

# **Financing Small Scale Industries in India 1950-1952**

**G. Balakrishnan**

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GOKHALE INSTITUTE OF  
POLITICS & ECONOMICS  

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## FOREWORD

This publication of the Institute represents a revised and abridged version of a Ph.D. thesis submitted for examination in 1959. Its main interest lies in the detailed account that it gives of the finances of a sample of small-scale units in modern industry in India. Though considerable analytical data are available in relation to large-scale businesses, little is known about the finance, operation, profitability, etc. of small-scale industry in India. The data relating to small industry and the comparisons with operations of large-scale units are thus valuable even though the information is somewhat out of date. The thesis exemplifies the use of generally developed methods of financial analysis in relation to this particular field and the application of generally accepted concepts to it. From this point of view also the publication should be found to be of interest.

Gokhale Institute of  
Politics and Economics,  
Poona 4.  
14th November 1961.

D. R. Gadgil

## PREFACE

This monograph "Financing Small-Scale Industries in India 1950-52" is a condensed version of my thesis "Financial Experience of Small Companies in India during 1950-52" which was accepted for the degree of Doctor of Philosophy in Economics by the University of Poona in 1959. Although the period of the study is rather old now, it is being published in the hope that the methodology adopted may aid further research on the subject of Industrial Finance. This being the object of publication, a word of explanation is necessary regarding the arrangement of the subject matter. The first chapter deals with the scope and limitations of the study. As a very good grasp of the various terms used in the main sources of information for studying Company finance, namely the profit and loss account and the balance sheet, is necessary, the terms used in it are explained as also their limitations. This may appear elementary for students of Accountancy. The second chapter deals with the economic and industrial developments during 1950-52. The paragraphs dealing with the industrial developments are not adequate as a background for studying their finances for industries other than Tea. This is mainly because of the inadequacy of further ready information on the subject. It may be possible by further research to know the various problems the industries had to face during the period and use this in explaining the performance of the industries as revealed by the examination of their consolidated financial position. With the available information regarding the real conditions of the industries, the next chapter examines the financial experience of about 10 small-scale industries. As information regarding the structure and working of only the Tea industry is available in great detail and as the line of analysis followed may be the same for the other industries also, a detailed analysis of the data concerning only the Tea industry has been made. In the case of Electricity industry also, the financial structure is analysed in some detail, but as regards the other industries only a paragraph highlighting the important feature is given. It will be possible by the further sifting of the main data in respect of the other industries to find out any other information. Although, all the industries studied here are predominantly small-scale industries in the sense that by numbers small units (with less than Rs. 5 lakhs as paid-up capital) predominate, there are also large firms in these industries; Chapter IV examines the financial experience of large companies vis-a-vis the small companies. Throughout the monograph an attempt has been made to keep the length to the minimum necessary, consistent with the object of publication stated above.

I am greatly indebted to Professor D. R. Gadgil for the very valuable guidance and encouragement which he has given me not only when I was

a student for the degree, but also in shortening the thesis. It is no exaggeration to say that but for him the study might not have been completed. My thanks are also due to the University of Poona for providing financial assistance and to the Reserve Bank of India for supplying the balance sheets of companies. Finally, I should like to express my gratitude to the Gokhale Institute of Politics and Economics, Poona, with the kind co-operation of which this is being published.

G. Balakrishnan

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## Chapter I

### SCOPE AND LIMITATIONS

THIS STUDY analyses the financial experience of public limited joint stock companies in India during 1950-52 in certain manufacturing industries in which small units predominate and so may be called small-scale industries. The industries studied are Tea, Electricity, Chemicals, Pharmaceuticals, Matches, Ceramics, Silk and Woollen, Vegetable Oil, Printing and Publishing, and Cotton Ginning. As there are also larger units in some of these industries the companies have been classified into two size-groups, viz. those having a paid-up capital of not more than Rs. 5 lakhs, hereinafter called as small, and those exceeding Rs. 5 lakhs, which are called as large companies. The data in respect of the small companies have been compiled direct from the balance sheets, profit and loss accounts, and Directors' reports of the companies. For the large companies, the data have been published by the Reserve Bank of India.\*

**Assets :** The method that has been employed here for obtaining the financial position of an industry is that of combining financial statements of individual companies by adding together like items in all the balance sheets available in an industry. As the balance sheets and profit and loss accounts of the companies have been the main sources of information, an examination of their nature and limitations, in general, and in India in particular, will reveal how far valid the conclusions that emerge from an analysis of these will be.\*\* It may be better to consider these limitations by explaining different constituents which make up the balance sheet. The balance sheet shows assets and liabilities under various heads, and the importance of each head depends on the type of business which a company is engaged in. In the case of manufacturing companies, the assets can be classified into two distinct categories, viz. fixed assets and current assets. "Fixed assets" consist of properties kept permanently in an enterprise, such as land, buildings, and equipments, while current assets are properties which are not permanent but which revolve from day to day being acquired and disposed of in the normal course of business, e.g., merchandise, receivable and cash. Current assets constantly change their form, e.g., cash to merchandise, merchandise to receivables and back to cash. The fixed tangible assets may be classified in order of permanence under four heads — land, buildings, plant and machinery, and other fixed assets. In the accounts of a company, the amounts shown under each head of fixed assets generally

\* *The Reserve Bank of India Bulletin*, July 1955.

\*\* The Companies Act, 1956, has attempted to improve the presentation of Balance Sheets and Profit and Loss Accounts.



relate to the actual (original or historical) cost to the company. "Land" takes into account the original cost including the amount of mortgages or other liens assumed of land and interest on land for use directly in connection with the business operations of the company such as factory and office buildings, estates, shops, garages, stations, terminals, waiting rooms, warehouses, etc. "Buildings" denote permanent structures to house, support or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings. "Plant and machinery" represent the value of all tangible plants and machinery including, in addition to actual price thereof, sales taxes, incidental expenses incurred in the process of purchasing, transportation, and erecting them up to the stage the equipment is in readiness to operate. The main items under "Other fixed assets" are furniture and fittings, dead stock, laboratory equipment, library, small tools, temporary structures on land, improvements in land such as private roads, street lighting etc. In balance sheets normally data regarding original value of various items under fixed assets are given followed by depreciation written off till the beginning of the accounting period, depreciation provided during the year, and finally, the net values. Some balance sheets present only written-down value at the beginning of the accounting period, depreciation provision during the year, and the net values. Some companies show original cost on the assets side and a consolidated depreciation fund in respect of all items of fixed assets on the liabilities side. "Current assets" include inventories, receivables, investments, E.P.T. deposits, cash balances and other miscellaneous assets. "Inventory" denotes the stock of goods on hand or out on consignment, and merchandise in transit; this consists of raw material, work-in-progress, finished goods, stores and other sundry items. The method of presentation of data relating to breakdowns of inventory varies not only between industries but also between different units in the same industry, and sometimes, between different years of the working of the same company. Sometimes stocks are shown separately under various heads such as raw materials, finished goods, etc. In some balance sheets, raw materials and finished goods are combined under "Stocks-in-trade". Sometimes, stocks include some element of stores or of food-grains. In many instances raw materials and stores are combined. Inventories are commonly valued at cost or market value whichever is less. The valuation is often made on *ad hoc* basis. It is also alleged that some companies keep secret reserves by manipulating the basis of valuation of inventory. Hence the figures of inventory, presented in balance sheets, may be subject to a high margin of error. "Receivables" represent book debts, advance against goods, and others. The amounts to be received by the company from its customers, agents, and other parties in respect of transactions with it are shown under "Book debts". "Advance against goods" includes amounts due to the company for materials and supplies furnished and services rendered; advances for contracts or for building materials and such other raw materials or primary

goods and services supplied or rendered to the company. The main items under "Other receivables" are rents, interest, dividends, sundry claims pending such as those from insurance companies, banks and other institutions, sundry items of amounts recoverable from staff or agents, e.g., fines, penalties, etc. The book value of investments in government, industrial and other securities which are readily marketable, and other similar investments acquired by the company for the purpose of temporarily investing cash constitute "Investments". Investments may be compulsory according to law or usage, e.g., investments in securities of amounts relating to employees' provident fund, pension or gratuity funds, investments in sinking funds for redemption of debentures or redeemable preference shares or such other obligations which necessitate investment of funds outside the company for reasons of security or necessity. "Other investments" include investments in real estates or other equipments which are not directly concerned with the operating activities of the company. Investments in subsidiary companies are neither readily marketable nor can be drawn upon to meet any financial contingencies. These are like long-term investments of the company and are shown under "Non-current assets". According to the requirements of the Company Law, the companies are obliged to indicate the basis of valuation of investments, i.e. whether at book value or at market value. These requirements are complied with by almost all companies; however, it is not possible to get either the total market value or the total cost value separately as many companies show only either of them.

*Liabilities:* The liabilities side of the balance sheet shows the sources from which funds are obtained to finance the assets. The principal items on the liabilities side are paid-up capital, borrowings, unpaid expenses, and profits ploughed back in the form of various kinds of reserves. "Paid-up capital" is the amount of called-up capital that has actually been paid up by the shareholders. This is comprised of ordinary, preference, and deferred shares. Sometimes forfeited shares are included under "Capital". Forfeited shares, however, represent a capital profit for the company, that is to say, profit not directly earned in the regular course of business of the company and therefore to be included under "Capital reserve". "Calls in advance" include the amount of instalments received on shares on a partial or instalment payment plan from subscribers in advance; as this item is in the nature of only an advance, it has been shown under current liabilities. "Reserves" bear different names like general reserves, development reserves, dividend equalization reserves, investment fluctuation reserves, capital reserves, etc. All these reserves except capital reserve represent the amounts set aside out of profits or other surpluses designed to strengthen the financial position of the company. Although capital reserves also strengthen the financial position of the company, their presence cannot be ascribed to the main business of the com-

pany but they rather represent the income made by the company by way of appreciation in the value of its land, building or other fixed assets or from forfeited shares or premium on shares or debentures or other earnings extraneous to the usual course of the business. As all the reserves, including "balance of profit", represent accumulated profits either of revenue or of capital and as they only strengthen the financial position of the company, they have all been clubbed together under the head "Own reserves." Depreciation reserve is quite different from "Own reserves" as it is not a surplus. Depreciation is generally shown on the assets side as a deduction from the gross value of fixed assets; in some balance sheets it is shown on the liability side as a reserve. The increase in accumulated depreciation at the end of a particular period compared with the previous accounting period should normally be equal to the provision for depreciation during the intervening period. This, however, is not generally the case on account of the following reasons: (i) internal transfers to and from the depreciation fund from or to other funds; (ii) depreciation deducted on account of discarded or sold-off machinery and other fixed assets; and (iii) marking-down of fixed assets as a result of revaluation. The main items under "Miscellaneous current liabilities" are: (i) outstanding payments; (ii) deferred credits; (iii) sundry advance receipts; and (iv) liabilities for other finance. "Miscellaneous non-current liabilities" are comprised of long-term liabilities of a concern not in the form of regular borrowings. They include staff security deposits, deposits from agents, and sometimes, from customers.

*Profit and loss accounts:* The assets and liabilities in the balance sheet refer to a particular point of time and do not give any idea of the expenditure incurred or income earned by the company. For this purpose most of the companies also present a trading and profit and loss account. It was not obligatory on the part of companies to file returns relating to particulars of income or expenditure, according to the Indian Companies Act, 1913. The 1913 Act had also not prescribed any form for the presentation of revenue accounts. Consequently considerable divergence is noticed in the profit and loss accounts of companies belonging to the same industry and sometimes even in the accounts of the same company as between different years. The main divergence is in the presentation of data relating to opening and closing stocks, purchasing and manufacturing expenses, and sales. The accounts can be broadly recognized under the following categories: (i) The opening stock of raw materials, work-in-progress, and finished goods are given separately on the debit side, followed by purchase of raw material stores, etc. during the year. Sales during the year are given on the credit side as also the closing stock of raw materials, finished goods, and work-in-progress separately. If accounts are available clearly in this form, the consumption of raw materials can be worked out by adding the raw materials purchased during the year and

the opening stock of raw materials and deducting therefrom the closing stock of raw materials. (ii) The opening stock of raw materials, work-in-progress, and finished goods are clubbed together followed by the purchase of raw materials during the year. But, as the closing stock is combined with other items, the opening or closing stock of raw materials is not separately available and so they have to be estimated and adjusted in the figures of purchase of raw materials to arrive at data relating to raw materials consumed. (iii) In some profit and loss accounts, the manufacturing and trading accounts are not at all presented. In these cases, data relating to stocks, manufacturing expenses, sales, salaries and wages, etc. are not known and they have been estimated. In view of the varieties of accounts to be dealt with, it has been possible to analyse profit and loss accounts only under items such as opening stock, manufacturing expenses, salaries and wages, sales, etc. "Opening stock of finished goods and work-in-progress" are asset items and represent stock of finished goods and work-in-progress that could not be disposed of or completed during the previous accounting period. It is sometimes seen that there is some difference between the figures of opening stock and the last year's closing stock, either due to subsequent revaluation or due to disposal of some of the previous stock during the current year. In such cases the previous year's figures have been suitably reworked to present comparable figures. "Manufacturing expenses" are composed of the cost of raw materials, fuel, electricity, etc. consumed during the course of the accounting period. "Salaries and wages" include wages of workers and also office salaries and bonus to employees; they also include the pay and allowances of officials and employees engaged in supervising and directing the operations of the company. Contributions to provident fund, gratuity, etc. which accrue to the share of labour have also been included under this head even though they may not be paid during the year and are of a long-term nature. In other words, under "Salaries and wages", the entire share of labour in the value of production has been taken into account. "Interest paid" represents interest in respect of all borrowings including debentures. In many balance sheets this item is shown net of interest received, interest received has been treated as a source of income and as such, wherever possible, the figure of interest received has been transferred to the credit side under "Other income". "Managing agency remuneration" takes into account the share of Managing Agents, Agents, or similar institutions as Secretaries, Treasurers and Agents; this includes the commission on purchases/sales, office remuneration and salaries and any other expenditure incidental to the conduct of business handled by the Agents for the managed companies. "Depreciation" on all types of fixed assets has been taken into account. "Miscellaneous expenses" are the residual items of expense and include legal expenses, royalties, rents, stationery, travelling expenses, outside auditing expenses, municipal tax, etc. "Tax provision" represents the provision made by the company towards payment of income-tax, super-

tax, corporation tax, business profits tax, etc., but excludes provisions in respect of central excise duties, municipal and state taxes. There may be no direct relation between tax provision during the year and gross profits or net profits, on account of the following reasons: (i) The basis of calculation done by the Income-tax Authority may be different. (ii) Every year some amounts are advanced to the Income-tax Department in respect of current year's income; this amount does not affect the profit and loss account. If the company finds later on that there is enough provision in the reserve earlier made or in the advances given to the Income-tax Department, it may provide only less amounts during the current year in respect of the current year's income. (iii) In the case of newly-started companies there are some exemptions for a few years, whatever the magnitude of profits be. Although there may thus be no direct relation between tax provision during a year and gross profits, the figures of tax provision and tax payments may tally over a period of years. The exact amount of tax paid cannot be arrived at from a study of balance sheets and profit and loss accounts. "Sales" include the total of cash and credit sales during the period. There are certain groups of industries wherein the main income arises from job works or from operational sources. Thus, in the case of electricity industry, the main income arises out of either the sales in bulk or the income derived from the distribution of energy or the hire of meters. For purposes of comparison between industries, and for a study of consolidated statements in respect of all the industries, the main income is shown under the head "Sales". "Other income" includes miscellaneous incomes or revenues such as interests, dividends, discounts, etc. received from other companies or other sources. Refunds of E.P.T. deposits, grants received from government or quasi-governmental bodies, income from the sale of discarded machinery, etc. are also sometimes shown under this head.

All the above-mentioned accounting data are not altogether statements of cold facts; they include statements of opinion as well. "The financial statements are comprised of data which are the result of a combination of (1) recorded facts concerning business transactions, (2) conventions adopted to facilitate the accounting technique, (3) postulates or assumptions made to implement the conventional procedures, and (4) personal judgements used in the application of the conventions and postulates".\* Four important limitations of financial statements have also been mentioned by Myer. The information contained in the financial statements is not precise because it deals with matters that cannot be measured precisely. The data are produced by conventional procedures developed by the accounting profession through many years of experience and generally applied by informed and prudent judgement. The statements do not

\* Myer F. N., Chapter II, Financial Statement Analysis.

reflect the financial condition of a business as there are usually many factors that have an important bearing on financial condition but are not part of financial statement data. The statements do not contain all relevant facts concerning the relation of the enterprise to the business world. Rather the statements are constructed on the financial accounting basis. The balance sheet does not show the value of assets in the ordinary sense of the word. It usually shows asset costs adjusted according to the conventional rules of accounting applicable to various assets. From this it follows that the balance sheet does not necessarily show what a business is worth. Finally, the profit shown in the profit and loss account is not absolute but relative, dependent as it is on the particular conventional procedure used in its accounting by the company from which a statement is compiled, these procedures having been selected from among various alternatives.

*Analysis of profit and loss accounts :* The combined balance sheet and the consolidated profit and loss account have been made use of to analyse the financial experience of industries. From the consolidated trading and profit and loss account, it will be possible to know the aggregate amount of expenditure incurred by the companies included in that industry and how it is made up of. Expenditure is broken down to manufacturing expenses, salaries and wages, managing agency remuneration, bad debts, and depreciation. This expenditure gives an idea of the total cost of production. The value of goods produced can be obtained by combining sales income and the difference of closing stock of finished goods and work-in-progress over the opening stock. The difference in the value of production and the cost of production is made use of by the companies to pay interest on their borrowed capital, taxes and dividends, and the rest is ploughed back. The rate of profit earned is one of the most important indexes of the financial position of any company. Three rates of profit are studied here, viz. the rates of gross profits (gross profits are here defined to include managing agents' remuneration, interest charges and provision for taxation, but exclude depreciation) to total capital employed (total capital employed has been defined as total net assets minus intangible assets) which is a measure of the rate of gross return on capital; the ratio of gross profits to gross sales which is a measure of the margin of profit on sales and the ratio of net profits (defined here as profits after tax and including only dividends distributed and ploughed back profits) to net worth (funds attributable to shareholders, i.e. paid-up capital and own reserves). The percentage of interest charges on the profit before interest is also an index of financial position. A low percentage may mean either that the companies are making higher rate of profit than the interest rate or that borrowed capital is low or that the rate of interest is low. If a higher portion of the profit before interest is claimed by interest itself, only a small amount will be available for distribution to

shareholders and for retention in business. The relative importance of interest, which is the return on borrowed capital and of dividends, which are the return on shareholders' capital, has also been reckoned with in this study. It has also been possible to analyse how the companies appropriate their profit after interest among taxes and dividends, and how much is retained.

*Balance sheet analysis*<sup>1</sup>: From the combined balance sheet, it is possible to know the pattern of the distribution of assets and liabilities and whether there is any difference between the small and large size-groups. Also it can be examined whether the companies have the most appropriate types of liabilities to finance their different kinds of assets. As to what are the most appropriate types of liabilities to finance each of the assets, no hard and fast rules can be laid down and this problem is dealt with in the following manner. Manufacturing companies require a large part of their assets like land, buildings, machinery and miscellaneous fixed assets permanently. Hence permanent liabilities\* seem to be the most appropriate to finance them. The permanent funds available for financing permanent assets are paid-up capital, depreciation reserve and own reserves. Permanent funds can also be secured through debentures. But the unpopularity of debentures in India and the risk involved in financing companies through debentures compared with paid-up capital are the reasons for the exclusion of debentures from permanent finance that can be used to finance permanent assets. Not only the fixed assets but also a part of the inventories are always an existing asset. If they are financed through temporary borrowings, a severe strain is placed on the financial management of the companies as the goods after production cannot be held in stock for better market. Possibly in their anxiety to sell the goods the companies may have to reduce prices and run into losses. Hence the most appropriate finance for the permanent part of the inventories seems to be the balance of equity sources not used to finance permanent assets, and in case of shortage of equity sources, long-term borrowings by mortgaging assets or issuing debentures. Apart from fixed assets (including intangible assets) and the permanent part of the inventories, all the other assets of manufacturing companies are liquid and so there does not seem to be any objection in financing them through short-term borrowings. To see how far the financial structure of the companies satisfies the above standards, the assets and liabilities have been classified as follows. Under permanent assets are included land, buildings, machinery, miscellaneous fixed assets and intangible assets, and under permanent liabilities are included paid-up capital, depreciation reserve and own reserves, which include general, development, contingency, dividend

\* It may be more appropriate to call this as long-term liabilities rather than permanent; the latter terminology is used because of the difficulties in translation.

equalization, capital, balance of profit or loss and other reserves. Then the relationship of permanent assets to permanent liabilities is examined by stating the former as a percentage of the latter. Apart from establishing a ratio between permanent assets and permanent liabilities, the relationship of current assets to current liabilities is also examined.\* The relationship of current assets to current liabilities is stated as a percentage of the former to the latter. A high percentage of current assets to current liabilities indicates that a large part of current assets is financed by permanent funds. The difference between current assets and current liabilities represents the "net working capital". Net working capital, on the liability side, represents the sum of the excess of equity finance over permanent assets and long-term borrowings (debentures and mortgages). The permanent part of the inventories should have cover by this net working capital. Although the importance of current ratio, i.e. the percentage of current assets to current liabilities varies with each industry, it is regarded conventionally, that for every one rupee of current liability there should be two rupees' worth of current assets to ensure the necessary liquidity. Although the relationship of current assets to current liabilities reveals the liquidity position of the companies, the liquidity position can also be tested by another ratio, namely, the percentage of liquid assets to current liabilities. For this purpose, liquid assets have been regarded as including all current assets other than inventories. If all current liabilities are matched by liquid assets, it would seem to suggest that the companies may not be experiencing any difficulty to meet their current obligations as and when they arise. In this manner, the liquidity position is examined here with reference to two ratios, viz. (a) percentage of current assets to current liabilities, and (b) percentage of liquid assets to current liabilities. It may be enough if a company satisfies one of the two standards, as the importance of inventory in the total assets differs from one industry to another. Apart from the three ratios mentioned above, viz., the percentage of permanent assets to permanent liabilities, percentage of current assets to current liabilities, and the percentage of liquid assets to current liabilities, two other ratios are studied here which relate to the structure of

\* Some non-current assets like investments in land or in co-operative concerns, and non-current liabilities like consumer contributions for connections, in electricity companies, have also been included under current assets and current liabilities respectively for this purpose, because they cannot be regarded as permanent, although they are not also purely temporary. Hence there is scope for some error, although a part of it may be cancelled as both miscellaneous non-current assets and miscellaneous non-current liabilities are included under current assets and current liabilities respectively for this purpose. Taxation reserves have been treated as current liability because they are in essence unpaid taxes. It is true that if over-provision has been made for taxes, a part of it is in the nature of permanent fund, but in absence of any ground for such presumption, for the purpose of this study, taxation reserves have been regarded as unpaid taxes.



liabilities only and they are also very important criteria of the financial position of the companies. There is an important difference between shareholders' funds in the companies and outsiders' funds (i.e. other than shareholders'). Shareholders' funds are, in the strict sense, not liabilities at all for the companies. The percentage of outside funds (all liabilities other than paid-up capital, own reserve and depreciation reserve) to shareholders' funds called here as net worth (paid-up capital and own reserves) shows the importance of outside financing in the companies. As a large part of outside funds are current liabilities, the percentage of current liabilities to net worth is also significant.

*Sources and uses of funds* : To seek for the reasons for the changes in the financial relationship between assets and liabilities during the period of this study and to trace the sources from which funds were obtained by the companies and the uses to which they were put, the sources-and-uses-of-funds technique of analysis has been employed by classifying the funds into permanent, current, liquid and others. Funds are obtained by companies either by ploughing back profits or by increasing liabilities like paid-up capital and borrowings or by liquidating some of their assets like inventories, investments etc. Funds obtained from these sources can be made use of either to expand assets or to repay borrowings, or to meet losses, or to pay dividends even if profits are not made. Although it is not possible to know all the sources and uses of funds during a year from the analysis of two consecutive balance sheets alone, a considerable part of such information can be obtained by tabulating the changes in the constituents of two balance sheets. Although it is also not possible to match the items on the one side with those on the other of the balance sheet and to pair off uses with sources, both the sources and uses of funds can be classified as permanent, current, liquid and others consisting of long-term borrowings like mortgages and debentures. Under permanent sources of funds are included funds obtained by ploughing back profits as depreciation and own reserves, increases of paid-up capital and diminished permanent assets, assuming that these permanent assets were originally financed through permanent funds. Permanent uses of funds are comprised of expenditure on the expansion of permanent assets and losses carried forward, described as "Dissaving". Current sources of funds are obtained either by incurring short-term liabilities or by liquidating current assets. Current uses of funds consist of expenditure incurred to increase current assets like inventory, receivables, cash balances, etc., and diminished current liabilities like bank borrowings, dues to trade, etc. By liquid sources of funds are meant funds obtained by making the companies illiquid. These are funds obtained by disposing of liquid assets of the categories receivables, investments, etc., and by increasing current liabilities like bank borrowings, trade dues, etc. It is true that a close relationship exists between the current and the liquid sources of funds and that

the latter exclude from the former only inventory. By classifying the sources-and-uses-of-funds statements into permanent, current, and liquid, considerable amount of useful information can be obtained. The foregoing analysis also discloses whether during any year permanent sources of funds fell short of the permanent uses, indicating that there was, perhaps, need for more permanent funds. It will also be possible by the application of this tool of analysis to account for changes in the liquidity position during any one year as compared with that of the previous year.

*Measurement of capital formation :* Apart from the above analysis an enquiry is also made into the capital formation of the companies as well as the sources of their financing.\* Estimates of capital formation can be made either for the economy as a whole or for any sector thereof either by measuring changes in fixed capital and stock or by estimating the funds used for financing capital formation or by what may be called investment and savings method respectively. In this study, the problem of capital formation in the industrial sector is approached from both the angles. Changes in assets as well as the sources of finance, both external and internal, available for formation of assets are dealt with here. In order to get a clear picture of the pattern of investment and its financing, the entire increase in the assets of business including building, investments and cash, as also the whole increase in liabilities including short-term liabilities have necessarily to be reviewed. Net capital formation differs from gross capital formation in that the former is measured after allowances are made for depreciation, obsolescence and accidental damage to fixed capital. Conceptually, net capital formation represents the addition to the fixed and the working capital available for future production, i.e. net capital formation is obtained by deducting from gross capital formation the value of all durable goods used up in the production process. Even when an asset is replaced either because it is physically worn out or because it has become technologically obsolete, there is usually a certain addition to capacity; for, with the rate of technical advance that is taking place, there is no replacement of like for like; thus there is an improvement (net capital) element in replacement of plant and machinery, which cannot be precisely ascertained and included in the estimates of net capital formation. The adequacy or otherwise of depreciation allowances complicates the estimation of net capital formation. The only practicable way to estimate net capital formation is by allowing for depreciation as provided for by the companies themselves, though practice in this respect varies widely. Gross capital formation in industry, which is easier to measure, is treated as equivalent to all additions to fixed assets, net increase in inventory, and increase in investments, lendings and cash. However, it is changes in the two items, fixed assets and inventories, that

\* The method followed here is similar to that of the Taxation Enquiry Commission and the Reserve Bank of India.

measure the investment aspect of capital formation. While the liabilities side of the balance sheet indicates the sources of funds, the assets side throws light on their uses in gross and net fixed assets, volume of inventories, etc.\*

\* While measuring capital formation, decrease of assets is not regarded as a source of fund but as negative capital formation. Similarly, decrease in liabilities is not regarded as a use of fund but as a negative source of fund. Apart from this, two other changes are made while presenting the capital-formation statement. One arises from the presence of an exceptional item, viz. excess profit tax deposits in the balance sheets, which is a diminishing asset. Its diminution is regarded as a source of fund rather than as negative capital formation. Another adjustment relates to the existence of certain miscellaneous items in the balance sheets, which are not clearly defined, and which are included in this study under miscellaneous current assets, intangible assets, miscellaneous current liabilities and miscellaneous non-current liabilities. In measuring capital formation, increases in miscellaneous current assets and intangible assets are not regarded as capital formation, but they are deducted from the increase in miscellaneous current liabilities and miscellaneous non-current liabilities and shown as a source of finance for capital formation.

## Chapter II

### ECONOMIC AND INDUSTRIAL DEVELOPMENTS DURING 1950-52\*

THE PERIOD to which this study relates, viz. 1950-52,\*\* falls into three broad divisions: (i) pre-Korean War period, (ii) Korean War period and the resulting boom, and (iii) post-Korean War period and the recession which followed the war. The accounts of the companies reflect these three phases in the three years of the study. The Economic Advisers' general index of wholesale prices (Base-year ended August 1939-100) rose by 15.6 per cent between June 1950 (pre-Korean War) and April 1951, when the peak of the Korean War boom was reached. After this, there was a decline which culminated in the sharp recession of February 1952 with an aggregate fall of 19.8 per cent in the general index over the April 1951 level. The index, however, recovered between May 1952 and August 1953, rising by 11.8 per cent. Converted to a 1949 base, the index works out to 105, 115, 101 and 103 for 1950, 1951, 1952 and 1953 respectively. The all-India cost of living index (Base 1949-100) was 101 for 1950, 105 for 1951, 103 for 1952 and 106 for 1953. Among the components of price level it is industrial raw materials that have recorded the highest changes. Hence the manufacturing expenses of companies were subjected to large fluctuations. The price index of industrial raw materials was 491 in June 1950 (Base August 1939-100). This increased by 39.2 per cent and stood at 683 in April 1951. In May 1952, it declined to 416, i.e. a decline of 39.0 per cent. The price index of semi-manufactured articles (Base August 1939-100) was 336 in June 1950. This increased by 15.6 per cent and stood at 388 in April 1951 and declined by 16.7 per cent in May 1952 by being only 323. The price index of manufactured articles was 348 in June 1950 (Base August 1939-100) and this increased by 18.4 per cent and stood at 412 in April 1951. This declined by 9.8 per cent in May 1952 and stood at 371. As regards the index of industrial production (Base 1946-100) it stood at 105 in 1950 and rose to 117 in 1951, 129 in 1952 and further to 135 in 1953.

\* This chapter, for its discussion on economic developments, has drawn heavily from the report of the Central Board of Directors of the Reserve Bank of India for 1953-54. The Reserve Bank Report, it may be pointed out, is a highly rationalized post-facto account.

\*\* In the case of small companies, balance sheets closing any time during a year have been regarded as pertaining to that year, whereas in the case of large companies, the accounting periods end between July 1 of the year and June 30 of the next year. As 177 of the 269 companies analysed here closed their accounts between June and December, a majority of the small companies fall within the accounting year adopted for large companies.

In September 1949, the rupee was devalued by 30.5 per cent in terms of the dollar, along with the currencies of a large number of other countries. Following this, there was a spurt in exports, and in the last quarter of 1949, the balance of payments on current account (including Pakistan) disclosed a surplus of Rs. 52 crores. The international payments position of the country thus tended to have an inflationary impact. In expectation of this and with a view to cushioning the impact of devaluation, export duty was imposed on a number of articles and that on hessian was enhanced. Additional anti-inflationary measures were also taken subsequent to October 1949. Prices of controlled commodities like food-grains, cloth, yarn, pig iron and steel were reduced and steps were taken to reduce government expenditure and enhance government receipts through taxes and loans. To curb speculation, future trading in a number of commodities was prohibited. Following the advice of the Reserve Bank of India that advances for speculative purposes, including speculative holding of stocks, should be discouraged and that daily returns relating to credit limits of Rs. 1 lakh and over sanctioned by banks should be submitted, the banks were more cautious in their lending operations, and the expansion of scheduled bank credit in the busy season of 1949-50 was lower at Rs. 91 crores as against Rs. 112 crores in the previous busy season.

Despite the various measures taken during 1949-50, the general price index of 396 in June 1950 (Base August 1939 - 100) was 4.6 per cent higher than what it was in June 1949, and 1.7 per cent higher than that in August 1949, prior to devaluation. The rise in prices was mainly due to an increase in the prices of industrial raw materials, resulting in part from the cessation of imports of cotton and jute from Pakistan following devaluation. Notwithstanding the intensification of the Grow-More-Food Campaign, available food supplies during the year were limited. Between July 1949 and June 1950 money supply had increased by Rs. 12 crores. This was mainly due to the balance of payments surplus mentioned above.

*The post-Korean inflationary upsurge:* By mid-1950, however, there were indications that the inflationary stimulus provided by devaluation had spent itself. If this trend had continued and if a position of near balance in the foreign-exchange sector had been reached, the anti-inflationary measures that had been taken in the post-devaluation period might have led to the gradual working-off of the excess demand in the system and enabled the country to devote greater attention to the problems of development. But, with the outbreak of the Korean War in June 1950, there was an upsurge of inflation in India, as elsewhere. There was a big increase in export-earnings due to a rise in both quantity and prices; at the same time, restrictions on exports of essential commodities by several countries as well as shortage of shipping prevented the increased export-

earnings from being utilized for additional imports. Between July 1950 and March 1951, the surplus on balance of payments aggregated to Rs. 70 crores, and this inevitably added to domestic incomes. Simultaneously, the food situation in the country deteriorated, following serious damage to crops due to natural calamities. Commodities like cotton and jute were also in short supply and their prices moved up rapidly. Largely due to this increase in the prices of industrial raw materials, the general index of wholesale prices rose from 396 in June 1950 to a peak of 458 in April 1951.

These developments in the internal and international spheres, together with an increase in speculative activity, led to a sharp increase in the demand for funds during the busy season of 1950-51. To meet this abnormal demand, commercial banks were compelled to liquidate their holdings of government securities. The prices of gilt-edged securities sagged in the absence of official support, and the rates of interest moved up rapidly. By December 1950, the gilt-edged market had touched a very low level, with the three per cent conversion loan for instance being quoted at Rs. 93. To prevent a further deterioration in the securities market, and to put commercial banks in possession of funds which they needed to meet the seasonal demands, the Reserve Bank entered the market and resumed purchase of securities.

These two elements, viz. balance of payments surpluses and open market operations of the Reserve Bank of India, led to a sharp increase of Rs. 104 crores in money supply during the year 1950-51. Indeed in the busy season of 1950-51, extending from October 1950 to mid-May 1951, the increase in money supply with public was of the order of Rs. 236 crores.

The Korean War boom thus rendered the economy once again highly inflationary, and economic policy was geared to fighting this relentlessly. With the object of counteracting inflation, quota and destination restrictions on exports were imposed and export duties on a variety of articles such as hessian, sacking and raw cotton were greatly enhanced. Exports of medium and coarse cloth, cotton waste and raw wool and groundnut were also subjected to duty. These levies enabled the government to mop up a portion of the additional incomes created through the increase in the value of exports. Government expenditure was closely regulated even at the risk of postponing outlays on development projects. Efforts to supplement supplies of food-stuffs, etc. through imports were intensified. In order to ensure that bank credit was extended to legitimate and *bona fide* purposes, the Reserve Bank kept a close scrutiny on the general advances of the banking system. The fact that despite these measures the inflationary pressure was great reflects the enormous weight of external factors on the Indian economy during that phase.

This is further underlined by the developments subsequent to April 1951, when purchases by the U.S.A. for stock-piling purposes fell rapidly. The rate of increase in Indian prices slackened, and with the easing of international tension towards mid-1951, the prices of industrial raw materials started falling, as also the general price index. Like the expansion during the busy season of 1950-51, the contraction of money supply with the public in the following slack season was also of an abnormal magnitude. Between mid-May and October 1951, money supply with the public fell by as much as Rs. 212 crores, almost wiping out the expansion in the busy season. Even so, the position was such that any marginal change in aggregate supply or aggregate demand could have touched off another round of inflation.

As it was essential that this position should be remedied before embarking on the development programme, which had been drawn up in the meantime by the Planning Commission, economic policy was adopted towards it. This policy had two principal aspects. On the one hand, supplies on the domestic market were augmented through a series of measures and, on the other hand, further expansion of purchasing power with the public was prevented through a reorientation of monetary policy.

To augment domestic supplies, attention was focussed on projects yielding results with a minimum of time lag and on increased imports of food and raw materials. Projects such as minor irrigation works, provision of improved seeds and manure to agriculturists as well as increase in acreage under cultivation through reclamation of land were pushed forward. The American wheat loan and assistance from Colombo Plan countries enabled imports of substantial quantities of food-grains in 1951 and 1952. Arrangements were also made for increased imports of American and Egyptian cotton, and of jute from Pakistan.

*New monetary policy* : In the monetary sphere, a new policy was ushered in, in November 1951, with the raising of the Bank Rate from three to three and a half per cent and the announcement by the Reserve Bank of India that it would, except in special circumstances, refrain from buying Government securities to meet the seasonal requirements of the Scheduled Banks. This change in the Reserve Bank policy, coming as it did, at the beginning of the busy season, put an effective check on credit expansion, and the busy-season increase in money supply with the public amounted to only Rs. 8 crores. The shift in policy further enabled the Reserve Bank to influence the pattern of bank advances; as banks had to resort to borrowing from the Reserve Bank to meet their seasonal demands, they had to exercise greater caution in their lending operations. Following the change in its open market policy, the Reserve Bank introduced in January 1952, the Bill Market Scheme, under which advances were granted to Scheduled Banks having deposits of not less than Rs. 10 crores,

under Section 17 (4) (c) of the Reserve Bank of India Act, on the security of usance promissory notes of their constituents. The Scheme added considerable flexibility to the operation of the Reserve Bank as the lender of last resort. The Scheme also helped the supreme financial authority of the country to ensure that such advances were for *bona fide* trade purposes and for short periods.

*The price-fall of February 1952* : These changes in the monetary sphere supported the disinflationary factors that were already in operation internally as well as internationally. While the domestic supply-position improved, international demand, which had started falling after April 1951, continued to contract, following the adoption of dearer money policies in several countries, the improvement in the supplies of several internationally traded commodities, and the easing of tension in international relations. In February 1952, prices of certain commodities which were the object of speculative interest, fell sharply. The price-fall generated in these markets affected other markets also, and by the middle of March 1952, the general index of wholesale prices had fallen precipitously to 365, or 8 per cent less than the pre-Korean War level.

The break in prices in February 1952, engendered a strong bearish sentiment in the commodity market which spread quickly to the bullion and stock markets also. As the price-fall continued, the eagerness of traders to reduce their stocks and improve their liquid position increased. A lull in the export market and the arrival of large consignments of American and Egyptian cotton made such an adjustment extremely difficult. Also, with the onset of the slack season money supply started contracting as usual. This combination of circumstances necessitated the adoption of measures for preventing the disinflation from developing into a dangerous recession. Quota and destination restrictions on a variety of exports were lifted. Export duties, which in the past had been raised steeply as an anti-inflationary measure, were reduced drastically. These measures, together with liberal advances by the Reserve Bank against Government securities and usance bills, contributed to allay the nervousness in the markets, and the price-fall was arrested.

By the beginning of July 1952, there had thus been a remarkable change in the economic situation. Inflation had, by and large, disappeared and for the first time in the post-war years, it was possible to concentrate on speeding up development. While restricted monetary expansion in the busy season of 1951-52 and the return of funds in the subsequent slack season had contracted purchasing power with the public, supplies had been augmented by increased industrial and agricultural output and larger imports, thus narrowing the gap between aggregate supply and demand. The economic situation was, therefore, favourable for relaxing food and other controls and for stepping up development expenditure in



the public sector, which for the reasons explained earlier, had fallen short of the level envisaged for 1951-52 in the Draft Five-Year Plan. To combat unemployment and scarcity in certain areas, relief works were undertaken. The favourable movement in India's terms of trade towards the end of 1952 and the revision of the Five-Year Plan envisaging substantial deficit financing were factors contributing to the strengthening of sentiment in the markets, and, despite lack of support from abroad, domestic prices started moving up after December 1952. With an increase in the demand for funds in the busy season of 1952-53 (October 25 to May 8) money supply increased by Rs. 83 crores and no stringency was experienced in the money markets. A very substantial increase in development outlay in the financial year 1953-54 was projected in the budget of the Union Government. All these factors, together with a continued increase in industrial output, combined to allay to a considerable extent the fears of recession which had been entertained in 1952. Even so, the prospects at the beginning of July 1953 were uncertain, in view of the lack of any significant change in employment position, continued excess capacity in some industries, uncertainty about the trend of agricultural price, lower level of activity in the equity and bullion markets and fears of a recession in the American economy.

Apart from the foregoing general economic developments during 1950-52, there were other factors which affected industries during the period.

*Tea*: In 1950, the Indian Tea Industry was not faced with any major difficulties. The damage caused by the earthquake during this year amounted to Rs. 1 crore. The heaviest damage was caused to the garden buildings and labourers' houses which accounted for a total of about Rs. 80 lakhs. The estimated loss of the tea crop was only 1.5 million lbs. which amounted to about 0.3 per cent of the estimated Northern India tea crop for the year. The gardens affected included those in Doom Dooms, North Takhimpur and Tenjpur. The other problems of the industry in 1950, "such as shortage of essential supplies and machinery, transport and labour difficulties and the increasing cost of production were, according to Mr. Sinha, of a general nature and common to most industries of the post-war era. In addition, the industry had to contend with other handicaps brought about by the vagaries of nature, viz., drought, excessive rainfall, floods, plant diseases, insect pests, etc. The South Indian Tea Estates were stated to be suffering from lack of scientific and technological information. Another difficulty which the industry experienced was the shortage of sulphate of ammonia for use as fertilizer. There had also been a rise of nearly 200 to 300 per cent over the pre-war level in the price of materials, agricultural implements and factory equipment. Labour charges shot up because of the increase in wages, dearness al-

lowance and the supply of essential food-grains at subsidized rates.”\* In 1951, the North Indian Sector of the Tea industry had to face trouble due to drought at the beginning of the season which not only delayed the crop but also caused a net decrease in the crop which was estimated by the industry around 11 million lbs. There were in all 19 strikes—four times as many as in previous years—resulting in a loss of 17,910 man-days, Rs. 15,882 in wages, and 216½ maunds of finished tea. The problems of the Tea Industry in 1952 have been analysed by the *Indian Finance* under the head, “Tea—1952—a year of Growing Crisis” as follows:—“1951, for the Indian Tea Industry was a year full of stress and strain, arising from a number of circumstances. Despite the continued rise in costs, many gardens extended their factories and increased their equipment of machinery to cope with the large crops harvested. In 1952, too, a hue and cry was raised over the cost of production. Demand did not rise proportionately, with the result there was over-production. Prices realized both in the export and internal sales recorded a steep decline, while costs of production were reported to be rising sharply. The Cachar varieties with a cost of Rs. 1-7-3 had to be sold in the export market for Rs. 0-10-7; Dooars costing Rs. 1-4-0 at Rs. 0-13-3, and Assam costing Rs. 1-12-6 at Rs. 1-9-3. The losses were much greater in internal sales. Though the prices recorded a moderate rise since the withdrawal of rationing in England in August, the position still remained precarious after this period. A perusal of the grievances of the different sections of the industry revealed two main problems: first, the high wages offered to labour in addition to food subsidy; and second, the 3 annas excise duty and the 4 annas export duty.... Thus the discouragement, which the industry had been facing, with less demand from the buyers and with fixed and fairly irreducible items making up the manufacturing cost induced the Government of India to appoint a team of officials to enquire into the conditions of tea production and trade and advise the Government on the action to be taken to remedy the situation. But the recommendations of the team did not meet the needs of the industry, as the team did not favour abolition or reduction in the excise and export duties.... The official team had observed that there are two main causes for the decline in tea prices, one temporary and the other long term. The temporary cause is the current glut of medium quality and cheap teas. The second cause is a steady increase in the production of all tea-producing countries and the consequent imbalance between supply and demand.”\*\*

*Electricity*: Electricity companies in India show enormous variation both in their size and competence with the result there is variation in the systems of supplies, prices and standards of service. It is argued that large generating plants can generate very much more power than

\* *Commerce* 8-7-1950.

\*\* *Indian Finance*, Jan. 3, 1953.

small-sized plants. This is only partially true as the possible gain in efficiency due to large-sized generators of power and consequent large-scale production are more than nullified by the extra charges in distribution. This possibly accounted for the coexistence of electricity companies of all size-groups. Also the financial provisions of the Electricity Supply Act, 1948, "are designed to secure that a licensee shall not be permitted to earn more than is necessary to provide him with a reasonable return but, which, at the same time, would enable him to raise funds in the market for the proper continuity of his public duties". The Act has thus made enough provision to attract adequate capital for the development of this industry, although it is contended by the industry\* that the upper limit of 5 per cent, although suited to the money market conditions of 1948, is rather low during the period of this study to attract fresh capital.

*Chemicals*: According to B. S. Rao†, the Chemical Industry in India had grown in a haphazard manner and not located in the most advantageous places. In the case of some chemical products, output exceeded domestic demand; in others, demand and supply were balanced; in a third group production was in an experimental stage and output small, but new processes were being evolved; and in a fourth, there was no home production yet. The demands of the industrialists during this period were drastic reduction of railway freight on raw materials and revision of freight policy in respect of finished products, abolition of import duty on basic raw materials as well as on exports, uniform and centralized administration of excise laws, ensuring adequate electric power to the industry and reduction of taxation on individuals and corporate bodies.

*Pharmaceuticals*: In India, even today, a large percentage of population adopts the indigenous system of medicine, and this accounts largely for the belated development of the pharmaceuticals industry and the tendency of several manufacturers to make non-allopathic preparations in addition to the processing of drugs, according to modern system.§ The majority of the firms in India only process imported bulk pharmaceuticals into tablets, ointments and injections, etc. The great boom for pharmaceutical products during the war resulted in many companies entering the industry, and they were finding it difficult to market their products during 1950-52. The extent of competition by imported products can be seen from the value of drugs and medicines imported. In 1949-50, it was Rs. 786 lakhs; in 1950-51, it was Rs. 1052 lakhs; and in 1951-52, it was Rs. 1560 lakhs. Because of the heavy imports the industry had to fight a difficult battle to hold the ground won with difficulty during the war years when foreign supplies were not available. Apart from the diffi-

\* Milne K. G., *Commerce Annual Review Number*, Dec. 1953.

† *Surveys of Indian Industries*, Vol. I.

§ Report of the Pharmaceutical Enquiry Committee, p. 17.

culties created by heavy imports, the "Excise" laws were also reported to have hindered the industry.

*Matches* : The structure of the match industry was laid, on the one hand, upon the Wimco-Amco group with more than half of the country's production, and on the other hand upon a few small mechanized enterprises and cottage factories. The cottage branch of the industry had grown tremendously since several years with government help, and because of Government restricting the production of the "A" class factories. In 1943, an agreement was arrived at with Government by which the Wimco group agreed to control the price so that the consumer could get his 60's match box at nine pies, and up to the 1957 budget, the box was retailed at this price.

*Ceramics* : According to *The Hindu*\* there were 62 porcelain factories in India, 20 in West Bengal, nine in Delhi, eight in Bombay, seven in Madhya Pradesh, three in Madras and six in other States. These factories had been manufacturing a large variety of products which included household stoneware, whiteware, sanitaryware, porcelain insulators, glazed tiles and refractories. The chief raw materials required for the industry are china-clay, fire clay, pipe clay, red clay, sand, felspar, quartz, magnesite, gypsum and kaolin. Adequate survey had not yet been made in the country regarding good-quality kaolin. Other raw materials are available in sufficient quantities. West Bengal accounted for a substantial portion of India's production. It produces domestic ware, electric insulators, tiles and pipes. Bihar, which came next, chiefly produces refractories. Bombay manufactured sanitary equipment, Madras earthenware for chemicals and jars, and Madhya Pradesh pipes. Thus each State had been specializing in a particular branch of the industry.

*Silk* : The Indian Silk Industry has, in recent years, been steadily expanding, on account of the impetus given by the Second World War and the various measures adopted by Government in regard to the development of the industry. The two most important steps taken by the Government of India during this period were the establishment of the Central Silk Board (in 1949) to solve many long-term problems of the industry and the protection granted to the silk industry against external competition. The Indian Silk Industry was dependent to a considerable extent, during the period of the study, on supplies of raw silk from abroad, as a result of very insufficient domestic production and excessively heavy cost of raw silk production, as compared with other countries.

\* *Survey of Indian Industries*, Dec. 2, 1954.

### Chapter III

## FINANCIAL EXPERIENCE OF SMALL-SCALE INDUSTRIES

*Coverage:* In the public limited manufacturing sector of industries which do not necessarily require a heavy investment (Silk and Woollen, Engineering, Chemicals, Paper, Vegetable Oil, Matches, Tea Plantations, Miscellaneous plantations, Coal, Electricity, and others), there were 4,171 companies at work in India in 1951-52, with an aggregate paid-up capital of Rs. 239 crores. Eighty per cent of them, numbering 3,357, were companies having a paid-up capital of not more than Rs. 5 lakhs, although by paid-up capital they formed only 18 per cent as their aggregate paid-up capital amounted only to Rs. 43 crores in 1951-52.\* The 269 companies examined here, although they formed by number only eight per cent of the total 3,357 companies, covered by paid-up capital 13.5 per cent of them, as their aggregate paid-up capital amounted to Rs. 5.79 crores in 1952. As regards the coverage of each group by paid-up capital and number respectively, it was 17 per cent and 15 per cent in the case of 42 tea companies; 28 per cent and 25 per cent in the case of 52 electricity companies; 20 per cent and eight per cent in the case of 34 chemical companies (12 chemical companies and 22 pharmaceutical companies); 35 per cent and 15 per cent in the case of five match companies; 20 per cent and 21 per cent in the case of nine silk and woollen companies; and 12 per cent and six per cent in the case of 10 vegetable oil companies. The coverage in respect of 11 ceramics companies, 28 printing and publishing companies, and 16 cotton ginning companies is not known.

*Tea Industry:* The aggregate expenditure incurred by the 42 small tea companies in 1950 amounted to Rs. 135 lakhs, of which Rs. 95 lakhs (70 per cent) was for cultivation and salaries and wages (Table 1). Managing agency remuneration of Rs. 6 lakhs and depreciation provision of Rs. 4 lakhs formed 4.7 per cent and 3.1 per cent respectively of the total expenditure. As production income amounted to Rs. 177 lakhs, which was further supplemented by miscellaneous income of about Rs. 2 lakhs, the gross profits of the year amounted to about Rs. 50 lakhs which formed 33.9 per cent of the sales and 15.2 per cent of the total employed capital of Rs. 326 lakhs. The profit after managing agency remuneration of Rs. 6 lakhs came to Rs. 43 lakhs. The interest charges of Rs. 2 lakhs formed 5.4 per cent of it and the profit before tax amounted to Rs. 41 lakhs. Of this, taxes claimed Rs. 14 lakhs, or 33 per cent, and the profit after tax, Rs. 27 lakhs, formed 13.6 per cent of the net work. A dividend on ordinary

\* Report of the Taxation Enquiry Commission, Vol. I, pp. 264-65.

**Table 1: EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS**  
(In thousands of Rs.)

	<i>Tea (42)</i>			<i>Electricity (52)</i>		
	1950	1951	1952	1950	1951	1952
<i>Expenditure</i>						
Manufacturing	95,11*	75,39*	88,62*	24,59	28,56	33,64
Salaries and wages				13,04	14,26	15,14
Managing agency remuneration	6,36	4,71	4,35	2,69	2,78	2,94
Bad debts	32	4		3	3	5
Depreciation	4,18	4,52	5,99	5,66	6,28	7,26
Others	29,28	37,39	32,27	15,42	16,14	16,64
<b>Total</b>	<b>1,35,25</b>	<b>1,23,05</b>	<b>1,31,23</b>	<b>61,43</b>	<b>68,05</b>	<b>75,67</b>
<i>Income</i>						
Closing stock	69,21	60,56	62,87			
Opening stock	39,00	69,21	60,56			
Excess of closing stock over opening stock	30,21	-8,65	2,31			
Sales	1,46,56	1,37,38	1,10,69	60,99	69,96	78,62
Production	1,76,77	1,28,73	1,13,00			
Miscellaneous	1,76	1,93	1,89	7,08	6,21	6,22
<b>Total</b>	<b>1,78,53</b>	<b>1,30,66</b>	<b>1,14,89</b>	<b>68,07</b>	<b>76,17</b>	<b>84,84</b>
<i>Appropriations</i>						
Profit before interest	43,28	7,61	-16,34	6,64	8,12	9,17
Interest paid	2,35	1,98	3,06	1,97	2,79	3,27
Tax provision	13,51	4,89	1,61	1,32	1,84	2,39
Ordinary dividends	13,02	7,55	3,95	3,01	3,22	3,42
Preference dividends	88	64	50	48	36	61
Retained profits	13,52	-7,45	-25,46	-14	-9	-52

\* Represents cultivation expenses and salaries and wages.

shares at 12.8 per cent (Rs. 13 lakhs) and 6.1 per cent on preference shares (about Rs. 1 lakh) was paid and the balance of Rs. 14 lakhs was retained in the business. During the year, it will be observed, the profit before taxes was shared more or less equally by taxes, dividends, and the companies themselves by ploughing back.

After ploughing back Rs. 14 lakhs, the gross total assets of the companies totalled to Rs. 377 lakhs (Table 2). Fixed assets of Rs. 201 lakhs

Table 2: COMBINED BALANCE SHEET (In thousands of Rs.)

	Tea (42)			Electricity (52)		
	1950	1951	1952	1950	1951	1952
<b>Assets</b>						
<i>Gross fixed</i>						
Land	1,13,59	1,14,63	1,16,19	1,64	1,64	1,64
Buildings	46,40	53,00	59,16	18,10	18,83	20,24
Plant and machinery	32,36	34,50	37,60	62,05	65,04	72,78
Others	8,31	9,50	11,37	86,48	95,82	1,05,43
<b>Total</b>	<b>2,00,66</b>	<b>2,11,63</b>	<b>2,24,32</b>	<b>1,68,27</b>	<b>1,81,33</b>	<b>2,00,09</b>
Inventory	90,77	85,95	85,65	22,64	23,91	23,87
Book debts	22,00	15,41	14,27	10,61	10,85	12,53
Advance against goods	14,51	16,69	11,64	3,58	2,65	2,03
Miscellaneous Receivables	3,74	3,12	3,12	1,36	2,23	1,73
Government securities	6,22	8,07	5,75	2,10	2,68	2,29
Semi-government securities	1,22	1,22	1,22	25	8	9
Industrial securities	1,27	1,17	1,31	70	52	52
Advance of income-tax	2,92	2,19	4,25	1,86	1,86	1,69
E.P.T. deposits	17	5	3	—	—	—
Miscellaneous current	3,49	2,91	3,13	80	2,60	1,62
Miscellaneous non-current	1,37	1,48	1,80	68	1,11	1,00
Intangible	1,09	90	90	3,54	3,62	3,52
Cash	27,79	25,91	16,29	9,39	10,73	10,23
<b>Total</b>	<b>3,77,22</b>	<b>3,76,70</b>	<b>3,73,68</b>	<b>2,25,78</b>	<b>2,44,17</b>	<b>2,61,21</b>
<b>Liabilities</b>						
<i>Paid-up capital</i>						
Ordinary	1,01,96	1,03,47	1,03,47	88,23	90,55	91,15
Preference	14,35	14,35	14,35	12,80	12,87	12,87
Deferred				2	2	2
<b>Total</b>	<b>1,16,31</b>	<b>1,17,82</b>	<b>1,17,82</b>	<b>1,01,05</b>	<b>1,03,44</b>	<b>1,04,04</b>

Table 2: COMBINED BALANCE SHEET (Contd.)

(In thousands of Rs.)

	Tea (42)			Electricity (52)		
	1950	1951	1952	1950	1951	1952
Own reserves	84,85	80,01	54,96	4,10	4,57	4,33
Depreciation reserve	50,09	52,55	58,26	43,88	49,88	56,27
Taxation reserve	22,37	17,61	14,37	2,66	3,62	4,45
Bank borrowings	14,15	16,14	19,77	7,81	7,56	7,98
Mortgages	2,59	2,58	3,27	1,72	2,51	3,70
Debentures	4,25	4,02	3,67	6,21	5,65	5,51
Dues to trade	4,22	6,55	3,80	7,45	6,91	7,19
Miscellaneous	33,30	30,45	52,99	24,70	30,38	30,88
Borrowings						
Miscellaneous current	44,84	48,24	43,88	14,93	14,90	19,67
Miscellaneous non-current	25	73	89	11,27	14,75	17,19
<b>Total</b>	<b>3,77,22</b>	<b>3,76,70</b>	<b>3,73,68</b>	<b>2,25,78</b>	<b>2,44,17</b>	<b>2,61,21</b>

formed slightly more than a half, inventories of Rs. 91 lakhs about a quarter, receivables of Rs. 40 lakhs a tenth, and cash balances of Rs. 28 lakhs more than a sixteenth of the total assets. The fixed assets were composed of more than half of land, a quarter of buildings, and a sixth of machinery. As regards liabilities, the paid-up share capital of Rs. 116 lakhs, of which 88 per cent was in ordinary shares and the remaining in preference shares, formed 31 per cent of it and as it was supplemented by own reserves of Rs. 85 lakhs and depreciation reserves of Rs. 50 lakhs, the gross equity sources of liabilities formed slightly more than two thirds of the total liabilities. Long-term borrowings (mortgages and debentures) formed about two per cent of the total and all the remaining liabilities were current. Bank borrowings and trade dues were low. The total current liabilities of Rs. 119 lakhs and outside liabilities of Rs. 126 lakhs formed 59.2 per cent and 62.6 per cent of the net worth of Rs. 201 lakhs. Regarding the relationship between assets and liabilities in 1950, the permanent assets of Rs. 202 lakhs formed 80.3 per cent of the permanent liabilities, and permanent funds exceeded permanent assets by about Rs. 50 lakhs. As there were also long-term borrowings of about Rs. 7 lakhs, the net working capital came to Rs. 56 lakhs. The total current assets of Rs. 175 lakhs exceeded the total current liabilities of Rs. 119 lakhs by this much and formed 147.3 per cent of it. Inventories formed slightly more than half of the current assets and exceeded the net working capital by Rs. 34 lakhs. Hence the liquid assets of Rs. 85 lakhs fell short of current liabilities by that much and formed 71.1 per cent of it.



In 1951, the aggregate expenditure incurred by the 42 tea companies declined by Rs. 12 lakhs, as compared with that of the previous year, and amounted to Rs. 123 lakhs (Table 1). The greatest fall was in cultivation and salaries and wages by about Rs. 19 lakhs which now formed only 62 per cent of the total expenditure, compared with 70 per cent in the previous year. One reason for the fall in expenditure may be the strikes. As the value of production declined by Rs. 48 lakhs, which may be partly because of the curtailment in production as a result of strikes and partly because of the fall in prices of tea meant for internal consumption, the profits recorded a big drop, as compared to 1950. The gross profits of Rs. 12 lakhs formed only nine per cent of the sales income and 3.8 per cent of the total capital employed, compared with 33.9 per cent and 15.2 per cent respectively in 1950. The profits after managing agency remuneration, which declined by nearly Rs. 2 lakhs, probably because of lower profits, amounted to about Rs. 8 lakhs on which interest charges of Rs. 2 lakhs formed 26 per cent. Although there was a small decline in the absolute interest charges, because of lower profits, the interest burden was actually much higher than that in the previous year, when it formed only 5.4 per cent of the profit before interest. A profit of about Rs. 6 lakhs after interest and before tax was made. 86.9 per cent of this was provided for taxation and the profit after tax, Rs. 74,000, formed 0.4 per cent of the net worth. As, even then, a dividend at 7.3 per cent on ordinary shares and 4.5 per cent on preference shares was paid, the losses carried forward exceeded Rs. 7 lakhs. The reasons for the losses that were carried forward should be sought in the distribution policy rather than in the taxation measures, because dividends paid were nearly double the taxation provision.

Possibly on account of the losses of Rs. 7 lakhs carried forward, the gross total assets of the 42 companies declined by Rs. 52,000 by the end of 1951. This small reduction in assets did not affect the pattern of its distribution significantly. Fixed assets continued to form more than a half and inventories about a quarter of the total assets. Although the losses carried forward diminished the owned reserves, the importance of gross equity sources of liabilities largely remained because of the increase in paid-up capital and depreciation provision. Long-term borrowings continued to be low during this year also. As a result of small changes in liabilities, the current liabilities of Rs. 120 lakhs and outside liabilities of 126 lakhs formed 60.5 per cent and 63.9 per cent of the net worth of Rs. 198 lakhs, compared with 59.2 per cent and 62.6 per cent in 1950. Thus the importance of outside financing increased slightly during this year. Because of the changes in assets and liabilities during this year, their relationship also changed, and the sources-and-uses-of-funds statement for 1951 (Table 3) explains in detail the reasons for the change. During the year the permanent uses of funds of about Rs. 16 lakhs ex-

Table 3: SOURCES AND USES OF FUNDS (In thousands of Rs.)

	Tea (42)		
	1951	1952	1950-52
<i>Sources of funds</i>			
<i>Permanent</i>			
Increase in depreciation reserve	2,46	5,71	8,17
Increase in paid-up capital	1,51	—	1,51
Production in intangible assets	19	—	19
<b>Total</b>	<b>4,16</b>	<b>5,71</b>	<b>9,87</b>
<i>Current</i>			
Increase in miscellaneous borrowings		22,54	19,69
Reduction in cash	1,88	9,62	11,50
Reduction in book debts	6,59	1,14	7,73
Increase in bank borrowings	1,99	3,63	5,62
Reduction in inventory	4,82	30	5,12
Reduction in advance against goods		5,05	2,87
Increase in miscellaneous non-current liabilities	48	16	64
Reduction in miscellaneous receivables	62		62
Reduction in government securities		2,32	47
Reduction in miscellaneous current assets	58		36
Refund of E.P.T. deposits	12	2	14
Increase in miscellaneous current liabilities	3,40		
Increase in borrowings due to trade	2,33		
Reduction in tax advance	73		
Reduction in industrial securities	10		
<b>Total</b>	<b>23,64</b>	<b>44,78</b>	<b>54,76</b>
<i>Liquid (i.e. current-inventory)</i>	18,82	44,48	49,64
<i>Others</i>			
Increase in mortgages		69	68
<b>Grand Total</b>	<b>27,80</b>	<b>51,18</b>	<b>63,51</b>
<i>Uses of funds</i>			
<i>Permanent</i>			
Dissaving or losses carried forward	4,84	25,05	29,89
Increase in buildings	6,60	6,16	12,76
Increase in plant and machinery	2,14	3,10	5,24
Increase in miscellaneous fixed assets	1,19	1,87	3,06
Increase in land	1,04	1,56	2,60
<b>Total</b>	<b>15,81</b>	<b>37,74</b>	<b>53,55</b>

Table 3: SOURCES AND USES OF FUNDS (Contd.) (In thousands of Rs.)

	Tea (42)		
	1951	1952	1950-52
<i>Current</i>			
Reduction in taxation reserve	4,76	3,24	8,00
Increase in tax advance		2,06	1,33
Reduction in miscellaneous current liabilities		4,36	96
Increase in miscellaneous non-current assets	11	32	43
Reduction in dues to trade		2,75	42
Increase in industrial securities		14	4
Increase in miscellaneous current assets		22	
Reduction in miscellaneous borrowings	2,85		
Increase in advance against goods	218		
Increase in government securities	1,85		
<b>Total</b>	<b>11,75</b>	<b>13,09</b>	<b>11,18</b>
<i>Liquid</i>			
<i>Others</i>			
Reduction in debentures	23	35	58
Reduction in mortgages	1		
<b>Grand Total</b>	<b>27,80</b>	<b>51,18</b>	<b>65,31</b>

ceded the permanent sources of funds of Rs. 4 lakhs by Rs. 12 lakhs with the result that the net working capital diminished by that amount. The financial counterpart of the decline in net working capital is found in the decrease of permanent funds exceeding permanent assets by about Rs. 12 lakhs and in long-term borrowings slightly. Hence, in 1951, current assets of Rs. 164 lakhs formed only 137.1 per cent of the current liabilities of Rs. 120 lakhs compared to 147.3 per cent in 1950. The liquidity position also underwent a change. The liquid uses of funds of Rs. 12 lakhs during the year fell short of the liquid sources of funds of Rs. 19 lakhs by Rs. 7 lakhs, with the result that current liabilities, not backed by liquid assets, increased by that much. Liquid assets at the end of the year of Rs. 78 lakhs formed 65.3 per cent of the current liabilities of Rs. 120 lakhs, compared to 71.1 per cent in 1950. The liquidity position of the companies would thus appear to have slightly declined during this year.

The accounts of the 42 small tea companies reflect the difficulties of the tea industry in 1952. Partly due to an increase in the cost of production, the aggregate expenditure incurred by the companies increased, during the year, compared with the previous year by Rs. 8 lakhs and amounted to Rs. 131 lakhs, of which cultivation expenses and salaries and

wages amounted to Rs. 89 lakhs, or 68 per cent (Table 1). Managing Agency Remuneration, which declined again absolutely because of the losses, of Rs. 4 lakhs and depreciation provision of Rs. 6 lakhs formed 3.3 per cent and 4.6 per cent respectively of the total expenditure. Since depreciation provision registered an increase in spite of losses, it may be stated that the tea companies provided for depreciation irrespective of the amount of profits earned. Although the total expenditure increased by Rs. 8 lakhs, the value of production declined by Rs. 16 lakhs because of a fall in prices of tea with the result the year's working resulted in loss. As, in spite of losses, a dividend at 3.8 per cent on ordinary shares and 3.5 per cent on preference shares was paid, the net result of the year's operations, as far as the companies were concerned, was a loss of Rs. 25 lakhs which was carried forward.

As a result of this loss carried forward, there was not only a diminution of owned reserves by that much, but also the total assets diminished by Rs. 3 lakhs and amounted to Rs. 374 lakhs at the end of the working of the year (Table 2). With this, there were some changes in the composition of assets and liabilities. Fixed assets of Rs. 224 lakhs now formed 60 per cent of the entire assets as compared to 56 per cent in 1951, showing that the diminution of assets was in assets other than the fixed. The losses incurred had a marked impact on cash balances which diminished by Rs. 10 lakhs and formed only four per cent of the total assets, compared with the seven per cent during the previous year. Regarding liabilities there was no increase in the paid-up share capital of the companies in 1952. The difficult situation of the industry, of which there were reports in the then financial journals, may be the cause for this. Further, the losses carried forward diminished the owned reserves by Rs. 25 lakhs, with the result that the shareholder's equity in the companies diminished by that much. It is significant that despite the burden of such high losses, owned reserves still formed Rs. 55 lakhs, or 15 per cent of the total liabilities. This shows that during the previous years of good profits, the companies had ploughed back a large portion of profits. It was on account of this that some dividends could be paid during the year, even though the year's working resulted in losses. Regarding the remaining liabilities, borrowings from banks and miscellaneous sources increased by about Rs. 4 lakhs and Rs. 22 lakhs respectively and thus helped to find finance in the gap created by the losses and inability to raise shares. The increase in bank borrowings may be considered to be low, compared with the increase in miscellaneous borrowings, and the reason for this is stated by the *Indian Finance* as follows: "With the sharp decline in prices since July 1951, and with costs of production remaining stubbornly high, tea companies are increasingly in the red; and the banks naturally feel shy of making loans in such circumstances. Moreover, the amalgamation of four banks into the United Bank of India has resulted in restriction in the

choice open to a tea company to negotiate as between one bank and another".\* With the increase in borrowings, the interest charges during the year also increased. The result of the fall in net worth and increase in liabilities was that the current liabilities of Rs. 136 lakhs and outside liabilities of Rs. 143 lakhs formed 78.5 per cent and 82.6 per cent respectively of the net worth of Rs. 173 lakhs, compared to 60.5 per cent and 63.9 per cent in 1951. Thus the importance of outside financing also continued to increase during the year.

The result of the somewhat changed pattern of assets and liabilities on their relationship may be noted with the help of the sources-and-uses-of-funds statement in 1952 (Table 3). During the year, the permanent uses of funds of Rs. 38 lakhs exceeded the permanent sources of funds of Rs. 6 lakhs by Rs. 32 lakhs, with the result that permanent funds exceeding permanent assets declined by that amount. At the end of 1952, permanent assets of Rs. 225 lakhs formed 97.5 per cent of the permanent liabilities of Rs. 231 lakhs, compared with 84.9 per cent in 1951. Regarding the working capital, the current uses of funds, during the year, of Rs. 13 lakhs fell short of the current sources of funds of Rs. 45 lakhs by Rs. 32 lakhs, with the result that the net working capital declined by that amount. The financial counterpart of this decline is seen in the decline of permanent funds exceeding permanent assets by Rs. 32 lakhs and the small decline in debentures, although mortgage borrowings increased to a small extent. The current assets in 1952 of Rs. 148 lakhs formed only 109.4 per cent of the current liabilities of Rs. 136 lakhs, compared to 137.1 per cent in 1951. The liquidity ratios also changed similarly as the liquid uses of funds of Rs. 13 lakhs during the year fell short of the liquid sources of funds of Rs. 44 lakhs by Rs. 31 lakhs. The liquid assets in 1952, Rs. 63 lakhs, formed only 46.3 per cent of the current liabilities of Rs. 136 lakhs compared to 65.3 per cent in 1951. Thus the ability of the companies to meet their current creditors as and when they fell due appears to have further declined during this year.

Table 3 also shows the sources from which the 42 tea companies obtained funds during 1950-52 and the uses to which they were put. It will be seen that mainly because of the dissaving of Rs. 30 lakhs, as a result of losses, the permanent uses of funds exceeded permanent sources by Rs. 44 lakhs. This also affected the liquidity position of the companies. There was an increase of Rs. 20 lakhs in miscellaneous borrowings during the period. Net worth of the companies diminished during the period by Rs. 28 lakhs.

The gross total assets of the 42 tea companies which amounted to Rs. 377 lakhs in 1950, declined by Rs. 0.52 lakhs in 1951, i.e. a decline of 0.1 per cent. In 1952, it declined by Rs. 3.54 lakhs, i.e. a decline of 0.9

\* *Indian Finance*, Nov. 29, 1952, p. 845.

per cent on the basis of-1951 assets. The decline during the two years as a whole, was Rs. 3.02 lakhs, i.e. a decline of 0.8 per cent on the basis of 1950 assets. The most important reason for the decline in assets seems to be the losses which were carried forward. Table 4 shows the capital formation and its financing by the 42 tea companies. It will be seen that the total capital formation was negligible in 1951, and negative in 1952, resulting in a total decline in assets of about Rs. 3 lakhs during the period. Although the total capital formation was negative, fixed-asset formation seems to have been well maintained for it was Rs. 11 lakhs in 1951 and Rs. 13 lakhs in 1952. The growth of fixed assets works up to 5.5 per cent in 1951, six per cent in 1952, resulting in a total increase of 11.8 per cent during the period. Fixed-asset formation was also much larger than the sums made available through depreciation reserves and increases in paid-up capital. It is also worth noting that fixed-asset formation occurred even when losses were being carried forward. Although from this it cannot be concluded that fixed-asset formation was dependent on borrowings for even at the end of 1952 the companies had enough permanent liabilities to finance fixed assets, it seems that fixed-asset formation during the period was greatly helped by borrowings, particularly from miscellaneous sources. From the growth of fixed-assets, it may be inferred that, "Despite the continued rise in costs, many gardens extended their factories and increased their equipment of machinery to cope with the large crops harvested".\* While fixed assets increased during the period, inventories declined. This might be partly due to the decline in the value of tea and also partly due to the fact that tea had no place in rearmament or stock-piling purposes. Otherwise, at least in 1951, it might have increased when there was a general increase in inventories in case of most of the industries.

*Electricity Industry* : The aggregate expenditure incurred by the 52 small electricity companies was of the order of Rs. 61 lakhs in 1950 (Table 1). As the income derived during the year was Rs. 68 lakhs, the operations of the year were profitable. The gross profit of Rs. 9.3 lakhs formed 15.3 per cent of the sales income and 5.2 per cent of the total capital employed. But after paying interest, taxes, and dividends, a small loss of Rs. 14,000 was carried forward. After bearing this loss, the net worth amounted to Rs. 105 lakhs and the outside liabilities to Rs. 77 lakhs of which Rs. 69 lakhs were current; the latter two formed, respectively, 73 per cent and 65.4 per cent of the former. Regarding the relationship between the assets and liabilities in 1950, the permanent assets of Rs. 172 lakhs exceeded the permanent liabilities of Rs. 149 lakhs and formed 115.3 per cent of it. As hence, a part of the current liabilities was used to finance permanent assets, the current assets of Rs. 54 lakhs fell short of

\* See page 19.

Table 4: CAPITAL FORMATION AND ITS FINANCING (In thousands of Rs.)

	Tea (42)			Electricity (52)		
	1951	1952	1950-52	1951	1952	50-52
<i>Changes in assets</i>						
Land	1,04	1,56	2,60	—	—	—
Buildings	6,60	6,16	12,76	73	1,41	2,14
Plant & machinery	2,14	3,10	5,24	2,99	7,44	10,73
Miscellaneous fixed assets	1,19	1,87	3,06	9,34	9,61	18,95
<b>Total fixed assets</b>	<b>10,97</b>	<b>12,69</b>	<b>23,66</b>	<b>13,06</b>	<b>18,76</b>	<b>31,82</b>
Inventory	-4,82	-30	-5,12	1,27	-4	1,23
Tax advances	-73	2,06	1,33	—	-17	-17
Book debts	-6,59	-1,14	-7,73	24	1,68	1,92
Advance against goods	2,18	-5,05	-2,87	-93	-62	-1,55
Miscellaneous receivables	-62	—	-62	87	-50	37
Government securities	1,85	-2,32	-47	58	-39	19
Semi-government securities	—	—	—	-17	1	-16
Industrial securities	-10	14	4	-18	—	-18
Miscellaneous non-current assets	11	32	43	43	-11	32
Cash	-1,88	-9,62	-11,50	1,34	-50	84
<b>Total</b>	<b>37</b>	<b>-3,22</b>	<b>-2,85</b>	<b>16,51</b>	<b>18,12</b>	<b>34,63</b>
<i>Changes in liabilities</i>						
Paid up capital (excluding capitalized reserve)	1,51	—	1,51	2,39	60	2,99
Own reserves	-4,84	-25,05	-29,89	47	-24	23
Depreciation reserve	2,46	5,71	8,17	6,00	6,39	12,39
Taxation reserve	-4,76	-3,24	-8,00	96	83	1,79
Bank borrowings	1,99	3,63	5,62	-25	42	17
Mortgages	-1	69	68	79	1,19	1,98
Debentures	-23	-35	-58	-56	-14	-70
Dues to trade	2,33	-2,75	-42	-54	28	-26
Miscellaneous borrowings	-2,85	22,54	19,69	5,68	50	6,18
E.P.T. refunds	12	2	14	—	—	—
Increase in miscellaneous liabilities less miscellaneous current assets	4,65	-4,42	23	1,57	8,29	9,86
<b>Total</b>	<b>37</b>	<b>-3,22</b>	<b>-2,85</b>	<b>16,51</b>	<b>18,12</b>	<b>34,63</b>

the current liabilities of Rs. 69 lakhs. The current assets formed only 78.4 per cent of the current liabilities and the net working capital showed a deficit of Rs. 15 lakhs. The liquid assets of Rs. 31 lakhs fell short of the current liabilities of Rs. 69 lakhs and formed only 45.5 per cent of it.

In 1951, the aggregate expenditure and income of the electricity companies increased by Rs. 7 lakhs and Rs. 8 lakhs respectively, so that the operations of the year resulted in slightly higher gross profits. The interest charges increased slightly during the year and amounted to Rs. 2.79 lakhs, or 34.4 per cent of the profit before interest. As the liabilities side at the end of 1951 did not show a high increase in borrowings, it may be presumed that these small electricity companies have to pay a very high rate of interest on their borrowed capital. Tax provision of Rs. 1.84 lakhs formed 34.5 per cent of the profit before tax, Rs. 5.33 lakhs, and distributed profits of Rs. 3.58 lakhs exceeded the balance so that losses were carried forward. As the total distributed profits were nearly double the tax provision, distribution of dividends was a more important reason than taxes for the losses being carried forward. The profit after tax, Rs. 3.49 lakhs, formed only 3.2 per cent of the net worth. But a dividend at 3.6 per cent on ordinary shares amounting to Rs. 3.22 lakhs, and 2.8 per cent on preference shares was paid so that the year's operations resulted in a small loss being carried forward, as far as the companies were concerned.

This slender loss carried forward did not affect the growth of assets during the year which rose by Rs. 18 lakhs. Even with this growth, the pattern of the distribution of assets and liabilities did not show any marked change. As, during the year, the permanent uses of funds of Rs. 13.14 lakhs exceeded the permanent sources of funds of Rs. 8.86 lakhs, permanent assets in 1951 of Rs. 185 lakhs formed 117.1 per cent of the permanent liabilities of Rs. 158 lakhs, compared with 115.3 per cent in 1950.

The aggregate expenditure incurred by the small electricity companies rose in 1952 by Rs. 8 lakhs and worked out to Rs. 76 lakhs (Table 1). As the relationship of the components of expenditure to the total did not show any important variations during this year also, it may be said that for the small electricity companies, generation and distribution expenses were almost double the amount of salaries and wages, and also that generation and distribution expenses and salaries and wages formed, respectively, two fifths and one fifth of the total expenditure. The interest charges slightly increased during the year, and amounted to Rs. 3.27 lakhs, or 35.7 per cent of the profit before interest. As the borrowings figure at the end of 1952 did not show any big rise, the higher interest charges paid during the year were either due to the higher rate of interest charged on the borrowings of the companies or due to payment of



interest on the borrowings relating to the previous years. It may also be that the borrowings of these companies in the middle of the year might also have increased to account for the higher interest charges. After the distribution of profits for the year, a small loss of Rs. 52,000 was carried forward. In spite of carrying forward the loss, the gross total assets increased during the year by Rs. 17 lakhs and came to Rs. 261 lakhs (Table 2). The outside liabilities and current liabilities at the end of the year amounted to Rs. 97 lakhs and Rs. 87 lakhs respectively, and formed 89.1 per cent and 80.6 per cent of the net worth of Rs. 108 lakhs, compared to 7.99 per cent and 72.3 per cent respectively, in the previous year. During the year, the permanent uses of funds of Rs. 19 lakhs exceeded the permanent sources of funds of Rs. 7.09 lakhs and the year-end permanent assets of 204 lakhs formed 123.7 per cent of the permanent liabilities. Hence a part of the current liabilities were also made use of to finance fixed assets which is not a sound financial sign.

The gross total assets of Rs. 226 lakhs in 1950 of the 52 electricity companies increased by Rs. 18.39 lakhs in 1951 — an increase of 8.1 per cent — and amounted to Rs. 244 lakhs. In 1952 it increased by Rs. 17.04 lakhs, i.e. an increase of seven per cent on the basis of 1951 assets, and amounted to Rs. 261 lakhs at the end of 1952. The increase during the period 1950-52 was Rs. 35.43 lakhs, that is a growth of 15.7 per cent on the basis of 1950 assets. Table 4 shows the capital formation and its financing of the 52 electricity companies during 1950-52. The total capital formation in these companies was of the order of Rs. 35 lakhs, of which Rs. 32 lakhs were in fixed assets, which increased during the period by 18.9 per cent. As regards the sources of funds for financing this capital formation, since increases in depreciation, own reserves, and paid-up capital were insufficient to match the growth in fixed assets, it may be observed that fixed-asset formation was partly dependent on borrowings. But bank finance was not an important source for this. In fact, in 1951, a part of the bank loans was repaid. The rate of capital formation was more or less the same during each of the two years. But in 1952, fixed-asset formation was larger than the total capital formation as during that year all the other assets of the companies, including cash balances, declined. The most important source of fund for capital formation during both the years was the provision for depreciation and the highest growth occurred in fixed assets.

*Chemical Industry* : The consolidated balance sheet and the profit and loss account of the 12 small chemical companies (Tables 5 and 6) shows that the period 1950-52 had been one of extraordinarily large fluctuations for the small chemical companies. Thus, compared to 1950, the financial experience of the companies during 1951 was far better, and in 1952, the position again deteriorated. The reason for this seems to be the impact of the Korean War in 1951, which gave the companies a small

Table 5: COMBINED BALANCE SHEETS

(In thousands of Rs.)

	Chemicals (12)			Pharmaceuticals (22)			Matches (5)			Ceramics (11)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Assets</i>												
<i>Gross fixed assets</i>												
Land	1,74	1,74	1,76	1,28	1,40	1,41	5	5	5	1,17	1,17	1,14
Buildings	8,45	8,77	9,34	9,19	9,81	10,41	2,76	2,78	2,78	9,68	9,84	10,02
Plant and machinery	10,50	11,32	11,73	7,74	8,52	9,36	5,00	5,15	5,23	4,99	5,05	5,20
Others	4,07	4,17	3,84	7,53	7,69	8,01	1,01	1,12	98	4,20	4,33	4,63
Total	24,76	26,00	26,67	25,74	27,42	29,19	8,82	9,10	9,04	19,99	20,39	20,99
Inventory	18,08	21,44	21,49	29,79	32,66	30,70	6,27	7,46	6,52	6,08	7,23	8,30
Receivables	7,89	11,15	10,47	10,01	10,89	11,00	1,17	2,07	1,44	1,47	1,51	1,84
Investments	3,58	3,58	3,58	30	31	30				2,87	3,48	1,25
Advance of income-tax	44	41	67	1,50	46	59	9	9	3	25	44	47
E.P.T. deposits				1	1	—						
Miscellaneous current	62	75	27	71	45	1,02	46	28	18	24	28	49
Miscellaneous non-current	21	23	30	41	1,61	68	18	20	24	1	29	1,24
Intangible	3,41	3,18	3,10	5,47	5,65	4,68	21	21	21	1,57	1,57	1,56
Cash	74	2,27	88	2,51	2,36	2,13	70	78	55	1,85	2,18	1,27
Total	59,68	69,01	67,43	76,45	81,82	80,29	17,90	20,19	18,21	34,33	37,28	37,41

Table 5: COMBINED BALANCE SHEETS—(Contd.)

	Chemicals (12)			Pharmaceuticals (22)			Matches (5)			Ceramics (11)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Liabilities</i>												
<i>Paid up capital</i>												
Ordinary	25,11	25,28	25,34	36,74	37,79	38,55	11,02	11,06	11,11	14,19	14,45	14,12
Preference	3,83	3,86	4,61	2,28	3,48	3,48	10	10	10	2,93	2,93	2,93
Deferred	53	53	53	1,56	1,56	1,56				69	69	69
<b>Total</b>	<b>29,47</b>	<b>29,67</b>	<b>30,48</b>	<b>40,53</b>	<b>42,83</b>	<b>43,59</b>	<b>11,12</b>	<b>11,16</b>	<b>11,21</b>	<b>17,81</b>	<b>18,07</b>	<b>18,24</b>
<i>Own reserves*</i>	20	2,53	-95	-3,66	-4,61	-6,30	-4,16	-4,91	-5,91	-80	-87	-1,61
Depreciation reserves	5,61	6,55	7,29	4,42	5,29	6,39	1,46	1,55	1,58	6,04	6,83	7,56
Taxation reserves	42	1,41	85	66	74	81	10	29	42	1,83	2,60	2,01
Bank borrowings	1,53	2,64	4,36	1,10	1,25	87	37	39	24	30	62	56
Mortgages	1,43	2,64	2,64	68	1,55	91	1,00	1,00	1,00			
Debentures	1,50	1,50	1,50									
Due to trade	3,59	4,45	3,23	5,56	7,14	5,94	1,48	1,91	1,59	35	53	54
Miscellaneous borrowings	11,63	10,87	9,59	18,06	18,07	18,32	2,75	3,58	6,59	2,20	3,80	4,30
Miscellaneous current	4,18	6,64	8,26	8,09	8,44	9,22	3,63	5,07	1,33	5,01	4,14	4,63
Miscellaneous non-current	12	11	18	1,01	1,12	1,04	15	15	16	1,59	1,56	1,18
<b>Total</b>	<b>59,68</b>	<b>69,01</b>	<b>67,48</b>	<b>76,45</b>	<b>81,82</b>	<b>80,29</b>	<b>17,90</b>	<b>20,19</b>	<b>18,21</b>	<b>34,33</b>	<b>37,28</b>	<b>37,41</b>

\* Minus figures indicate losses carried forward.

Table 6 : EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS

(In thousands of Rs.)

	Chemicals (12)			Pharmaceuticals(22)			Matches (5)			Ceramics (11)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Expenditure</i>												
Manufacturing	22,25	38,23	27,14	25,23	33,82	29,37	11,45	16,63	15,64	5,19	5,87	5,76
Salaries and wages	7,73	10,99	10,13	11,48	13,57	12,88	3,82	4,24	4,52	5,71	6,77	6,65
Managing agency remuneration	1,13	1,44	1,20	1,20	1,37	1,19	36	46	48	65	63	53
Bad debts	3	71	2	3	11	7	4	—	—	1	14	—
Depreciations	88	1,13	1,08	93	1,00	1,45	18	18	12	83	85	75
Miscellaneous	8,69	10,90	10,15	13,58	12,72	13,69	*15,64	15,37	13,98	1,54	1,67	1,57
<b>Total</b>	<b>40,71</b>	<b>63,40</b>	<b>49,72</b>	<b>52,45</b>	<b>62,59</b>	<b>58,65</b>	<b>31,49</b>	<b>86,88</b>	<b>34,74</b>	<b>13,93</b>	<b>15,93</b>	<b>15,26</b>
<i>Income</i>												
Closing stock	11,81	12,76	11,08	21,35	22,84	20,91	2,91	3,55	2,52	3,00	3,84	5,16
Opening stock	13,75	11,81	12,76	21,25	21,35	22,84	3,25	2,91	3,55	2,53	3,00	3,84
Excess of closing stock over opening stock	1,94	95	-1,68	10	1,49	-1,93	-34	64	-1,03	47	84	1,32
Sales	41,32	67,37	50,07	52,53	61,92	60,25	29,21	36,04	35,33	14,94	16,54	14,40
Production	39,38	68,32	48,39	52,63	63,41	58,32	28,87	36,68	34,30	15,41	17,38	15,72
Miscellaneous	18	27	41	30	32	43	9	16	12	10	19	12
<b>Total</b>	<b>39,56</b>	<b>68,59</b>	<b>48,80</b>	<b>52,93</b>	<b>63,73</b>	<b>58,75</b>	<b>28,96</b>	<b>36,84</b>	<b>34,42</b>	<b>15,51</b>	<b>17,57</b>	<b>15,84</b>

\* A large part of expenses against this head consists of excise duty on matches. The figures are as follows :—

1950—1237; 1951—1227; 1952—1192.

Table 6: EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS—(Contd.)

	Chemicals (12)			Pharmaceuticals (22)			Matches (5)			Ceramics (11)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Appropriations</i>												
Profit before interest	-1,15	5,19	-92	48	1,14	10	-2,53	-4	-32	1,58	1,64	58
Interest paid	85	90	96	1,16	1,30	1,36	29	36	33	39	36	23
Tax provision	38	1,50	73	60	66	5	10	19	28	95	94	52
Ordinary dividends	26	49	69	61	55	26	6	12	12	48	54	40
Preference dividends	14	12	13	4	—	—	—	—	—	4	4	4
Deferred dividends											1	1
Retained profits	2,78	2,18	-3,43	-1,93	-1,37	-1,57	-2,98	-71	-1,05	-28	-25	-62

period of boom. The main problem of these companies was their inability to earn profits which might be due to their high cost of production. They were also unable to raise sufficient paid-up capital or long-term borrowings with the result their liquidity position was low. Again whatever money they were able to raise, it appears, had to be paid a high rate of interest, as is seen from the fact that their interest charges were always higher than the dividends. Intangible assets, signifying "water" in the capital formed about five per cent of their total assets.

*Pharmaceutical Industry* : For the pharmaceutical companies also (Tables 5 and 6), like the chemical, it is seen that 1951 was the best year of the three. It might be that the pharmaceutical companies also benefited from the Korean War boom. These companies also had one twentieth of their assets in intangibles. Interest charges were higher than dividends, and this might be because of high importance of outside financing, high interest rates, or due to both. The companies did not have accumulated surpluses. On the other hand, losses carried forward had reduced the real value of their paid-up capital. As their liquidity position was low, bank finance was not available to them adequately. Debentures were also not issued. Hence the financial needs were met by raising miscellaneous borrowings, which probably carried a high rate of interest.

*Match Industry* : The five small match companies appear to have had an unfavourable financial experience during 1950-52 (Tables 5 and 6). They were unable to earn profits probably because of the high cost of production. Because of this, they were unable to pay dividends and raise paid-up capital. As their liquidity position was low, they were unable to raise bank finance and were compelled to depend on miscellaneous borrowings which usually carried a high rate of interest. Also with a bad financial position, they were unable to raise debentures. Inability to raise paid-up capital and other long-term finance through debentures, and the loss carried forward during the period reduced their permanent funds with the result that by the end of 1952 a part of their fixed assets had to be financed through current credit. Unless it was possible for the small match companies to reduce their cost of production and earn profits in subsequent years, it appeared that they would have to close down. There is no doubt that the little capital formation which these companies had during the period might not have taken place if the temporary borrowings from miscellaneous sources had not increased.\*

\* Although the five small match companies together had a very unfavourable financial experience during 1950-52, reflected by their inability to earn profits and so to pay dividends and raise paid-up capital, one of the five companies, the Hind Matches Ltd., Sivakasi, had a favourable experience during the period as Table 7 shows. They earned reasonably good profits and had permanent finance to cover not only their block capital but also a part of the

Table 7: THE HIND MATCHES LTD., SIVAKASI (In thousands of Rs.)

	1950	1951	1952
<i>Expenditure</i>			
Manufacturing	6,18	8,91	6,93
Salaries and wages	1,79	1,89	2,02
Managing agency remuneration	33	42	43
Depreciation	5	3	2
Miscellaneous*	13,26	11,79	11,36
<b>Total</b>	<b>21,61</b>	<b>23,04</b>	<b>20,76</b>
<i>Income</i>			
Closing stock	1,61	2,22	1,62
Opening stock	88	1,61	2,22
Excess of closing stock over opening stock	73	61	-60
Sales	21,15	22,97	21,87
Production	21,88	23,58	21,27
Miscellaneous	4	—	3
<b>Total</b>	<b>21,92</b>	<b>23,58</b>	<b>21,30</b>
<i>Appropriations</i>			
Profit before interest	31	54	54
Interest paid	9	11	5
Tax provision	10	19	28
Ordinary dividend	6	12	12
Retained profit	6	12	9
<i>Assets</i>			
Plant and machinery	5	7	7
Miscellaneous fixed assets	25	21	18
Inventory	2,60	2,91	2,47
Receivables	10	71	84
Advance of income-tax	—	9	3
Miscellaneous current	26	—	—
Cash	45	62	29
<b>Total</b>	<b>3,71</b>	<b>4,61</b>	<b>3,88</b>
<i>Liabilities</i>			
Ordinary share capital	99	1,03	1,08
Own reserves	6	18	28
Depreciation reserve	2	4	6
Taxation reserve	10	29	42
Dues to trade	96	95	91
Borrowings from managing agent	1,05	1,68	43
Miscellaneous current	53	44	70
<b>Total</b>	<b>3,71</b>	<b>4,61</b>	<b>3,88</b>

\* Includes excise duty as follows :—

1950—11,09; 1951—9,79; 1952—9,73.

*Ceramic Industry*: The 11 small ceramics companies, although they were able to make profits during all the three years (Tables 5 and 6), did not have a very good financial experience. They were not able to plough back profits; rather they drew upon their reserves. An important reason for this, apart from their low profit-earning capacity, seems to be the comparatively high dividends paid. The distributed profits were always much higher than the profits after tax.

*Silk and Woollen (Other Textiles) Industry*: The small silk companies, which enjoyed protection from 1934 onwards, appear to have had a favourable financial experience during 1950-52 (Tables 8 and 9). They made profits during all the three years, and in both 1950 and 1951, they also ploughed back a part of their profits. They had the most appropriate liabilities to finance their assets, although their liquidity position was not very high. Their most important source of finance was paid-up capital. Debentures were not issued by these companies. The growth of their assets was relatively high, although fixed-asset formation during the period was partly dependent on borrowings or liquidation of other assets.

*Vegetable Oil Industry*: During all the three years 1950-52 (Tables 8 and 9) the small vegetable oil companies carried forward losses, although the loss carried forward was much smaller in 1951. For the inability of the companies to make profits, the reason was not any fall in oil prices in 1950 and 1951, although that was partly true in 1952. In 1950 and 1951, oil prices rose, partly due to the Korean War. "The prices of all oils remained at a high level until about November 1951, after which a gradual decline set in, culminating in a heavy slump during February-March 1952".\*

*Printing and Publishing*: The 28 small printing and publishing companies do not appear to have had a very favourable financial experience during the period (Tables 8 and 9). Their profit-earning capacity was low, and as interest charges exceeded dividends and formed an important part of their expenditure because outside financing was high, they had to carry forward losses during all the three years. Even a part

current assets. It was the only company out of the five which paid dividends during all the three years. In looking for an explanation for this good financial position, it is seen that the managing agents had invested in this company heavily by giving loans which in 1950 and 1951 were much more than the paid-up capital, and secondly, the managing agency remuneration during the period 1950-52 together was about four times what the shareholders received as dividends. Hence, this appears to be one of the very well-managed companies with the managing agent having a greater interest than the shareholders. There may also be some locational advantages of Sivakasi for match production as is seen from the fact that the Planning Commission had laid considerable emphasis on the expansion of cottage production in matches in Sivakasi.

\* Directors' Report of the Tata Oil Company for 1952.



Table 8: EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS

	Silk and Woollen (9)			Vegetable Oil (10)			Printing and Publishing (28)			Cotton ginning (16)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<b>Expenditure</b>												
Manufacturing	28,90	28,59	38,70	1,01,97	1,15,73	95,05	21,30	32,66	29,46	8,50	10,69	11,99
Salaries and wages	7,23	8,42	9,97	3,85	3,88	4,00	14,96	16,03	16,65	3,32	4,28	4,86
Managing agency remuneration	1,33	2,23	1,69	92	89	95	20	20	21	53	66	71
Bad debts	1	2	1	1		7	31	46	35	3		1
Depreciation	1,19	1,72	1,64	80	78	93	1,80	2,06	1,75	36	56	1,21
Miscellaneous	2,16	3,05	3,69	4,45	4,07	4,85	6,45	6,20	6,32	1,88	2,31	2,42
Total :	40,82	44,03	55,70	1,12,00	1,25,35	95,85	45,02	57,61	54,74	14,62	18,50	21,20
<b>Income</b>												
Closing stock	7,22	7,96	12,30	5,86	8,79	3,67						
Opening stock	4,14	7,22	7,96	4,65	5,86	8,79						
Excess of closing stock over opening stock	3,08	74	4,34	1,21	2,93	-5,12						
Sales	41,23	54,23	54,50	1,08,66	1,21,91	98,92	44,51	59,65	56,33	15,37	20,44	23,82
Production	44,31	54,97	58,84	1,09,87	1,24,84	93,80						
Miscellaneous	29	16	22	51	1,69	49	2,07	71	1,07	88	98	1,11
Total :	44,60	55,13	59,06	1,10,38	1,26,53	94,29	46,58	60,36	57,40	16,25	21,42	24,93
<b>Appropriations</b>												
Profit before interest	3,78	11,10	3,36	-1,62	1,18	-1,56	1,56	2,75	2,66	1,63	2,92	3,73
Interest paid	73	43	77	95	1,23	98	1,12	1,21	1,23	25	37	49
Tax provision	1,37	4,89	2,48	5	11	10	41	1,19	91	27	1,15	94
Ordinary dividends	66	1,46	73	11	23	10	39	62	75	92	1,13	1,01
Preference dividends				1	1	1	1	32	13			
Retained profits	1,02	4,32	-62	-2,74	-40	-2,75	-37	-59	-36	19	27	1,29

Table 9: COMBINED BALANCE SHEETS

	<i>Silk and Woollen (9)</i>			<i>Vegetable Oil (10)</i>			<i>Printing and Publishing (28)</i>			<i>Cotton ginning (16)</i>		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Assets</i>												
<i>Gross fixed assets</i>												
Land	53	53	60	35	79	78	98	12	9	79	79	78
Buildings	7,92	8,25	8,80	7,65	7,93	8,04	9,86	10,59	11,36	14,36	14,47	14,74
Plant and machinery	17,59	19,96	24,21	15,64	15,78	17,95	22,29	22,86	23,61	27,46	27,55	27,67
Others	1,33	1,62	2,17	1,39	1,56	1,57	5,95	7,53	8,40	73	80	72
Total	27,37	30,36	35,78	25,03	26,06	28,34	38,58	41,10	43,46	43,34	43,61	43,91
Inventory	13,01	13,93	21,98	11,22	16,41	7,11	12,72	13,24	12,80	6,29	6,86	5,29
Receivables	2,15	4,68	5,22	6,71	8,47	8,56	11,00	11,55	10,39	2,05	3,08	6,23
Investments	7	7	7	1,37			94	1,10	1,21	1,48	1,48	1,48
Advance of income tax	2,37	1,70	3,39	29	49	20	80	32	29	5	15	38
E.P.T. deposits	21	21	21									
Miscellaneous current	51	90	73	83	19	12	1,05	29	14	28	29	28
Miscellaneous non-current	4	1,34	9	36	90	86	2,50	2,40	3,03	9	10	8
Intangible	55	48	48	46	15	15	1,64	1,54	1,53	1	1	1
Cash	1,60	4,19	1,74	1,28	1,14	64	3,76	3,86	5,23	6,64	7,73	10,41
Total	47,88	57,86	69,69	47,55	53,81	45,98	72,99	75,40	78,08	60,23	63,31	68,08

Table 9: COMBINED BALANCE SHEETS—(Contd.)

	<i>Silk and Woollen (9)</i>			<i>Vegetable Oil (10)</i>			<i>Printing and Publishing (28)</i>			<i>Cotton ginning (16)</i>		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Liabilities</i>												
<i>Paid-up capital</i>												
Ordinary	14,91	15,17	15,50	24,58	24,58	24,90	24,73	24,92	25,49	25,87	26,21	26,25
Preference	81	81	81	3,19	3,19	3,19	2,84	3,68	3,69	3	3	3
Deferred										6	6	6
Total	15,72	15,98	16,31	27,77	27,77	28,09	27,57	28,60	29,18	25,96	26,30	26,34
Own reserves*	7,17	11,48	10,91	-1,82	-2,19	-4,94	1,61	91	54	8,97	9,17	11,52
Depreciation reserves	8,18	9,97	11,29	5,17	5,88	6,64	7,23	8,88	10,87	17,49	18,06	19,10
Taxation reserves	4,34	7,10	9,41	54	68	69	41	1,10	1,50	39	1,53	1,81
Bank borrowings	2,69	2,50	5,49	1,66	5,49	1,83	15,35	11,52	9,64	24		
Mortgages				1,95	2,18	52	87	3	8			
Debentures							3,75	3,38	3,00			
Due to trade	2,34	1,83	94	47	1,45	2,60	2,70	2,76	4,75	74	26	20
Miscellaneous borrowings	5,38	5,23	10,59	8,41	9,22	6,90	2,72	6,73	6,34	2,54	3,62	2,59
Miscellaneous current	2,06	3,47	4,48	2,26	1,85	2,13	7,90	8,53	9,25	3,90	4,37	6,51
Miscellaneous non-current		30	27	1,14	1,48	1,52	2,88	2,96	2,93			1
Total	47,88	57,86	69,69	47,55	53,81	45,98	72,99	75,40	78,08	60,23	63,31	68,08

\* Minus figures indicate losses carried forward.

of their fixed assets had been financed through non-permanent sources of finance. Their capital formation was also partly dependent on borrowings. Their liquidity position was low.

*Cotton Ginning* : The 16 small cotton ginning companies had a very favourable financial experience during 1950-52 (Tables 8 and 9). Their profit-earning capacity was high and they ploughed back a good portion of their profits. Their interest charges were low, much less than dividends. Like electricity companies, fixed assets formed an important part of their assets, and inventories were low. As permanent finance exceeded their permanent assets, they had also a high liquidity position. Bank borrowings were small and they had not raised any long-term borrowings through mortgages or debentures due probably to lack of necessity rather than non-availability.

*269 small companies* : Tables 10 and 11 show the consolidated profit and loss and balance sheet of the 269 small companies. It will be seen that the sales income which amounted to Rs. 760 lakhs in 1950 increased to Rs. 925 lakhs in 1951, and diminished to Rs. 839 lakhs in 1952, which was mainly due to the Korean War boom and the following recession. Retained profits, it will be seen, were very small in 1950 and negative in 1951 and 1952. The losses carried forward by the tea companies in 1951 and 1952 contributed most to this. The growth of total assets in 1952 was also very small compared with 1951.

#### *Industrial Differences in Financial Experience*

Having traced the financial experience of the companies belonging to ten different groups of industries, it would be interesting to compare and contrast their performance during the period. For this purpose, it would be enough if the main financial aspects like profit-earning capacity and its use in ploughing back, interest burden as a percentage of profit before interest and also in relation to dividends paid, the pattern of the distribution of assets and how they were financed, and the growth of assets are considered.

*Profits and their appropriation* : Table Nos.12, 12A, 12B, 12C : Tea industry had difficulty in 1951 and 1952 and so its profit figures in 1950 may be taken as normal, and if that is so, it has the highest profit-earning capacity on the capital employed of all the industries included in this study. The profit-earning capacity of the electricity companies was statutorily fixed and so they did not vary from year to year, like other industries. Chemicals, Pharmaceuticals, and Silk and Woollen had the highest profits in 1951, probably because of the Korean War boom. Regarding appropriation of profits due to the smaller profits and the large part of borrowed capital for which probably higher interest charges are paid, interest burden formed a very large part of the profit before interest

in the case of almost all industries other than Silk and Woollen and Cotton Ginning, with the result that after taxes and dividends they had to carry forward losses. Interest charges were higher than dividends in the case of Chemicals, Pharmaceuticals, Vegetable Oil, Matches, Printing and Publishing. For the losses being carried forward, the most important reason would appear to be the lower profit-earning capacity of the companies rather than the very high rates of dividend. The dividend rates of the companies, as Table No. 13 shows, cannot be said to be high.

*Table 10 :* EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS  
OF 269 SMALL COMPANIES (In thousands of Rs.)

	1950	1951	1952
<i>Expenditure</i>			
Manufacturing	4,22,64	5,23,60	4,67,82
Salaries and wages	1,61,55	1,89,76	1,91,76
Managing agency remuneration	18,79	19,23	18,12
Bad debts	86	1,62	2,61
Depreciation	22,94	26,48	28,99
Miscellaneous	1,18,59	1,33,26	1,30,58
<b>Total</b>	<b>7,45,37</b>	<b>8,93,95</b>	<b>8,89,88</b>
<i>Income</i>			
Closing stock	1,58,16	1,63,93	1,54,44
Opening stock	1,27,55	1,58,16	1,63,93
Excess of closing stock	30,61	5,77	-9,49
Sales	7,60,01	9,24,90	8,38,76
Production	7,90,62	9,30,67	8,29,27
Miscellaneous	15,38	15,46	17,36
<b>Total</b>	<b>8,06,00</b>	<b>9,46,13</b>	<b>8,46,63</b>
<i>Appropriations</i>			
Profit before interest	60,63	52,18	6,75
Interest paid	13,16	15,31	17,14
Tax provision	21,81	22,13	14,19
Dividend on ordinary shares	22,74	19,54	14,60
Dividend on preference shares	2,03	2,07	1,75
Dividend on deferred shares	—	1	1
Retained profits	89	-6,88	-40,94

Table 11: COMBINED BALANCE SHEET OF 269 SMALL COMPANIES  
(In thousands of Rs.)

	1950	1951	1952
<b>Assets</b>			
<i>Gross fixed assets</i>			
Land	1,43,42	1,44,20	1,46,15
Buildings	1,84,11	1,97,51	2,07,70
Plant and machinery	2,70,66	2,84,50	3,09,71
Others	1,37,73	1,53,52	1,69,33
<b>Total</b>	<b>7,35,92</b>	<b>7,79,73</b>	<b>8,32,89</b>
Inventory	2,82,83	3,11,68	2,96,92
Book debts	95,13	96,59	1,04,01
Advance against goods	28,40	35,42	24,66
Miscellaneous receivables	12,16	18,46	14,92
Government securities	21,18	24,06	20,90
Semi-government securities	1,58	1,41	1,42
Industrial Securities	6,83	5,50	6,34
Advance of income-tax	14,45	11,88	16,71
E.P.T. deposits	68	56	44
Miscellaneous current	13,80	14,98	12,18
Miscellaneous non-current	11,13	21,78	20,89
Intangible	24,70	24,03	22,31
Cash	79,03	83,86	71,87
<b>Total</b>	<b>13,27,82</b>	<b>14,29,94</b>	<b>14,46,46</b>
<b>Liabilities</b>			
<i>Paid-up capital</i>			
Ordinary shares	4,96,70	5,07,94	5,13,53
Preference shares	58,56	60,72	61,47
Deferred shares	4,46	4,46	4,46
<b>Total</b>	<b>5,59,72</b>	<b>5,73,12</b>	<b>5,79,46</b>
Own reserves	1,09,51	1,07,49	68,31
Depreciation reserve	1,85,29	2,08,07	2,34,11
Taxation reserve	40,97	45,86	45,54
Bank borrowings	55,15	63,22	64,27
Mortgages	16,64	28,02	22,04
Debentures	19,40	18,14	19,16
Dues to trade	42,96	54,89	43,65
Miscellaneous borrowings	1,49,77	1,65,65	1,83,85
Miscellaneous current	1,28,19	1,40,06	1,57,60
Miscellaneous non-current	20,22	25,42	28,47
<b>Total</b>	<b>13,27,82</b>	<b>14,29,94</b>	<b>14,46,46</b>

Table 12: INDUSTRYWISE ALLOCATION OF PROFITS 1950-52

(In thousands of rupees)

Industry	Profit before tax + interest (1)	Interest (2)	Profit before tax (1-2) (3)	Tax provision (4)	Profit after tax (5)	Distributed profit (6)	Retained profit (7)	2 as % of 1	4 as % of 3	6 as % of 3	7 as % of 3
Tea (42)	34,55	7,39	27,16	20,01	7,15	26,54	-19,39	21.4	73.7	97.7	
Electricity (52)	23,93	8,03	15,90	5,55	10,35	11,10	- 75	33.6	34.9	69.8	
Chemicals (12)	3,12	2,71	41	2,61	-2,20	1,83	- 4,03	86.9	6,36.6	4,46.3	
Pharmaceuticals (22)	1,72	3,82	-2,10	1,31	-3,41	1,46	- 4,87	2,22.1			
Ceramics (11)	3,80	98	2,82	2,41	41	1,56	- 1,15	25.8	85.5	55.3	
Silk & Woollen (9)	18,24	1,93	16,31	8,74	7,57	2,85	4,72	10.6	53.6	17.5	28.9
Vegetable Oil (10)	-2,00	3,16	-5,16	26	-5,42	47	- 5,89				
Matches (5)	-2,89	98	-3,87	57	-4,44	30	- 4,74				
Printing & Publishing (28)	6,97	3,56	3,41	2,51	90	2,22	- 1,32	51.1	73.6	65.1	
Gotton ginning (16)	8,28	1,11	7,17	2,36	4,81	3,06	1,75	13.4	32.9	42.7	24.4
Total (269 includ- ing 62 misc.)	1,19,56	45,61	73,95	58,13	15,82	62,75	-46,93	38.1	78.6	84.9	

**Table 12-A: GROSS PROFITS AS PERCENTAGE OF TOTAL CAPITAL EMPLOYED**

	1950	1951	1952
Tea (42)	15.2	3.8	—
Electricity (52)	5.2	5.7	6.0
Chemicals (12)	—	11.2	0.5
Pharmaceuticals (22)	2.50	3.5	1.9
Ceramics (11)	8.3	7.9	3.9
Silk and Woollen (9)	13.1	28.1	8.7
Vegetable Oil (10)	—	4.3	—
Matches (5)	—	2.3	1.0
Printing and Publishing (28)	2.7	4.5	4.4
Cotton Ginning (16)	5.1	7.9	9.1
<b>Total (269 including 62 misc.)</b>	<b>7.1</b>	<b>6.0</b>	<b>2.1</b>

**Table 12-B: GROSS PROFITS AS PERCENTAGE OF SALES**

	1950	1951	1952
Tea (42)	33.9	9.0	—
Electricity (52)	15.3	15.6	15.4
Chemicals (12)	—	9.8	—
Pharmaceuticals (22)	3.2	4.1	2.1
Ceramics (11)	14.9	13.7	7.7
Silk and Woollen (9)	12.4	24.6	9.3
Vegetable Oil (10)	—	—	—
Matches (5)	—	1.2	0.5
Printing and Publishing (28)	4.0	4.9	5.1
Cotton Ginning (16)	14.1	17.5	18.6
<b>Total (269 including 62 misc.)</b>	<b>10.4</b>	<b>7.7</b>	<b>3.0</b>

**Table 12-C: PROFITS AFTER TAX AS PERCENTAGE OF NET WORTH**

	1950	1951	1952
Tea (42)	13.6	0.4	—
Electricity (52)	3.2	3.2	3.2
Chemicals (12)	—	8.7	—
Pharmaceuticals (22)	—	—	—
Ceramics (11)	1.4	2.0	—
Silk and Woollen (9)	7.3	21.0	0.4
Vegetable Oil (10)	—	—	—
Matches (5)	—	—	—
Printing and Publishing (28)	0.1	1.2	1.7
Cotton Ginning (16)	3.2	3.9	6.1
<b>Total (269 including 62 misc.)</b>	<b>3.8</b>	<b>2.2</b>	<b>—</b>



Table 13: DIVIDENDS AS PERCENTAGE OF SHARE CAPITAL.

	Ordinary			Preference			Deferred		
	'50	'51	'52	'50	'51	'52	'50	'51	'52
Tea (42)	12.8	7.3	3.8	6.1	4.5	3.5	—	—	—
Electricity (52)	3.4	3.6	3.8	3.8	2.8	4.7	—	—	—
Pharmaceuticals (22)	1.7	1.5	0.7	1.8	—	—	—	—	—
Chemicals (12)	1.0	1.9	2.7	3.7	3.1	2.8	—	—	—
Ceramics (11)	3.4	3.7	2.7	1.4	1.4	1.4	—	0.7	0.7
Silk & Woollen (9)	4.4	9.6	4.7	—	—	—	—	—	—
Vegetable Oil (10)	0.4	0.9	0.4	0.3	0.3	0.3	—	—	—
Matches (5)	0.5	1.1	1.1	—	—	—	—	—	—
Printing and Publishing (28)	1.6	2.5	2.9	0.4	8.7	3.5	—	—	—
Cotton Ginning (16)	3.6	4.3	3.8	—	—	—	—	—	—
Total (269 includ- ing 62 misc.)	4.6	3.8	2.8	3.5	3.4	2.8	—	0.2	0.2

*Pattern of assets:* As the pattern of the distribution of assets and liabilities did not show very great variation year by year, for purposes of inter-group comparison it would be enough, if only one year, say 1950, is taken into account. Moreover, 1950 appears to be the most normal year compared with 1951, when the Korean War boom affected the companies, and 1952, when there was the recession following the end of hostilities. From the common-size balance sheet of all industries (Table No. 14), it would appear that fixed assets formed the most important part of the assets (three quarters) in the case of Electricity and Cotton Ginning. For these two industries, inventories were not high. In the case of all the remaining industries other than Pharmaceuticals, fixed assets formed a half of the total assets, and in the case of Pharmaceuticals, a third of the total assets. Inventories formed more than a third of the total assets in the case of Pharmaceuticals and Matches. Intangible assets, which partly represent "water" in the capital, were comparatively more important in the case of Pharmaceuticals, Chemicals, and Ceramics. Part of the intangible assets in the case of Pharmaceuticals was due to the holding of patent rights in the case of certain pharmaceutical products. Compared with other industries cash was more important in the case of Tea, Ceramics, and Printing and Publishing. E.P.T. deposits were negligible in the case of all the industries because of repayments effected during the post-war period.

*Structure of liabilities:* As there is an appropriate type of liability for each asset, normally it should be the pattern of asset that should determine the structure of liability. But, as the most appropriate type is not always available, the nature of finance available also determines the structure of liability. The result of financing assets through resources available

Table 14: COMMON SIZE BALANCE SHEET

	269 Small companies	Tea (42)	Electricity (52)	Chemicals (12)	Pharmaceut- icals (22)	Ceramics (11)	Silk & Woollen (9)	Vegetable Oil (10)	Matches (5)	Printing & Publishing (28)	Cotton Ginning (16)
<i>Assets</i>											
Fixed assets	55	53	75	42	34	58	57	53	49	53	72
Inventory	21	24	10	30	39	18	27	24	35	17	10
Receivables	10	11	7	13	13	4	5	14	7	15	3
Investments	2	2	1	6	—	8	—	3	—	1	3
Advance of Income-tax	1	1	1	1	2	1	5	1	—	1	—
E.P.T. deposits	—	—	—	—	—	—	—	—	—	—	—
Miscellaneous current	1	1	—	1	1	1	1	2	3	1	—
Miscellaneous non-current	1	—	—	—	1	—	—	1	1	3	—
Intangibles	2	—	2	6	7	5	1	1	1	2	—
Cash	6	7	4	1	3	5	3	3	4	5	11
<i>Liabilities</i>											
Paid-up capital	42	31	45	49	53	52	33	58	62	38	43
Own reserves	8	23	2	—	-5	-2	16	-4	23	2	15
Depreciation reserves	14	13	19	9	6	18	17	11	8	10	29
Taxation reserves	3	6	1	1	1	5	9	1	1	1	1
Bank borrowings	4	4	4	3	1	1	6	4	2	21	—
Mortgages	1	1	1	2	1	—	—	4	6	1	—
Debentures	2	1	3	3	—	—	—	—	—	5	—
Due to trade	3	1	3	6	7	1	5	1	8	4	1
Miscellaneous borrowings	11	9	11	20	24	6	11	18	15	4	4
Miscellaneous current	10	12	7	7	11	15	4	5	20	11	7
Miscellaneous non-current	2	—	5	—	1	5	—	2	1	4	—

is reflected in the assets-liability ratios (Table No. 15). Thus, in the case of Electricity companies which had three quarters of their assets permanent were probably unable to get enough long-term finance through placing shares in public or by ploughing back profits, with the result that a part of their permanent assets had to be financed even by current liabilities, so that they did not have liquid assets even as much as half of their current liabilities. On the other hand, cotton ginning companies, partly because of their higher profit-earning capacity and retention policy had been able to find permanent finance not only to cover their permanent assets but also a part of current assets with the result that their liquidity position was high. In the case of Matches and Printing and Publishing also not enough of permanent finance was available. The common-size liabilities statement (Table No. 14) also spotlights the importance of each liability for different industries. Paid-up capital formed more than half of the total liabilities in the case of Matches, Vegetable Oil, Pharmaceuticals, and Ceramics. Miscellaneous borrowings were important for Pharmaceuticals and Chemicals. Bank borrowings were relatively more important for Printing and Publishing.

Table 15: ASSETS LIABILITY RATIOS IN 1950

<i>Industry</i>	<i>% of permanent assets to permanent liabilities</i>	<i>% of current assets to current liabilities</i>	<i>% of liquid assets to current liabilities</i>	<i>% of outside liabilities to net worth</i>	<i>% of current liabilities to net worth</i>
Tea (42)	80	147	71	63	59
Electricity (52)	115	78	46	73	65
Chemicals (12)	80	147	63	82	72
Pharmaceuticals (22)	72	181	45	95	94
Ceramics (11)	94	113	59	66	66
Silk & Woollen (9)	90	119	41	73	73
Vegetable Oil (10)	82	152	75	63	56
Matches (5)	107	105	31	136	122
Printing & Publishing (28)	111	103	63	125	110
Cotton Ginning (16)	83	216	136	22	22
Total (269 including 62 misc.)	89	130	65	71	65

Table 16: RATE OF INCREASE IN ASSETS (1950-52)

	<i>Gross fixed assets</i>			<i>Inventories</i>			<i>Total assets</i>		
	*1951	**1952	***1950-52	*1951	**1952	***1950-52	*1951	**1952	***1950-52
Tea (42)	5.5	6.0	11.8	-5.3	-0.3	-5.6	-.1	-.8	-.9
Electricity (52)	7.8	10.3	18.9	5.6	-0.2	5.4	8.1	7.0	15.7
Chemicals (12)	5.0	2.6	7.7	18.9	0.2	19.2	15.6	-2.3	13.0
Pharmaceuticals (22)	6.5	6.5	13.4	9.6	-6.0	3.1	7.0	-1.9	5.0
Silk & Woollen (9)	10.9	17.9	30.7	7.1	57.8	68.9	20.8	20.4	45.6
Ceramics (11)	2.0	2.9	5.0	18.9	14.8	36.5	8.6	0.3	9.0
Vegetable Oil (10)	4.1	8.7	13.2	46.3	-56.7	-36.6	13.2	-14.6	-3.3
Matches (5)	3.2	-0.7	2.5	19.0	-12.6	4.0	12.8	-9.8	1.7
Printing & Publishing (28)	6.5	5.7	12.60	4.1	-3.3	0.6	3.3	3.6	7.0
Cotton ginning (16)	0.6	0.7	1.3	9.1	-22.9	-15.9	5.1	7.5	13.0
Total (269 including 62 misc.)	6.0	6.8	13.2	10.2	-4.7	5.0	7.7	1.2	8.9

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\* Increase in 1951 as a % of 1950

\*\* Increase in 1952 as a % of 1951

\*\*\* Increase during 1950-52 as a % of 1950.

*Growth of assets* : Table No. 16 shows the rate of growth of gross fixed assets, inventories, and gross total assets. The gross total assets declined during the period in the case of Tea and Vegetable Oil. The growth was the highest in the case of Silk and Woollen, showing perhaps the development as a result of protection. Silk and Woollen, it will also be noted, retained a large part of their profits. Increase in gross fixed assets, reflecting growth in industrial capacity, was also the highest in the case of Silk and Woollen compared with others.

From many points of view silk and woollen, and cotton ginning companies had a very favourable financial experience during the period. They were able to earn reasonably good profits, paid dividends, and ploughed back a part of the profits. Cotton Ginning had the most appropriate type of liability to finance each of its assets. In the case of Silk and Woollen, the liquidity position may be said to be not very high. Growth of fixed assets, reflecting increase in productive capacity, was the highest in the case of Silk and Woollen. The difficulties of the other industries were inability to earn enough profits and so inability to plough back a part of it, together with the presence of large outside financing and the resulting high interest charges which formed a substantial part of the profit before interest.

## Chapter IV

### FINANCIAL EXPERIENCE OF SMALL VIS-A-VIS LARGE COMPANIES

An analysis of the financial structure of large companies, viz. having a paid-up capital of not less than Rs. 5 lakhs, has been published by the Reserve Bank of India in their July 1955 Bulletin. The coverage of these companies by paid-up capital is very high; thus the 105 tea companies, 20 electricity companies, 43 chemical companies (including pharmaceuticals), 14 silk and woollen companies, and 15 vegetable oil companies analysed by the Reserve Bank cover respectively 81 per cent, 94 per cent, 79 per cent, 100 per cent, 49 per cent, and 54 per cent of the total paid-up capital of all companies in the respective industries in 1951-52. On account of the high coverage, the financial results as revealed by the sample of balance sheets analysed by the Reserve Bank could be deemed as broadly representing the entire companies under these groups of industries, whereas the same cannot be claimed as regards the small companies studied in this monograph, on account of the low coverage by paid-up capital. Subject to this main limitation, a comparative study of certain broad aspects of the financial structure of these two categories of companies has been attempted in the following paragraphs. The data relating to large companies as published by the Reserve Bank are presented in a summary form in Tables 17 to 22. The results of analysis of small companies have already been dealt with in Chapter III.

*Tea* : The large tea companies appear to have had a somewhat better financial experience than the small companies during 1950-52 on the basis of the data presented in Tables 17 and 18. Their profit-earning capacity was better and though adverse circumstances such as increase in the cost of production and fall in the prices of tea were faced by both these categories of companies, they affected the smaller companies to a greater extent as would be evident from Table A.

Table A

(Figures in percentages)

<i>Ratio of</i>	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
	(a) Gross profits to total capital employed	15.2	18.5	3.8	10.8	Loss
(b) Gross profits to sales	33.9	33.4	9	17.2	Loss	2.8
(c) Profits after tax to net worth	13.6	16.5	0.4	8.7	Loss	Loss

Table 17: EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS

(In lakhs of Rs.)

	Tea (105)			Electricity (20)			Chemicals (23)			Pharmaceuticals (20)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Expenditure</i>												
Manufacturing	10,23*	11,72*	11,33*	2,43	2,75	3,25	5,24	7,28	6,70	2,78	315,	2,72
Salaries and wages				1,30	1,50	1,60	1,33	1,58	1,70	87	1,05	1,03
Managing agency remuneration	56	51	41	30	32	35	11	11	10	7	7	6
Bad debts							1					1
Depreciation	58	61	74	68	69	84	67	73	76	12	13	14
Miscellaneous	2,21	3,02	3,63	68	75	82	1,01	1,22	1,52	92	96	97
<b>Total</b>	<b>13,58</b>	<b>15,86</b>	<b>16,11</b>	<b>5,39</b>	<b>6,01</b>	<b>6,86</b>	<b>8,37</b>	<b>10,92</b>	<b>10,78</b>	<b>4,76</b>	<b>5,36</b>	<b>4,93</b>
<i>Income</i>												
Closing stock	6,09	5,96	6,49				1,62	2,06	2,27	84	1,10	99
Opening stock	3,68	6,09	5,96				1,59	1,71	2,06	77	84	1,10
Excess of closing stock over opening stock	2,41	-13	53				3	35	21	7	26	-11
Sales	15,64	18,31	15,33	7,74	8,35	9,60	8,66	11,16	10,77	4,94	5,29	5,20
Production	18,05	18,18	15,86				8,69	11,51	10,98	5,01	5,55	5,09
Miscellaneous	21	32	28	34	40	43	34	26	15	7	8	8
<b>Total</b>	<b>18,26</b>	<b>18,50</b>	<b>16,14</b>	<b>8,08</b>	<b>8,75</b>	<b>9,93</b>	<b>9,03</b>	<b>11,77</b>	<b>11,13</b>	<b>5,08</b>	<b>5,63</b>	<b>5,17</b>

\* Represents cultivation expenses and salaries and wages.

Table 17: EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS— (Contd.)

(In lakhs of Rs.)

	Tea (105)			Electricity (20)			Chemicals (28)			Pharmaceuticals (20)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Appropriations</i>												
Profit before interest	4,68	2,64	3	2,69	2,74	3,07	66	85	35	32	27	24
Interest paid	11	11	19	26	28	36	13	18	24	4	5	5
Tax provision	1,38	83	30	79	66	69	13	27	19	12	11	11
Ordinary dividends	1,86	1,23	73	75	1,27	1,31	21	16	11	9	9	9
Preference dividends	8	9	8	11	19	22	7	10	9	4	3	3
Retained profits	1,23	38	-1,29	78	35	48	12	14	-28	4	-1	-6



Table 18: COMBINED BALANCE SHEET OF LARGE COMPANIES

(In lakhs of Rs.)

	Tea (105)			Electricity (20)			Chemicals (23)			Pharmaceuticals (20)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Assets</i>												
<i>Gross fixed assets</i>												
Land	9,25	9,66	9,08	1,09	1,15	1,15	17	18	20	25	29	33
Buildings	4,02	4,44	5,30	2,76	3,04	3,28	3,02	3,22	3,54	1,09	1,14	1,17
Plant and machinery	2,92	3,18	3,69	11,65	12,05	14,13	7,91	8,46	8,98	1,26	1,39	1,53
Others	75	91	1,44	21,86	23,08	24,46	1,24	1,06	1,14	34	36	38
Total	16,94	18,19	19,51	37,36	39,32	43,02	12,34	12,92	13,86	2,94	3,18	3,41
Inventory	7,91	8,20	8,88	2,33	2,74	3,07	4,10	5,18	5,89	1,82	2,06	1,87
Receivables	2,01	2,04	1,87	1,61	1,74	1,83	1,81	1,95	2,24	94	1,14	1,09
Investments	1,11	95	73	1,40	1,30	1,39	44	37	41	32	32	31
Advance of income tax	58	59	53	1,02	1,07	91	7	8	28	8	10	12
E.P.T. deposits	10	9	4	11	8		9	5		4	1	1
Miscellaneous current	7	11	4	16	18	9	16	6	7	5	4	3
Miscellaneous non-current	18	28	20	37	44	54	18	6	11	61	47	50
Intangible	2	2	2	52	54	55	23	22	20	14	14	12
Cash	2,86	2,75	1,67	1,81	2,00	1,62	36	69	35	39	25	34
Total	31,78	33,22	33,49	46,69	49,41	53,02	19,78	21,58	23,41	7,33	7,71	7,79

Table 18: COMBINED BALANCE SHEET OF LARGE COMPANIES— (Contd.)

(In lakhs of Rs.)

	Tea (105)			Electricity (20)			Chemicals (23)			Pharmaceuticals (20)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Liabilities</i>												
<i>Paid-up capital</i>												
Ordinary	9,94	10,15	10,24	16,29	17,53	18,95	7,77	7,77	7,76	2,18	2,24	2,25
Preference	1,60	1,59	1,59	2,88	2,88	3,01	1,63	1,63	1,63	87	88	87
Deferred							1	1	1	1	1	1
Total	11,54	11,74	11,83	19,17	20,41	21,96	9,41	9,41	9,40	3,06	3,13	3,13
Own reserves <sup>3</sup>	7,65	7,82	6,36	4,11	3,93	4,60	1,15	1,42	1,12	1,03	1,04	97
Depreciation reserve	3,51	4,03	4,69	11,00	11,57	12,25	3,09	3,80	4,55	1,01	1,14	1,27
Taxation reserve	2,35	2,16	1,40	1,55	1,49	1,38	26	40	54	25	24	24
Bank borrowings	89	1,23	2,21	21	16	49	1,98	2,65	2,68	42	50	48
Mortgages		2	10			3	10	9	19			
Debentures	55	45	39	6,42	6,59	6,64	65	45	44	15	15	16
Due to trade	30	35	63	1,00	1,23	87	56	78	96	28	33	27
Miscellaneous borrowings	83	94	2,30	74	81	1,31	1,31	1,45	2,41	57	53	58
Miscellaneous current	4,01	4,31	3,40	1,85	2,46	2,86	1,19	1,05	1,07	50	63	62
Miscellaneous non-current	14	15	17	63	74	64	7	7	7	6	4	5
Total	31,78	33,22	33,49	46,69	49,41	53,02	19,78	21,58	23,41	7,33	7,71	7,79

The following points also deserve mention : (i) For both the small and the large companies slightly more than half the assets were in the form of fixed assets (of which half constituted estates), about one fourth under inventories, and about one tenth under receivables. Receivables were more important for the small companies than for the large, disclosing that the small companies had to resort to customer financing to a greater extent, and also that for obtaining goods they had to pay higher advances. (ii) The gross total assets of the small companies declined by 0.9 per cent during 1950-52, mainly as a result of the large losses carried forward in 1952, but their fixed assets showed an increase of 11.8 per cent. The gross total assets of the large companies increased by 5.5 per cent and their fixed assets by 15.2 per cent, indicating that the rate of growth of the large companies was higher. (iii) Paid-up share capital was slightly more important for the large companies than for the small. Mortgages and debentures were not important for both. (iv) In the case of both the size-groups of companies, fixed-asset formation was much more than the increase in depreciation reserves and paid-up capital, indicating that it was financed partly through miscellaneous borrowings and/or liquidation of other assets. (v) On account of the lower profitability in 1951 and losses carried forward in 1952, both the categories of companies had to resort to increased borrowings from banks and miscellaneous sources. (vi) The ratio of liquid assets to current liabilities in the case of the small companies was lower than in the case of the large companies, indicating that the liquidity position of the smaller companies was lower. (vii) The interest burden as a consequence of larger outside financing and lower profit earning capacity was higher for the small than for the large companies. It would appear from all this that the small companies were financially weaker than the large companies and their profitability was also lower.

*Electricity* : The consolidated balance sheet and profit and loss accounts of the large electricity companies are indicated in Tables 17 and 18. From the following data (Table B) showing the profit-earning capacity of the electricity companies, it would be seen that the profitability of the large electricity companies was higher :—

<i>Ratio of</i>	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
	(a) Gross profits to total capital employed	5.2	8.4	5.7	8.1	6.0
(b) Gross profits to sales	15.3	38.6	15.6	36.8	15.4	35.9
(c) Profits after tax to net worth	3.2	7.0	3.2	7.4	3.2	7.6

The following aspects may also be noted : (i) In the case of electricity companies more than three fourths of the total assets constituted fixed assets, the remaining being mostly liquid, as inventories were small. Hence, unlike manufacturing industries which generally require long, medium, and short-term finances in varying degrees, the electricity companies seem to need only two kinds of finance – the long-term and the short-term finance – the long-term comprising paid-up capital, reserves and debentures, and the short-term comprising borrowings from banks, miscellaneous sources, etc. As a substantial part of the financial requirements of electricity companies has to be long-term, and as raising of finances through floatation of debentures is not quite an attractive proposition in the country, it is necessary for electricity companies to earn adequate profits, to declare reasonable dividends and also to plough back enough reserves to build up reserves. The large companies had long-term finance (including debentures) to match their fixed assets, whereas the small companies lacked the same, with the result a part of their fixed assets had only cover in current liabilities. (ii) Fixed-asset formation during the period was also partly financed through short-term liabilities in the case of small companies. Although in the case of both the categories of companies, during 1950-52, fixed asset formation exceeded the growth in long-term funds, the large companies, even at the end of 1952, had long-term funds to match the total fixed assets, whereas this was not the case of the small companies. (iii) The gross total assets and gross fixed assets of the small companies increased by 15.7 per cent and 18.9 per cent during the years under review, whereas in the case of large companies, the percentages were 13.6 and 15.1 respectively. The rate of growth was thus higher in the case of the small companies. Depreciation provision was the most important source for financing assets during the period in the case of both the categories of companies.

*Chemicals* : Tables 17 and 18 also show the consolidated balance sheet and profit and loss account of large chemical companies. The profit earning capacity of the large chemical companies was generally higher as the following Table C indicates. It was in 1951 that both the categories

Ratio of	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
	(a) Gross profits to total capital employed	Loss	4.7	11.2	5.4	0.5
(b) Gross profits to sales	Loss	8.9	9.8	8.5	Loss	4.2
(c) Profits after tax to net worth	Loss	3.8	8.7	3.7	Loss	Loss

of companies earned the largest profits, indicating thereby that these companies benefited appreciably on account of the Korean War boom; further the benefit was higher for the small companies than for the large. The following additional points also deserve mention : (i) Dividends paid exceeded interest charges in the case of the large companies while the position was opposite in the case of the small companies. This would suggest that in effect the burden of borrowed capital was greater on the small companies than on the large. (ii) For the small companies, fixed assets formed two fifths and inventories nearly one third of the total gross assets, whereas for the large companies, fixed assets formed nearly three fifths and inventories one fourth of the total gross assets. This indicates that the large chemical companies were more mechanized and had relatively smaller proportion of unsold inventories. As fixed assets formed a higher proportion of the assets of the large companies, permanent assets formed a larger part of the permanent funds in the case of the large than in the case of the small companies. Owing to this and due to the fact that not much of long-term finance had been raised by large companies, the liquidity position of the larger companies was less than that of the small. (iii) The gross total assets and the gross fixed assets of the small companies increased during the period by 13 per cent and 7.7 per cent, whereas the corresponding figures for the large companies were 18.4 per cent and 12.3 per cent indicating a higher rate of growth for the larger companies. (iv) The most important source of financing for capital formation was bank borrowings in the case of the small companies, while it was depreciation reserves in the case of the large companies. However, increases in depreciation reserve and paid-up capital fell short of the increase in fixed-asset formation in the case of the large companies, while the position was reverse in respect of the small companies.

*Pharmaceuticals* : The consolidated financial position of the large pharmaceutical companies is indicated in Tables 17 and 18. The rates of profit earned by the small and the large companies were as follows : (Table D) :

Ratio of	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
	(a) Gross profits to total capital employed	2.5	6.3	3.5	5.3	1.9
(b) Gross profits to sales	3.2	7.9	4.1	6.4	2.1	5.8
(c) Profits after tax to net worth	Loss	4.2	Loss	2.8	Loss	1.7

It will be seen that during all the three years the profitability of the large companies was higher than that of the small companies. Although from the table it may appear that 1951 was the best year for the small companies and 1950 for the large companies, in fact, it was during the same period that both the categories of companies benefited. In the case of the small companies, balance sheets closing any time during a year have been shown as pertaining to that year, whereas in the case of the large companies the accounting year is from July 1 to June 30. If the same accounting year had been followed in the case of the small companies also, the year 1950 would have been the best year for the small companies also. Because of the higher profit-earning capacity and the smaller proportion of outside financing interest burden was smaller for the large companies compared with the small ones. Owing to the lower importance of outside financing, the liquidity position of the large companies was also better. The rate of growth of assets was also higher for the large companies; the gross fixed assets of the large companies increased by 6.3 per cent and 16 per cent respectively during 1951 and 1952 compared with five per cent and 13.4 per cent increases recorded by those of the small companies. For financing the growth of assets, the most important source for the small companies was increase in paid-up capital and for the large companies, increase in depreciation reserves.

*Matches* : The large match companies\* appeared to have had a very favourable financial experience during 1950-52 as compared with their smaller counterparts (Tables 19 and 20). Their profit-earning capacity was higher and they also ploughed back an appreciable portion of the profits earned. They had the most appropriate type of liability to finance their assets, and they did not depend on outside financing for their capital formation. In the case of the large companies, excise duty paid was about half the total cost of production, while in the small companies, it was only about one third. Even after paying a higher

Table E

*(Figures in percentages)*

Ratio of	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
	(a) Gross profits to total capital employed	Loss	17.4	2.3	16.3	1
(b) Gross profits to sales	Loss	7.5	1.2	7.0	0.5	7.8
(c) Profits after tax to net worth	Loss	13.1	Loss	12.3	Loss	13.0

\* As the Western India Match Company is included, it is its position that is mainly reflected in the consolidated picture.

(In lakhs of Rs.)

Table 19: EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS

	Matches (4)			Ceramics (6)			Silk and woollen (14)			Vegetable Oil (15)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Expenditure</i>												
Manufacturing	3,20	3,71	3,70	96	1,02	1,10	2,36	4,41	3,00	14,71	17,75	14,77
Salaries & wages	1,63	1,74	1,78	55	59	62	80	90	83	1,04	1,11	1,17
Managing agency remuneration	14	13	15	5	5	5	7	2	2	3	4	4
Bad debts				1							1	1
Depreciation	12	13	16	22	23	18	15	10	9	21	24	17
Miscellaneous	*6,63	6,94	6,84	28	35	44	26	27	24	1,51	1,73	1,64
<b>Total</b>	<b>11,72</b>	<b>12,65</b>	<b>12,63</b>	<b>2,07</b>	<b>2,24</b>	<b>2,39</b>	<b>3,64</b>	<b>5,70</b>	<b>4,18</b>	<b>17,50</b>	<b>20,88</b>	<b>17,80</b>
<i>Income</i>												
Closing stock	23	27	33	55	50	58	86	1,54	1,19	1,93	1,84	1,41
Opening stock	41	23	27	49	55	50	1,07	86	1,54	1,71	1,93	1,84
Excess of closing stock over opening stock	-18	4	6	6	-5	8	-21	68	-35	22	-9	-43
Sales	12,61	13,34	13,28	2,22	2,48	2,60	4,41	4,96	4,35	17,24	20,91	18,21
Production	12,43	13,38	13,34	2,28	2,43	2,68	4,20	5,64	4,00	17,46	20,82	17,78
Miscellaneous	7	8	17	7	8	4	4	4	3	23	21	16
<b>Total</b>	<b>12,50</b>	<b>13,46</b>	<b>13,51</b>	<b>2,35</b>	<b>2,51</b>	<b>2,72</b>	<b>4,24</b>	<b>5,68</b>	<b>4,03</b>	<b>17,69</b>	<b>21,03</b>	<b>17,94</b>

\* This includes excise duty of 615 lakhs in 1950 and 644 lakhs in 1951. The estimated figure for 1952 is 643 lakhs.

Table 19: EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS— (Contd.)

(In lakhs of Rs.)

	Matches (4)			Ceramics (6)			Silk and Woollen (14)			Vegetable Oil (15)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Appropriations</i>												
Profit before interest	78	81	88	28	27	33	60	-2	-15	19	15	14
Interest paid	1	1	1	6	4	4	5	8	10	18	21	19
Tax provision	35	36	37	14	13	15	20	—	—	1	2	2
Ordinary dividend	27	27	26	4	4	6	15	3	2	8	8	9
Preference dividend	—	—	—	4	4	3	1	—	2	2	2	2
Retained profits	18	16	25	2	2	4	21	-13	-28	-10	-16	-20



Table 20: COMBINED BALANCE SHEET OF LAGRE COMPANIES

(In lakhs of Rs.)

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	Matches (4)			Ceramics (6)			Silk and Woollen (14)			Vegetable Oil (15)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Assets</i>												
<i>Gross fixed assets</i>												
Land	12	12	12	*1,03	*1,06	*1,11	7	7	5	10	9	10
Buildings	67	72	79	—	—	—	90	95	97	1,58	1,61	1,67
Plant and machinery	1,10	1,13	1,21	1,11	1,18	1,37	1,53	1,71	1,85	3,56	3,65	3,76
Others	36	38	42	47	53	49	13	13	14	47	50	51
<b>Total</b>	<b>2,25</b>	<b>2,35</b>	<b>2,54</b>	<b>2,61</b>	<b>2,77</b>	<b>2,97</b>	<b>2,63</b>	<b>2,86</b>	<b>3,01</b>	<b>5,71</b>	<b>5,85</b>	<b>6,04</b>
Inventory	1,51	2,37	2,27	98	91	1,09	2,23	2,72	2,13	5,13	4,85	4,34
Receivables	49	42	45	45	60	51	62	49	40	1,18	1,27	1,16
Investments	—	—	—	29	33	30	27	26	26	2	1	1
Advance of income tax	39	32	56	6	7	9	13	11	10	22	17	9
E.P.T. deposits	34	34	5	—	—	—	1	—	—	3	2	1
Miscellaneous current	30	26	29	1	2	1	1	1	1	2	2	2
Miscellaneous non-current	10	14	19	7	11	11	1	1	2	4	5	8
Intangible	—	—	—	4	4	5	1	1	1	2	2	2
Cash	1,41	92	1,60	16	20	27	64	43	29	22	19	35
<b>Total</b>	<b>6,79</b>	<b>7,12</b>	<b>7,95</b>	<b>4,67</b>	<b>5,05</b>	<b>5,40</b>	<b>6,56</b>	<b>6,90</b>	<b>6,23</b>	<b>12,59</b>	<b>12,45</b>	<b>12,12</b>

\* Represents Land and Buildings.

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Table 20: COMBINED BALANCE SHEET OF LARGE COMPANIES—(Contd.)

(In lakhs of Rs.)

	Matches (4)			Ceramics (6)			Silk and Woollen (14)			Vegetable Oil (15)		
	1950	1951	1952	1950	1951	1952	1950	1951	1952	1950	1951	1952
<i>Liabilities</i>												
<i>Paid-up capital</i>												
Ordinary	2,49	2,49	2,49	89	89	89	1,56	1,86	1,89	3,12	3,12	3,12
Preference	5	5	5	79	79	79	31	31	31	79	79	79
Deferred	—	—	—	—	—	—	—	—	—	1	1	1
Total	2,54	2,54	2,54	1,68	1,68	1,68	1,87	2,17	2,20	3,92	3,92	3,92
Own reserve	83	95	1,38	13	17	20	76	38	6	34	19	2
Depreciation reserve	1,32	1,42	1,56	98	1,20	1,36	1,23	1,32	1,39	1,65	1,87	2,04
Taxation reserve	78	77	1,10	24	36	48	28	12	7	12	9	9
Bank borrowings	—	—	—	14	16	21	91	1,32	1,01	3,21	2,96	2,69
Mortgages	—	—	—	18	16	14	—	—	—	18	11	11
Debentures	—	—	—	31	30	29	—	—	—	40	40	40
Due to trade	31	32	23	20	20	15	11	13	11	60	59	49
Miscellaneous borrowings	3	2	14	36	36	38	58	80	77	92	95	1,08
Miscellaneous current	98	1,10	91	41	44	47	72	61	55	80	94	91
Miscellaneous non-current	—	—	9	1	2	1	10	6	5	44	43	39
Total	6,79	7,12	7,95	4,67	5,05	5,40	6,56	6,90	6,23	12,59	12,45	12,12

excise duty, the large companies could secure high profits probably because their expenses were relatively low and they enjoyed the advantages of large-scale production. The managing agency remuneration in the case of the large companies was slightly more than four times the dividends paid.

*Ceramics* : The financial experience of the large ceramics companies appears to be much better than that of their smaller counterparts (Tables 19 and 20). The following table shows the rate of profit earned by both the categories of companies. It will be seen that the profit-earning capacity of the large companies was higher. The proportion of salaries

Ratio of	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
(a) Gross profits to total capital employed	8.3	9.1	7.9	8.4	3.9	9.6
(b) Gross profits to sales	14.9	14.9	13.7	12.9	7.7	14.6
(c) Profits after tax to net worth	1.4	5.0	2.0	5.4	Loss	7.0

and wages paid to the total expenditure incurred was higher in the case of the small companies compared to the large companies, being one fourth for large companies, and two fifths for small companies respectively; this was perhaps responsible, to some extent, for the higher profit-earning capacity of the large companies. On account of the lower rate of profit, the small companies were unable to plough back any profits. The insufficiency of internal finance and paid-up capital made it necessary for the small companies to borrow from miscellaneous sources for financing capital formation. They were also unable to raise funds through debentures like their larger counterparts. Although outside financing was more important for the large rather than the small companies, the former could plough back a part of the profits on account of the higher profit-earning capacity. Their rate of growth of assets was also therefore higher. The gross total assets and the gross fixed assets of the small companies increased during the period by nine per cent and five per cent respectively, whereas the respective increases for the large companies were 15.9 per cent and 13.8 per cent. The most important source of funds for financing this growth was miscellaneous borrowings in the case of the small companies and depreciation reserves as regards the large companies.

*Silk and Woollen* : The financial results of the large silk and woollen companies did not compare favourably with those of the small concerns; the profit-earning capacity of the small companies was higher

as may be seen from the following table G. On account of the higher profits earned, the small companies were able to plough back a portion of their profits and utilize it for financing the growth of their assets. The gross total assets and the gross fixed assets of the small companies increased during the period by 45.6 per cent and 30.7 per cent respectively while the respective figures of the large companies declined by five per cent and increased by 14.4 per cent.

Ratio of	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
	(a) Gross profits to total capital employed	13.1	13.0	28.1	Loss	8.7
(b) Gross profits to sales	12.4	15.6	24.6	Loss	9.3	Loss
(c) Profits after tax to net worth	7.3	14.1	21.0	Loss	0.4	Loss

*Vegetable Oil*: Both the small and the large vegetable oil companies appear to have had an unfavourable financial experience during 1950-52 (Table H). Losses were incurred by both the categories of companies. While in 1950 and 1951, the prices of finished products rose, the rise was not probably adequate to match the increase in prices of raw materials, with the result that losses were incurred. Moreover the increase in prices of finished oil adversely affected the *vanaspati*-producing section of this industry. In 1952, the prices of finished products showed a decline with the result that the value of accumulated stocks had to be written down and losses had to be sustained.\* The total capital formation was negative in the case of both the categories of companies; this was due to the fall in oil prices in 1952, which reduced the value of inventories due to losses carried forward and to the uncertainty caused by the Bhargava Bill which tried to impose a ban on *vanaspati* production.

Ratio of	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
	(a) Gross profits to total capital employed	Loss	1.9	4.3	1.9	Loss
(b) Gross profits to sales	Loss	Loss	Loss	Loss	Loss	0.9
(c) Profits after tax to net worth	Loss	Loss	Loss	Loss	Loss	Loss

\* Director's Report of Gourepore Company Ltd., 1952.

*Overall finances of large and small companies* : A comparison may also be made of the overall financial structure of the small and the large companies on the basis of the consolidated data in respect of the 269 companies analysed in Chapter III, and 408 large companies belonging to the same broad industrial groups (Tables 21 and 22)\*. The following Table I indicates the rates of profit earned by the small and the large

Ratio of	1950		1951		1952	
	Small	Large	Small	Large	Small	Large
	(a) Gross profits to total capital employed	7.1	9.7	6.0	9.0	2.1
(b) Gross profit to sale	10.4	12.5	7.7	10.7	3.0	9.1
(c) Profits after tax to net worth	3.8	8.0	2.2	7.9	Loss	5.8

companies. It is clear that judged by all the three ratios large companies were more profitable than the small. Another factor worth noting is that there was a progressive decline in all the three ratios, the decline being steeper in the case of small companies. From this it could be inferred that unfavourable external factors affected the small companies to a greater extent than the large companies. The following aspects also deserve mention : (i) For both the small and the large companies, broadly speaking, slightly more than half of the gross total assets were in the form of gross fixed assets, about one fourth in inventories, and one tenth in receivables. (ii) For the small companies, paid-up capital was a more important source of finance than for the large companies. Paid-up capital constituted about two fifths of the liabilities of the small companies, whereas for the large companies, they formed only about one third. Own reserves were less important in the case of the small companies than for the large. Bank borrowings were more important for the large companies than for the small, while miscellaneous borrowings were more important for the small than for the large companies. As borrowings due to trade were lower for the small companies, it may be that to obtain goods credit facilities were not as much available to them as for the large companies. (iii) The gross total assets and the gross fixed assets of the small companies increased during 1951 and 1952 at the rate of 8.9 per cent and 13.2 per cent respectively, whereas the corresponding figures for the large companies

\* This has been obtained by excluding from the Reserve Bank's analyses of 746 companies, 338 large companies belonging to the following industries : Sugar mills (53); Cotton mills (146); Jute mills (47); Iron and Steel (2); Aluminium (3); Cement (8); Trading (31); Land and Estate (21); Managing Agents (10); Shipping (10); Motion picture production (3); and Hotels (4).

Table 21: EXPENDITURE, INCOME AND APPROPRIATION OF PROFITS (408 COMPANIES). (In lakhs of Rs.)

	1950	1951	1952
<i>Expenditure</i>			
Manufacturing	1,28,09	1,68,52	1,63,04
Salaries and wages	40,76	48,75	51,75
Managing agency remuneration	2,61	2,79	2,93
Depreciation	7,86	8,82	9,33
Bad debts	10	17	9
Miscellaneous	25,04	28,87	32,14
<b>Total</b>	<b>2,04,46</b>	<b>2,57,92</b>	<b>2,59,28</b>
<i>Income</i>			
Closing stock	37,20	47,10	46,65
Opening stock	35,17	37,28	47,21
Excess of closing stock over opening stock	2,03	9,82	-56
Sales	2,23,82	2,69,26	2,77,13
Production	2,25,85	2,79,08	2,76,57
Miscellaneous income	3,85	4,75	5,05
<b>Total</b>	<b>2,29,70</b>	<b>2,83,83</b>	<b>2,81,62</b>
<i>Appropriations</i>			
Profit before interest	25,24	25,91	22,34
Interest paid	1,98	2,45	3,07
Tax provision	9,70	9,36	8,58
Ordinary dividends	7,14	7,26	6,79
Preference dividend	96	1,26	1,13
Deferred dividend	5	5	4
Retained profit	5,41	5,53	2,73

were higher at 16.8 per cent and 15.8 per cent. Thus the rate of growth was higher for the large companies. (iv) As profits ploughed back are negative in the case of the small companies, external sources were more important for raising funds for capital formation for the small companies than for the large.

*Conclusion:* It would be apparent from the foregoing analysis of the comparative figures relating to the performance of the large and the small companies that the latter did not have as good a financial experience as their large counterparts in all the industry groups studied here during 1950-52, except perhaps in the Silk and Woollen (Other Textiles) Industry. The small cotton ginning companies also appear to have had an excellent financial position. The main handicap of the small companies

Table 22: COMBINED BALANCE SHEET (408 LARGE COMPANIES).

(In lakhs of Rs.)

	1950	1951	1952
<i>Assets</i>			
<i>Gross fixed assets</i>			
Land	22,12	22,91	22,69
Buildings	42,71	46,03	49,99
Plant and machinery	88,31	95,22	1,04,94
Other fixed assets	37,39	39,56	43,00
<b>Total</b>	<b>1,90,53</b>	<b>2,03,72</b>	<b>2,20,62</b>
Inventory	82,18	1,01,41	1,03,92
<i>Receivables</i>			
Book debts	26,92	33,13	33,78
Advance against goods	4,40	4,47	5,18
Other receivables	6,91	7,40	6,06
<b>Total</b>	<b>38,23</b>	<b>45,01</b>	<b>45,02</b>
<i>Investments</i>			
Government securities	4,61	3,62	4,46
Semi-government securities	4	4	2
Industrial securities	6,04	6,17	6,79
<b>Total</b>	<b>10,69</b>	<b>9,83</b>	<b>11,27</b>
Advance of income-tax	7,71	9,38	10,32
E.P.T. Deposits	2,04	1,19	38
<i>Other assets</i>			
Current	1,10	1,14	92
Non-current	5,93	6,63	8,38
Intangible	2,10	2,21	1,93
Cash	17,51	16,75	15,38
<b>Total</b>	<b>3,58,06</b>	<b>3,97,25</b>	<b>4,18,12</b>
<i>Liabilities</i>			
<i>Paid up capital</i>			
Ordinary	1,03,25	1,07,34	1,10,18
Preference	24,13	25,20	25,92
Deferred	46	46	46
<b>Total</b>	<b>1,27,85</b>	<b>1,33,01</b>	<b>1,36,57</b>

Table 22: COMBINED BALANCE SHEET (408 LARGE COMPANIES)—(Contd.)  
(In lakhs of Rs.)

	1950	1951	1952
Own reserves	40,93	44.88	47,10
Depreciation reserve	68,05	76,03	84,07
Tax reserve	17,71	21,11	21,23
<i>Borrowings</i>			
From banks	22,07	29,59	29,82
Mortgages	1,69	2,21	3,62
Debentures	15,89	17,08	17,02
Due to trade	18,88	22,11	21,96
Others	14,69	16,21	21,10
<i>Other liabilities</i>			
Current	27,99	32,44	32,96
Non-current	2,20	2,55	2,60
* Total	3,58,06	3,97,25	4,18,12

appears to be their low profit-earning capacity, which is, perhaps attributable to their higher cost of production. The low profitability and the somewhat higher interest charges seem to have made it difficult for the small companies to plough back resources, in spite of the generally low dividends distributed. In fact both in 1951 and 1952, the small companies had to carry forward losses. The losses carried forward resulted in a diminution of their own reserves and prevented them from registering the same rate of growth as their larger counterparts. This may continue as a vicious circle till it would become possible for them to increase their profit-earning capacity by reducing their cost of production.



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