom-hour. Out of this pool, the first charge was the payment of the subsistence allowance to the workers of the steam-driven mills who were obliged to remain idle.† This arrangement for the time being eliminated the immediate cause of strife with the workers. This also enabled some of the requisitioned mills to work for more than 100 hours per week so as to make up for the loss of production in those that had to be stopped. There is no wonder then that the previous year's trends are resumed though the 1940 percentage of Net Profits is not reached. The Gross Profits are the highest of the period, but so also the Taxation ratio. Dividends have notably declined though the Sales again are the highest of the period. This is accounted for by the higher percentage of Reserves to Net Profits indicating a desire to provide for post-war requirements. As against this, the Managing Agents' Remuneration has further increased by about 14%.

*See Industrial India—Article on India's Monopoly in Jute Industry, pp. 259-260.

†The Workers were given an overhead rate of Rs. 5/- per week *plus* rationed foodstuffs at concession rates.

TABLES & GRAPHS

Table I

THE JUTE MILL

	Totals and			
	1936	1937	1938	1939
	Rs.	Rs.	Rs.	Rs.
1. Gross Profits :				
Total	2,43,52,501	97,55,439	-77,01,502	1,30,97,130
	(55)	(55)	(55)	(60)
Average	4,42,772	1,77,373	-1,40,028	2,18,285
2. Depreciation :				
Total	52,30,047	27,11,370	15,48,820	26,68,785
	(55)	(55)	(55)	(60)
Average	95,091	49,298	28,160	44,480
3. Provision for Taxation :				
Total	14,05,259	6,85,952	10,000*	16,10,707
	(55)	(55)	(55)	(60)
Average	25,550	12,472	182	26,845
4. Net Profits :				
Total	1,77,17,195	63,58,117	-92,60,322	88,17,638
	(55)	(55)	(55)	(60)
Average	3,22,131	1,15,602	-1,68,369	1,46,960
5. Amount Available for Allocation :				
Total	2,29,35,167	1,39,77,164	34,68,945	76,03,495
	(55)	(55)	(55)	(60)
Average	4,17,003	2,54,130	63,071	1,26,725
6. Dividends :				
Total	1,59,02,512	1,16,47,379	74,55,832	1,01,85,415
	(55)	(55)	(55)	(60)
Average	2,89,137	2,11,770	1,35,561	1,69,756

N.B.—Figures in brackets indicate the number of companies to which the

*During this year only one Co. (Birla Jute Mills) set aside Rs.10,000 as

INDUSTRY

Averages

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
6,65,23,704 (60)	7,80,03,493 (60)	10,00,63,652 (60)	8,34,52,905 (60)	9,56,93,610 (57)
11,08,729	13,00,059	16,67,727	13,90,881	16,78,836
87,68,773 (60)	98,91,624 (60)	1,08,03,249 (60)	79,66,601 (60)	62,72,957 (57)
1,46,146	1,64,861	1,80,054	1,32,776	1,10,052
2,52,65,495 (60)	3,84,91,871 (60)	5,81,92,031 (60)	5,00,02,492 (60)	6,37,44,734 (57)
4,21,091	6,41,531	9,69,867	8,33,375	11,18,328
3,24,89,436 (60)	2,96,19,998 (60)	3,10,68,372 (60)	2,54,83,812 (60)	2,56,75,919 (57)
5,41,491	4,93,666	5,17,806	4,24,730	4,50,455
2,80,14,247 (60)	3,12,18,571 (60)	3,49,34,717 (60)	3,05,33,958 (60)	3,10,78,235 (57)
4,66,904	5,20,310	5,82,245	5,08,899	5,45,232
2,20,96,697 (60)	2,35,88,858 (60)	2,48,23,936 (60)	2,28,42,551 (60)	1,91,68,818 (57)
3,68,278	3,93,147	4,13,732	3,80,709	3,36,295

totals refer.

Provision for Taxation.

Table I (Contd.)

THE JUTE MILL

	Totals and			
	1936	1937	1938	1939
	Rs.	Rs.	Rs.	Rs.
7. Reserves† :				
Total	9,99,395	1,34,880	1,77,806	17,01,836
	(55)	(55)	(55)	(60)
Average :	18,170	2,452	3,233	28,364
8. M. A. Remuneration :				
Total	3,52,521	52,91,823	49,26,699	54,16,876
	(9)	(51)	(52)	(58)
Average	39,169	1,03,761	94,744	93,394
9. Sales :				
Total	23,23,59,019	26,38,60,581	27,08,72,425	32,00,09,408
	(51)	(53)	(54)	(59)
Average	45,56,059	49,78,501	50,16,156	54,23,888
10. Capital Employed				
Total	31,04,45,484	32,60,66,094	33,48,04,105	38,59,68,533
	(53)	(55)	(53)	(60)
Average	58,57,462	59,28,475	63,17,055	64,32,809

N.B.—Figures in brackets indicate the number of companies to which the
 †Includes contributions to Reserves and other amounts appropriated and

INDUSTRY

Averages

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
48,98,374 (60) 81,639	48,79,348 (60) 81,322	62,37,873 (60) 1,03,964	53,31,915 (60) 88,865	69,15,972 (57) 1,21,333
91,57,520 (57) 1,60,658	94,53,595 (58) 1,62,993	1,16,41,756 (58) 2,00,719	1,22,29,816 (57) 2,14,558	1,30,03,187 (54) 2,40,799
50,08,63,230 (59) 84,89,207	39,78,16,867 (59) 67,42,658	54,46,09,241 (59) 92,30,665	58,16,22,732 (58) 1,00,27,978	60,00,70,322 (55) 1,09,10,371
37,29,21,443 (59) 63,20,703	40,17,20,404 (60) 66,95,340	40,39,86,316 (60) 67,33,105	50,28,03,395 (59) 85,22,091	48,51,60,925 (57) 85,11,595

totals refer.

unappropriated, excluding the amount carried forward.

THE JUTE MILL INDUSTRY

Table II

Percentages

	1936	1937	1938*	1939	1940	1941	1942	1943	1944
1. Net Profits as % of Gross Profits ..	72.7	65.5	-1,68 : -1,40	67.3	48.8	38.0	31.1	30.5	26.7
2. Depreciation as % of Gross Profits	21.5	27.7	28 : -1,40	20.2	13.3	12.7	10.8	9.5	6.8
3. Provision for Taxation as % of Gross Profits ..	5.9	6.8	0.2 : -1,40	12.4	37.9	49.3	58.1	60.0	66.3
4. Dividends as % of Net Profits ..	89.7	182.8	1,36 : -1,68	115.6	68.0	79.6	79.9	90.4	74.7
5. Reserves as % of Net Profits ..	5.6	1.7	3 : -1,68	19.0	15.1	16.5	20.0	20.9	26.9
6. M. A. Remuneration as % of Net Profits ..	12.1	89.6	94 : -1,68	62.5	30.0	33.1	38.7	50.5	53.6
7. Net Profits as % of Sales ..	7.1	2.3	-1,68 : 50,16	2.7	6.4	7.3	5.6	4.2	4.1
8. Net Profits as % of Capital Employed	5.1	2.0	-1,68 : 63,17	2.3	8.5	7.3	7.7	4.9	5.3

* Figures in actual amounts (000 Rs.). In 1938 the Jute Mill Companies suffered an average Gross Loss of Rs. 1,40,028 and an average Net Loss of Rs. 1,68,369 (See Table I)

THE JUTE MILL INDUSTRY

Table III

Chain Indices

			1937	1938*	1939*	1940	1941	1942	1943	1944		
1. Gross Profits	40	-1,40	1,77	2,18	-1,40	508	116	127	84	121
2. Provision for Taxation	49		1.4	15,310	1,555	152	151	86	133	
3. Net Profits	36	-1,68	1,16	1,47	-1,68	368	91	105	82	106
4. Dividends	74		64	125	216	108	105	86	89	
5. Reserves	11		131	933	293	99	130	92	138	
6. M. A. Remuneration	270		92	98	172	101	124	108	114	
7. Sales	109		101	107	157	80	138	108	108	
8. Capital Employed	101		107	102	99	106	101	127	100	

*In 1938 the Jute Mill companies suffered an average Gross Loss of Rs. 1,40,028 and an average Net Loss of Rs. 1,68,369 (See Table I). Figures for Gross Profits and Net Profits in actuals (000 Rs).

THE JUTE MILL INDUSTRY

Table IV

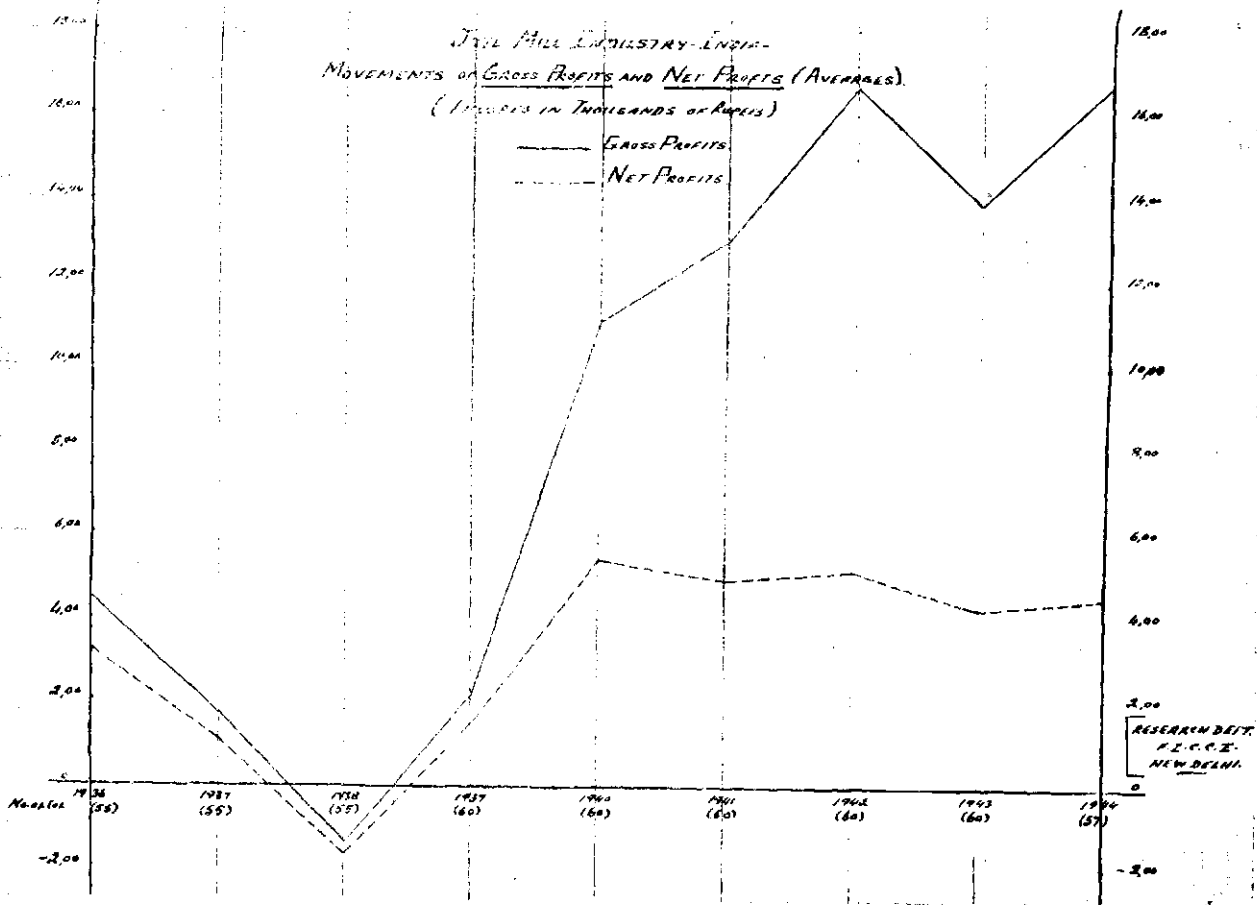
Index Numbers

(Base 1937 = 100)

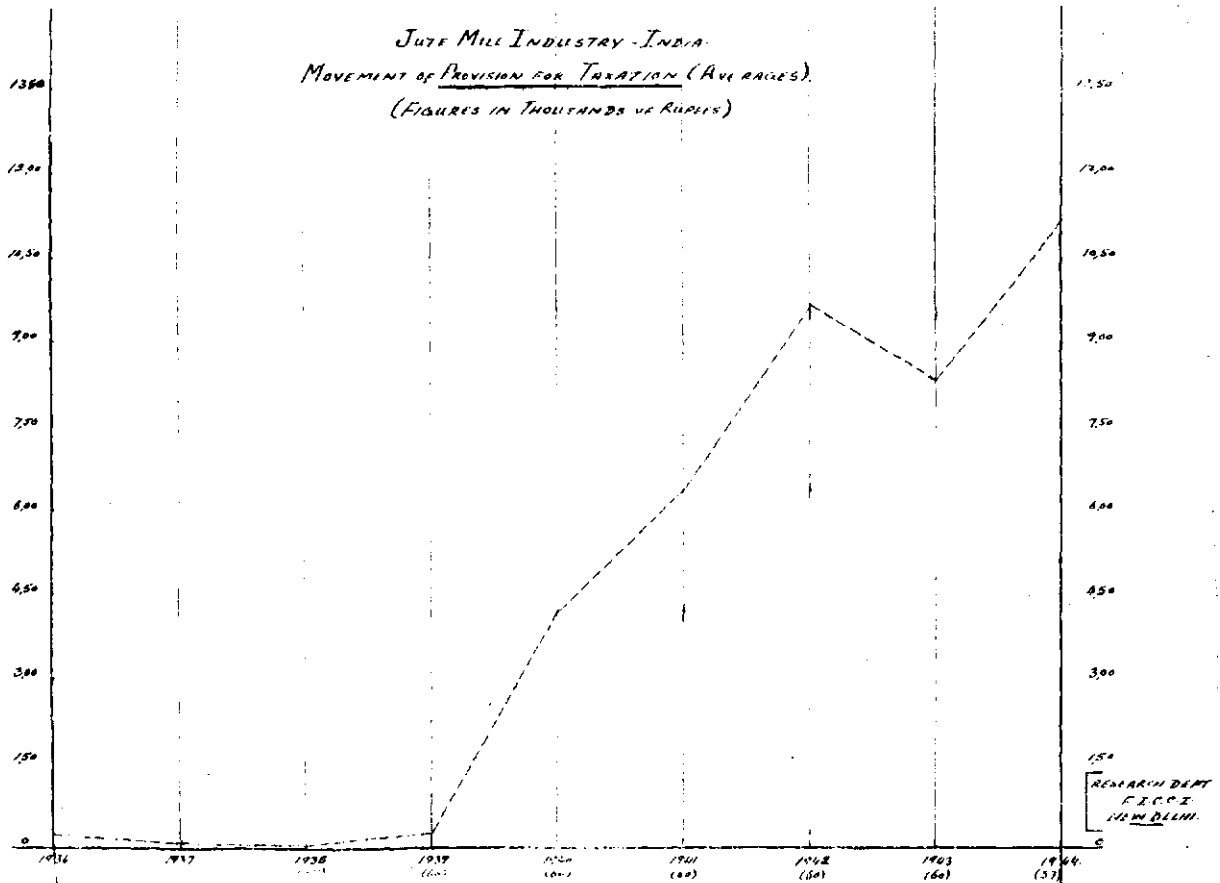
	1936	1937	1938*	1939	1940	1941	1942	1943	1944
1. Gross Profits	250	100	-1,40 : 1,77	123	625	733	942	784	948
2. Provision for Taxation	205	100	1.4	214	3,508	5,341	8,075	6,916	9,317
3. Net Profits	279	100	-1,68 : 1,16	126	468	427	448	367	390
4. Dividends	136	100	64	80	173	185	195	180	159
5. Reserves	900	100	131	1,400	4,100	4,050	5,150	4,450	6,050
6. M. A. Remuneration	38	100	92	90	155	157	194	209	232
7. Sales	92	100	101	107	171	135	185	201	219
8. Capital Employed	99	100	107	109	107	116	114	144	144

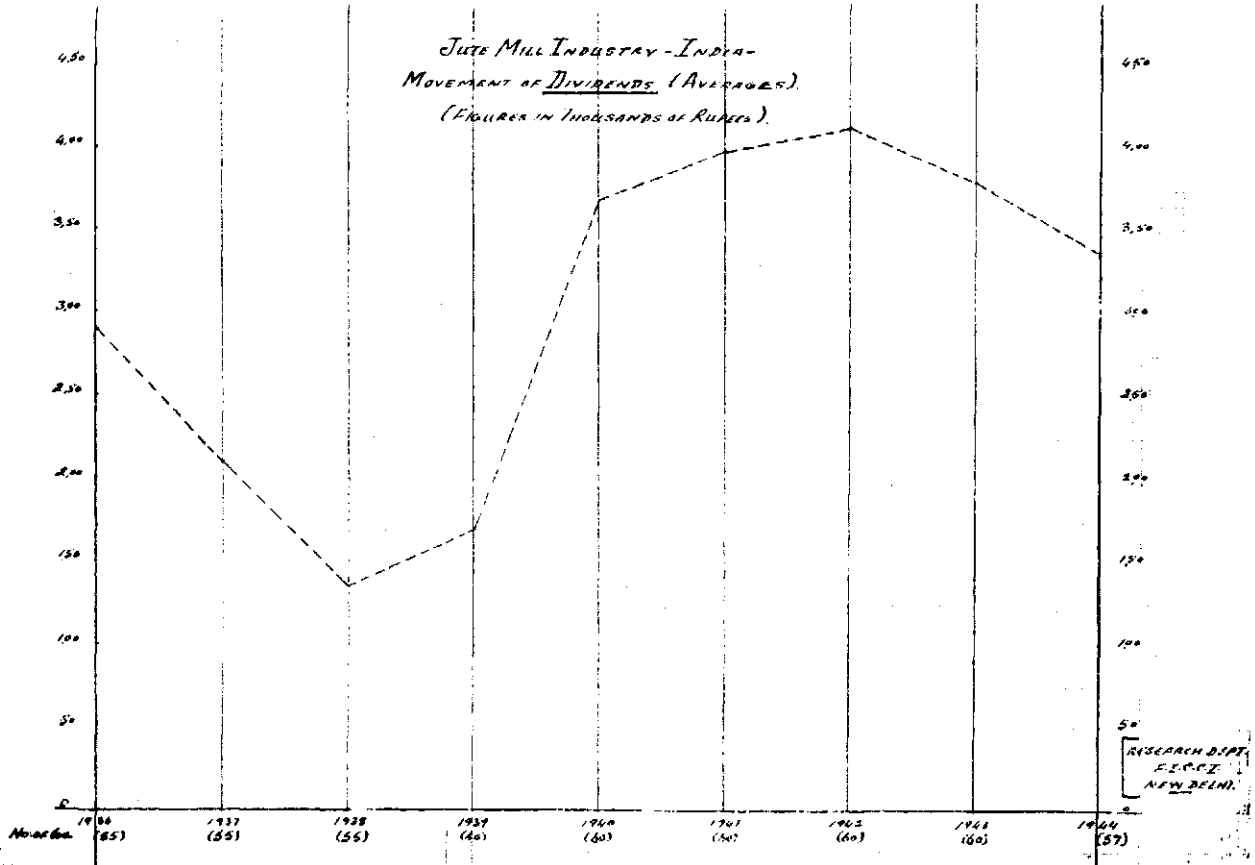
*In 1938, the Jute Mill companies suffered an average Gross Loss of Rs. 1,40,028 and an average Net Loss of Rs. 1,68,369 (See Table I). Figures for Gross Profits & Net Profits are in actuals (000 Rs.).

GRAPH I

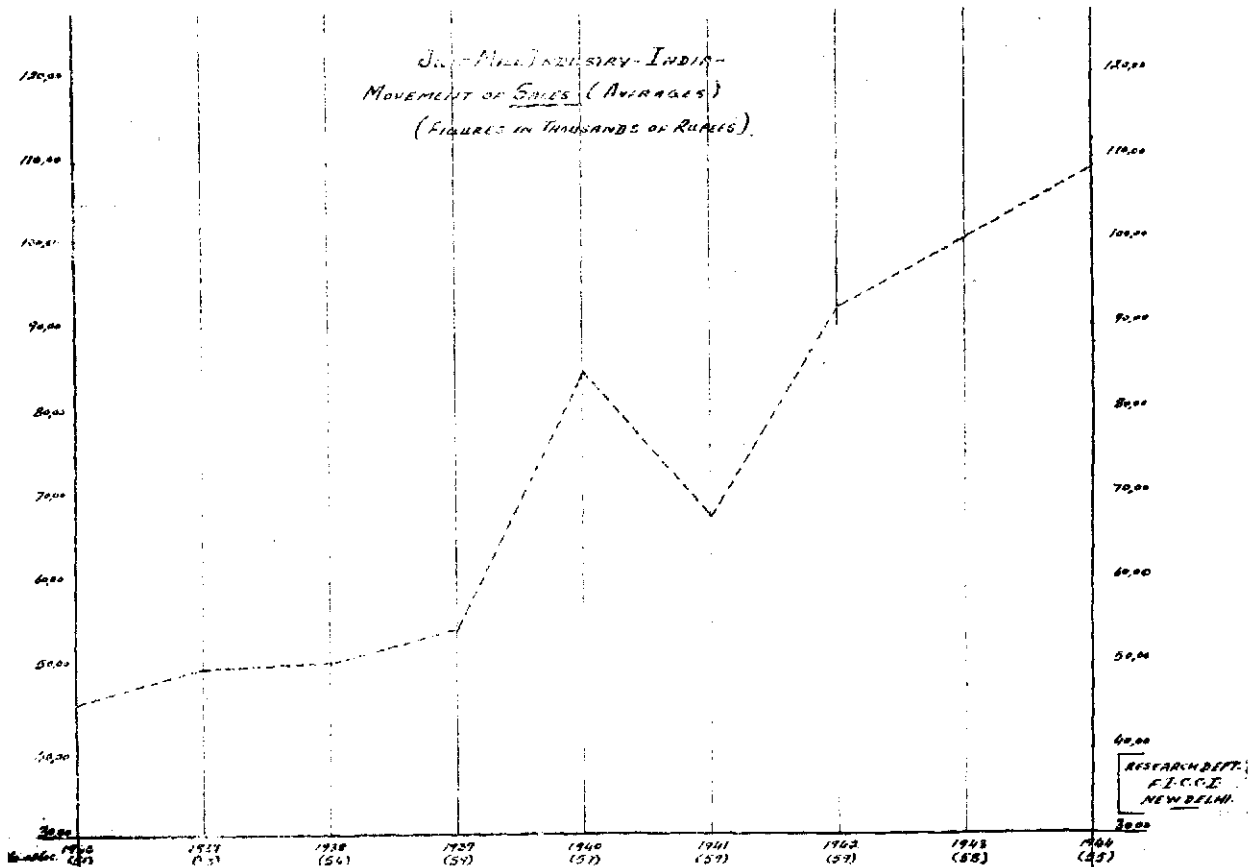


GRAPH II



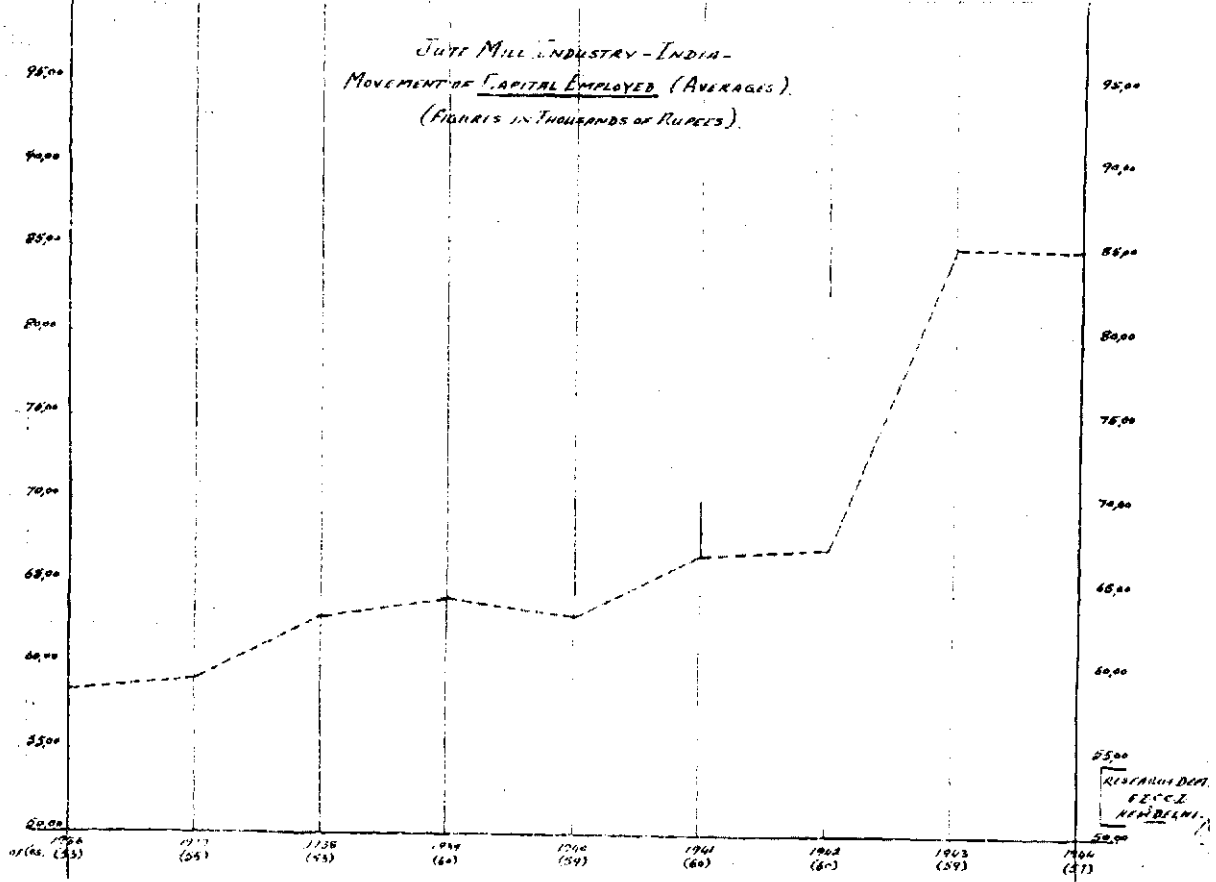


GRAPH IV



THE JUTE MILL INDUSTRY

GRAPH V



CHAPTER X

THE COAL MINING INDUSTRY

Introduction

The Coal Mining Industry in India cannot be compared with the other large-scale industries that we have studied here. But its importance in our industrial set-up can hardly be over-emphasised. The potentialities of this industry have often been commented upon and on this all sorts of estimates have been made. Before the Second World War, however, our annual output was 28 million tons as against the world's output of 1250 million tons, *i.e.*, 2% of the total world production. But even then India stood ninth in the list of coal producing countries.* Again, coal mining is India's biggest mineral industry, employing about 200,000 persons. On the other hand, despite its being a "key" industry, the capital invested in it is comparatively small, namely about 10 crores of rupees.

For our purposes, here, perhaps the most notable feature of the industry is its great instability during the inter-war period and the almost identical nature of problems of its structure and methods that were brought to the fore in 1920 and those now emphasised in 1947.† Another feature of the industry well worth noting here is that during the 17 year period 1925-26 to 1942—mostly one of depression, as we shall see—the number of joint-stock companies declined from 243 in the former to 218 in the latter and the paid-up capital from Rs. 12.61 crores to Rs. 10.35 crores.‡

*The value of the output in 1939 was Rs. 10.64 crores. See 'Mineral Resources of India', Government of India's Booklet No. 10, p.3.

†"Many of the problems of the coal industry for which Mr. Trehearn Rees and Coalfield's Committee had suggested remedial action in 1920 consequently persist today"—Mahindra Committee Report, (1946) p.24

‡ Ibid p. 201.

Thirdly, there are a number of small proprietary coal concerns whose paid-up capital was estimated by two Members of the Coal-Committee of 1937 at Rs. 4 crores. Since that year, it has been estimated that 200 small mines have been added, which means that this figure of Rs. 4 crores needs to be revised.

Turning to another set of problems peculiar to this industry, it is well-known that the financial structure of the coal mining industry possesses certain features of its own. These are :

1. The preponderance of fixed capital and labour charges, which makes a state of idleness more costly than production at a loss.

2. The diminishing returns of the undertakings and the possibility of extinction, combined with inelasticity of demand for the product, which render the problem of long-term financing unusually acute and bring to the fore, more than in other industries, the importance of reserves.

3. Private small owners of mines, on the other hand, seldom start with the intention of building reserves, though this outlook is obviously detrimental to the industry as a whole. This fact has again been emphasised by the Mahindra Committee, which reported last year: "The good profits of the war years have not been conserved for development of reserves except in a few cases."*

Our Period

Our study begins at a peculiar juncture in the history of the industry. From 1927 onwards the coal industry almost all over the world was caught in the grips of a depression, largely brought about by a result of subsidence in prices from the post (1914—18) war boom, so that it is not surprising that the Great Depression of the 'Thirties placed the industry under an extraordinary strain. Indeed, it is not to be wondered then that during the worst years of the depression, the industry had to resort to large-scale outputs through 'slaughter exploitation' of the best quality coal.

*See Report, p. 201.

One more feature of the industry may also be stressed, in passing, before we proceed to examine our tables. By the time that we begin our study, the principle of state control of the industry had been generally accepted throughout the world. Indeed, rationalisation through state control was thus summed up by one of the general reports to the Third World Power Conference held in Washington in 1936. After stating that the "greatest of all economic depressions" hit coal industry particularly hard (the world production in 1932 having declined by 28% compared to 1929) it says: "One of the most striking features of the reports submitted to this Conference is the clear-cut evidence that unrestricted competition, as we knew it early in this century, has been generally abandoned, so far as the coal industry is concerned. Nearly all countries apparently have found that unregulated system of production brought results that were socially undesirable. Consequently, in all parts of the world, public control over production and distribution of coal has been tightening."* It is interesting to note that the 1920 Coalfields Committee had said the same things in more emphatic terms about Indian industry. "Coal is a national asset on which the manufacturing industries and the commercial expansion of the country depend. A landowner or colliery proprietor is at present in a position to waste this national asset without restriction. By such waste he may obtain immediate financial benefit, but he injures the country, damages his property and diminishes the estate of his heirs. We hold that the State has the right, in the interests of the community, to step in and prevent the dissipation of the country's resources. Indian coal is not inexhaustible and scientific mining methods are needed for its conservation and economic extraction."†

During the period with which we shall be concerned, problems of the coal industry thus came to attract the attention of the Government, who began taking steps to bring back the lost markets to the industry—both internal and foreign; but it is only towards the end of our period that the Government finally took measures for developing a sound structure and sound mining methods for the proper utilisation of the country's coal resources.

*Cited from the Report of the Coal Mining Committee (1937), p. 96.

†Ibid, p. 102.

Our Analysis of Coal Companies

We had originally selected 75 companies with a total paid-up capital of Rs. 659 lakhs. Dividing these on the same lines, as in the case of other industries, we get the following groups :

	No. of Cos.	Total amount of paid-up capital (in lakhs Rs.)
Group A : Above Rs. 10 lakhs ..	17	4,15
Group B : Between Rs. 5 and 10 lakhs	18	1,25
Group C : Below Rs. 5 lakhs ..	40	1,19
Total ..	75	6,59

Thus more than 50 per cent. of the companies are included in Group C, though with a total paid-up capital which is only 18.2% of the total. Conversely, Group A shows that 17 concerns practically dominate the capital structure of the units, which we have selected for study. As in the case of Jute, most of these coal companies are registered in Calcutta. This list of 75 companies had to be revised a little later, for we found that out of the 75 selected from the list of Joint-Stock companies in 1939, 17 companies were not included in the Thacker's Directory of 1940-41. These had to be taken as dissolved and had to be deleted from the list. But on the other hand, we added three more companies, not originally selected, but whose balance sheets were made available to us at the Calcutta Stock Exchange Office. We may, therefore, summarise the position in respect of these additions and alterations as under :—

Group	No. of cos. selected.	Total Alterations	No. of cos. finally selected*.	No. of cos. whose analysis are		
				Complete	Partially done.	Not done.
A	17	— 2 plus 1	16	15	1	..
B	18	plus 1	19	16	1	2
C	40	—15 plus 1	26	18	3	5
Total ..	75	—17 plus 3	61	49	5	7

N.B. Plus and minus figures in the "Alteration" column stand for Cos. added to and deleted from the new list respectively.

The five companies included in the column of "Partially done" can be treated as almost complete because their incompleteness appertains to a few items only and that too for a single year. On this basis we may be said to have analysed 54 companies out of a total of 75 originally selected. It is also pertinent to add that in the case of these coal companies, a very large number of them are managed by foreign concerns.

We may finally summarise the general results regarding profits in respect of each of these groups, A, B & C. as follows :—

Group	No. of Cos. ana-lysed.	Cos. with profits for all the nine years.	Companies with losses for								
			1 yr.	2 yrs.	3 yrs.	4 yrs.	5 yrs.	6 yrs.	7 yrs.	8 yrs.	9 yrs.
A	16	9	..	2	2	1	..	1	..	..	1
B	17	6	4	2	2	..	1	..	1	1	..
C	21	8	6	3	1	..	1	2	..	..	..
Total ..	54	23	10	7	5	1	2	3	1	1	1

It may perhaps be thought that Group A, by virtue of the size of its capital (nearly Rs. 4 crores, out of a total of 6 crores), may

*The final position of these Companies with regard to paid-up share capital is as follows :

Group.	Companies selected			Companies analysed.		
	No.	Paid-up share capital. (Rs. lakhs)	% to total.	No.	Paid-up share capital. (Lakhs Rs.)	% to total.
A	16	3,99	64.4	16	3,99	66.6
B	19	1,33	22.0	17	1,21	21.0
C	26	75	13.6	21	65	12.4
Total ...	61	6,07	100	54	5,85	100

exercise a dominating or disturbing influence over the averages in our tables. That this has not been the case can be shown by the fact—indicated by the foregoing table—that in the number of companies earning profits for nearly the whole period, Group A does not exercise any overbearing influence. The number of companies in this group with profits for all the nine years is only nine, while if we take those with losses only for one year, the remaining groups B & C eliminate any such effect altogether. With a view to check this possibility still further, we have separately analysed the results of this group and compared them with the averages in our tables. Group A consists of 16 companies with an aggregate paid-up capital of Rs. 3.99 crores ranging from Rs. 11.75 lakhs to Rs. 68.46 lakhs.* This comparison is shown in the following two tables, the first of which compares the averages of Group A with the general averages for net profits and dividends, while the second table compares these very trends of net profits and dividends in the form of chain indices.

Averages of Group A compared with General Average for all Companies. (In 000 Rs.)

			Net Profits.		Dividends.	
			Average of Group A.	General Average.	Average of Group A.	General Average.
1936	..	..	1,11 (16)	51 (51)	1,76 (16)	51 (51)
1937	..	..	1,66 (16)	66 (52)	1,92 (16)	66 (52)
1938	..	..	3,15 (16)	1,33 (53)	3,01 (16)	97 (53)
1939	..	..	2,53 (16)	1,11 (54)	2,87 (16)	94 (54)
1940	..	..	2,07 (16)	86 (54)	2,78 (16)	88 (54)
1941	..	..	2,11 (16)	90 (54)	2,32 (16)	75 (54)

(Figures in brackets indicate the number of companies)

*See the List of Coal mining companies in the Appendix.

			Net Profits.		Dividends.	
			Average of Group A.	General Average.	Average of Group A.	General Average.
1942	..	..	2,05 (16)	84 (54)	2,17 (16)	71 (54)
1943	..	..	2,02 (16)	81 (54)	2,71 (16)	87 (54)
1944	..	..	4,79 (15)	1,77 (52)	4,17 (15)	1,26 (52)

Chain Indices

General Results compared with those of Group A Companies.

			Net Profits.		Dividends.	
			Group A.	General.	Group A.	General.
1937	..	..	149	128	109	131
1938	..	..	187	200	157	147
1939	..	..	80	84	92	98
1940	..	..	82	77	97	93
1941	..	..	102	105	83	85
1942	..	..	97	93	94	95
1943	..	..	98	95	125	123
1944	..	..	232	218	155	144

This conclusion is further strengthened by comparing the percentages of companies which suffered losses in Group A with our general averages :

Percentages of Companies which suffered Losses.

Group A. General.				Group A. General.			
1936	..	25	33	1941	..	13	13
1937	..	25	27	1942	..	19	18
1938	..	19	17	1943	..	31	26
1939	..	13	15	1944	..	0.6	12
1940	..	25	24				

The contrast in respect of the last year 1944 is indeed remarkable, but we shall have occasion to comment upon it in the succeeding paragraphs.

Deficit Companies

Before, however, we deal with these averages, it is necessary to refer at some length on another feature of our results. We have already adverted to the fact that the industry was emerging out of a long period of depression. As a result of this, in the beginning of 1936, as many as 14 companies (named below)* were obliged to carry forward enormous negative amounts in the succeeding years. The total of this negative carry forward of these 14 concerns amounted to Rs. 83.52 lakhs. But the dragging of this figure has obviously depressed our averages of the amount available for allocation (net profits + carry forward of the previous year) almost throughout the period; for whatever profits these companies were able to earn, had first to be utilised in wiping out these accumulated deficits. Apart from influencing our averages, these deficits must have naturally prevented the companies from benefiting out of the boom conditions

*	Paid-up share capital.	Amount carried forward at the end of 1935.
1. Barabboni Coal Co. Ltd ...	Rs. 19,92,520	—79,841
2. Adjai Collieries Ltd. ...	,, 5,25,000	—45,19,153
3. Lakurka Coal Co. Ltd ...	,, 4,50,000	— 2,85,986
4. Ghusick & Muslia Collieries Ltd.	,, 3,90,000	— 4,14,328
5. Talchar Coalfields Ltd. ...	,, 20,00,000	— 2,14,565
6. Bengal Bhatdee Coal Co. Ltd.	,, 4,49,350	— 2,40,379
7. Bhulanbaree Coal Co. Ltd.	,, 7,15,000	— 1,07,853
8. Jaintry (Central) Colliery Ltd.	,, 2,42,500	— 1,40,712
9. Parasea Collieries Ltd. ...	,, 8,00,000	— 1,17,713
10. New Sinidhi Co. Ltd. ...	,, 3,50,000	— 8,39,632
11. Samla Collieries Ltd. ...	,, 18,40,000	— 1,06,987
12. Satpukaria & Asansol Collieries Ltd.	,, 8,00,000	— 8,21,331
13. Kuardi Coal Co. Ltd. ...	,, 5,50,120	— 4,53,976
14. Singaran Coal Syndicate Ltd.	,, 1,37,500	— 9,294
Total ...	Rs. 1,12,41,990	—83,51,749

N. B. The Balance for the last Co. is shown as at the end of 1936.

that prevailed after the outbreak of the War—nay they could have hardly taken any risks during the period which other concerns could justifiably do in a period of rising prices. The effect of this millstone round their necks can be seen from the following table :—

Carry Forwards

(Figures in '000 Rs.)

	Opening Balance of Carry Forward.	Net Profits Earned.	Dividends Paid. Amount.	No. of Cos. paying dividends.
1936 ..	—83,42	—4,25	...	...
1937 ..	—87,66	—4,65	14	1
1938 ..	—87,98	—81	57	2
1939 ..	—86,09	1,82	63	2
1940 ..	—80,68	1,84	89	3
1941 ..	—80,13	2,34	88	3
1942 ..	—79,41	1,35	1,11	3
1943 ..	—77,56	5	1,47	4
1944 ..	—66,79	7,34	2,86	5

If along with the aforesaid 13 companies in 1936, we include Singaran Coal Syndicate Ltd., these 14 companies had a deficit of Rs. 83.52 lakhs in the beginning of 1936, which figure was reduced only to Rs. 66.79 lakhs at the end of 1943. Even this latter figure would have been larger had it not been for the fact that two concerns, *viz.*, Jaintry (Central) Coal Co., and Talchar Coalfields—reduced their deficits by Rs. 2,42,500 in 1937 and Rs. 4,29,704 in 1943 respectively under the Capital Reduction Scheme. One company, Lakurka Coal Co., used its Permanent Block Reserve in reducing the debit balance of Rs. 2,80,000 in 1937 and another, Ghusick and Muslia Collieries Ltd., secured sanction from the Calcutta High Court to reduce its debit balance of profit and loss account by Rs. 4,59,951 in 1939. Another company, New Sinidhi Coal Co. Ltd., was liquidated in 1944. It will be seen from the foregoing figures that in spite of their earning some net profits from 1939 onwards, only a very few of these companies were able to declare dividends. Thus, out of these 14 companies, only one was able

to declare dividends for 8 years (1937-44); one for 5 years (1940-44); one for 3 years (1938-40); one for two years (1943-44) and one for one year (1944). The shareholders of the remaining 9 Companies could receive no return on their investments throughout our period.

There is no doubt that the inclusion of these companies have unduly depressed our averages of net profits, amount available for allocation and dividends. It will be, therefore, interesting to compare the averages in our tables with those that can be obtained by excluding these companies. The following table, therefore, compares these two averages in respect of the three items :—

Averages
(In '000 Rs.)

Year	Net Profits.		Amount Available for Allocation.		Dividends.	
	As per our table	Excluding the 14 deficit concerns.	As per our table.	Excluding the 14 deficit concerns.	As per our table	Excluding the 14 deficit concerns.
1936	51	82	-1,00	105	51	83
1937	66	1,02	-79	122	66	90
1938	1,33	1,84	-16	180	97	130
1939	1,11	1,45	-11	185	94	126
1940	86	1,11	-28	159	88	116
1941	90	1,16	-36	170	75	99
1942	84	1,09	-37	145	71	93
1943	81	1,01	-17	160	87	114
1944	1,77	2,23	76	256	126	165

If we bear these points in mind, we shall perhaps better appreciate the trend of averages in our tables and relate them to the changing conditions therein from year to year. It will be seen that our whole period can be divided into three parts : (1) From 1936 to 1939, (2) 1940 to 1943 and (3) 1944. The foregoing observations would also obviate the need for following our figures from year to year : we might better discuss them in relation to these three periods.

The Base Year

In computing our indices, however, we had to contend with a difficulty, which would seem to arise from the story of the industry itself, namely, the selection of the base year. It is well-known that even in the pre-war years, it was difficult to assert how a particular year should be regarded as a normal one for the coal industry, because of the vicissitudes through which the industry, as we have seen, had been passing even after the close of the war of 1914-18. At the same time, our enquiry itself demanded that we should select a pre-war year. Taking all these considerations into account, we decided to take 1938 as the base year, although, as will be seen later, this year has been the most prosperous year for the industry up to 1943. The other pre-war year that could have been selected was 1936; but that was the year when the industry just began to turn the corner from the years of the great depression and, as such, would not have answered our requirements. Again, as we have seen, 1936 was a year in which as many as 17, out of the 51 companies selected, incurred losses and as many as 24 could not pay dividends. These considerations, therefore, led us to prefer 1938 to 1936.

1936 to 1939

The beginning of our study, as we have seen, coincides with the starting of a recovery in coal trade and this improvement gathered greater force in the year following. This may be shown by the trend the of profits index of the Office of the Economic Advisor :—

1928	..	..	100	1934	..	..	59.7
1930	..	..	122.1	1935	..	..	63.8
1931	..	..	91.2	1936	..	..	63.3
1932	..	..	75.0	1937	..	..	72.2
1933	..	..	60.3				

These years, 1936 and 1937, also witnessed a rise in the production of coal, largely as a result of higher coal prices from December 1936 onwards. Between the end of 1936 and that of 1937, the coal prices more than doubled and remained high till February 1938. This recovery in coal prices can be attributed to three main causes : (1) general industrial recovery and the expansion of the demand for

coal (especially by railways); (2) increased exports and (3) the tendency towards higher storage of coal resulting from the fears of a shortage of labour in coal mines.* The fillip to coal exports was provided by (i) the Government of India holding Ceylon Government's Railway Contract, (ii) higher exports to China as a result of the Sino-Japanese war, and (iii) the inability of South Africa to export coal owing to a shortage of wagons there. In fact in the following year, a special additional rebate of 8 annas per ton on railway freight was conceded with a view to help India's exports of coal to foreign markets. This steady improvement in the industry is fairly indicated by the averages of Net Profits, Dividends, Reserves and Sales and even the amount allowed for Depreciation. It will be seen that 1938 is the best of these three years, as shown by our indices and by the percentage of Net Profits to Gross Profits and of the same (net profits) to Capital Employed and to Sales. The improvement in the financial strength is perhaps best indicated by the percentage of Reserves to Net Profits and by comparing this with the percentage of Dividends to Net Profits. While larger amounts were distributed as dividends, companies were also able to provide for increasingly substantial reserves.

We may summarise these favourable tendencies in the Coal Mining industry during 1936-39 in the form of the following two tables showing trends of (1) average amounts and (2) percentages over the period :—

		Averages			
		(In '000 Rs.)			
		1936	1937	1938	1939
(1) Gross Profits	..	1,13	1,26	2,40	2,28
(2) Depreciation	..	51	52	67	70
(3) Net Profits	..	51	66	1,33	1,11
(4) Dividends	..	51	66	97	94
(5) Reserves	..	4	12	28	20
(6) Sales	..	6,12	6,44	8,91	9,88
(7) M. A. Remuneration.		12	27	36	38

*There was an exceptionally good harvest in 1936 which drained off the supply of labour from the coal mines and, as it is well-known, a majority of the miners are primarily agriculturists.

Percentages

	1936	1937	1938	1939
1. Net Profits as % of Gross Profits.	45.1	52.3	55.8	48.7
2. Dividends as % of Net Profits.	98.2	100.3	72.4	85.1
3. Reserves as % of Net Profits.	7.8	18.1	21.0	18.0
4. Net Profits as % of Sales.	8.3	10.2	14.8	11.2
5. Net Profits as % of Capital Employed.	2.8	3.9	7.2	5.7

This recovery in the industry naturally led to an increase in the output of coal and we may summarise the annual production of coal throughout our period in the following table* :—

Million tons				Million tons			
1936	..	..	22.6	1941	..	..	29.5
1937	..	..	25.0	1942	..	..	29.4
1938	..	..	28.3	1943	..	..	25.4
1939	..	..	27.7	1944	..	..	26.0
1940	..	..	29.3				

The aforesaid recovery in the activity of this industry, however, received a setback in 1939 primarily as a result of the internal competition and a slackening of the demand in the early part of 1939. With the outbreak of the War, however, the outlook for the industry once again changed for the better, and the fears of over production were dissipated by the rising demand for exports, particularly to China. It must, however, be added that the coal shipped for export is generally of a very high quality and therefore this increase in exports could not completely solve the problem of surplus production of other varieties of coal over the demand for internal consumption. Internal competition was further intensified by the emergence of a new problem which clouded the horizon for the industry throughout the period of the War. This was the

*Mahindra Committee Report, Appendix V.

shortage of wagons. In fact the acuteness of this problem cannot be overemphasised because with the brighter outlook for exports to Ceylon, Straits Settlements and China and the prospects of brisker industrial activity after 1939 within the country, one could only look forward to a steadily increasing demand for coal. This prospect, however, was turned into one of accumulated stocks and lower prices during 1939 and the subsequent year. This recession is fully reflected in our tables.

1940-43

The recession which came towards the end of 1939 continued almost unabated until 1943 with few variations. This, it would be seen, is the most noteworthy feature of the coal industry, for it is in marked contrast with the rest of the industries we have studied. In fact, in these industries, this period represents the rising tide of a boom with 1943 June forming the peak of the period.

These four years have indeed certain features in common and can be easily taken together for the purpose of discussion. *A priori*, one would expect that the industry had to look forward to improved prospects after the outbreak of the War in 1939. Indeed, the average output of coal, too, shows a spectacular improvement during all these years. The annual production of coal over the decade ending 1936 was 22 million tons; it rose to 24 million tons in 1937, 28 million tons in 1938 and 1939 and finally to 29 million tons in 1940. But there were other influences which depressed the coal trade and it was felt that the output might be far in excess of the demand. The earning capacity of the industry was brought down by the rising trend of costs, such as for example, the prices of colliery stores and equipment,* war allowances granted to workers together with the levy of an excise duty in December 1939 under the Coal Mines Safety (Stowing) Act. Further, during 1940, there were a number of labour disputes, especially in the Jharia coal-fields, where a general strike was threatened. All these developments combined

*"The depression years of 1931 to 1936 had left behind a legacy of inadequate plant replacement and renewals were well-nigh impossible after the outbreak of the War. The mines had, therefore, to be worked ill-equipped." (Mahindra Report, 1947, p.25)

to exercise a steadying effect on any optimism engendered by the rising internal demand of the Indian industries after the outbreak of the War. It is no wonder then that internal competition in the coal industry almost nullified the effect of the 4 annas increase in the price of coal, which was permitted by the Government to cover its increasing costs.† We have already referred to the problem of shortage of wagons which became more and more acute with every year that elapsed. It may, however, be noted that even in the early years of the War, the number of broad-gauge locomotives essential in the operation of the railway systems of the country had fallen by no less than 11% during the decade ending 1940.‡

Our tables thus show that the decline which set in 1939 was continued in the succeeding years. Between 1940 and 1942, the Net Profits figure varied slightly as a result of a little lowering (1941) or raising (1942) of the amounts allowed for Depreciation and Taxation. As will be indicated by a table further on,†† during these years, 11, 7 and 10 companies showed losses whereas 16, 17 and 16 could not pay any dividends. The steadiness of the conditions in the coal industry is further indicated by the percentages of Net Profits to Capital Employed and of Net Profits to Sales during these years, namely 4.5, 4.6 and 4.1; and 8.1, 8.9 and 7.7 respectively. Perhaps the weakest spots in the industry are to be found in the steady declines of the Reserves and the Dividends. As compared to 1938—the base year—the former declined to 33 and the latter to 73 in 1942.

The position of Dividends and Reserves in comparison with the other items may be briefly indicated as under :—

Index Numbers				
(Base 1938 = 100.)				
	1940	1941	1942	1943
1. Net Profits	65	68	63	61

†At the beginning of 1940, the prices of coal were raised by 4 annas per ton. (See also the Review of the Trade of India, 1940-41, p.52)

‡See Mr. K. M. Mealing's speech at the half-yearly October 1941 meeting of the Bengal Coal Co. Ltd., "Commerce," dated 31-1-1942, p.159.

††See page 281.

	1940	1941	1942	1943
2. Provision for Taxation.	187	149	221	341
3. Dividends ..	91	77	73	90
4. Reserves ..	43	33	33	54
5. Sales	118	113	122	153

While, as we have seen, a number of factors prevented the coal industry from benefiting by the war boom, as did the other industries, due to the comparatively insignificant rise in the prices of coal during these years, the colliery owners, too, failed to assess correctly the potentialities of the coal trade. They seemed to be overwhelmed by a fear of internal competition. For, in spite of these depressing factors, the conditions inherently were such as would conspire to bring about more propitious conditions after the fall of 1942. These could not be mistaken. Obviously, the most important of these factors was the rise in prices, which we shall summarise in a table when we discuss the year 1943. Before, however, we discuss this improvement in the prices, let us also refer to certain other developments in 1942 which were reflected in the financial results of the coal companies in 1943. During the latter half of 1942, there were two major problems for the industry, (1) transport bottleneck and (2) labour troubles. To take the second one first, it was due to the weaning away of labourers from mines to military service, which they found more remunerative and this shortage was aggravated by the political upheaval of August 1942. As for the first, besides the shortage of wagons, the developments in the Eastern Theatre of the War and the closure of the Port of Calcutta further complicated this situation. One might almost say that during these months, the disadvantages of the concentration of coal mines in Bengal and Bihar were fully brought home, when in addition to increased military traffic, the need arose for carrying all exportable produce of the Eastern Provinces to West Coast Ports. These problems were again rendered more intriguing by the floods in Bengal and the failure of the rice crop. When one bears all these difficulties in mind, one need not pause to explain (1) the fall in the production of coal from 29.4 million tons in 1942 to 25.3 millions in 1943 and (2) even a decline in the consumption of coal by the industrial establishments in the country or (3) the sudden fall in the exports. We may, therefore, only summarise these developments in the following table:

**Table showing Production and Consumption of Coal*
in India ('000 tons.)**

	Production.	Consumption.						
		Rail-ways.	Steel Works.	Bunk-ers.	Ex-ports.	Cotton tiles.	Bricks and tiles.	Soft Coke.
1941	.. 2,94,64	95,05	33,96	4,80	17,34	24,35	13,82	9,58
1942	.. 2,94,33	93,48	32,35	3,47	4,22	22,58	14,76	4,32
1943	.. 2,53,69	97,84	29,89	..	3,47	..	..	3,55
1944	.. 2,59,66	101,45	26,47	5,81	2,63	16,00	9,70	4,46

It is indeed pertinent to note here that in 1943, we had a veritable coal famine in the country—a sudden drop in the coal production caused not by any dearth of demand from industry, as such, but by the inability of the various mines to produce more and the helplessness of the factories in getting their supplies owing to transport difficulties. The colliery owners found that when they produced more coal, as in the previous year, there were not enough wagons to carry it to the consumers and this only heightened their fears of a glut. This situation inevitably threw the price structure of the industry into utter confusion, for, even in the preceding years, owing to transport difficulties, a wide disparity had come to prevail between the rates at which colliery owners supplied coal under contracts and those at which coal actually came to be sold at the consuming areas. The Government twice revised the system of allotment of wagons and replaced the Chief Mining Engineer by a Controller of Coal Distribution in March 1942 with a view to check profiteering (black-marketing) in Coal. In addition to these unavailing measures, the Government also relaxed the provision relating to women working underground; but all these measures failed to check the rocketing of prices sky-high at a time when production even for war purposes was making the utmost demand on coal. The following table shows how, during 1943, even the official prices received an unprece-

*Mahindra Committee Report, Appendix IX.

dented spurt. Indeed it was not till the middle of 1944 that the Government finally instituted an effective control over prices.

**Statement showing prices of Coal (per ton)†
from 1935-1943.**

				Rs. a. p.	Chain Index.
1935	..	..	..	2 13 0	
1936	..	..	..	2 12 0	97.8
1937	..	..	..	3 2 0	113.6
1938	..	..	..	3 12 0	120.0
1939	..	..	..	3 9 0	95.0
1940	..	..	..	3 9 0	100.0
1941	..	..	..	3 11 0	103.6
1942	..	..	..	4 7 0	120.3
1943	..	..	..	6 10 0	149.3

All these developments, however, naturally reacted very favourably on the financial working of the coal companies and as our graphs and the indices will show, in 1943, the industry had turned the corner—though the prosperity of 1938 was not yet witnessed in that year. For the first time during the war years, our graphs for dividend trends show a marked rise, though the rise in taxation is much steeper. Indeed, neither in the Net Profits nor in the Dividends nor in Reserves, 1943 compares favourably with 1938. This is largely accounted for by the fact that besides the other rising costs, Provision for Taxation had absorbed a great part of the Gross Profits. This provision was 16.3 in 1938, but 47.1 per cent of Gross Profits in 1943. There is again another point which clearly shows that 1943 cannot be regarded as a really prosperous year for coal. Our percentages table will show that as in 1940, Dividends paid exceeded the Net Profits earned by the companies on an average. Further in this year, there were 14 companies that suffered losses and 18 could not pay any dividends. This will be a convenient place for summarising this position of the companies in a table :—

† Ibid, Appendix VI.

Year.					No. of Cos. analysed.	No. of Cos. showing losses.	No. of Cos. not paying dividends.
1936	..	..	..	..	51	17	14
1937	..	..	..	..	52	14	19
1938	..	..	..	..	53	9	16
1939	..	..	..	..	54	8	14
1940	..	..	..	..	54	11	16
1941	..	..	..	..	54	7	17
1942	..	..	..	..	54	10	16
1943	..	..	..	..	54	14	18
1944	..	..	..	..	52	6	12

Finally, this comparison with 1938 will also be borne out by the continued fall in the percentage of Net Profits to Capital Employed from 1939.

The following table of percentages will clearly show how the financial structure of the industry (as discussed in the foregoing paragraphs) had changed between 1940 and 1943.

	Percentages			
	1940	1941	1942	1943
Provision for Taxation as % of Gross Profits	30.5	27.3	36.1	47.1
Net Profits as % of of Gross Profits.	35.6	42.1	35.2	28.5
Dividends as % of Net Profits.	102.4	83.2	84.9	108.6
Reserves as % of Net Profits.	13.8	10.0	10.7	18.5

1944

The coal situation in the country began to assume more alarming proportions and some cotton mills of Cawnpore and Jute mills of

Bengal, particularly the latter, were so affected that in the latter half of 1943, they had to close down for a time, while many others including cement factories and oil mills, had to work shorter hours or do away with night shifts. In response to this hue and cry, the Government adopted a system of rationing and coal quotas were fixed on supplies made available during the 12 months, August 1942 to July 1943 by the Coal Commissioner.* This scheme, however, could not be put into force in October 1943 as the coal raisings declined still further on account of labour unrest in Bihar and Bengal. †

In January 1944, the Government promulgated the Coal Mines Labour Welfare Fund Ordinance with a view to constitute a fund to be utilised for the welfare activities of the coal miners, like recreation, housing, education, health and sanitation in the coal mining areas. Wages in the mines were made more attractive with the help of dearness allowances so that in 1944, these wages were up by 50 per cent. over the basic rates of 1939. The Government also undertook to train a labor force up to 10,000 men to work on quarrying or loading coal in Bihar and Bengal Coalfields. In spite of these measures, however, the coal situation was worsening and on the 1st of April 1944, the Colliery Control Order finally brought the industry under a comprehensive control of the Government. Besides the Coal Control Board, which regulated the distribution of the output of different collieries, the Government granted a number of financial concessions with a view to encourage production. These were :

1. A special depreciation amount at the rate of 50% per annum was allowed on coal mining machinery for the purpose of income tax and E. P. T.

* See starred question No. 17, Legislative Assembly Debates, 1st Nov. 1944 especially the Supply Member's detailed explanation of the measures taken by the Government regarding the production and distribution of coal.

† These labour troubles were caused mainly by difficulties experienced by the labourers in obtaining their foodstuffs. It is needless to add that these difficulties had already caused a fall even in the none too high efficiency of the miners.

2. Loans to colliery owners for capital expenditure up to the limit of the amount at their credit in the compulsory deposit under the E. P. T.

3. A special production bonus not eligible to E. P. T. for production in excess of the targets fixed until 31st March 1946.*

A special officer was appointed to progress all the outstanding commercial orders in the United Kingdom and current demands for specialised mining equipment on behalf of both the State and private collieries.†

Finally, the average price of coal at pits-head was now raised to somewhere between Rs. 9-8 to Rs. 10 for certain grades, whereas for higher selected grades, the average price up to 1942 was only about Rs. 3 and odd.‡ Taking the average price for all the grades between March 1943 and March 1942, the index number rose from 155 to 272 (19th August 1939=100). In this year, at any rate, even the controlled prices began to outstrip the advance in the general level of prices.**

Our charts will easily show how 1944 represents the peak year of the industry, with all the lines showing a sudden spurt. The average Net Profits rose from Rs. 80.5 thousand to 177.3 thousand, while the Dividends from Rs. 87,000 to Rs. 126,000. In fact the Net Profits in 1944 were 33% higher than those of 1938. The Sales, too, were more than 2½ times 1938—largely no doubt due to the higher prices. The Managing Agents' Remuneration as well as Reserves show a

* See Sir A. Ramaswamy Mudaliar's reply to Mr. K. C. Neogy in the Legislative Assembly on 1st November, 1944.

† A plan was also introduced under which each mine worker was entitled to draw a basic standard ration on payment of controlled price. A manual worker got free 1½ a seer of rice for each attendance and each worker was granted by the owner of the mine for each day he attended work a sum of As. 2 (3 annas if he had dependants and 5 annas if he had adult dependants or children).

‡ Figure cited from Sir. A. Ramaswamy Mudaliar's speech in the Council of State on 9th November 1944.

** For figures, see Review of the Trade of India, 1943-44, p. 35.

marked rise over 1938, the latter being 27.6% of the Net Profits—the highest during the period. The financial success of this year is further evidenced by the percentage of Net Profits to Capital Employed—7.6, *i.e.*, higher than that of 1938. There is no wonder then that only 6 companies showed losses in their operation in this year and only 12 failed to pay dividends as against the average of 16 over the whole period.

TABLES & GRAPHS

Table I

THE COAL MINING

	Totals and			
	1936	1937	1938	1939
	Rs.	Rs.	Rs.	Rs.
1. Gross Profits				
Total	57,80,818	65,59,952	1,27,22,168	1,23,14,161
	(51)	(52)	(53)	(54)
Average	1,13,349	1,26,153	2,40,041	2,28,040
2. Depreciation				
Total	25,79,038	27,28,855	35,71,594	38,02,480
	(51)	(52)	(53)	(54)
Average	50,570	52,478	67,388	70,416
3. Provision for Taxation				
Total	5,78,767	4,10,885	20,79,425	25,27,089
	(51)	(52)	(53)	(54)
Average	11,348	7,901	39,235	46,798
4. Net Profits				
Total	26,23,013	34,20,212	70,71,149	59,84,592
	(51)	(52)	(53)	(54)
Average	51,430	65,773	1,33,418	1,10,826
5. Amount Available for Allocation				
Total	-50,98,324	-40,82,892	-8,48,121	-5,77,714
	(51)	(52)	(53)	(54)
Average	-99,967	-78,517	-16,002	-10,698
[The Baraboni Coal concern made heavy losses during all the years 1936 to 1944. If this company is not taken into consideration, the results would be as follows :				
Total	-5,76,556	4,45,179	38,20,622	40,91,955
	(50)	(51)	(52)	(53)
Average	-11,531	8,729	73,473	77,206

N.B.—(Figures in brackets indicate the number of Companies to which the

INDUSTRY.

Averages :

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
1,29,58,361 (54) 2,39,970	1,15,24,101 (54) 2,13,409	1,27,97,555 (54) 2,36,992	1,52,08,488 (54) 2,81,639	3,74,97,314 (52) 7,21,102
43,69,435 (54) 80,916	35,13,842 (54) 65,071	36,62,339 (54) 67,821	36,89,981 (54) 68,333	43,10,275 (52) 82,890
39,63,556 (54) 73,399	31,53,427 (54) 58,397	46,23,753 (54) 85,625	71,69,533 (54) 1,32,769	2,39,63,257 (52) 4,60,831
46,25,370 (54) 85,655	48,56,832 (54) 89,941	45,11,463 (54) 83,546	43,48,974 (54) 80,537	92,23,782 (52) 1,77,380
-15,20,283 (54) -28,153	-19,56,429 (54) -36,415	-20,05,469 (54) -37,138	-9,25,344 (54) -17,136	39,76,216 (52) 76,465

The carry forward of 1936 from the previous year alone was Rs.—45,19,153.

31,51,821 (53) 59,468	27,07,323 (53) 51,081	26,70,734 (53) 50,391	37,51,381 (53) 70,780	86,53,007 (51) 1,69,666]
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(totals refer)

Table I *Contd.*

THE COAL MINING

	Totals and			
	1936	1937	1938	1939
	Rs.	Rs.	Rs.	Rs.
6. Dividends				
Total	25,76,348	34,33,803	51,23,020	50,91,824
	(51)	(52)	(53)	(54)
Average	50,516	66,035	96,661	94,293
7. Reserves*				
Total	2,00,000	6,38,131	14,82,324	10,78,576
	(51)	(52)	(53)	(54)
Average	3,921	12,271	27,968	19,974
8. M. A. Remuneration				
Total	4,47,442	13,56,592	18,11,213	19,82,744
	(38)	(50)	(51)	(52)
Average	11,774	27,132	35,514	38,129
9. Sales				
Total	2,50,73,552	3,02,54,832	4,27,65,452	4,93,99,790
	(41)	(47)	(48)	(50)
Average	6,11,550	6,43,720	8,90,946	9,87,995
10. Capital Employed				
Total	8,74,09,211	8,54,20,943	9,77,39,885	10,45,97,625
	(49)	(51)	(53)	(54)
Average	17,83,861	16,74,920	18,44,148	19,36,993

N.B.—(Figures in brackets indicate the number of Companies to which the

*Includes contributions to Reserves and other amounts appropriated and

INDUSTRY

Averages

1940	1941	1942	1943	1944
Rs.	Rs.	Rs.	Rs.	Rs.
47,38,136 (54) 87,743	40,38,410 (54) 74,786	38,30,410 (54) 70,933	47,17,994 (54) 78,370	65,53,549 (52) 1,26,030
6,70,865 (54) 12,423	5,05,170 (54) 9,355	5,11,715 (54) 9,476	8,30,768 (54) 15,384	25,52,163 (52) 49,080
20,15,143 (52) 38,752	17,94,273 (52) 34,505	19,11,797 (52) 36,765	22,58,352 (52) 43,429	38,79,724 (50) 77,594
5,27,73,659 (50) 10,55,473	5,02,79,865 (50) 10,05,597	5,34,65,154 (49) 10,91,146	6,82,03,073 (50) 13,64,061	11,44,07,274 (48) 23,83,485
10,11,49,070 (54) 18,73,130	10,46,95,539 (54) 19,38,806	10,74,12,155 (54) 19,89,114	11,67,77,953 (54) 21,62,556	12,49,81,180 (52) 24,03,484

(totals refer)

unappropriated, excluding the amount carried forward.

THE COAL MINING INDUSTRY

Table II

Percentages

		1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Net Profits as % of Gross Profits	..	45.1	52.3	55.8	48.7	35.6	42.1	35.2	28.5	24.5
2. Depreciation as % of Gross Profits	..	45.0	41.3	27.9	30.8	33.7	30.5	28.7	24.2	11.5
3. Provision for Taxation as % of Gross Profits		9.8	6.4	16.3	20.5	30.5	27.3	36.1	47.1	63.9
4. Dividends as % of Net Profits ..	..	98.2	100.3	72.4	85.1	102.4	83.2	84.9	108.6	71.0
5. Reserves as % of Net Profits ..	..	7.8	18.1	21.0	18.0	13.8	10.0	10.7	18.5	27.6
6. M. A. Remuneration as % of Net Profits ..	..	23.5	40.9	27.1	34.2	44.7	38.8	44.0	53.1	44.1
7. Net Profits as % of Sales ..	..	8.3	10.2	14.8	11.2	8.1	8.9	7.7	5.8	7.4
8. Net Profits as % of Capital Employed	..	2.8	3.9	7.2	5.7	4.5	4.6	4.1	3.7	7.6

THE COAL MINING INDUSTRY

Table III

Chain Indices

					1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits .. .. .	..	..	..	..	111	189	95	105	89	111	118	256
2. Provision for Taxation .. .. .	..	..	..	..	75	488	121	156	78	148	154	346
3. Net Profits .. .. .	..	..	..	..	128	200	84	77	105	93	95	218
4. Dividends .. .. .	..	..	..	..	131	147	98	93	85	95	123	144
5. Reserves .. .. .	..	..	..	..	300	233	71	60	75	100	166	326
6. M. A. Remuneration .. .. .		..	..	..	225	130	109	103	90	106	113	182
7. Sales .. .. .	..	..	..	..	106	139	111	107	96	109	125	173
8. Capital Employed .. .. .	..	..	..	..	95	109	105	97	104	103	108	108

THE COAL MINING INDUSTRY

Table IV

Index Numbers

(Base 1938 = 100)

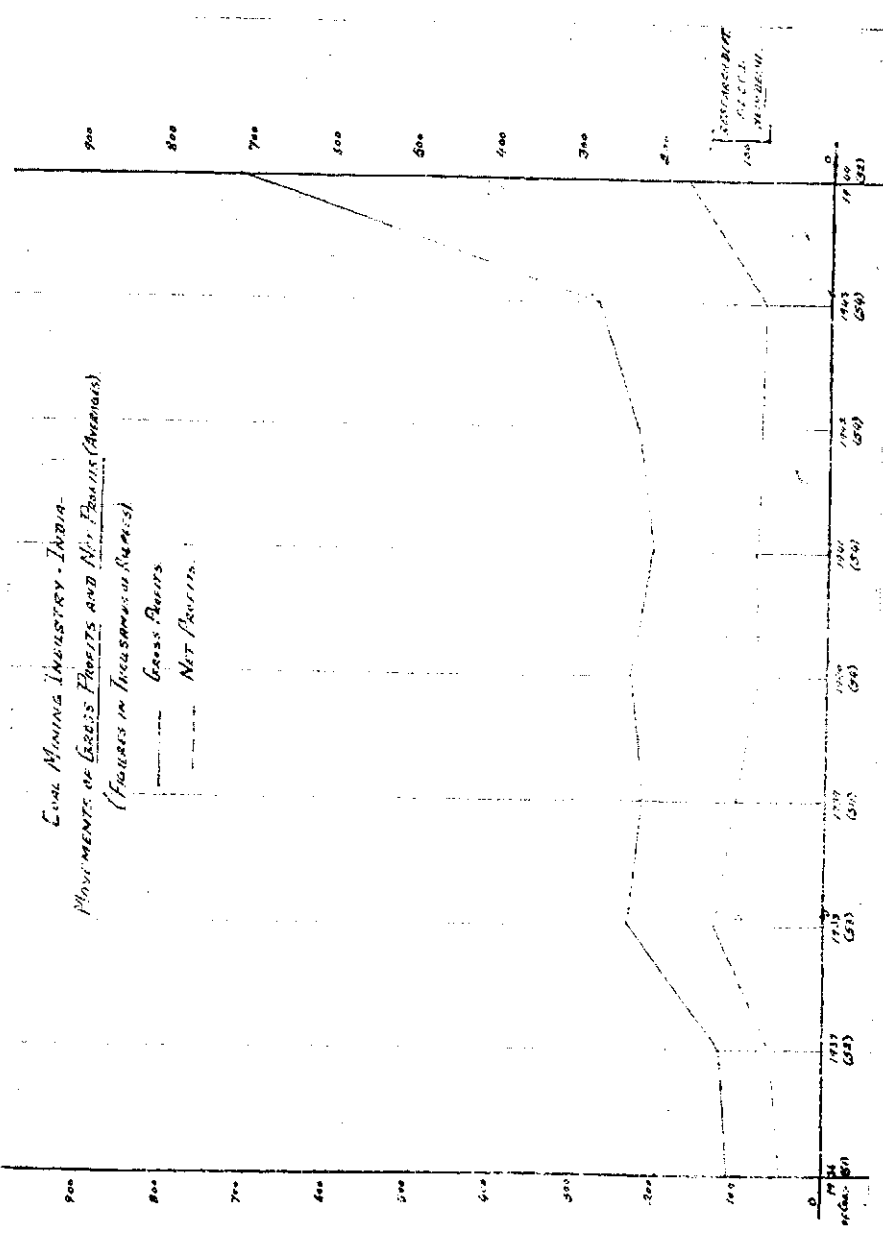
				1936	1937	1938	1939	1940	1941	1942	1943	1944
1. Gross Profits	..	..	..	47	53	100	95	100	89	99	117	300
2. Provision for Taxation	..	..	..	28	21	100	121	187	149	221	341	1182
3. Net Profits	..	..	..	38	50	100	84	65	68	63	61	133
4. Dividends	..	..	..	52	68	100	98	91	77	73	90	130
5. Reserves	..	..	..	15	42	100	71	43	33	33	54	176
6. M. A. Remuneration	..	..	..	32	77	100	109	111	100	106	123	223
7. Sales	..	..	..	69	72	100	111	118	113	122	153	266
8. Capital Employed	..	..	..	97	92	100	105	102	105	108	116	130

GRAPH I

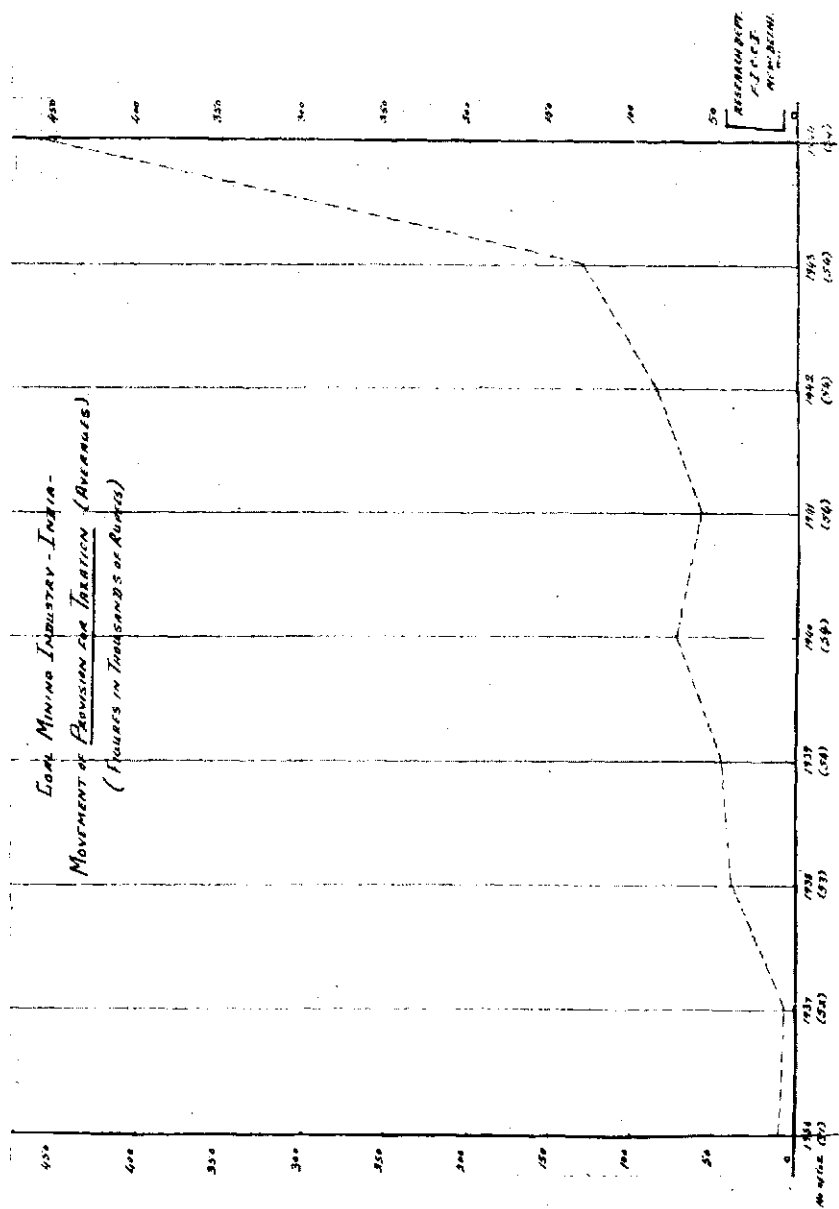
COAL MINING INDUSTRY - INDIA
 MOVEMENTS OF GROSS PROFITS AND NET PROFITS (AVERAGES)
 (FIGURES IN THOUSANDS OF RUPEES)

— Gross Profits
 - - - Net Profits

REMARKS:
 1943
 1942

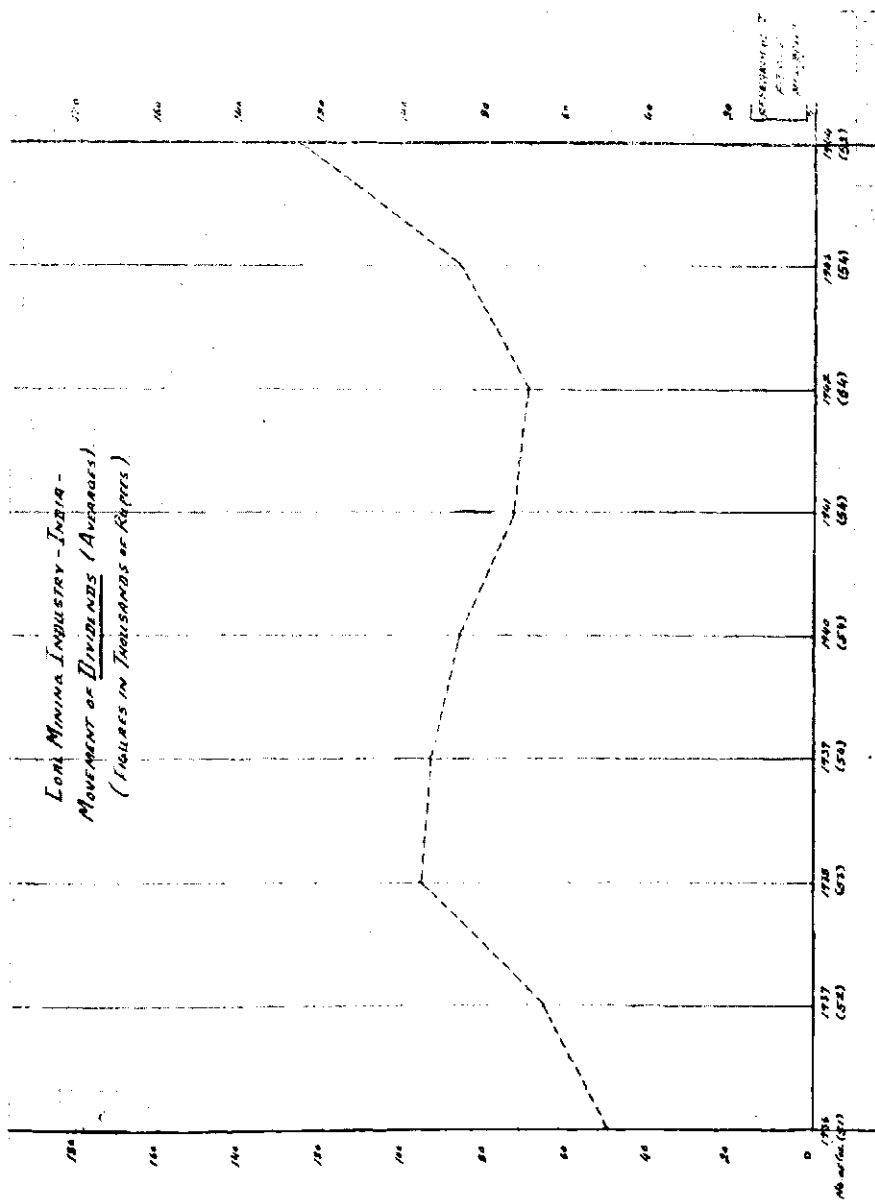


GRAPH II



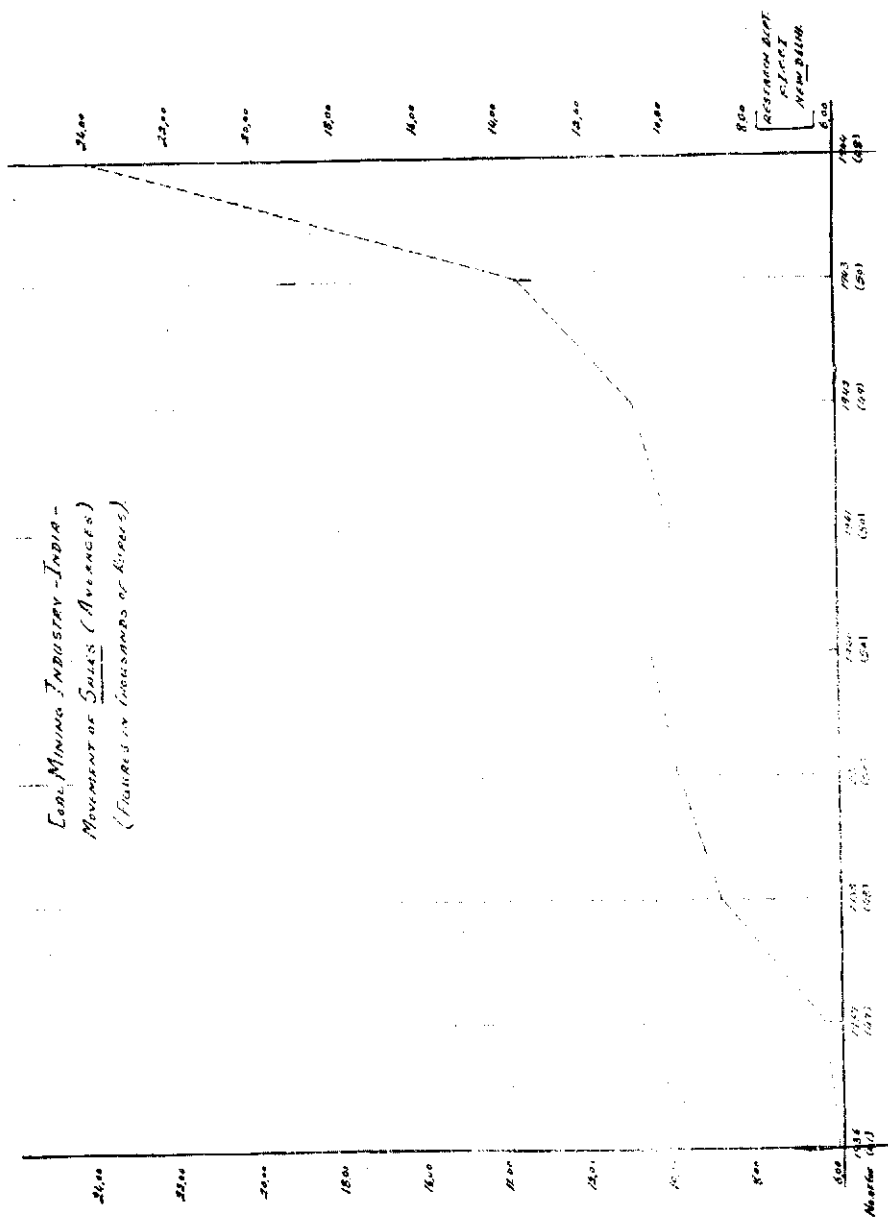
GRAPH III

Coal Mining Industry - India -
 Movement of Dividends (Averages).
 (Figures in Thousands of Rupees)



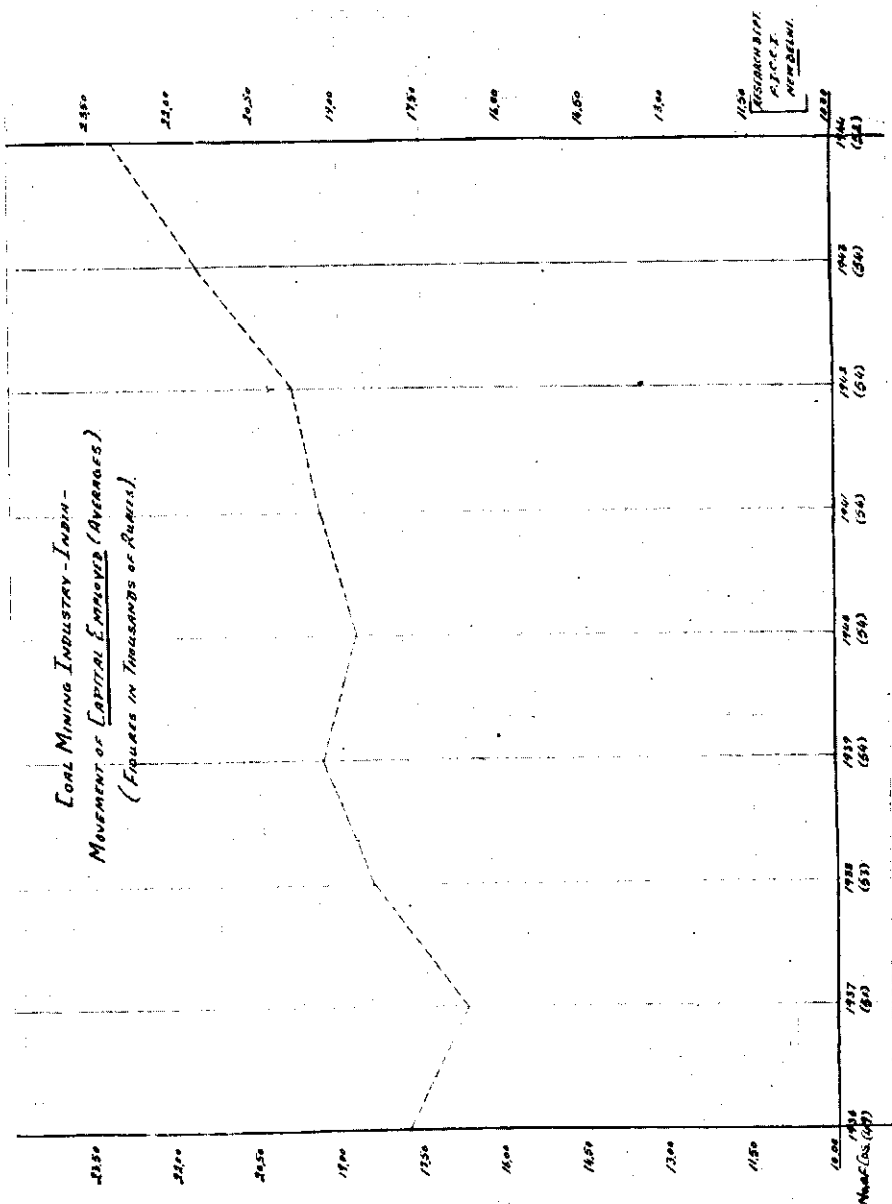
THE COAL MINING INDUSTRY

GRAPH IV



GRAPH V

COAL MINING INDUSTRY - INDIA -
 MOVEMENT OF CAPITAL EMPLOYED (AVERAGES)
 (FIGURES IN THOUSANDS OF RUPEES).



RESEARCH DEPT.
 P. I. C. C. I.
 NEW DELHI.

CHAPTER XI

SUMMARY AND CONCLUSIONS

1. We started by emphasising the importance of a Profits Index, both as an indicator of business activity and as showing the trends of corporate earnings. The more recent development in thought and policy in our country will serve only to reinforce our plea for rebuilding our Profits Index and for a continuous analysis of corporate incomes. For such problems as the determination of a fair return on capital, or incentive taxation, pre-suppose a proper analysis of the trends of profits during periods of prosperity as well as of depression. Our plea, that has been made in the first chapter, only in passing, for the construction and maintenance of indices of profits by non-official agencies can thus be strengthened in the light of developments that have taken place even subsequent to the completion of our enquiry. Perhaps, it is time that in our country, too, the economic data compiled and published by the Government are supplemented by the efforts of non-official agencies.

2. We have called this study an inductive one. This would, therefore, naturally, preclude us from discussing at length a number of extremely interesting theoretical issues which a study of profits would, necessarily, raise. At the same time, however, a study like ours should enable us to answer such questions as: (1) have the various industries strengthened their financial position during the period of the War? (2) the implications of the price factor in the profit margin* , (3) is a wages policy not an inevitable

*"The gross profit margin is determined by the entrepreneur's percentage addition to the average prime cost in his decision on pricing to cover his overhead costs and profit. It is a problem of great theoretical interest how this percentage margin is decided upon in the mind of the business executive; for this is in fact the fundamental problem of the theory of price determination and the theory of distribution". . . "The Variations of

concomitant to profits policy? But before we can turn to such general issues, let us summarise the main conclusions of the preceding chapters. We have seen how in compiling data regarding profits, we are up against problems resulting from the divergence of outlook between accounting mechanics and economic analysis. We have tried to show that inspite of some inherent difficulties—sometimes even of defining profits—a workable solution can be or has to be attempted. In fact, some such solution is indispensable, because of the importance that corporate enterprise has been assuming in our economic organisation. In the case of corporate earnings, as we have seen, more complicated theoretical issues are involved in the analysis of profits than in the case of one-man-undertaking, especially, when we want to distinguish between 'pure profits' from normal profits and try to relate them to net profits of the accountant. For this reason, we have analysed this concept of profits and tried to clarify the various issues around which a good deal of controversy has been raised. We thus see how pure profits of the economists can be attributed to "uncertainty bearing" of the entrepreneur or to his 'rent of ability' or they may be regarded as a species of "monopoly gains" resulting from imperfect competition. The Net Profits, as defined by us, are certainly a conglomerate of normal profits and pure profits, including as they do (1) the remuneration of the entrepreneur other than the Managing Agents' Commission (2) the return on the capital employed and (3) pure profits.

It is true that in adopting our method we have laboured under a number of limitations which the balance sheet and the profit and loss account present. We have tried to show how these handicaps could be minimised and how in some cases these limitations have given rise to proposals for reform in the presentation of company accounts. Despite these shortcomings, it is possible to arrive at a number of averages and relate them to one another so as to glean the progress, or success or otherwise, of the various industries as a whole. The ratio-analysis that we have attempted might also provide some useful comparisons between the various industries.

Real Wages and Profit Margins in Relation to the Trade Cycle' by Sho-chieh Tsiang, Pitman's, 1947, page 68.

3. Our broad findings would easily show that the high ranges in net profits are to be found in (1) Cotton (2) Paper (3) Jute and these industries are followed by Sugar and Iron and Steel. In contrast with Jute, the Coal industry could benefit little out of the war-boom, except towards the end of the period, although the War came at a stage when the industry had already turned a corner. Thus, while the former probably made the most out of the War, the Coal mines, largely because of transport difficulties and internal weaknesses, failed to profit by the opportunities afforded to them. Another unmistakable trend that stands out in bold relief from our tables is that all these industries during the War have collected from the pockets of the consumers what they filled the coffers of the Government with. To a certain extent, this is not surprising under a regime of the excess profits tax. But the rise in the provision for taxation over the whole period is too remarkable to be explained only by the E.P.T. As for the shareholders, the high profits earned by the industries naturally secured them some high dividends. The highest increase in the dividend amounts accrued in (1) Cotton (2) Paper and (3) Jute. Perhaps the most important feature of all these increases is the rise in prices which almost wholly accounts for the mounting curves of our graphs. In a regime of inflationary finance and in a sellers' market (with large portions of their outputs earmarked for Government orders) either scarcity conditions came to prevail in these commodities or a great portion of their production was commandeered for defence requirements. An important feature of our industrial development during the War—in marked contrast with those of some other belligerent countries—was that our industries could earn high profits even when the quantum of their production remained either stationary or showed a marked decline. It is interesting to note that while on the average these industries paid high dividends, a majority of them did not fritter away their earnings. Cotton, Paper, Sugar and to a certain extent, Iron and Steel, followed a conservative policy in distributing their earnings to shareholders in sharp contrast with Jute, Coal and Cement. It may be asked why the Jute industry which had benefitted so much out of the War has tried to build up only meagre reserves. Perhaps, this is explained by a succession of very lean years which the shareholders experienced in the past—after 1929. Before the outbreak of the War, the Iron and Steel industry

did pay high dividends but at the same time it managed to build up reserves by keeping large amounts by way of carry-forwards. It is necessary, however, to exercise caution in looking at this picture of reserves; for a substantial part of these, after 1942, must be attributed to the system of Compulsory Deposit under the E. P. T.

In examining "key ratios," we find that the relative profitability of sales in these seven industries can be arranged in the following order:—(1) Iron and Steel (2) Paper (3) Coal and Cement (4) Cotton (5) Sugar and (6) Jute. The greatest rise in this ratio over the entire period is shown by Cotton and Paper and this is due largely to the steep rise in prices. As against the profits-sales ratio, the highest ratio of net profits to capital employed is shown by Paper and Iron and Steel followed by Cement, Sugar, Coal and Jute. This indicates the relative return per rupee of capital invested in these industries.

4. When we turn to the individual industries, it is not difficult to understand why the Cotton Textile industry stands out conspicuously in point of industrial earnings for the greater part of our period. This industry was struggling against a number of depressing factors in the pre-war period. But the advent of the War entirely changed the face of her problems, so far as its earnings were concerned. We have also shown that apart from the steep rises in the various items, especially, during the last phase of our period, the industry has built up appreciable reserves. But this feature must be read along with steady fall in the percentage of depreciation to gross profits. We have shown that while this depreciation may not rise *pari passu* with the net earnings, even the absolute amount of depreciation provided by the average unit has declined after 1942 and this percentage falls from over 45 in the pre-war period to about 4 at the end of our period. While this fall in the percentage, as we have seen, is almost inevitable, it is too precipitous to be neglected. It is for this reason that we have stressed how during the War when the industrial plant worked day and night, the actual amounts provided for depreciation must occasion some grave concern. One of the principal features of our post-war industrial set-up has been an all round decline in our industrial efficiency. If, therefore, along with the relentless

wear and tear of machinery we try to interpret these figures of provision for depreciation, we suggest that the postwar financial picture of the industry, even with the reserves that it has built up, is not as bright as it is sometimes made out to be. The other important controversy about the operation of the Cotton Cloth (and Yarn) Control Order touches our study only towards the close of the period and we have, therefore, had to content ourselves with delineating steps which culminated in the Control Order. We have also tried to show how 1943-44 has been the peak year with the industry's output at 4,870 million yards of cloth. An important feature of these years, which is likely to exercise great influence on its future (and on that of our foreign trade as a whole as well), has been the exports of cotton textiles to various countries. Although these arose out of the exigencies of the War, the significance of the development in the post-war period can be scarcely over-emphasised, when we bear in mind the virtual disappearance of Japanese competition from the eastern markets.

5. In contrast with the Cotton industry, Sugar presents only moderate earnings during the war period. After having well-nigh justified the tariff protection granted to it, the industry was caught in the meshes of a crisis in 1939-40; but even after the outbreak of the War, its percentages and indices show no spectacular increases. Besides the crisis of 1939-40, two principal reasons that account for this situation are (1) an early institution of the Sugar Control (2) the handicap of an export market. While it was out of place in this study to refer at any length to the 'sugar crisis', we have suggested that the fortunes of the industry would have been different in the war period if it had not to labour under the handicap imposed upon it by the International Sugar Convention of 1937. Indeed, the industry made several attempts to export sugar in the early years of the War. The steadiness of the industry's earnings is also indicated by the narrow range of fluctuations in the percentages of its reserves to net profits, of dividends to net profits and to a lesser extent, of depreciation to gross profits.

6. In the case of Iron and Steel, we begin our study at a time when it had already emerged from a depression and was entering an armaments boom in common with the iron and steel

industry of the rest of the world. As a war industry *par excellence*, one cannot but expect a period of great prosperity for it after 1939 and it is not surprising, therefore, that in the whole group of these industries, Iron and Steel stands out in the actual amount of average earnings per company. At the same time, however, our tables reveal a remarkable steadiness in its earnings especially after 1939 in profits, dividends, reserves, and to a certain extent even in sales. This will be explained by the fact that almost with the outbreak of the War, the industry was commandeered by the Government and the sale and distribution of its products were statutorily regulated. Another important feature of the industry, as revealed by our tables, is that the percentage of net profits to sales has been the highest among our group. Ordinarily, this should mean that the profitability of their products has been the highest in this industry.

7. Next to Cotton Textiles, Paper industry can easily be regarded as having benefitted the most out of the War in point of net profits. In fact, for this industry, the War brought great opportunities in the form of a closed market (resulting from the stoppage of imports and a fast rising demand for civilian as well as defence consumption). The commencement of the manufacture of paper, therefore, by the new units that were projected before the War, came at an opportune moment and the industry was able to catch time by the forelock. Perhaps the most favourable factor for the industry, however, was that despite the Paper Control it was able to secure higher prices every time even from Government and by 1942 its peak production was reached with its output at 18.71 lakhs cwt.

8. Ordinarily, we would expect Cement to tell us the same story, during our period as Iron and Steel; actually, however, it presents a picture more like Sugar in its earnings. Our study begins at a somewhat ominous period when the main groups of cement factories commenced a rate-war which, however, as expected, culminated in a sales agreement. The steadiness of the industry's earnings is also due to a deliberate policy on the part of the Associated Cement Companies Ltd. to keep down prices as well as its costs of production. In contrast with other industries, in the

case of Cement, we have been obliged to discuss the fortunes of the two principal Companies from year to year. It is also remarkable that the A. C. C. has throughout our period continued a policy of keeping low reserves and paying out a very large proportion of its net profits to the shareholders.

9. When we come to Jute, we find a well organised industry—with a chequered history in the inter-war period—still struggling with its twin problems of overproduction and control. But to this industry, the bursting of the war clouds, came almost as an unmixed blessing, for in 1938 it was heading for another major crisis. Just then large orders for sand bags were received and a wave of prosperity spread over the industry, in the subsequent years. There is little wonder then if our figures reveal wide margins between the pre-war and the war period averages. Besides, its earnings during the War, with the help of its past reserves, the Jute mills show a steady increase in the payment of dividends over our period. But the War-made prosperity was somewhat rudely shaken after 1942 when its production declined and its internal troubles reappeared. Towards the end of our period, therefore, like Coal, the whole industry had to be brought under strict control.

10. In marked contrast with the other industries, Coal presents a picture of very low earnings almost throughout our period. Unlike Jute, Coal was prevented by its internal weaknesses and troubles from profiting by the great opportunity which was otherwise provided to it. While its products were in increasing demand (with the rising tempo of industrial activity) and while it showed an increase in outputs, the transport bottleneck turned this favourable picture into one of accumulated stocks. Its controlled prices at the pit-heads also remained comparatively low, till 1942, and we thus witness an amazing phenomenon of several factories in Kanpur and Bengal being closed down, for a time. This was, however, too important an industry to be suffered to languish and so the long awaited plans of bringing it under control were put into execution by 1944. The last year, therefore, shows a spurt in its earnings that stand in wide contrast with the figures of the earlier years.

Reverting to the general issues, which we referred to in the beginning of this chapter, one would have certainly liked a few comparisons with the trends of net profits in other countries, especially, when figures for corporate profits for either the U. K. or the U. S. A. are much more easily available than in our country. We did make an effort to institute such comparisons and the only reason why we have not presented these data here is that these efforts yielded meagre results. Such comparisons would have involved elaborate explanations about the figures of net profits according to the American and British methods—the former of which, for instance, excludes the various kinds of reserves from net profits. But we can, if only in passing, certainly, refer to the larger issue of the price factor in the profit margin. While our chapters on the various industries have shown the importance of this factor and indicated the abnormality of the period regarding the competitive factors in a price economy, we have only very briefly touched upon the question of valuations in a balance sheet. But it will easily be seen that this raises a number of theoretical issues which are still more or less indeterminate. These questions, however, will sooner rather than later have to be taken up and linked with the larger issues of policy either in a boom or depression. For instance, should profit be regarded as an excess of sale proceeds over the actual costs or is it fundamental when prices are rising that the position should be judged by reference to the money spent on goods for sale? But more or less in a factual study like ours we can do little more than indicate how and when these questions arise and demand our attention.

APPENDIX

List of Joint Stock Companies Analysed

THE COTTON TEXTILE INDUSTRY

Name of the Company.	Date of Incorporation.	Location of Mills	Paid-up Share Capital Rs.
Group A (Above Rs. 25 lakhs)			
1. Ahmedabad Manufacturing & Calico Printing Co., Ltd. ..	20-11-'80	Ahmedabad	38,00,000
2. Apollo Mills Ltd.	16- 1-'20	Bombay	50,00,000
3. Bharat Spg. & Wvg. Co., Ltd.	8- 3-'20	Bengal	32,75,000
4. Bombay Dyeing & Mfg. Co., Ltd.	23- 8-'79	Bombay	62,74,500
5. Buckingham & Carnatic Co., Ltd.	29-11-'20	Madras	1,10,54,100
6. Central India Spg. & Wvg. Co., Ltd.	5- 9-'74	C. P*	96,87,500
7. Century Spg. & Mfg. Co., Ltd.	20-10-'97	Bombay	27,35,700
8. Colaba Land & Mills Co., Ltd.	1- 7-'80	Bombay	28,00,000
9. Elgin Mills Ltd.	16-11-'11	U. P.	32,00,000
10. Elphinstone Spg. & Wvg. Co., Ltd.	3- 7-'19	Bombay	50,00,000
11. Finlay Mills Ltd.	4- 4-'06	Bombay	40,00,000
12. Gokak Mills Ltd.	18-11-'19	Belgaum/Bombay	39,04,700
13. India United Mills Ltd.	1920	Bombay	2,50,00,000
14. Khatau Makanji Spg. & Wvg. Co., Ltd.	19-10-'74	Bombay	29,95,000
15. Kohinoor Mills Ltd.	6- 7-'96	Bombay	30,00,000
16. Madura Mills Co., Ltd.	27- 9-'89	Madura	87,51,240

*The Company also owns pressing and ginning factories in the Punjab and Nizam State.

Name of the Company.	Date of Incorporation.	Location of Mills	Paid-up Share Capital Rs.
Group A (Above Rs. 25 lakhs)—Contd.			
17. Model Mills Ltd.	12- 8-'20	Nagpur/C. P.	99,02,750
18. Muir Mills Co., Ltd.	1874	Kanpur	30,00,000
19. New Victoria Mills Co., Ltd.	14-10-'20	Bombay	35,49,220
20. Osmanshahi Mills Ltd.	15- 7-'22	Hyderabad State	50,00,000
21. Shri Nivas Cotton Mills Ltd.	1935	Bombay	28,80,000
22. Sir Shapurji Broacha Mills Ltd.	14- 9-'16	Bombay	85,84,397
23. Svadeshi Mills Co., Ltd.	19- 1-'28	Kanpur/U. P.	35,00,000
Total Rs. ...			13,68,94,107

Group B (Between Rs. 10 lakhs and Rs. 25 lakhs)

1. Ahmedabad Advance Mills Ltd.	30- 6-'03	Ahmedabad	20,00,000
2. Ahmedabad Jupiter Spg. & Wvg. Co., Ltd.	8- 9-'19	"	21,32,460
3. Arvind Mills Ltd.	1- 6-'31	"	15,75,000
4. Aryodaya Spg. & Wvg. Co., Ltd.	8- 9-'91	"	11,00,000
5. Asoka Mills Ltd.	12- 4-'20	"	12,00,000
6. Azam Jahi Mills Limited	1931	Hyderabad (Dn.)	18,00,000
7. Bhalakia Mills Co., Ltd.	8- 9-'19	Ahmedabad	14,45,900
8. Bradbury Mills Co., Ltd.	26- 4-'14	Bombay	25,00,000
9. Broach Fine Counts Spg. & Wvg. Co., Ltd.	22- 4-'18	Broach	20,00,000
10. Kurla Spg. & Wvg. Co., Ltd.	14- 7-'74	Bombay	13,00,000
11. David Mills Co., Ltd.	2- 8-'86	Bombay	24,00,000
12. Edward Sassoon Mills Ltd.	13- 4-'10	"	17,00,000

13.	Gaekwar Mills Ltd.	..	..	..	16- 6-'28	Baroda	16,00,000
14.	Gold Mohur Mills Ltd.	..	..	..	1- 9-'26	Bombay	25,00,000
15.	Hindustan Spg. & Wvg. Co., Ltd.	..	..	..	1- 9-'73	"	12,00,000
16.	Indore Malwa United Mills Ltd.	..	..	..	9-11-'07	Indore	20,00,000
17.	Jam Shri Ranjitsingh Spg. & Wvg. Co., Ltd.	..	..	..	1908	Sholapur	10,00,000
18.	Jayshanker Mills Ltd.	..	..	..	2-11-'22	Barsi (Bombay)	11,96,417
19.	Laxmi Cotton Mfg. Co., Ltd.	..	..	..	7- 7-'96	Sholapur	16,00,000
20.	Madhusudan Mills Ltd.	..	..	..	9- 9-'34	Bombay	21,60,000
21.	Minerval Mills Ltd.	..	..	..	11-12-'89	Bangalore	24,76,584
22.	Modern Mills Ltd.	..	..	..	1934	Bombay	14,79,050
23.	Mohini Mills Ltd.	..	..	..	24- 2-'08	Bengal	13,99,985
24.	Morajee Goculdas Spg. & Wvg. Co., Ltd.	..	..	..	10- 8-'71	Bombay	11,50,000
25.	Mysore Spg. & Mfg. Co., Ltd.	..	..	..	20- 2-'94	Mysore	14,85,000
26.	New Great Eastern Spg. & Wvg. Co., Ltd.	...	..	..	15-12-'73	Bombay	23,00,000
27.	Raipur Mfg. Co., Ltd.	..	..	..		Ahmedabad	10,00,000
28.	Rohit Mills Ltd.	..	..	..	1931	"	20,00,000
29.	Sassoon Spg. & Wvg. Co., Ltd.	..	..	..	5- 3-'74	Bombay	25,00,000
30.	Sholapur Spg. & Wvg. Co., Ltd.	..	..	..	10-12-'74	Sholapur	16,00,000
31.	Simplex Mills Ltd.	..	..	..	6-11-'92	Bombay	14,00,000
32.	Swan Mills Ltd.	..	..	..	22- 0-'09	"	24,00,000
33.	Tata Mills Ltd.	..	..	..	24- 2-'13	Bombay	14,99,275
34.	Vasanta Mills Ltd.	..	..	..	1929	Madras	11,50,000
35.	Vishnu Cotton Mills Ltd.	..	...	...	11- 5-'08	Sholapur	24,00,000
36.	Western India Spg. & Wvg. Co., Ltd.	..	..	..	23- 9-'80	Bombay	12,00,000

Total Rs. ... 6,18,49,671

Name of the Company	Date of Incorporation	Location of factories	Paid-up Share Capital Rs.
Group C (Below Rs. 10 lakhs)			
1. Cawnpore Textiles Ltd.	7- 6-'20	U. P.	7,50,000
2. Coimbatore Spg. & Wvg. Co., Ltd.	2- 6-'88	Coimbatore	6,92,300
3. Commercial Ahmedabad Mills Co., Ltd.		Ahmedabad	5,25,000
4. Dhanraj Mills Ltd.	23- 4-'35	Bombay	9,87,675
5. Girdharidas Harivallabhdas Mills Ltd.		Ahmedabad	9,60,000
6. Indian Manufacturing Co., Ltd.	11- 1-'82	Bombay	9,00,000
7. Kaleeswarar Mills Ltd.	1906	Coimbatore	6,50,000
8. Khandesh Spg. & Wvg. Co., Ltd.	16-11-'83	Bombay Pres.	7,50,000
9. Malabar Spg. & Wvg. Co., Ltd.	16-11-'83	Malabar	6,00,000
10. Nutan Mills Ltd.		Ahmedabad	5,00,000
11. Phoenix Mills Ltd.	27- 1-'05	Bombay	8,00,000
12. Rajanagar Spg. & Wvg. Co., Ltd.		Ahmedabad	9,60,000
		Total Rs. ...	90,74,975
	No. of Companies.	Paid-up share capital.	
Grand Total ...	71	Rs. 20,78,18,753	

THE SUGAR INDUSTRY

Group A (Above Rs. 20 lakhs)

1. Balrampur Sugar Co., Ltd.	27- 2-'33	U. P.	28,00,000
2. Belapur Co., Ltd.	27-10-'19	Bombay	37,59,800
3. Cawnpore Sugar Works Ltd.	23- 4-'94	U. P.	25,00,000

4.	Carew & Co. Ltd.	..	..	..	11- 6-'75	U. P. & Bengal	
5.	Deccan Sugar & Abkhari Co., Ltd.	..	..	..	22- 2-'07	Madras	40,00,000
6.	East India Distilleries & Sugar Factories Ltd.	..	..	..	1897	Madras	23,60,000
						(£.2,80,000)	37,33,333	
7.	Gwalior Sugar Co., Ltd.	..	..	..	1940	Gwalior State	25,00,000
8.	Kesar Sugar Works Ltd.	..	..	..	1- 8-'33	U. P.	37,50,000
9.	Durbhanga Sugar Co., Ltd.	..	..	..	1914	Bihar	26,00,000
10.	Mysore Sugar Co., Ltd.	..	..	..	30- 1-'33	Mysore	21,79,280
11.	Ravalgaon Sugar Farm Ltd.	..	..	..	8- 2-'33	Bombay	40,00,000
12.	Rohtas Industries Ltd.	..	..	..	18- 3-'33	Bihar	30,00,000
							Total Rs. ...	3,71,82,413

Group B (Between Rs. 10 and 20 lakhs)

1.	Basti Sugar Mills Co., Ltd.	..	..	..	9- 8-'27	U. P.	12,00,000
2.	Belsund Sugar Co., Ltd.	..	..	..	19- 9-'32	Bihar	10,49,950
3.	Buland Sugar Co., Ltd.	..	..	..	1934	Rampur State	18,00,000
4.	Champaran Sugar Co., Ltd.	..	..	..	4-11-'05	Bihar	18,00,000
5.	Godavari Sugar Mills Ltd.	..	..	..		Bombay	20,00,000
6.	Harinagar Sugar Mills Ltd.	..	..	..	1933	Bihar	10,00,000
7.	Hindustan Sugar Mills Ltd.	..	..	..	24-11-'31	U. P.	15,00,000
8.	India Sugar & Refineries Ltd.	..	..	..	13- 4-'33	Madras	11,22,900
9.	Maharashtra Sugar Mills Ltd.	..	..	..	29- 7-'33	Bombay	10,00,000
10.	Modi Sugar Mills Ltd.	..	..	..	1932	U. P.	12,00,000
11.	Nawabganj Sugar Mills Co., Ltd.	..	..	..	7- 3-'32	U. P.	12,00,000
12.	New Savan Sugar & Gur Refining Co., Ltd.	..	..	..	18-12-'18	Bihar	11,00,000

Name of the Company.	Date of Incorporation.	Location of Mills	Paid-up Share Capital Rs.
Group B (Between Rs. 10 and 20 lakhs)—Contd.			
13. Punjab Sugar Mills Co., Ltd.	13- 2-'20	U. P.	12,00,000
14. Purtabpore Co., Ltd.	6- 4-'22	U. P.	15,00,000
15. Ramnagar Cane & Sugar Co., Ltd.	1936	U. P.	14,00,000
16. Ratna Sugar Mills Co., Ltd.	15- 2-'33	U. P.	15,00,000
17. Raza Sugar Co., Ltd.	1933	U. P.	15,00,000
18. Samastipur Central Sugar Co., Ltd.	16- 1-'19	Bihar	12,00,000
19. Shree Hanuman Sugar Mills Ltd.	17- 1-'32	Bihar	10,00,000
20. Shree Kirshna Gyandeo Sugar Co., Ltd.	1936	Bihar	10,00,000
21. Shree Radha Krishna Sugar Mills Ltd.	21- 5-'33	Bihar	19,06,890
22. South Bihar Sugar Mills Ltd.	17-12-'32	Bihar	13,25,000
23. United Provinces Sugar Co., Ltd.	10- 9-'24	U. P.	16,00,000
24. Upper Doab Sugar Mills Ltd.	10- 1-'33	U. P.	13,75,000
25. Upper Jamna Swadeshi Sugar Mills Ltd.	14- 3-'32	U. P.	15,00,000
26. Upper India Sugar Mills Ltd.	1939	U. P.	12,00,000

Total Rs. ... 3,51,79,740

Group C (Below Rs. 10 lakhs)

1. Bharat Sugar Mills Ltd.	13-10-'31	Bihar	5,00,000
2. Deoria Sugar Mills Ltd.	1936	U. P.	6,00,000
3. Ganesh Sugar Mills Ltd.	16- 1-'32	U. P.	8,00,000
4. Gaya Sugar Mills Ltd.	23- 3-'33	Bihar	9,00,000
5. New India Sugar Mills Ltd.	4- 5-'33	Bihar	8,12,700

THE PAPER MILL INDUSTRY—(Contd.)

Name of the Company	Date of Incorporation	Location of mills	Paid-up Share Capital Rs.
3. Mysore Paper Mills, Ltd.	20- 5-'36	Mysore	25,00,000
4. Orient Paper Mills Ltd.*	25- 7-'36	Orissa	30,88,000
5. Shree Gopal Paper Mills Ltd.*	5-11-'36	Punjab	32,50,000
6. Star Paper Mills, Ltd.	1936	U. P.	40,00,000
7. Titaghur Paper Mills Co., Ltd.*	28- 7-'82	Bengal	48,38,250
8. Upper India Couper Paper Mills Co., Ltd.	28-10-'79	U. P.	8,00,000
Total Rs. ...			2,00,06,330

*N. B.—The above figures of paid-up capital relate to 1939-40. Recently (after 1944) these Companies have increased their paid-up share capital as follows:

	Ra.
Orient ..	1,00,97,500
Shree Gopal ..	57,78,500
Titaghur ..	1,00,90,500

THE CEMENT INDUSTRY

1. Associated Cement Companies, Ltd.	1- 8-'36	10,58,13,200
2. Dalmia Cement, Ltd.	1937	1,49,84,627
Total Rs. ...		12,07,97,827

THE JUTE MILL INDUSTRY

Group A (Above Rs. 30 lakhs)

1.	Adamjee Jute Mills Ltd.	..	..	..	5-11-'27	Bengal	41,70,000
2.	Anglo-India Jute Mills Ltd.	..	..	..	2- 1-'17	"	76,82,900
3.	Bally Jute Co., Ltd.	..	..	..	21- 2-'18	"	40,00,000
4.	Barnagore Jute Factory Co., Ltd.	..	..	..	1872	" (£4,75,000)	63,33,333
5.	Birla Jute Mfg. Co., Ltd.	..	..	..	25- 8-'19	"	47,97,200
6.	Champadany Jute Co., Ltd.	..	..	..	5-10-'21	"	59,16,400
7.	Clive Mills Ltd.	..	..	..	1- 8-'92	"	32,00,000
8.	Ganges Mfg. Co., Ltd.	..	..	..	10- 8-'16	"	90,32,100
9.	Gouripur Co., Ltd.	..	..	..	29-10-'95	"	50,50,000
10.	Hastings Mills Ltd.	..	..	..	26- 2-'35	"	45,00,000
11.	Howrah Mills Co., Ltd.	..	..	..	18- 8-'90	"	52,50,000
12.	Hukumchand Jute Mills Ltd.	..	..	..	25- 9-'19	"	70,00,000
13.	India Jute Co., Ltd.	..	..	..	15- 8-'16	"	87,30,000
14.	Kamarhatty & Co., Ltd.	..	..	..	28- 9-'77	"	40,00,000
15.	Khurdah Co., Ltd.	..	..	..	12- 7-'95	"	45,00,000
16.	Kankanarrah & Co., Ltd.	..	..	..	31-12-'82	"	40,00,000
17.	National Co., Ltd.	..	..	..	19- 1-'17	"	40,00,000
18.	Nuddea Mills Ltd.	..	..	..	4- 8-'16	"	24,91,000
19.	Premchand Jute Mills Ltd.	..	..	..	2- 5-'28	"	39,96,270
20.	Reliance Jute Mills Co., Ltd.	..	..	..	25-10-'06	"	36,50,000
Total Rs. ...							10,22,99,203

Name of the Company				Date of Incorporation	Location of Mills	Paid-up Share Capital Rs.
Group B (<i>Between Rs. 20 lakhs and Rs. 30 lakhs</i>)						
1.	Agarpara Co., Ltd.	..	..	19-12-'27	Bengal	25,00,000
2.	Albion Jute Mills Co., Ltd.	..	..	2-12-'09	"	21,00,000
3.	Alliance Jute Mills Co., Ltd.	..	..	21- 9-'95	"	30,00,000
4.	Auckland Jute Co., Ltd.	..	..	6- 7-'08	"	30,00,000
5.	Belvedere Jute Mills Co., Ltd.	..	..	23- 7-'06	"	21,00,000
6.	Budge Budge Jute Mill Co., Ltd.	..	..	31-12-'92	"	27,00,000
7.	Cheviot Mills Co., Ltd.	..	..	22-11-'19	"	25,95,000
8.	Dalhousie Jute Co., Ltd.	..	..	25- 9-'03	"	30,00,000
9.	Fort Gloster Jute Mfg. Co., Ltd.	..	..	24- 4-'90	"	28,00,000
10.	Fort William Jute Co., Ltd.	..	..	17-10-'11	"	24,00,000
11.	Kinnison Jute Mills Co., Ltd.	..	..	14- 9-'99	"	30,00,000
12.	Lawrence Jute Co., Ltd.	..	..	27- 2-'06	"	25,00,000
13.	Lothian Jute Mills Ltd.	..	..	11- 1-'16	"	20,00,000
14.	Megna Mills Ltd.	..	..	8- 6-'20	"	24,49,560
15.	New Central Jute Mills Co., Ltd.	..	..	26-10-'15	"	24,50,000
16.	North Brook Jute Co., Ltd.	..	..	27- 1-'08	"	23,00,000
17.	Orient Jute Mills Co., Ltd.	..	..	4- 8-'16	"	24,91,000
18.	Presidency Jute Mills Co., Ltd.	..	..	22- 9-'19	"	25,00,000
19.	Rameshwara Jute Mills Ltd.	..	..	20- 8-'35	Bihar	27,00,000
20.	Standard Jute Co., Ltd.	..	..	30- 8-'95	Bengal	23,00,000
21.	Waverley Jute Co., Ltd.	..	..	20- 8-'16	"	27,00,000
Total Rs. ...						5,35,85,560

THE COAL MINING INDUSTRY

Name of the Company		Date of Incorporation	Location of Mines	Paid-up Share capital Rs.
Group A (Above Rs. 10 lakhs)				
1.	Amalgamated Coalfields Ltd.	12-5-'24	C. P.	10,68,060
2.	Apea Collieries Ltd.*	1-7-'20	—	13,00,000
3.	Baraboni Coal Concerns Ltd.	13-6-'05	Bengal	19,92,520
4.	Bengal Coal Co., Ltd.	24-7-'58	Bengal	40,00,000
5.	Balgora Coal Co., Ltd.	28-4-'04	Bihar	16,00,000
6.	Bokaro & Ramgur Ltd.	21-12-'07	Bihar	12,80,000
7.	Burrakur Coal Co., Ltd.	19-4-'01	Bengal	68,46,040
8.	Dhemo Main Collieries Ltd.	27-7-'16	Bengal	16,00,000
9.	East India Coal Co., Ltd.†	1893	Bihar (₹ 1,20,000)	16,00,000
10.	Equitable Coal Co., Ltd.	12-3-'95	Bengal	33,63,770
11.	Karanpura Development Coal Co., Ltd.*	14-7-'20	Bengal	20,00,000
12.	New Beerbhoom Coal Co., Ltd.	6-5-'73	Bengal	19,76,230
13.	Ranigunj Coal Association Ltd.	2-1-'21	Bihar	12,00,000
14.	Rewa Coalfields Ltd.	19-4-'30	Rewa (Central India)	13,50,000
15.	Samla Collieries Ltd.	17-11-'27	Bengal	18,40,000
16.	Singareni Collieries Ltd.	23-12-'20	Hyderabad State	63,21,450
17.	South Karanpura Coal Co., Ltd.	23-8-'21	Bihar	17,50,000
18.	Talcher Coalfields Ltd.	23-11-'21	Orissa	20,00,000
Total Rs. ...				4,30,88,070

Group B (Between Rs. 5 lakhs and Rs. 10 lakhs)

1.	Adjai Collieries Ltd.	..	..	9- 4-'25	Bengal	5,25,000
2.	Bhulanbararee Coal Co., Ltd.	..	..	9- 8-'06	Bihar	7,15,000
3.	Borrea Coal Co., Ltd.	..	..	10- 2-'91	"	9,00,000
4.	Budruchuck Coal Mining Co., Ltd.†	..	..	12-12-'07	"	5,00,000
5.	Burra Dhemo Coal Co., Ltd.	..	..	5- 2-'08	Bengal	8,12,500
6.	Central Kurkend Coal Co., Ltd.†	..	..	1901	Bihar	8,35,000
7.	Hurriladhi Coal Co., Ltd.	..	..	19- 7-'01	Bengal	8,00,000
8.	Katras Jheria Coal Co., Ltd.	..	..	4- 8-'93	Bengal & Bihar	5,00,000
9.	Kuardi Coal Co., Ltd.	..	..	1-11-'06	Bengal	5,50,120
10.	Mundulpoor Coal Co., Ltd.	..	..	25- 5-'07	Bengal	5,65,750
11.	Nazira Coal Co., Ltd.	..	..	20- 2-'13	Assam	7,48,240
12.	Oriental Coal Co., Ltd.	..	..	31- 8-'36	Bengal	5,00,000
13.	Parasea Collieries Ltd.	..	..	29- 1-'08	Bengal	8,00,000
14.	Pariapur Collieries Ltd.†	..	..	18- 3-'18		6,61,600
15.	Pench Valley Coal Co., Ltd.	..	..	31- 8-'05	C. P.	7,87,500
16.	Satpukuria & Asansol Collieries Ltd.	..	..	16-11-'07	Bengal	8,00,000
17.	Sendra Coal Co., Ltd.	..	..	16-12-'07	Bihar	8,00,000
18.	Standard Coal Co., Ltd.	..	..	7-12-'00	Bihar	8,00,000
19.	West Jamuria Coal Co., Ltd.	..	..	24- 3-'00	Bengal	7,00,000
Total Rs. ...						<u>1,33,00,710</u>

Group C (Below Rs. 5 lakhs)

1.	Adjai Valley Coal Co., Ltd.*	..	..	..	Bengal	1,70,000
2.	Bansra Coal Co., Ltd.	..	..	15- 2-'08	Bengal	1,92,495

Name of the Company	Date of Incorporation	Location of Mines	Paid-up Share Capital. Rs.
Group C (Below Rs. 5 lakhs)—Contd.			
3. Bengal Bhatdee Coal Co., Ltd.	27-11-'06	Bengal	4,49,350
4. Bengal Nagpur Coal Co., Ltd.	18-12-'90	Bihar	3,37,500
5. Borkola Coal Co., Ltd.*	31- 3-'19	Bengal	4,98,500
6. Churulia Coal Co., Ltd.	20- 5-'18	Bengal	1,50,000
7. Deoli Coal Co., Ltd.	4- 1-'17	Bihar	4,50,000
8. Dhansar Coal Co., Ltd.†	30- 9-'24	Bihar	1,39,000
9. East Buggatdish Collieries Ltd.†	4- 7-'34	Bihar	1,20,000
10. Garo Hills Corporation Ltd.*	1-10-'24		4,18,000
11. Ghusick & Muslia Collieries Ltd.	2- 5-'07	Bengal	3,90,000
12. Girivaint Coal Co., Ltd.*	20- 5-'27		3,50,000
13. Govindpur Coal Co., Ltd.*	14-10-'07		2,00,000
14. Hingir Rampur Coal Co., Ltd.*	21- 8-'09		4,29,400
15. Hooghly Coal Co., Ltd.	23- 6-'15		2,03,135
16. Jaintry (Central) Colliery Ltd.	19-12-'16	Bihar	4,55,000
17. Kalapahari Coal Co., Ltd.	12- 1-'17	Bengal	3,50,000
18. Kantaboya Coal Co., Ltd.*	27- 4-'25		1,20,000
19. Khas Kajora Coal Co., Ltd.	21-11-'21	Bengal	3,31,400
20. Khoodia Coal Co., Ltd.†	13-31-'19	Bihar	2,50,000
21. Lakurka Coal Co., Ltd.	23- 1-'07	Bengal	4,50,000
22. Madanpur Girdish Collieries Ltd.*	5- 1-'22		2,97,350
23. Moira Collieries Ltd.*	25- 5-'07		3,95,000
24. National Coal Co., Ltd.†	20- 2-'08	Bengal	2,60,620
25. New Bansdeopur Coal Co., Ltd.	1- 9-'36	Bihar	2,00,000
26. New Jinagarah Coal Co., Ltd.*	21- 3-'18	Bihar	2,00,000

GROUP C (Below Rs. 5 lakhs)—Contd.

27.	New Manbhoom Coal Co., Ltd.	..	..	..	18- 6-'96	Bihar	3,00,000
28.	New Sinidhi Coal Co., Ltd.	..	..	..	9-3 -'14	Bengal	3,50,000
29.	New Tetturya Coal Co., Ltd.*	..	..	..	31- 1-'07	Bengal	3,48,330
30.	North Damuda Coal Co., Ltd.	..	..	..	1- 4-'08	Bengal	2,50,000
31.	North West Coal Co., Ltd.	..	..	..	6- 6-'06	Bihar	2,72,500
32.	Ondal Coal Co., Ltd.	..	..	..	19- 2-'97	Bengal	4,50,000
33.	Pure Sitalpur Coal Co., Ltd.	..	..	..	31- 8-'33	Bengal	2,50,000
34.	Ratibhai Collieries Ltd.*	..	..	..	22- 1-'21		3,00,000
35.	Sarakdih Syndicate Ltd.*	..	..	..	9-11-'16		1,00,000
36.	Searsole Coal Co., Ltd.	..	..	..	23- 1-'17	Bengal	1,25,000
37.	Seebpore Coal Co., Ltd.	..	..	..	26- 6-'00	Bengal	2,80,000
38.	Shampore Coal Co., Ltd.†	..	..	..	26- 2-'96	Bihar	2,00,000
39.	Singaran Coal Syndicate Ltd.†	..	..	..	1895	Bengal	1,37,500
40.	Trans Adjai Collieries Ltd.*	..	..	..	9- 9-'20		4,90,000
41.	Union Coal Co., Ltd.	..	..	..	3- 1-'08	Bengal	3,50,000
Total Rs. ...							1,20,10,080

Grand Total	No. of Companies 78	Paid-up Share Capital Rs. 6,83,98,260
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*These 17 companies being not included in the Thacker's Directory of Indian Industries (1940-41) may be presumed as dissolved.

†These 3 companies were subsequently added to our original list of 75 companies (For details see our note).

‡These 7 companies could not be analysed due to non-availability of their balance-sheets for the years 1936-44.

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