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GOVERNMENT OF INDIA
MINISTRY OF TRANSPORT & SHIPPING
(TRANSPORT WING)

REPORT
OF THE
STUDY GROUP ON ROAD
TRANSPORT FINANCING

FEBRUARY, 1968

MANAGER GOVERNMENT OF INDIA PRESS
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CHAPTER I

INTRODUCTORY

1.1. The Transport Development Council at its fifth meeting held at Srinagar in July, 1964, recommended that a Study Group should be appointed by Government to undertake a comprehensive examination of the whole problem, including hire-purchase finance business in relation to motor vehicles, and the difficulties experienced by the road transport industry in obtaining adequate funds for financing its future development. In pursuance of the Council's recommendations, the Government of India appointed a part-time Study Group on Road Transport Financing under the Chairmanship of Shri R. G. Saraiya, Chairman, Maharashtra State Road Transport Corporation. The composition of the Group is given below :—

- | | |
|---|-----------|
| (i) Shri R. G. Saraiya, Chairman, Maharashtra State Road Transport Corporation, Bombay. | Chairman. |
| (ii) Shri R. V. Raman, Joint Secretary, Ministry of Industry & Supply, (Deptt. of Industry). | Member. |
| (iii) Shri R. K. Seshadri, then Director (Banking), Ministry of Finance (Deptt. of Economic Affairs) and now Executive Director, Reserve Bank of India, Bombay. | Member. |
| (iv) Shri S. M. Murshed, Deputy Secretary, Government of West Bengal, Home (Transport) Deptt., Calcutta. | Member. |
| (v) Shri S. N. Sengupta, Deputy Chief Officer, Department of Banking Development, Reserve Bank of India, Bombay. | Member. |
| (vi) Shri T. S. Santharam, Managing Director, M/s Sundaram Motors Ltd., Madras. | Member. |

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|--------|---|----------------------|
| (vii) | Shri Kudan Lal, Secretary General,
All India Motor Unions' Congress,
New Delhi. | Member. |
| (viii) | Shri Ved Prakash, President, Upper
India Hire-purchase Companies, Asso-
ciation, New Delhi. | Member. |
| (ix) | Shri R. L. Tuli, General Manager,
Punjab National Bank Ltd., New
Delhi. | Member. |
| (x) | Shri A. S. Bhatnagar, Deputy Secre-
tary, Ministry of Transport. | Member-
Convener. |

1.2. The terms of reference of the Study Group were as follows:—

- (a) To survey the arrangements and agencies existing at present for advancing money to road transport operators for the purchase of motor vehicles.
- (b) To study the terms and conditions under which advances are at present made available to road transport operators by Banks, State Financial Corporations, private hire-purchase companies and the difficulties experienced by the operators in fulfilling the conditions.
- (c) To assess the existing investment in the road transport industry, the extent to which the requirements of the transport operators are likely to be satisfied by the existing financing agencies during the next ten or fifteen years and the gap, if any, that will remain uncovered.
- (d) To examine whether any of the schemes for providing financial assistance to other organised industries, which are now in force in this country, can be extended to road transport industry.
- (e) To undertake a comprehensive examination of the hire-purchase finance business relating to automobiles and suggest (i) how best the interests of both the hire-purchase financiers and the operators can be safeguarded; (ii) whether any amendment of the Motor Vehicles Act, 1939, or any other law is necessary in this connection.

- (f) To make any other recommendations germane to the subject matter of the inquiry.

1.3. Shri R. K. Seshadri, on being transferred to the Reserve Bank of India, continued to be a member of the Study Group. Shri R. V. Raman, who was appointed Executive Director, India Investment centre, was succeeded by Shri R. V. Subrahmanian, Joint Secretary, Ministry of Industrial Development and Company Affairs (Deptt. of Industrial Development) with effect from the 12th August, 1966. Consequent on the retirement of Shri S. K. Sengupta, Shri K.N.R. Ramanujam was appointed on the Group with effect from the 8th October, 1966. Shri S. M. Murshed ceased to be member of the Group with effect from the 31st October, 1966. Due to the retirement of Shri R. L. Tuli from the service of the Punjab National Bank from 18th December, 1966, Shri Somesh Chandra Trikha was appointed on the Group, in his place, from that date. Shri B. P. Srivastava, Deputy Secretary, Ministry of Transport & Shipping functioned as Member-Convener of the Group from 17th April 1967 to 12th June 1967 during the absence on leave of Shri A. S. Bhatnagar, Shri R. K. Sharma, Deputy Secretary, Ministry of Transport and Shipping, was appointed Member-Convener with effect from the 11th August, 1967.

1.4. The Group held nine meetings at different places as indicated in Annexure I. At its first meeting held on 17th August, 1965, a small Sub-Group consisting of Sarvashri Kundan Lal, Tuli, Ved Prakash, Sengupta and Bhatnagar, was set up to prepare detailed questionnaires seeking factual information and views on the various aspects of the problems covered by the terms of reference of the Group from different interests, namely, State Governments, Hire-Purchase Associations and Companies, States Financial Corporations, Commercial Banks, Automobile manufacturers, Individual Road Transport Operators etc. The questionnaires (Annexures II to VII) were finalised at the second meeting held at Bombay on 16th December 1965. A statement showing the number of parties to whom the questionnaires were distributed and from whom replies were received is given in Annexure VIII.

1.5. At the third meeting of the Group held on 11th March 1966, it was decided that public hearings should be

held by the Group in the different regions with a view to getting further information and clarifications with reference to the replies received to the questionnaires from the various parties. It was also suggested that communications should be addressed to the Ministries of Industrial Development and Company Affairs (Department of Industrial Development) and Finance, Reserve Bank of India, State Bank of India and Life Insurance Corporation of India to supply and material available with them, which might be of use to the Group in its work and also to intimate whether they had any scheme in operation or under contemplation to provide financial assistance to small industries, including road transport operators, during the Fourth Plan period. This was done.

1.6. At its meetings at various places, the Study Group recorded evidence representatives of road transport operators, hire-purchase financiers, banking organisations, vehicles manufacturers, commercial banks and other interested parties. In August, 1967, the members of the study Group also had the advantage of a detailed discussion with the Governor and the Deputy Governors and other senior officers of the Reserve Bank regarding some of the problems relating to financing the operators. A list of the persons etc. who gave evidence before Group is given at Annexure IX. Besides replies to the questionnaires, memoranda were received from 7 parties. The Group has made use of all the material, furnished or available to it, in preparing this report.

1.7. The Study Group submitted its views on the Hire-Purchase Bill in January, 1967, on the request of the Ministry of Transport & Shipping (Annexure X).

1.8. We would like to acknowledge the valuable assistance which we have received from various sources in the preparation of this report. We would particularly like to mention our very great indebtedness to our colleague Shri R. K. Seshadri and the Reserve Bank of India and the Industrial Development Bank of India which have taken sustained interest in our work. We have drawn very freely on their knowledge and resources, and are grateful to them for their help and for the other facilities, which they have placed at our disposal.

CHAPTER II

ROAD TRANSPORT IN THE INDIAN ECONOMY

2.1. It will be useful, before we address ourselves specifically to our terms of reference, if we review very briefly the state of the road transport industry at present. The total road mileage in the country was estimated at the beginning of 1967 at about 6,00,000 miles or 9,65,580 kilometres, subject to the errors, if any, as a result of double or multiple counting of some roads. About 2,00,000 miles or 3,21,860 kilometres of this was surfaced. As the more general aspects of road transport policy and development have been dealt with in several earlier reports, and particularly in the Final Report of the Committee on Transport Policy and Coordination published in January 1966, the report of the Study Group on Motor Vehicles Taxation and the report of the Road Transport Taxation Enquiry Committee on Inter-State Transport submitted since then, we do not propose to discuss this subject at any great length. We shall confine our remarks only to a few matters, which are directly and immediately relevant, so far as our own enquiry is concerned.

2.2. The increasing in road mileage in the last fifteen years, that is to say, broadly during the plan periods has been quite impressive. The total length of surfaced roads has approximately been doubled during this period, while the total length of all roads has been more than doubled. With the delayed start of the fourth five-year plan and the difficulties in providing for adequate allocations within the annual plan provisions, it seems to be likely, however, that the pace of development will be slowed down. The fourth plan target of an additional 50,000 mileage of surfaced roads over a five-year period, with other roads to match, is now likely to be achieved only with considerable delay. In the meantime, the quality of Indian roads, although it has been improved to some extent, is still not such as to meet all the requirements of heavy or fact-moving traffic.

2.3. There are still several missing links and unbridged crossings, even on national highways. As regards other surfaced roads, water bound macadamised roads have also been classed as surfaced, although the condition of these roads, following even moderate rainfall is unsatisfactory. Narrow and weak culverts, the absence of dual carriage-ways on important links and the comparative lack of progress in replacing the existing crust thickness of 9 to 10 inches by a thickness of 18 to 22 inches or more on the main arterial highways also continue to impede road traffic. The existing condition of the roads slows down the natural change-over to multi-axled and heavier vehicles, as and when the existing fleet is being replaced; alternatively, overloading, beyond the limits of safety, has to be and is, in fact, being tolerated in practice.

2.4. The condition of our roads can hardly be ignored by the automobile manufacturers or operators. The profitability and development of the automobile and road transport industries necessarily depends on the allocations for maintenance and improvement of the road system.

2.5. Apart from the condition in which the roads are maintained, the rate of growth of the economy is also relevant for our purposes. The estimates of the traffic, which may be available for being moved by roads, as made some time ago, are summarised in the table, which follows :

	<i>Goods traffic by road in billion tonne kilometers</i>	<i>Passenger traffic by road in billion passenger kilometers</i>
1965-66 . . .	33	80
1970-71 . . .	60	120
1975-76 . . .	150	195

2.6. These estimates have to be revised downwards so as to allow for the current recession in the Indian economy and the markedly slower tempo of industrial growth. It will not be realistic at this stage to try to indicate, with any attempt at precision, how the volume of traffic offering is likely to increase. But one general point, which we would like to make, is that since a sudden increase in the volume of traffic cannot immediately be handled, unless there is some spare or addi-

tional capacity, an increase in the mileage of good quality roads, somewhat in advance of the pressing needs, some spare capacity for the production of commercial vehicles, and an inducement (in the form of a reasonable profit margin) for a large number of private operators to enter the road transport industry and operate vehicles by road will be desirable.

2.7. The pattern of the road transport industry being what it is, a comparatively large number of these operators will be persons owning only one or 2 to 5 vehicles each. The distribution of the operators, according to the size of their fleet, was estimated to be as follows in March 1963:—

<i>Number of vehicles owned by each operator</i>	<i>Number of operators</i>
1	136,000
2 to 5	14,046
6 to 10	2,188
11 to 20	721
12 to 50	278
51 to 100	32
More than 100	37

TOTAL	153,30?
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2.8. We are aware that the Committee on Transport Policy and Coordination has indicated that a fleet of 10 or more vehicles may be a viable unit and that the question of promoting such viable units has been engaging Government's attention. Without anticipating the decisions which Government may be able to take, as a result of the further examination of this problem in the light of the report of the Study Group on Viable Units, we would, however, like to say that, in the course of the evidence presented to us, some of the advantages, which the small scale operator enjoys, in spite of being relatively less organised and credit-worthy have been brought to our notice. We have considered it desirable, for the purposes of our enquiry, to proceed on the assumption that until there is a radical change in the existing conditions, particularly as regards the current levels of wages, dearness allowance and corporate taxation or the current ceilings for the

determination of freight rates and fares, the small operators, because they enjoy a comparatively greater degree of freedom will continue to have an important role to play.

2.9. We would like before we conclude this Chapter to refer to the profitability of Road Transport Undertakings, both in the Public and Private Sectors. The profits in this industry have been generally going down during the last decade or so with the result that to-day there are quite a number of undertakings which do not generate enough resources in the form of operating surpluses and retained funds in order to be able to repay the loans and advances obtained from the other sources and to finance modernisation and development. Apart from the increase in operating costs and taxation, which has already been referred to in the preceding paragraphs, this is due in part to the fact that the current level of passenger and freight rates is in several areas so low that the undertakings concerned are not in a position to earn reasonable amounts by operating the routes. As the road transport industry cannot hope to be able to borrow large funds from external agencies, unless it is in a position to repay the loans with interest from its current surpluses and funds, it will be necessary for the State Governments concerned to look into this problem and to ensure that the industry becomes financially healthy.

2.10. We are concerned in this report with the provision of credit facilities to the road transport operators. We have interpreted this to mean that we are expected to make, against the background of what is stated in this Chapter, recommendations which will enable all the operators, big and small, including those in the public sector (a) to finance the capital outlays required for the acquisition of passenger buses and trucks and other commercial vehicles as and when they are produced; (b) to repay the loans obtained by them for this purpose out of their current operating surpluses, and retained funds; and (c) to carry forward, out of such surpluses, reasonable amounts for the expansion and modernisation of their fleets and for the improvement of their undertakings generally. We now turn to an assessment of the credit requirements and an examination of the forms in which assistance can be provided.

CHAPTER III

PRODUCTION OF COMMERCIAL VEHICLES IN INDIA

3.1. We have obtained through the courtesy of the Association of Indian Automobile Manufacturers, Bombay, statistics of the production of commercial vehicles in the last few years. The relevant details* for the principal manufacturers are presented in the table below :

	1963	1964	1965	1966	1967
<i>Ashok Leyland</i>					
(a) Comets	2,730	3,727	4,203	3,650	4,462
(b) Heavy duty	2	1	82	207	156
<i>Hindustan Motors</i>					
(a) Bedford petrol	744	886	1,684	1,344	679
(b) Bedford diesel	5,971	4,054	3,257	2,757	856
<i>Mahindra and Mahindra</i>					
Jeep trucks	307	45	..	982	1,047
<i>Premier Automobiles</i>					
(a) Diesel	4,019	3,818	5,553	3,882	2,245
(b) Petrol	2,297	4,931	3,599	923	831
<i>Telco</i>					
TMB	12,424	14,367	17,328	18,900	19,140
<i>Bajaj Tempo</i>					
(a) Hansseat	888	1,688	1,681	1,450	1,303
(b) Viking	112	362

* (1) These do not include the 373 Standard 20 1 ton trucks produced during 1967.

3.2. Ordinary jeeps as distinguished from jeep trucks are not included in the above table. The production of such jeeps since 1963 has been as follows :

1963	..	7,815
1964	..	10,300
1965	..	10,483
1966	..	9,777
1967	..	5,561

3.3. The automobile industry employed directly about 47,000 persons in 1966. The ancillary units and the dealers and sub-dealers employ about 120,000 other persons. The total employment potential of the automobile and allied industries without taking into account those employed directly or indirectly in road transport is thus not negligible.

3.4. The peak levels of production for commercial vehicles though not necessarily for individual units, was reached in 1965. Since then, there has been a relative decline. The decline in production, which is due to the recession and the fall in demand, is particularly noticeable in the case of Hindustan Motors and Premier Automobiles.

3.5. It is difficult to explain the sharp fall in demand in 1967, so soon after peak levels of production were attained. Consumer resistance following complaints about quality and the absence of an adequate after sales service, the dislocation in the north following Pakistani aggression, the reduction in the volume of credit, following the failure of the hire-purchase finance companies in the Delhi region, a somewhat sharp fall in the demand for the movement of goods by road, following the general industrial recession and the prevailing uncertainty about the continued profitability of the road transport industry or the nationalisation programmes of the State Governments are reported to be some of the reasons which explain this sharp fall in the demand and production of vehicles. It is necessary to take note of all these reasons, but it may not be appropriate to make projections in future years on the assumption that the recession in 1967 is likely to continue. We have tried to make an objective and realistic estimate of both demand and supply, without being unduly influenced by pessimistic forecasts based on the experience in 1967.

CHAPTER IV

ESTIMATES OF FUTURE PRODUCTION OF COMMERCIAL VEHICLES

4.1. The Commercial Vehicles (Distribution and Sale) Control Order, 1963 was rescinded in September 1967 and except for three-wheeler scooters, which are governed by the Scooters (Distribution and Sale) Control Order, 1960, there are now no restrictions except those voluntarily imposed by industry in the form of adherence to the priority bookings as on September 20, 1967 and the decision not to increase prices on the distribution and sale of commercial vehicles.

4.2. The report of the Chief Engineers on a Road Development Plan for India during a period of twenty years from 1961 to 1981 and the Working Group on Transport Equipment called for a production of 1,30,000 and 1,20,000 commercial vehicles respectively. The Planning Commission's estimates have been scaled down in successive stages from the latter figure to 80,000 to be produced annually in 1970-71. The estimates of demand, including jeeps, furnished to the Tariff Commission by the more important manufacturers more recently in October, 1967, were as follows :

Hindustan Motors	95,000
Premier Automobiles	95,000
Telco	72,000
Bajaj Tempo	90,000
Association of Indian Automobile Manufacturers	95,000
Premnath Motors	60,000
Automobile Traders Association Delhi	60,000
Indian Road Transport Develop- ment Association, Bombay	90,000

4.3. These are estimates of demand. The likely achievement in production will have to be more conservatively assessed, after taking into account the facts that the demand itself will be influenced, so far as passenger buses are concerned, by the future policy in regard to nationalisation particularly in Madras State, where the nationalisation of routes with a mileage of more than 75 has been announced as a matter of policy, the impact of the recession on the movement of goods by road, the suitability of commercial trucks for heavy duty on the road, the probable change-over to the production of 8 and 10 ton trucks and the profitability of operations.

4.4. With decontrol of steel the rationalisation of the requirements of steel as a result of the efforts of the technical cell set up by the Association of Indian Automobile Manufacturers and All-India Automobile and Ancillary Industries Association and the increased supply of flats and plates at Rourkela and against the background of liberal import licensing the availability of pig iron and ordinary varieties of steel now presents no problem. The development of indigenous capacity for tool and alloy steels is likely to take some more years, but imports, it can be assumed will not be difficult, until such time as indigenous capacity can be fully established.

4.5. In estimating the future production of commercial vehicles and the likely demand for credit for selling them, we have found it necessary to make certain assumptions regarding taxation and transport policy, exports and the types of trucks, which will be necessary or can be produced in future. The general state of uncertainty in which the private operators have to plan for the replacement of the existing fleets or for additions to them, is in our opinion an important inhabiting factor. The profitability of every section of industry or business, which is concerned with motor vehicles has declined for some years. The fact that some old established firms of dealers like Simpson, Addison and Rane have closed their business and that others may be prepared to follow and to divert their investments to other industries is significant. It may be argued that the profitability in all sections of this industry was quite high in the past and that even with the reduction in the last few years because of increasing taxation

and the current uncertainties, the business is still paying. We have argued elsewhere against this short-sighted view. In making our projections for the purposes of the estimation of future demand, we are assuming that our other suggestions and recommendations as regards these aspects will be borne in mind and implemented.

4.6. As regards exports, we have made a promising beginning in recent years and have found markets in Ceylon, Malaysia, South Vietnam, Bulgaria, Laos, Aden and Somalia. We have assumed that so long as the recession lasts or the demand is slack automobile manufacturers will, in response to the advice, which has been given to them from time to time, concentrate on the export markets, exporting if necessary at a loss. We welcome in this context the concessions in respect of credit for the exports of the engineering and metallurgical industries which were announced by the Reserve Bank and the Industrial Development Bank of India in August, 1967. We also hope that the restrictions, if any, on exports **in the collaboration agreements can be reconsidered** and we suggest that the automobile manufacturers in India should take the initiative in reviewing the agreements for this purpose.

4.7. As regards the introduction of heavier duty vehicles, the evidence which has been tendered to us suggests that with overloading, which has become very common, the average load is in fact heavier than that which the roads or the vehicles have been nominally designed to carry. Telco have as a matter of fact introduced a 10-ton truck. Ashok Leyland have introduced a heavier duty engine on their Comet chassis. Premier Automobiles have introduced the Perkins 6.354 heavy duty diesel engine and also a heavy duty drive-line, clutch and transmission. Bedford trucks may soon be fitted with J6 diesel engines. The implication of these changes is that a smaller number of trucks will be required for the replacement of those which are being discarded. Assuming that the improvements are effected, without a necessary or proportionate increase in costs, the credit demand will be somewhat less than might otherwise be the case.

4.8. After taking into account the various assumptions and possible changes in the pattern of production, we think

that the likely achievement, in terms of annual production in 1970-71, will be as follows :

(i) 1 ton trucks	5,000
(ii) 2 to 10 ton trucks	44,000
(iii) Heavy duty 20 ton trucks	1,000
	<hr/>
TOTAL :	50,000
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4.9. We have not tried to break up this estimate as between individual manufacturers. We consider this to be unnecessary. On the assumption that this level of production will be reached in 1970-71, the total production round about the calendar year 1975 may be about 75,000, with a reasonable allowance for further improvement. This projection is, in our opinion, adequate for the purposes of framing the financial estimates.

CHAPTER V

ESTIMATES OF CREDIT REQUIREMENTS

5.1. The evidence before us and our enquiries indicate that the total availability of credit for financing the sale of commercial vehicles towards the end of the year 1965 was as follows :

	(Rs. crores)
Eastern Region	12.50 (7.12)
Western Region	17.50 (9.91)
Northern Region	20.00 (3.59)
Southern Region	25.00 (5.73)
TOTAL	75.00 (26.35)

Note.—Figures within brackets indicate the total amounts outstanding as on the 31st March 1967, in respect of loans and advances granted by commercial banks to hire-purchase finance companies and other hire-purchase financiers.

5.2. In framing an estimate of the future requirements of credit, it will be necessary to allow for the fact that, according to the information made available to us, about one third of the trucks and passenger buses on the road may be more than ten years old. Normally, the replacement demand, as and when these vehicles are discarded, might be expected to be so great as to need a substantial volume of additional credit. But in the existing conditions, and because of the recession, the production of commercial vehicles is unlikely to be increased very greatly because of any large scale attempt to modernise the present operating fleet. Any estimates of the financial requirements will, therefore, have to be conservative.

5.3. Assuming a total annual production of 50,000 commercial vehicles in 1970-71, about one half or 25,000 trucks and buses may be expected to be absorbed by the private sector. The total credit requirements for selling all these vehicles, allowing for an average cost of Rs. 55,000 per vehicle, will be Rs. 137.50 crores or in round figures about Rs. 140 crores. The general expectation is that the funds available to transport operators from the sale of old vehicles to those outside the road transport industry, depreciation funds and surpluses, if any, as a result of current operations and borrowing from friends, relatives and money-lenders or from banks against assets, other than vehicles will amount to about a third of the total credit requirements, leaving balance of about Rs. 93 crores to be provided from external sources, including the banking system. Adding to this a reasonable sum for financing the construction of terminal buildings and godowns and the provision of other amenities, which have been referred to elsewhere in this report, the total requirements will be about Rs. 100 crores.

5.4. If our estimates of the production of commercial vehicles turn out to be conservative, the credit to be provided from external sources may be increased, perhaps, to Rs. 125 crores in 1970-71, as compared with Rs. 75 crores at the end of 1965 and about Rs. 60 crores at the time of the submission of this report. In providing for the future, however, we cannot take into account only the requirements for funds as projected upto 1970-71.

5.5. If the recession comes to an end, and if the fourth plan starting from the 1st April 1969 provides for a faster rate of growth, the demand for credit from external sources may well be growing at the rate of Rs. 10 to Rs. 15 crores every year during the next five years beyond the 1st April 1971. It is not possible at this stage to look beyond 1971, but the rate of increase in the demand for credit will at least be maintained indefinitely in future. It is in this context that we have to consider the question of further assistance to the operators.

CHAPTER VI

DIFFICULTIES EXPERIENCED BY OPERATORS

6.1. Before we make any recommendations regarding the steps to be taken for meeting the credit requirements, as estimated in the foregoing chapters, we would like to deal with some of the difficulties which are being experienced by road transport operators. The industry is by no means organised. In fact, with a great deal of justification, it can be said that the conditions, which now prevail, amount almost to a state of chaos.

6.2. There is a general impression that because lorry traffic by road has increased very considerably during the last fifteen years or so, the business must be very paying and that, left to itself, and without any official assistance, it is likely to grow even further. There might have been some justification for this impression a few years ago; and even today, there are areas which are not served by the railways, where the traffic load is reasonably satisfactory and the profits are, in consequence adequate, and there are also States, like Madras, where the permit system is well-regulated and provides for a reasonable utilisation of the vehicles. The general picture is, however, very uneven. There are several States and areas, for example Jammu & Kashmir, Himachal Pradesh, the hills districts of Assam, parts of Madhya Pradesh, Orissa and Rajasthan, in which profits in this industry are dwindling and the operators may no longer be in a position to maintain or increase and improve their present fleet.

6.3. Among the difficulties, which are being experienced by transport operators generally even in States like Madras, where conditions are relatively less unsatisfactory, we would like to refer to the following :

- (i) an increase in the capital cost of the vehicles;
- (ii) operating expenses;
- (iii) taxation;

- (iv) the low priority which till recently was enjoyed by the road transport industry;
- (v) the issue of permits unrelated to the available traffic in certain areas;
- (vi) uncertainties about nationalisation;
- (vii) the absence of recognised rules of procedure or practice for the handling of goods consigned by road; and
- (viii) the absence of a proper legal framework, within which contracts relating to the sale of vehicles on hire-purchase terms can be concluded and enforced.

6.4. The table below indicates the retail price including excise duty of commercial vehicles (chassis only) during the last few years.

	1961	1964	1965	1966	1967
	Rs.	Rs.	Rs.	Rs.	Rs.
(i) TMB L 312/42 L 1210/42	30,155	5,666	37,847	40,717	42,073
(ii) Dodge/Fargo 109 P6 165	28,649	31,154	33,246	35,094	35,094
(iii) Bedford 167	26,923	30,111	31,461	35,346	35,061
(iv) Ashok Leyland Comet 163					
(Goods chassis)	39,254	42,913	46,244	47,510	48,187

NOTE.— The figures for 1961, 1964 and 1965 are as on the 31st December and for 1966 and 1967 as in November of those years.

6.5. The steady increase in the price every year has placed cumulatively a considerable burden on the operators, particularly as the increase in prices has not always been matched by an improvement in quality. A substantial portion of the increase in the cost of the vehicles is due to taxation. It has been calculated that between July 1959 and July 1966, the price of a TMB vehicle in Bombay increased by Rs. 13,126, of which 81% was on account of Government levies. We think

that any further increase in the capital cost of commercial vehicles because of excise duties, sales taxes and cost of tyres and imported components should be arrested. While it will be desirable for the Governments concerned to take this into account in determining the level of taxation in future, the automobile manufacturers themselves should also try to examine whether some appreciable economies in other costs cannot be effected. We hope that the recommendations of the Motor Car Quality Enquiry Committee will also lead to some improvement in the quality of the vehicles.

6.6. As regards operating expenses, there has been a steady increase in the wages, dearness allowance, costs of maintenance, spares and materials and petrol and diesel oil. We understand that in the ten years ending December, 1966, the price of 5 litres of high speed diesel oil in Bombay increased from Rs. 1.24 to Rs. 3.77, an increase of 204%. It was calculated in December 1966 that a diesel truck was paying about Rs. 12,000 per annum on account of various Government levies, while it was in operation. Costs have since moved up further but freights and fares have not increased proportionately. Apart from this increase in the normal running costs, the number of octroi and check posts has also increased in recent years and a number of payments, authorised or otherwise, have to be made *en route*. On long hauls, on which a lorry has to cross the borders of two or more States, motor vehicles and goods taxes have to be paid to every State. As the surplus which may normally be expected to be available to the operator has been eroded as a result of all this additional expenditure, a stage has now been reached at which unauthorised overloading has become very common, in order to increase the profit or minimise the loss on every trip. This situation is obviously unsatisfactory.

6.7. We do not propose to deal in any great detail with taxation, which accounts for a substantial portion of the additional costs, except to say that it will be desirable, if a decision on the report of the Road Transport Taxation Enquiry Committee, under Dr. Keskar, which was also appointed some time after this Study Group was constituted, could be taken very early and along with the decisions on the basis of the recommendations in our own report.

6.8. The road transport industry has unfortunately not been accorded till recently any priority for the purposes of the allocation of credit. There has been no clear-cut policy that transport by road is essential and is, therefore, deserving of higher priority like the leading and well established industries; and there was till recently no recognition, in any case, of the position or role of hire-purchase finance companies. As this raises an important issue of policy, we are dealing with this, in the appropriate context, in Chapter XIV of this report.

6.9. It is axiomatic that if the private road transport operator is to be credit-worthy, his earnings on the routes on which he operates should be adequate. The general impression, which we have formed, on the basis of the evidence tendered to us, is that the operator himself, as distinguished from his financier, is genuinely interested in the solvency of his undertaking and in continuing in business and, if possible, in expanding it. It is comparatively rare for the operator to fail ultimately in meeting his commitments, so long as he operates a paying route. The qualification, however, is important; and there is no evidence that the grant of permits has been so regulated in every State as to provide for every operator in business a reasonable pay load and profit. Permits are reported to have been given in some States on political or other considerations and far in excess of the available or potential traffic. This is a point which we would like to bring to the notice of the State Transport Authorities. There is, in our opinion, an urgent need for a systematic traffic survey and an assessment of the profitability of new routes before permits are granted.

6.10. We have referred earlier to the uncertainties arising out of the possibility of nationalisation. A private operator, who is in business, or who is granted a permit for the first time, should have the reasonable assurance that over a reasonably long period, say ten years from now in the case of operators already in business or ten years from the grant of any new permit, his own undertaking will not be nationalised and that there will be no unfair competition on the existing routes. While the grant of further permits on the same route cannot be ruled out, there should be enough scope for an

optimum utilisation of vehicles to allow for a surplus of earnings over expenses.

6.11. The existing arrangements regarding the consignment of goods by lorries are, in our opinion, unsatisfactory. Terminal facilities for the storage of goods, while in transit, and for the insurance of goods, while *en route* or while in storage, are totally inadequate. Commercial practice relating to the treatment of lorry receipts as documents of title to goods has not also been standardised. It is desirable that the carrier, through Service cooperatives or otherwise, should provide adequate terminal facilities, and it will be in his interests to protect himself by insurance, but it is also in the public interest that reasonable facilities should be provided for these purposes. Commercial banks have been reluctant so far to lend for the construction of sheds, godowns and buildings at terminal points and this reluctance is, in our opinion, not easily understandable. As regards insurance, a cheap rate for the grant of cover by the General insurance companies will be of help. Having regard to the degree of risk, which is involved, the rate can be nominal.

6.12. The Mysore High Court has recently examined, in the case of the Canara Industrial and Banking Syndicate vs. Ramachandra Ganapathy Prabhu, which was decided in September 1966, the question whether lorry receipts are documents of title within the meaning of Section 2(4) of the Indian Sale of Goods Act, 1930. The Court has found that the test laid down by the Privy Council, namely, that the document in question should be used in the ordinary course of business as proof of the possession or control of goods or as authorising or purporting to authorise, either by endorsement or delivery, the holder or endorsee of the document to transfer or receive the goods thereby represented, is not satisfied in the case of lorry receipts. The principal legal objection is that there is no uniform or standardised practice among consignors, consignees, operators and banks or other financing institutions of (a) surrendering the original lorry receipt with no objection certificate from the concerned bank before the goods covered by it can be cleared; and (b) regarding the holder or the transferee by endorsement as entitled to the goods.

6.13. The standardisation of commercial practice will be possible only over a period of time, but a beginning in this direction can be made, if the leading operators and the banks clearly recognise the need for such standardisation and introduce a uniform practice, by agreement, among themselves. We commend this suggestion for the consideration of all the nationalised transport undertakings and all the lorry transport companies and firms, which have been approved by the Indian Banks' Association and have been recommended by the Association to its member banks.

6.14. Our object in referring to this is that there is, in our opinion, no reason why the carriage of goods by road should not be as safe and convenient, particularly in so far as it enables those entitled to goods or to documents of title in respect of the goods, to obtain financial accommodation, if necessary, in the same manner as in the case of railway receipts. If the carriage of goods by road is cheaper and more expeditious and also as convenient as by rail, the volume of traffic by road can be expected to increase and this will ultimately be in the interests of the road transport industry.

6.15. We turn next to the need for the proper qualification or amendment of the law, so far as it is relevant from the point of view of providing further financial assistance to road transport operators.

CHAPTER VII

HIRE-PURCHASE BILL

7.1. We would like to deal, in the first place, with the need for introducing legislation in relation to hirepurchase contracts, in the light of the recommendations by the Law Commission in its Twentieth Report. This report recommending the codification of hire-purchase law was submitted in May, 1961. A non-official Bill, based on the draft attached to the report, has recently been introduced by Shri Yashpal Singh in the Lok Sabha in June 1967. We understand however, that some of the basic issues arising out of the report, in regard to which other views may be, and are in fact held, have not been considered or decided finally by the Central Government. In the result, some avoidable uncertainty regarding the future exists, particularly so far as hire-purchase companies are concerned. There are reasons to believe that because of this uncertainty, and in the absence of a codified law, the growth of hire-purchase finance business on orderly lines has been affected, and that the companies concerned are finding it difficult, in consequence, to raise resources either internally or from external sources in the form of deposits from the public or loans from the commercial banks and the Industrial Development Bank of India.

7.2. We had occasion to consider the more important issues arising out of the Law Commission's report in January 1967, and our views, as indicated already to Government, are reproduced in Annexure X. We are convinced, on a careful consideration of this question, not only in so far as it relates to the financing of motor vehicles but also in so far as it affects the growth of hire-purchase financing for other purposes, for example the purchase and sale of tractors and other agricultural machinery, that

- (a) the right and title of the hire-purchase financier as the owner cannot be left to be acquired or established and possibly to be disputed at any

stage after the hire-purchase contract is entered into as between the owner and the hirer;

- (b) the owner's right of repossession should be substantial; and
- (c) an expeditious procedure for the settlement of claims arising out of these transactions should be established.

7.3. We are also convinced that once the Bill is modified on the lines indicated by us and passed into law, and as and when the commercial banks, the Industrial Development Bank of India and the Reserve Bank, as external financiers, begin to influence and control the operations of the hire-purchase financiers, the need to license hire-purchase finance companies or financiers will become relatively less urgent and licensing may, in fact, prove to be unnecessary.

7.4. The case for providing for a clear and unambiguous title, at all stages, on the part of the hire-purchase financier as the owner to the goods which are the subject of a hire-purchase agreement, is fairly clear and we have nothing to add to what we have already said on this subject, except to point out that in a recently decided case, *Shyam Sunder Babna vs. Manindranath Ghose and another* (AIR 1967, Calcutta, 256), the Calcutta High Court has held that a hire-purchase financier who entered into a hire-purchase contract with a hirer, without obtaining a clear title for himself at the time of the contract, was not entitled to any rights at all under the purported hire-purchase contract between himself and the hirer and could exercise only a right as a financier advancing money on the vehicle. In the absence of a clear title, the hire-purchase financier may not be able to exercise his right of seizure. *Shri V. K. Thiruvengkatachari*, formerly Advocate-General of Madras, who was consulted by a prominent hire-purchase finance company, is, we understand, in favour of the modification which we have suggested. We have no doubt that in view of the changes which have taken place since the Law Commission's report, the weight of legal opinion will now be in favour of this modification.

7.5. We feel that our suggestions regarding the owner's right of repossession should, perhaps, be elaborated in some-

what greater detail. The considerations which have weighed with us in recommending, firstly, that the owner's right of repossession should be preserved until he has recovered 90 per cent of the hire purchase price as compared with 75 per cent, as recommended by the Law Commission and, secondly, that special claims tribunals should be set up to hear and decide expeditiously disputes as between owners and hirers, are primarily that, unless the right of repossession is clear, well-defined and substantial, and the security of the debt recoverable by the owner or the external agency, as the case may be, is correspondingly enhanced, the volume of resources which the hire-purchase financiers, or other external agencies assisting or refinancing them, may be expected to employ in this business, cannot be substantially increased.

7.6. The existing position in this respect is unsatisfactory. We have reason to believe that uncertainty about repossession has been one of the contributory causes discouraging substantial investment in hire-purchase contracts relating to motor vehicles or lending against such vehicles. With the amendment of the Commercial Vehicles (Distribution and Sale) Control Order, 1963 some time ago, so as to permit transfers in favour of financiers and with the subsequent de-control of the distribution of commercial vehicles altogether, consequent on the withdrawal of this order in September, 1967, one of the difficulties in exercising the owner's right has been removed. But in the perspective of the future development of hire-purchase financing in our country as a stable and well-conducted business, there is still considerable room for a clearer and more positive elucidation of the legal position.

7.7. The hire-purchase financier as owner still suffers from the disability that in some States the certificate of registration of a motor vehicle may be transferred to a party other than the hirer, who has been financed by him, or cannot be transferred to him as the owner, even though such a transfer is due and necessary, if the hirer's attitude is obstructive. We are dealing with this problem separately in the succeeding Chapter. Even if the necessary safeguards can be provided for this purpose, the owner's legal right to repossess a vehicle may not be an effective right, if it has to be enforced through judicial processes, and if the right of seizure is not automatic and within limits clearly recognised as such.

7.8. Our attention has been drawn in this connection to a judgment of the Calcutta High Court in the case of Nawab Raza vs. Emperor (35 CLJ 740). It has been held in this case that though the owner had a legal right to recover possession through the Civil Court, he had no right to recover through the use of force and that the servants of the hirer did not form an unlawful assembly and were legally justified in resisting the attempts of the owner to recover the possession of the vehicle through forcible means.

7.9. If hire-purchase law in our country is codified and if the hire-purchase financier's right of repossession automatically as the owner is clearly established upto a stage, on a realistic appraisal of the need to provide for adequate security to the financiers, in the interests of ensuring an adequate supply of credit, the growth of hire-purchase finance business will be facilitated. We do not expect that the hire-purchase financiers as owners will abuse their rights, if as we expect the business is confined in future to a comparatively smaller number of well-established financiers. If this expectation is not realised and if the owner's rights have to be abridged at any time in the future, the question may be examined after some time in the light of the actual experience regarding the abuse of their privileges by the owners, but in the meantime, the balance of advantage will be in favour of the proposals which we have already made to Government.

7.10. We would like to refer to the question of the licensing and inspection of hire-purchase finance companies, control of interest rates and other allied matters, as we understand that suggestions on these lines have recently been renewed and that the enactment of the Bill is likely to be delayed, until a clear and definite view can be taken about the need for these provisions.

7.11. The total volume of hire-purchase finance business, which is now transacted in the country, is not of such an order that detailed regulation involving an elaborate machinery of licensing, inspection and control will be worthwhile. From a purely legal point of view, we are also somewhat doubtful about the competence of Parliament or the Central Government to enact legislation, or to administer the controls,

in relation to individual hire-purchase financiers, who are hardly distinguishable from money lenders. It is a moot point whether any law providing for the licensing, inspection and control of the operations of such individual financiers will, in pith and substance, be regarded as a law regulating hire-purchase contracts, in relation to which the Centre may be able to derive the necessary powers from entry No. 7 relating to contracts in the Concurrent List in the Seventh Schedule to the Constitution, or alternatively, whether such a law will be regarded as a law relating to money-lending which is in the State List.

7.12. The risks of any Central law containing these provisions being impugned on the ground that it is in excess of Parliament's legislative powers are not inconsiderable. On the other hand, the efficacy of any direct and detailed control, if notwithstanding the legal risk, it were to be attempted, may not be very great. The control may be evaded on a very large scale, in the absence of a costly enforcement machinery. The cost of any reasonably efficient machinery may, however, be entirely disproportionate to the results which are likely to be achieved.

7.13. We are aware that the failure of hire-purchase finance companies in the Delhi region has resulted in a partial loss of the saving of some of the depositors, who entrusted their funds to these companies, and that licensing and more rigorous control have been suggested for this reason. The extent of this loss, however, can easily be exaggerated. In view of the restrictions imposed by the Department of Non-Banking Companies of the Reserve Bank, the less viable or mismanaged companies are likely to be weeded out in course of time. The public are also now aware of the need for discriminating between companies, which are sound and well-managed and those which are not, while depositing their funds. The requirements of the Reserve Bank regarding the disclosure of information regarding the financial position of the companies will provide the necessary information to the depositors; as the Reserve Bank has the power to inspect the hire-purchase finance companies and, if necessary, to prohibit the acceptance of deposits by any company, the rights of the depositors may be protected effectively even in the absence of licensing.

7.14. We would suggest, in these circumstances, that the results of the Reserve Bank's attempts to improve the working of the hire-purchase finance companies, in the light of the directions already issued by the Bank and the conditions which have been or may be imposed, before assistance through official or other agencies is made available to the hirepurchase finance companies, may be awaited, before the question of promoting legislation regarding the licensing of hire-purchase financiers is undertaken. As the Hirepurchase Bill is conceived as a special law regulating contracts and the rights and obligations as between the owners and hirers, a licensing chapter will, in any event, be out of the place and will not be in conformity with this scheme of the Act, as it has been conceived.

7.15. We recommend that in the interests of promoting hire-purchase financing on a sound basis in our country high priority should be accorded to the Bill and that it should be enacted and brought into force as early as possible and that its provisions should be applicable to motor vehicles in the same manner and to the same extent as in the case of other goods.

CHAPTER VIII

OTHER LEGAL PROVISIONS

8.1. We have examined various other suggestions, including those which were made in June 1964 by the Working Group on the study of the financing of the Transport Industry by the State Financial Corporations regarding amendments to some of the existing enactments and we consider it necessary to recommend that immediate action should be taken in regard to some of these suggestions.

8.2. We have referred earlier to the difficulties in providing that the transfer of registration of a motor vehicle will be made only after a notice has been given to the hire-purchase financier or any other financier to whom the vehicle is hypothecated, without the written consent of that financier. We understand that the view has been taken that in the absence of a substantive provision to that effect in the Motor Vehicles Act, 1939, the rules under that Act cannot be made either for the purpose of entering the financier's interest in the registration certificate or for requiring the written consent of the financier to any change in the registration. Not all the States seem to have taken the view that a substantive provision on these lines is necessary, before the necessary rules can be made. On the other hand, however, if a substantive provision is necessary, there is no harm, if an amendment is promoted.

8.3. In the Motor Vehicles (Amendment) Bill, 1965, which was introduced in the Rajya Sabha in December 1965, a clause has been included to provide for the insertion of a new Section 31A for this purpose which reads as follows :

Special provisions regarding motor vehicles subject to hire-purchase or hypothecation agreement.

"31A. (1) Where an application for registration of a motor vehicle which is held under a hire-purchase agreement is made, the registering authority shall make an entry in the certificate of registration regarding the existence of the said agreement.

- (2) Where any registered owner of a motor vehicle enters into a hire-purchase agreement and reports the transfer of ownership of the motor car to the registering authority and makes an application to it to have the existence of the hire-purchase agreement entered in the certificate, the registering authority shall make an entry to the effect in the certificate of registration.
- (3) Any entry made under sub-section (1) or subsection (2), may be cancelled by the registering authority on proof of the termination of the hire-purchase agreement.
- (4) No entry regarding the transfer of ownership of any motor vehicle which is held under a hire-purchase agreement shall be made in the certificate of registration except with the written consent of the person with whom the registered owner has entered into a hire-purchase agreement.
- (5) Where any person with whom the registered owner has entered into a hire-purchase agreement satisfies the registering authority that he has taken possession of the vehicle owing to the default of the registered owner under the provisions of the agreement and that the registered owner refuses to deliver the certificate of registration or has absconded, such authority may, after giving the registered owner an opportunity to make such representation as he may wish to make (by sending to him a notice by registered post acknowledgement due, at his address entered in the certification of registration) and notwithstanding that the certificate of registration is not produced before it, cancel the certificate and issue a duplicate thereof to the person aforesaid.
- (6) The provisions of sub-sections (1) to (5) shall, so far as may, apply to a motor vehicle which is subject to hypothecation as they apply to any motor vehicle which is held under a hire-purchase agreement."

West Bengal has, in the meantime, brought into force a similar amendment, which is of local application. We recommend that early action should be taken to promote an amendment which may be of all-India application and that it should also be considered whether the scope of the proposed amendment can be amplified, so as to provide that a financier, who has transferred a vehicle by conditional sale, would, so long as the condition is not discharged and he has any amount to recover, be placed in the same position as a hire-purchase financier or hypothecatee.

8.4. The Working Group on the financing of the transport industry by the State Financial Corporations has referred to Section 52(2)(c) of the Presidency Towns Insolvency Act, 1909, which has the effect of vesting in the Official Assignee the right of property in respect of the vehicle, in the event of the insolvency of the borrower or hirer, on the ground that the borrower or hirer is the reputed owner. There is a corresponding provision in Section 28(3) of the Provincial Insolvency Act, 1920, but in this Act, the provision in question is specifically qualified by a proviso preserving the rights of secured creditors. As the rights of the financier are likely to be affected, to a greater or lesser extent, the Law Commission has recommended in its Twentysixth Report that, with a view to protecting the interests of banks and other financing institutions, these provisions should be deleted and that persons claiming an interest in the insolvent's property, whether as secured creditors or otherwise, should be asked to prove their interest within a period of one month, in case their rights to the insolvent's property are to be established. We agree, in principle, with the Law Commissions recommendations but would suggest that the question whether the period of one month envisaged by the Law Commission is adequate or should be increased to a longer period may be considered in greater detail before the Bill to re-enact Insolvency Law is finalised.

8.5. Our attention has also been drawn to Section 8 of the Banking Regulation Act, 1949, which prohibits a banking company or a State Central or the primary cooperative banks from carrying on trading activities. We understand that it has been the practice of some banks, while advancing loans

on the hypothecation of motor vehicles, to obtain documents evidencing a conditional sale of the vehicle in favour of the banks, to be followed by a conditional resale to the borrowers, as soon as the bank ceases to have any interest in the vehicle as a financier. Similarly, it is conceivable that if a bank finances a hire-purchase financier, against the security of book-debts due to him and pledged by him in favour of the bank, it should be in a position to protect its interests additionally by obtaining from the hire-purchase financier-borrower documents assigning his rights as an owner to the bank as security for the loan granted to him by the bank. The bank cannot in either case be said to be trading in motor vehicles, within the meaning of Section 8 of the Banking Regulation Act, 1949.

8.6. There was apparently some doubt about the interpretation of Section 8 of the Banking Regulation Act, 1949, but we understand from the Reserve Bank of India that so long as a bank does not—

- (i) buy or sell motor vehicles directly as a dealer for profit;
- (ii) apply for the transfer of registration in respect of the vehicle in its own name; or
- (iii) attempt to obtain physical possession of the vehicle in advance of the loan turning out to be bad and the security having to be realised;

any documents, which the bank may be able to obtain in order to protect its interests will be in order and the bank will not be regarded as contravening the provisions of Section 8. We welcome this liberal interpretation of the provisions of Section 8 and recommend that the attention of all commercial and cooperative banks may be drawn to the fact that Section 8 is now being interpreted by the Reserve Bank in the manner which has been indicated.

CHAPTER IX

RESOURCES OF THE ROAD TRANSPORT INDUSTRY

9.1. If the recommendations in the preceding Chapters are accepted and the legal impediments, to the extent that they restrict the flow of funds into the road transport industry are removed, it will still be necessary for the industry to generate adequate surpluses, as a result of current operations, in order to be able to repay any loans which may be obtained from external sources together with interest and to supplement the assistance, which may be available from such sources. We propose to deal with this question, before turning to other external, sources of assistance.

9.2. The operational costs in the Road Transport Industry are rigid and inflexible because the operator is not able to control or reduce the expenditure on the items which mainly account for such costs, viz. wages, fuel, tyres and spare parts, depreciation and taxation. Compared to the expenditure on these items the scope for economy as a result of reduction of staff or the effective utilisation of the vehicles is not very great. It is true that a certain amount of income is now lost to the operators as a result of high commission and other expenses incurred for securing reasonable pay loads. The extent of this loss is not very great. The booking agents perform a useful function. If our recommendation elsewhere in this report that the transport operators should by collaboration or agreement among themselves set up cooperative or other agencies to provide the service for themselves and if the provisions in the Motor Vehicles (Amendment) Bill, 1965, regarding licensing of booking agents are also enacted and brought into force, some reduction in expenditure on this account may be possible. Even so, the scope for the industry achieving surpluses without official assistance in the form of relief from taxation will be very limited.

9.3. The road transport industry, like other industries, will have to find internal resources, in the conditions which exist in our country today, mainly or substantially in the form

of a rebate from taxation. When the development rebate was granted to Indian industry in 1955, there was apparently no well-considered or deliberate decision that it should be denied to the road transport industry. The question whether Section 10(2)(vib) of the Income Tax Act, 1922 was applicable to road transport vehicles, which unlike plant and machinery could not be "installed", was raised before the Bombay and Madras High Courts in the cases of CIT v/s Sarasapur Mills (AIR 1960 Bom. 218) and CIT v/s Sri Rama Vilas Service Ltd. (AIR 1960 Mad. 224). The Courts took the view that the rebate was admissible. But through the Taxation Laws (Amendment) Act, 1960, a proviso was introduced in Section 10(2)(vib) specifically for the purpose of withdrawing this relief. Although the provisions relating to the development rebate were reenacted in the Income Tax Act, 1961, there has been no change in the position since 1960.

9.4. We have tried to ascertain the reasons why Government considered it necessary or desirable to withdraw the rebate from the Road Transport Industry. Since the rebate is available to non-corporate assesseees in the case of industries other than Road Transport, the preponderance of individual road transport operators in this industry cannot be an adequate reason justifying this decision. The Central Government was perhaps influenced by the consideration that any relief granted at the cost of the Central Exchequer might be nullified by taxation in the form of additional levies by the State Governments. We have suggested elsewhere in this report that the cumulative burden of taxation at the State level in the form of various levies has now become quite crippling and the Road Transport Taxation Enquiry Committee has also recommended that some relief from taxation should be given to the Industry.

9.5. It will be an extreme position for anyone to take that road transport vehicles can be treated in the same way as office appliances, in respect of which development rebate is not now admissible. The cost of vehicles is so high and the outlay on the acquisition of a fleet by even large sized undertakings is comparatively so great that the denial of development rebate to the road transport industry is anomalous and discriminatory. We, therefore, recommend that this rebate should be restored.

9.6. After considering the matter carefully in the light of the more recent changes in the taxation laws we also recommend that road transport should be recognised as priority industry entitled to the benefit of the rebate from income tax of 8%, which is provided for in Section 80-I of the Income Tax Act, as introduced in 1967. The provisions of Section 80B or of the Fifth Schedule, as may be appropriate, may be amended suitably for this purpose. The rebate in the form recommended by us, on being granted to the industry, should be conserved entirely for the acquisition of new vehicles or for the replacement of the existing vehicles. In the case of companies or other corporations which are entitled to this relief, the amounts in question should, by voluntary agreement, if necessary be funded for these purposes. In the case of other operators, such funding may be difficult but as far as possible, it should be ensured that the funds are not utilised or diverted for other purposes.

9.7. We are making this recommendation in the context of our proposals regarding the grant of relief from taxation to the Road Transport Industry. We hope that the Development Rebate and the relief from Income-tax as a priority industry which we have recommended will not be off-set by other levies either by the Central or by the State Governments which may have the effect of increasing the operating cost.

CHAPTER X

CREDIT GUARANTEE

10.1 Apart from enabling the road transport industry to generate as a result of its current operations an adequate surplus to finance or renew its capital investment, we have also to consider measures for improving the credit-worthiness of the industry. In this Chapter, we propose to examine certain specific suggestions regarding guarantees in respect of loans and advances granted to road transport operators.

10.2 As a motor vehicle is movable property and as there is a preponderance of small scale operators, who are not in a position to offer any security other than the vehicles themselves, and who in addition are not able to devote attention to all aspects of their business or are not adequately organised to maintain proper or segregated accounts, there is a certain amount of risk in loans and advances granted to this industry. The actual extent of this risk is, however, very greatly exaggerated.

10.3 While it is true that the small scale operator is not in a position to make payments promptly on the due dates, the extent of the ultimate loss to the lending agencies, after payments have been made in arrears, is much less than the initial delays might lead one to expect. The average operator is interested in establishing his credit-worthiness, as this will enable him to borrow more easily for the purposes of his business. There are in this industry, as in others, some who are unscrupulous, but the common experience of the lending agencies is that the ultimate loss to hire purchase finance companies varies round 1.5% of the loans and advances, which is not a very high figure.

10.4 The practice has grown up recently of banks obtaining insurance cover from the general insurance companies, in respect of loans and advances granted by them to hire purchase finance companies. The premium charged by the insurers is, we understand, about 1% of the insured limit and

is borne by the hire-purchase finance companies. The risk experience of the insurers does not seem to have been unfavourable. This leads us to examine the suggestion that the system of voluntary insurance should be replaced altogether at this stage by a credit guarantee under the Central Government's auspices.

10.5 There may be some advantages in doing so. Since transport is an industry, it will be logical if the credit guarantee scheme covering loans to small scale industries can be extended to cover loans to transport operators also. The guarantee fee, which is now charged by the Reserve Bank of India as the guarantee organisation, on behalf of the Central Government is $\frac{1}{4}$ th of 1%. An appropriate rate after taking into account the reduction in the element of risk following the enactment of the Hire-Purchase Bill and the other connected changes in the law may be determined by the Reserve Bank of India so far as road transport operators are concerned. The extension of the scope of the guarantee scheme will also be in accordance with the accepted principle of insurance that the risk is reduced, when the volume or area of insurance is increased. As far as the general insurance companies themselves are concerned, it is also doubtful whether credit insurance can appropriately be treated as miscellaneous insurance, for which they are registered under the Insurance Act, 1938. The insurance companies are not equipped to appraise the credit-worthiness of those whom they now insure; and unlike the guarantee organisation, which now operates the guarantee for small scale industries, they are in no position to enforce norms and standards, for giving or denying a guarantee. It is obviously desirable, in the interests of promoting some measure of discipline in the industry, that such norms and standards should be enforced.

10.6 We have already referred to the fact that the risks may be less, if the volume and area of insurance can be increased. Commercial banks have recently been granted an inducement to have the loans and advances granted by them to small scale industrial units covered under the credit guarantee scheme, as they get the benefit of a lower rate of interests and also some relief in the computation of their liquidity ratio for purposes of borrowing from the Reserve

Bank. The possibilities of covering all the loans and advances granted to road transport operators may be greater, if they are included within the scope of the credit guarantee scheme than if the insurance cover were to be offered by the general insurers, in which case the inducement to have all the loans and advances insured may not be great, as the relief in the form of a lower rate of interest on their borrowings from the Reserve Bank and in the computation of the liquidity ratio may not be available to the banks.

10.7 After considering this matter in some detail, we are inclined to think that there may be some advantage, if the Reserve Bank of India were to cover loans to transport operators, the value of whose investment in vehicles is not more than Rs. 7.5 lakhs in any case, whether the loans are granted directly or through hire-purchase finance companies. The credit guarantee organisation may grant the benefit of the cover to the credit institutions, which are otherwise recognised under its credit guarantee scheme and also to the approved companies entitled to have their bills discounted through commercial banks, under the Industrial Development Bank of India's scheme as announced in September 1967. Both direct loans as well as loans under hire-purchase contracts may be guaranteed; and the nature and extent of the default, which will attract the guarantee organisation's liability, may be suitably determined and specified.

10.8 We recommend that the Reserve Bank of India may have this question examined further, with particular reference to the experience of the insurance companies, which have been granting the benefit of insurance cover. A credit guarantee scheme for the smaller road transport operators may be introduced, after this question has been examined and after an amendment of Section 17(11A) of the Reserve Bank of India Act, 1934 has also been promoted for this purpose, in case such an amendment is considered necessary.

CHAPTER XI

ASSISTANCE FROM THE INDUSTRIAL DEVELOPMENT BANK OF INDIA

11.1 Among the established financial institutions, the Industrial Development Bank of India as the lender of the last resort for the medium to long term requirements of Indian industry, is in the best position to assist road transport and also to take an overall view of the needs of this industry and the resources available for meeting these needs. The Industrial Development Bank of India's statute provides specifically, through Section 2(c) for the recognition of road transport units as industrial concerns.

11.2. The Bank has, in a press note issued on the 26th September 1967, announced a scheme for the rediscounting of promissory notes arising out of credit sales by an owner or arising out of hire-purchase contracts as between owners and hirers. We are dealing with this scheme which is reproduced in Annexure XI in much greater detail in Chapter XIII, in the context of the provision of finance for the road transport industry through hire-purchase finance companies. In this Chapter, we propose to consider other methods through which the Industrial Development Bank of India's assistance may be made available to the operators, within the existing frame-work of the law.

11.3. According to the Industrial Development Bank of India's statute, the Bank can refinance loans and advances granted to industrial concerns, through commercial or Co-operative banks if the loans are repayable on the expiry of not less than three years and not more than ten years. Loans to road transport operators, big, medium or small, will be eligible for refinancing by the Industrial Development Bank of India, provided that the last instalment of repayment falls due after a period of three years from the date on which the loan is first drawn. The loans and advances granted for

the periods specified will not be ineligible for refinance, by reason only of the fact that repayments during these periods will be in instalments.

11.4. Apart from this, if loans are advanced to the small scale operators and if a guarantee from the Credit Guarantee Organisation in the Reserve Bank is also obtained from the Reserve Bank, the financing banks will be entitled to relief, for the purposes of borrowing from the Reserve Bank, to the extent of the actual increase in the outstanding amounts of such loans in the busy and slack seasons.

11.5. As it is not now the practice among commercial banks to advance loans to the road transport operators for periods exceeding about two years, there has been no occasion so far for banks to avail themselves of the facilities of refinance available from the Industrial Development Bank of India, in respect of term loans granted by the banks directly to road transport operators. As the credit guarantee scheme has not been applicable so far to loans granted to the smaller operators, the question of any incentive to the banks to grant such loans, with or without recourse to the Industrial Development Bank of India by way of refinance, has not also arisen.

11.6. We think that the maximum period for the repayment of loans granted to road transport operators should, in the existing conditions, be extended from two to three years. The Industrial Development Bank of India has already accepted this suggestion; and the Reserve Bank's directive to the hire-purchase finance companies regarding the recovery of loans under hire-purchase contracts is, we understand, being amended accordingly. In view of the fact that the normal period for the repayment of loans granted to road transport operators will now be such as to make these loans eligible for refinance by the Industrial Development Bank of India (and assuming that our recommendations in regard to the extension of the credit guarantee scheme to road transport operators will be accepted and implemented) there should be no difficulty in banks increasing the extent of the loans granted directly to transport operators, particularly those with very small fleets or those operating one or two lorries only.

11.7. We recommend that in addition to the scheme for the discounting of promissory notes, which it has already announced in September 1967, the Industrial Development Bank of India should also explore ways and means of assisting or encouraging the banks to grant direct loans to road transport operators, taking advantage of the various concessions, which have been or are likely to be announced.

CHAPTER XII

CREDIT FROM MANUFACTURERS AND DEALERS

12.1. We propose to examine in this Chapter the possibilities of the manufacturers and dealers of commercial vehicles being able to provide additional credit for financing the sale of their products.

12.2. Barring the instance of Telco, no manufacturer provides credit facilities direct to the operators. Although the Hindustan Motor Corporation and P.A.L. Hire Purchase are owned by Hindustan Motors and Premier Automobiles respectively, the other manufacturers have not found it necessary so far to establish subsidiary finance companies, for the purpose of providing credit facilities to the ultimate purchasers of the vehicles.

12.3. According to the Industrial Development Bank of India's scheme for the provision of credit facilities to the road transport industry, as announced in September 1967, it is open to a manufacturing company, even without establishing a subsidiary, to obtain refinance from the Industrial Development Bank of India, by rediscounting promissory notes arising out of the sale of commercial vehicles, either outright or on hire-purchase terms. Although this facility is available, we think that it may be desirable in future

- (a) if manufacturers were to refrain from providing credit directly, and
- (b) if such of the manufacturers as have not established subsidiary finance companies already are encouraged to do so.

12.4. Our reasons for taking this view are that it is not appropriate for trading or manufacturing companies to undertake financing operations on any major scale. The trading or manufacturing profits or losses as the case may be should preferably be segregated from the profits and losses

on account of the financial business. The trading or manufacturing profits, or losses, may be attributable to a variety of causes. While it is possible that in the case of well-established and well-managed companies, there may be no risk, if non-financial and financial business were both handled together, in the case of several other companies, trading or manufacturing profits or losses, which cannot be exactly anticipated and are likely to fluctuate, cannot appropriately be mixed up with the losses, if any, on account of loans, advances and investments, which represent mere money claims, in respect of which the risk of any loss will be very much less. Apart from this, the criteria which are relevant for judging the solvency of any financial business, namely, the nature and soundness of the loans, advances and investments, the diversification of operations, the rate of recovery, the provision for bad and doubtful debts, and the adequacy of the paid-up capital and free reserves and the contingency provisions or inner reserves, can be more easily applied, if the financial business were segregated.

12.5. It is relevant to add that an independent and well-managed hire-purchase finance company under certain circumstances may be able to mobilise more resources, as the restriction on the acceptance of deposits from the public will not be applicable to it.

12.6. We would like to emphasise the need in these circumstances for the formation of a few medium-sized hire-purchase finance companies by the established manufacturing companies and business houses. In a later Chapter, we have reviewed very briefly the working of hire-purchase finance companies which are already registered and in existence at present. We have formed the impression that the number of good and well-managed hire-purchase finance companies, with the capacity for further growth, is by no means adequate, having regard to the need for these intermediaries at present. We have no doubt that if a few leading manufacturers and business houses were to take the initiative in bringing into existence independent hire-purchase finance companies, these new institutions will be able to take advantage of the opportunities, which will now be available to them (in the form of concessions in regard to the acceptance of deposits from

the public, the availability of refinance from the Industrial Development Bank of India, the concessional rate of interest from banks, and the facility of being able to borrow from the banks against book-debts) and to build up in course of time a fairly large volume of business in their own and in the public interest.

12.7. The considerations, which we have just mentioned are equally applicable in the case of the larger dealers. According to an estimate, which was made in December 1966 by the Federation of Automobile Dealers' Associations, Bombay, there are now about 260 franchise dealers in India and they along with their own branches and with their sub-dealers operate at about 800 retail points. The capital invested and the total capital employed by these dealers and sub-dealers has been estimated at Rs. 50 and Rs. 100 crores respectively. With the increase in establishment costs and the cost of obtaining the capital which is employed, the dealers' profit margins on the sale of motor vehicles have, however, declined in recent years. This has induced some of them to take up additional items such as refrigerators, air-conditioners, electrical appliances, tractors, body-building, distribution of indigenously manufactured spare parts and accessories and hire-purchase financing.

12.8. The diversification of the business of the existing dealers in motor vehicles is, in other words, necessary even in the normal course; and it is quite possible that many of the dealers may in future take much more interest in providing credit facilities, because of the profit margin which is available on loans granted under hire-purchase contracts. While it will not be desirable for the dealers to confine themselves to purely financial business on any major scale, there is no reason why, with their resources, they cannot promote a few independent hire-purchase finance companies. The dealers, like the manufacturers, will find that it is advantageous for them to do so.

12.9. In the long run, the provision of credit indirectly through financial intermediaries, to be established for this purpose, may be the most appropriate method in which manufacturers and dealers can assist the road transport industry, in which they are themselves vitally interested.

CHAPTER XIII

HIRE PURCHASE FINANCIERS

13.1. Hire-purchase finance companies and partnership firms and individual financiers financing the purchase of commercial vehicles on hire-purchase terms have grown considerably in number in the last few years and they now provide financial resources to the operators to a very substantial extent. In March 1967, there were about 260 hire-purchase finance companies in existence. Precise estimates of the number of firms and individuals are not available but it is believed that there were about 1000 such financiers, who were engaged in this business. About 20 companies and 400 firms and individuals were financing the road transport industry in the four Southern States and of these 3 companies and about 250 firms and individuals were carrying on business in Madras State.

13.2. We have been able to analyse the balance-sheets of 215 of the hire-purchase companies for the accounting periods ending generally in 1965 or 1966. On the basis of this analysis, the sources and uses of the funds of these 215 companies round about the end of the calendar year 1966 appear to have been broadly as follows :

	(in crores of Rs.)
(i) Paid up capital	7.24
(ii) Reserves and surpluses	4.23
(iii) Loans from Commercial banks	
(a) Against H. P. documents	8.32
(b) Against other securities	0.44
(c) Clean loans	0.19
(iv) Deposits from the public	28.18
(v) Other unsecured loans	0.68
(vi) Outstanding advances under hire purchase contracts and other loans.	57.36

Outstanding advances and loans are greater than the total of the items indicated at (i) to (v), as other items in the balance-sheet including other liabilities of the companies have not been taken into account.

13.3. No details of the resources and operations of the individual hire-purchase financiers are available, but if our estimates in Chapter V are correct, their annual turn-over round about the beginning of 1967 might have been of the order of about Rs. 25 crores.

13.4. Our impression, based on the examination of the evidence tendered before us and our discussions with the various authorities and interests concerned is that the business is not properly organised, that in view of the margin of profit which is available to the financier, a number of persons, who have had no experience of the financing of commercial vehicles and no lasting interest in such financing as their main or normal business, have recently taken it up and that quite a number of them in the Delhi area have diverted the funds raised by them in the form of deposits from the public for long-term investments in other enterprises with the result that although their loans to the road transport operators themselves have not failed, they have been unable to meet their liabilities to the depositors and other creditors. It is also clear from such information as we have been able to obtain that there are far too many hire-purchase finance companies and other financiers considering the volume of business, which is available and that this may be one of the reasons why the business has not so far been properly organised or has come to acquire a reputation as an essential and well-conducted one, which is deserving of assistance.

13.5. Out of a little more than 200 hire-purchase finance companies, which are now actively in business, after the failure of some and the discontinuance of business by others in the Delhi region, about six or seven leading and established companies account for about 30 per cent of the total business of all the companies, the two largest companies accounting for about 20 per cent. By size and volume of the annual turn-over two of these companies, one in Delhi and the other in Madras, stand out. In comparison with them

or the other well-established companies, there are many others, which are exceedingly small in size and transact business amounting only to a few lakhs of rupees per annum. Out of about 1000 firms or individuals, the vast majority have only a meagre turn-over and are hardly equipped by reason of their antecedents and experience to build up a large-sized stable and established hire-purchase business in the country.

13.6. It is against this background that the directions issued by the Reserve Bank in relation to hire-purchase finance companies and the scheme, which has more recently been formulated by the Industrial Development Bank of India, have to be considered. The Reserve Bank's directions which were first issued in January 1966 and were subsequently revised in October 1966 provide for the prohibition of short-term deposits for periods of less than six months, the maintenance of a register in a prescribed form relating to the deposits received by the companies, the collection of hire-purchase debts within a prescribed time-limit and the maintenance of minimum liquid assets to the extent of ten per cent of the deposit liabilities. The Industrial Development Bank of India's scheme contemplates that at least so far as commercial motor vehicles are concerned, the conditions of the hire-purchase contract, including rates of interest, will be standardised on the lines indicated by the Industrial Development Bank of India and in particular that—

- (a) the hire-purchase or any other contract, within the framework of which the promissory notes are made and discounted, should set out completely all the details of the hire-purchase price as defined in the bill, which is now pending, and also the details of all sums payable by way of penalty, compensation or damages by the purchaser;
- (b) no scrutiny or examination or credit investigation or other similar charges, by whatever name called, should be levied before the contracts are completed;
- (c) the manufacturer's or hire-purchase finance company's rights as the owner and the hirer's or purchaser's rights should be or should have been

assigned to the discounting bank; and they should also undertake not to assign their rights to any other party, without the consent of the discounting bank;

- (d) the hirer or purchaser should undertake to allow the manufacturer or hire-purchase finance company as the owner to enter into any premises where the vehicle may be parked, so long as there is any debt owned to them under a hire-purchase contract or otherwise, and where the premises are hired, the hirer or the purchaser should agree to obtain the landlord's consent to allow such entry, for the purposes of protecting the financier's interests;
- (e) the vehicle should be comprehensively insured and the hirer or purchaser should be free to choose his own insurer for this purpose;
- (f) the hirer or purchaser should undertake, if required by the manufacturer or hire-purchase finance company, to keep separate accounts in respect of the vehicle which is covered by the hire-purchase or other contract, to provide for depreciation and all other charges and to submit the accounts for inspection if required, by the manufacturer or hire-purchase finance company as the owner or by the discounting bank; and
- (g) the rate of interest charged to the road transport operators by the financiers should not be more than $7\frac{1}{2}\%$ flat per annum to be charged for a maximum period of thirtysix months.

13.7. We would like to refer in this context to the rate of interest of $7\frac{1}{2}\%$ flat per annum which the hire-purchase finance companies are expected to charge. It has been represented to us that having regard to.—(a) the expenditure which has necessarily to be incurred by hire-purchase finance companies for supervision and management and ensuring the collection of the debts due to them, (b) the provision which, in the light of actual experience, they have to make for bad

and doubtful debts, (c) the insurance premium which they have to pay to the general insurers on policies guaranteeing the loans and advances obtained by them from the bank and (d) the dividends which they have to pay on their equity capital in order to be able to increase their paid-up capital from time to time, the margin which is available between the rate of interest which is now allowed to be charged to them under the Scheme by the banks namely 9% p.a. and the effective rate of interest which they themselves are permitted to charge namely 7½% per annum flat, is not adequate. Our attention has also been drawn, in this connection, to the fact that in the United Kingdom, where hire-purchase finance companies borrow funds from banks at about 9%, the rate of interest which they themselves normally charge is between 10 to 11% flat.

13.8. We are suggesting later on in this Chapter that hire-purchase finance companies should in their own interest increase their paid-up capital and reserves from time to time. If this recommendation is to be implemented, it will be necessary for the hire-purchase finance companies to be able to declare on the additional capital which they are required to raise, a reasonable dividend which may be competitive with the return in the existing conditions on preference shares, the equity capital of other first-class companies and other alternative forms of investment. We think that the rate of interest of 7½% per annum flat, which is now prescribed by the Industrial Development Bank of India, may have to be raised. A calculation has been made for hire purchase business on the basis of a charge of 7½% flat (Annexure XV), which indicates the inadequacy of this rate. It appears to us, therefore, that perhaps 9% flat per annum may be a more suitable rate in the existing conditions, that is until such time as there is any change in the pattern of interest rates generally. We would suggest that the Industrial Development Bank of India may examine this matter in somewhat greater detail and modify the scheme, by raising the rate of interest, so that the facilities which are now available under it may be utilised on a much larger scale.

13.9. The Reserve Bank's directions and the Industrial Development Bank of India's guidelines are, we think,

salutary and will ultimately promote the development of hire-purchase finance business on sound lines in our country. We notice in this connection that hire-purchase finance companies have been permitted by the Reserve Bank to accept deposits from the public without any limit, so long as they are able to comply with the provisions relating to the maintenance of liquid assets at not less than ten per cent of their deposit liabilities. This is a concession, which we understand has been permitted to these companies, in view of the very considerable need for increasing the volume of hire-purchase credit and for financing certain essential needs, including the sale of commercial motor vehicles.

13.10. We welcome the steps which have been taken by the Reserve Bank and the Industrial Development Bank of India, but we feel that unless the hire-purchase finance companies, firms and individuals are in a position to take an enlightened and long-term view of the scope which exists for the development of hire-purchase business on sound lines, with external assistance to a very much greater extent than has been possible or has been contemplated so far, the object, which the Reserve Bank and the Industrial Development Bank of India have in view, namely, the creation of a new and important class of financial intermediaries for the channelling of credit for certain well-defined purposes in the national interest, may not be achieved.

13.11. We would like to make the following suggestions, with a view to bringing about an immediate and perceptible improvement in the organisation, methods of operation and standing and reputation of the hire-purchase finance companies and financiers :

- (i) as financial intermediaries, they should, even when they are not solely engaged in carrying on hire-purchase finance business, confine their objects to the granting of loans or the making of investments or conducting, supervising or managing chit funds or the carrying on of any other financial business, without extending their interests to either trade or industry ;

- (ii) they should, so far as hire-purchase finance business is concerned, keep accounts or registers in the forms prescribed by the Reserve Bank of India for returns in respect of that business and they should, if possible, publish these accounts in a condensed form, if they are required to, or do as a matter of fact publish balance-sheets; or
- (iii) in respect of hire-purchase finance transactions, relating to the sale of commercial motor vehicles or tractors or other agricultural machinery and equipment for which refinance may be available under any recognised scheme, the hire-purchase finance companies and other financiers should open separate cash credit, overdraft or other accounts with the financial banks, independently of any other accounts, in order to enable the banks to identify these transactions and to provide refinance in respect of them ;
- (iv) pending the enactment of the Hire-Purchase Bill, the hire-purchase finance company should voluntarily try to acquire a complete and valid title to the goods which are the subject-matters of a hire-purchase agreement and should also try to safeguard its interests and they interests of the financier, in the manner and to the extent indicated by the Industrial Development Bank of India ;
- (v) as the business grows and the volume of hire-purchase debt which is being financed increases, the paid-up capital in the case of companies, the subscribed capital in the case of partnership firms and the capital, which is committed to the business, in the case of the individual financiers should be increased, if possible every year, in order to ensure that the financier's growth and status or interest in the business will be proportionate to this increase;

- (vi) in respect of debts, which are considered to be bad or doubtful of recovery adequate provision should be made and a general reserve of an adequate amount should be created in addition to provide for any possible contingencies in future;
- (vii) in the case of the comparatively weaker and less viable hire-purchase finance companies in the Corporate Sector, schemes for the amalgamation of the companies with relatively more prosperous and well-managed concerns through the voluntary transfer of assets and liabilities, according to some suitable formula, should be considered; and
- (viii) in the case of the financiers who are carrying on business as partners or individuals, the possibilities of forming public or private limited companies with an adequate capital structure should be considered, as this might facilitate lending by commercial banks and by official agencies.

13.12 We would like to make a few concluding observations before we end this Chapter on the role of hire-purchase finance companies as financial intermediaries supplementing the resources of commercial banks and other organised agencies. In the scheme of our Report, we have recognised the need for the continuance of hire-purchase finance companies and the importance of the services which they may be able to render, but we must reiterate our view that not all the companies which are now in existence are well-managed. While there are a few companies which have conducted their business on sound and ethical lines, we have heard a number of complainants against other companies. Some of the allegations against these companies are that the conditions of the hire-purchase contracts are loaded heavily against the hirers, that the vehicles for which the hirers have paid substantial amounts already are sold as the sole property of the hire-purchase finance companies at prices which are to the disadvantage of the hirers, that the surpluses, if any, realised as a result of the sales are not paid to the hirers

and that the provisions regarding arbitration, in the event of disputes as between the hire-purchase finance companies as owners and the hirers, are unsatisfactory. Some of the hire-purchase financiers have resorted to undesirable methods of operation and unfair practices which have tarnished the image of the hire-purchase finance business. This has retarded the growth of hire-purchase finance business on sound and healthy lines. We would like to impress upon all the companies concerned, the need for a code of self-discipline in their own and in the larger public interest.

13.13 If these suggestions are accepted and implemented by all hire-purchase finance companies and financiers, it will be relatively easier for external financing agencies like the commercial banks and the Reserve Bank or the Industrial Development Bank of India to assist these companies and financiers.

CHAPTER XIV

COMMERCIAL BANKS

14.1 Commercial banks in our country have not found it necessary so far to finance the road transport industry to any significant extent. This is due partly to the fact that the industry, by and large, has remained unorganised, but partly also to the fact that in the absence of any clear indication that road transport is an industry and deserves assistance, at least to the same extent and in the same manner as other industries, the claims of the road transport operators and hire-purchase companies and financiers assisting them can be met only within the limits of such funds as the banks have been able to spare, after meeting the requirements of other priority sectors, such as organised industries and exports.

14.2 We have obtained through the courtesy of the Reserve Bank, details of the limits granted by commercial banks to road transport operators as such between December, 1960 and June 1962. The figures, which were available for 81 banks indicate that about five years ago, about Rs. 9.70 crores were granted by way of limits to private operators and about Rs. 4.27 crores were outstanding. Allowing for a reasonable increase since then, the extent of the assistance is still not very significant in relation to the targets either for an increase in the volume of traffic moved by roads or of an increase in the production of commercial vehicles.

14.3 The direct assistance from commercial banks to the road transport industry includes a substantial amount on account of the working capital needs of the bigger operators, incorporated as companies. For ascertaining the extent to which initial investment, on account of the purchase of vehicles is financed, commercial banks' advances to hire-purchase finance companies are more relevant. We indicate below the amount of the loans and advances granted by commercial banks to (a) hire-purchase finance companies and (b) hire-purchase financiers as on the 31st March, 1967.

(In crores of Rs.)

I. Hire-Purchase finance companies	No. of banks	No. of companies	Total limits	Amounts outstanding
<i>(a) Eastern Zone</i>				
(Assam, Bihar, Orissa, West Bengal, Manipur, Tripura, Nagaland, Nefa, Andaman and Nicobar Islands)	16	37	6.17	4.89
<i>(b) Western Zone</i>				
(Maharashtra, Goa, Dadra, Nagar Haveli, Gujarat, Madhya Pradesh, Daman and Diu)	21	130	7.78	5.38
<i>(c) Northern Zone</i>				
(Punjab, Rajasthan, Jammu & Kashmir, Haryana, Delhi, Himachal, Pradesh, Chandigarh and Uttar Pradesh)	25	70	2.60	1.59
<i>(d) Southern Zone</i>				
(Madras, Pondichery, Mysore, Kerala, Mahe, Laccadive, Minicoy and Amindivi Islands, Andhra Pradesh and Yanam)	34	21	1.35	0.70
	96	258	17.90	12.56

(In crores of Rs.)

II. Other Hire-Purchase financiers	No. of banks	No. of companies	Total limits	Amount outstanding
<i>(a) Eastern Zone</i>				
(Assam, Bihar, Orissa, West Bengal, Manipur, Tripura, Nagaland, Nefa, Andaman, and Nicobar Islands)	16	98	2.97	2.23
<i>(b) Western Zone</i>				
(Maharashtra, Goa, Dadra, Nagar Haveli, Gujarat, Madhya Pradesh, Daman and Diu)	21	204	7.22	4.53
<i>(c) Northern Zone</i>				
(Panjab, Rajshan, Jammu & Kashmir, Haryana, Delhi, Himachal Pradesh, Chandigarh and Uttar Pradesh)	25	113	3.13	2.00
<i>(d) Southern Zone</i>				
(Madras, Pandicherry, Mysore, Kreala, Mahe, Laccadive, Minicoy and Amindivi Islands, Andhra Pradesh and Yanam)	34	372	2.70	5.03
	96	787	21.02	13.79
III. All hire-purchase companies and financiers.	96	1045	38.92	26.35

14.4 It will be seen from the foregoing table that practically all the hire-purchase finance companies and partnership firms and individual financiers depend on bank finance to a very substantial extent. It is instructive to break down the loans and advances security-wise.

The details are as follows :—

(In crores of Rs.)			
Advances against the security of			
I, Hire-Purchase finance companies	H.P. documents	Other securities	Clean advances
(a) Eastern Zone	6.03 (4.79)	0.09 (0.08)	0.05 (0.03)
(b) Western Zone	6.07 (4.10)	1.36 (1.01)	0.35 (0.26)
(c) Northern Zone	2.12 (1.19)	0.46 (0.39)	0.02 (0.01)
(d) Southern Zone	0.90 (0.46)	0.34 (0.15)	0.11 (0.09)
Total :	<u>15.12</u> (10.54)	<u>2.25</u> (1.63)	<u>0.53</u> (0.39)
II, Hire-purchase financiers			
(a) Eastern Zone	2.77 (2.04)	0.19 (0.19)	0.01 (0.00)
(b) Western Zone	6.95 (4.40)	0.24 (0.10)	0.03 (0.02)
(c) Northern Zone	2.65 (1.85)	0.42 (0.13)	0.06 (0.03)
(d) Southern Zone	6.73 (4.59)	0.47 (0.24)	0.50 (0.20)
Total :	<u>19.10</u> (12.88)	<u>1.32</u> (0.66)	<u>0.60</u> (0.25)

It will be noticed that book-debts, secured by hire-purchase documents are the main security available to the hire-purchase finance companies and other financiers for borrowing from commercial banks. It is in this context that we have made certain recommendations elsewhere in this report with the object firstly of improving the nature of this security and secondly of facilitating in due course a reduction of the margin on these book-debts, which the banks now find it necessary to retain, before granting loans and advances to hire-purchase finance companies and other individual financiers.

14.5 We have considered very carefully the question of the conditions on which and the extent to which commercial banks may be enabled to increase the scale of their assistance to the road transport industry. We do not consider it practicable to prescribe any targets for the banks, but in the context of our estimates in Chapter V would like to make certain general observations, which may be of interest.

14.6 If the Hire-Purchase Bill is enacted in the form, which we have recommended elsewhere in this report, and if the hire-purchase financier's title to the vehicles, which are the subject-matter of a hire-purchase agreement is clean and undisputed, while the difficulties in repossessing the vehicle in the event of the failure of the loan are also minimised to a considerable extent, the financier's interest being protected at the same time by the registration authorities, the value of the security in the form of book-debts arising out of hire-purchase transactions will be considerably improved. If, in addition, the financial position and standing of the hire-purchase financiers is improved, the margin on the book-debts can be reduced appreciably, without any risk to the financing banks; and this should enable the banks to lend more.

14.7 Our attention has been drawn to the fact that some of the smaller and medium-seized commercial banks, including in particular, the Syndicate Bank have been financing road transport operators direct, without the intervention of any intermediaries. We hope that this mode of financing will continue. We have made certain suggestions in Chapter XI, with a view to facilitating the refinancing by the Industrial

Development Bank of India of loans granted directly to road transport operators. We hope that the commercial banks will be able to consider these suggestions and to increase the amount of direct financing.

14.8 As regards loans to hire-purchase companies or financiers, if banks, which now have about one thousand active accounts of hire-purchase finance companies and other financiers, could try to get the conditions of the hire-purchase contracts, including the rates of interest charged to the hirers standardised, so as to conform to the requirements of the scheme for the discounting of promissory notes, which has recently been announced by the Industrial Development Bank of India, they will be in a position at any given time to obtain refinance from that Bank. Without difficulty, in case of need. We would suggest for the consideration of the commercial banks that while advancing loans to hire-purchase finance companies or other financiers, they should try to ensure as far as possible that the conditions stipulated by the Industrial Development Bank of India are accepted and implemented by the companies or financiers, while re-lending the amounts. This will enable the banks to have recourse to the Industrial Development Bank of India throughout the year. With the assurance that refinance will be available on easy terms throughout the year, banks should normally be able to lend additional amounts to the road transport industry.

14.9 Under the Industrial Development Bank of India's scheme for refinancing, in the form of rediscounting of promissory notes arising out of hire-purchase transactions to which the road transport operators are parties as hirers (though not under its scheme for the refinancing of loans to industry), it will be open to the banks to replace cash credit or overdrafts granted by them by promissory notes, which on being rediscounted with the Industrial Development Bank of India will cease to be held in the banks' portfolios and will thereafter only be deemed as contingent liabilities of the banks. We would like to invite the attention of the banks in this connection to the circular which was issued by the Industrial Development Bank of India on the 5th August, 1965, reproduced in Annexure XII indicating that the amounts advanced by the banks on promissory notes, which are

subsequently rediscounted with the Industrial Development Bank of India need not be included in the banks' outstanding advances. If or to the extent that the loans and advances are thus replaced by contingent liabilities, the credit-deposit ratios of the banks are unlikely to be increased because of the assistance granted by the banks to the road transport industry. The ratios will in fact decline to the extent of the rediscounting of promissory notes with the Industrial Development Bank of India. Under certain contingencies, that is, when the loans and advances granted by the banks are increasing rapidly, this may be of some advantage from the banks point of view. This we believe should be an additional inducement to the banks to lend to this industry.

14.10 We would like to say a few words in conclusion about the question of the recognition by the Reserve Bank of the priority which is enjoyed by the road transport industry and by hire-purchase finance companies. There has been some avoidable confusion in the recent past, partly because of the Reserve Bank's directive that not less than 80 per cent of the increase in commercial banks' advances in the 1966-67 busy season should be on account of industry and partly also because the status of the road transport industry or of the hire-purchase companies has not been very clear. The Reserve Bank's directive in question lapsed at the end of April 1967. It is not now binding on the banks. The Reserve Bank in a subsequent circular letter dated the 27th June 1967 addressed to all the scheduled banks has indicated to them that the refinancing of hire-purchase transactions relating to commercial vehicles will not only be in order, but also deserves some priority. Subsequently, in another letter issued on the 9th August 1967, reproduced in Annexure XIII, the Reserve Bank has made it clear that unsecured loans granted for the purpose of financing the purchase of commercial vehicles will not be taken into account for the purposes of the ceiling of fifteen per cent of the total outstanding advances mentioned in the Bank's Circular dated May, 1967 reproduced in Annexure XIV regarding the limits on unsecured advances and guarantees. We welcome these clarifications and concessions. We suggest that in any system or order of priorities which may be recognised by the Reserve Bank or by the Industrial Develop-

ment Bank of India, at any other time in the future the needs of the road transport industry or of hire-purchase financiers to the extent that they serve certain essential and well-recognised needs about which there can be no dispute, should be clearly recognised and that the priority of the road transport industry should not be left in any doubt.

14.11 As far as road transport operators are concerned, it is hardly necessary for us at this stage to argue that loans for the development of transport in all forms and particularly transport by road are not less essential than loans to priority industries. The only question, which can possibly arise, in our opinion, is whether loans by commercial banks to hire-purchase companies will be equally essential. It is not suggested that all loans to hire-purchase finance companies or hire-purchase financiers are essential or that the entire range of transactions under hire-purchase contracts will be deserving of support.

14.12 We are concerned in this report with hire-purchase transactions relating to motor vehicles, but taking a somewhat broader view, we have suggested that transactions relating to commercial motor vehicles namely, trucks, passenger buses and jeeps, tractors and other agricultural equipment should be segregated from all others. Once this suggestion is accepted and implemented there can be no question or doubt whether a hire-purchase finance company or financier carrying on a diversified business is entitled to assistance as for a priority industry; the extent of the assistance to which it may be entitled can also be easily determined and commercial banks should have no hesitation in granting loans and advances to the extent required.

CHAPTER XV

STATE FINANCIAL CORPORATIONS

15.1 Road transport is regarded as an industry by the industrial financing agencies generally, and the State Financial Corporations as well as the Industrial Development Bank of India are in a position to finance this industry. The State Financial Corporations Act, 1951, was amended in 1962, so as to include any undertaking engaged or to be engaged in the transport of passengers or goods by road or by water within the definition of an industrial concern. Subsequently, as a result of the discussion at the 9th Conference of representatives of State Financial Corporations at Calcutta in February 1963, a working group under Shri B. Mukerji, then Managing Director of the State Bank of India was constituted. The group took the view that given favourable conditions, namely, good management, good and steady custom, good roads, good vehicles and not very heavy imposts on the business, even a one-vehicle unit could be viable. The group favoured the relaxation of margin, where a down payment of 25 to 30 per cent of the price of the vehicle had already been made, the grant of loans up to a normal ceiling of Rs. 5 lakhs in the case of individual operators against the hypothecation of the vehicles and the recovery of the loans within a maximum period of five years.

15.2 We have reviewed the position in the light of the Working Group's recommendations. The loans sanctioned by the State Financial Corporations including the Madras Industrial Investment Corporation Ltd. to the transport industry are, we understand, as follows :

Loans sanctioned by SFC (including MIIC) to transport industry

Sl. No.	Name of SFCs	As on 31-3-1967			As on 30-6-1967		
		Sanctioned (effective)	Disbursed	Outstanding	Sanctioned (effective)	Disbursed	Outstanding
1.	Gujarat	1.74	1.15	0.40	1.74	1.03	0.41
2.	MadhyaPradesh						

1	2	3	4	5	6	7	8
3. Maharashtra		12.05	3.97	1.79	6.06	4.05	1.61
4. Andhra Pradesh	
5. Kerala		0.39
6. Mysore		2.61	2.25	2.10	4.11	3.08	2.85
7. Assam		7.80	6.80	5.77	6.80	6.80	5.77
8. Bihar		8.63	3.63	1.16	3.63	3.63	0.99
9. Jammu & Kashmir		61.10	58.37	40.18	68.27	65.31	45.39
10. Punjab		2.40	2.40	2.09	2.40	2.40	1.96
11. Rajasthan		7.42	4.20	3.96	7.42	4.90	4.40
12. U. P.	
13. Orissa	
14. West Bengal	
15. MIIC	
16. Delhi	
17. Himachal Pradesh	
18. Haryana	
		98.75	82.77	57.45	100.82	91.20	63.38

15.3 It will be seen from the table that except in the case of Assam and Jammu and Kashmir, where the road transport industry is comparatively more important than in the other States, the amounts of the loans sanctioned and outstanding are not very appreciable. The State Financial Corporations do not seem to be adequately organised to assess the needs of the road transport industry within their respective jurisdictions.

They do not have a wide network of branches or agencies and there are other demands on their inadequate funds. In comparison with hire-purchase financiers, who are engaged mainly or wholly in the business of financing the sale of motor vehicles and are in close touch with the dealers/operators, the State Financial Corporations are not in a position, notwithstanding the more favourable terms offered by them to compete for this business.

15.4 The State Financial Corporations are ideally suited to finance the smaller road transport operators, who may not be interested in acquiring motor vehicles on hire-purchase terms, but may be in a position to make a substantial down-payment and to hypothecate the vehicle to the financing Corporation, after obtaining a loan to meet the balance of the amount which may be required. In view of the proposal to introduce a new Section 31A in the Motor Vehicles Act, 1939, to secure the rights of the hypothecate, in respect of the transfer of registration, the State Financial Corporations should be able to safeguard their interests to a reasonable extent. Any substantial assistance to the transport industry by the State Financial Corporations will, however, depend on their own organisations being strengthened for this purpose.

15.5 There are several areas and routes, even in the States and Union territories, which are adequately served by the railways, where passenger and goods traffic can be carried only by motor vehicles. The Transport Departments in the various States should survey the traffic offering in these areas and prepare plans for the development of routes and areas. If this is done, there might be an assurance to the private operators that (a) firstly, they will be able to ply passenger and goods vehicles for a minimum period, (b) secondly, that the roads will be maintained in good order and (c) thirdly, that the issue of permits and the ceilings for rates and fares will be so fixed as to ensure a minimum volume of paying traffic for every operator. With such a plan and such an assurance, the State Financial Corporations may be able to increase their lending assistance to the industry to a substantial extent and in the process to serve the needs of the areas concerned.

15.6 As regards funds, the State Financial Corporations, we understand, are in a position even now to get their loans to road transport operators refinanced by the Industrial Development Bank of India, in the same manner and to the same extent as their other loans to small scale or other industrial units. No loan granted to road transport operators appears to have been actually refinanced under these arrangements. We have referred in Chapter XIV to some of the problems involved in banks getting their loans to road transport operators refinanced by the Industrial Development Bank of India. As the State Financial Corporations grant only term loans, and as there is nothing to prevent them from granting such loans for periods of thirtysix months or more, these difficulties do not seem to be relevant so far as they are concerned. As this facility of refinance from the Industrial Development Bank of India is already available, we suggest that the State Financial Corporations should utilise it, in case they feel that additional funds are necessary.

CHAPTER XVI

TRANSPORT COOPERATIVES AND OTHER CO-OPERATIVE SOCIETIES

16.1 In May 1964, the Study Group on Transport Co-operatives, which had been appointed earlier in 1962, submitted a report to the Ministry of Transport, in which after reviewing the position of transport co-operatives generally, they suggested, so far as road transport was concerned (a) the organisation of a limited number of societies in each State for financing the purchase of stage carriages and goods vehicles (b) share capital participation to the extent of 50% in such societies (c) provision to the extent of Rs. 20 crores during the Fourth Plan period for permanent investment in road transport co-operatives, either directly or through the State Financial Corporations. We have considered the action taken on the basis of these recommendations and the progress of transport co-operatives since the submission of the report. We have arrived at the conclusion that there has been no significant increase in the registration of new societies and that the existing societies have not also been doing very well and have been languishing for lack of funds.

16.2 The extension of nationalised services, competition from private agencies, difficulties in obtaining route permits except in Kerala and Punjab and inadequate arrangements for funds explain this tardy progress. The total working capital of all the transport societies, including some which were not engaged on road transport, was less than Rs. 6 crores in 1963-64. Outside the Punjab, which accounted for nearly one half of this amount and where ex-servicemen's co-operatives were financed by loans from the Postwar Services Reconstruction Fund, transport co-operatives have been relatively unimportant and in States other than Kerala, Madras, Madhya, Pradesh, Rajasthan and West Bengal, they are quite insignificant.

16.3 The individual road transport operator has no natural inducement to join a co-operative society, unless it is

of any demonstrable advantage to him; and the lack of resources of the transport co-operatives, which are already in existence, has not encouraged the hope that an operator on balance has anything to gain by becoming the member of a society.

16.4 We do not think that it will be either practicable or desirable, in these circumstances, to force the pace of development of transport co-operatives or to impose them on operators, who may not be ready or willing to take a sustained interest in their growth. We attach, however, some importance to the revitalisation of the existing societies. As and when conditions are favourable and some service of real value can be offered to the individual operators, new societies may be registered, if possible.

16.5 We suggest that Government should be ready to provide all reasonable facilities to

- (a) primary credit societies, whether or not they are treated as primary cooperative banks, if they are formed by members all or most of whom are road transport operators; and
- (b) service cooperatives, formed for the purpose of assisting the individual operators in providing the services, which they need for the operation and maintenance of their vehicles, such as workshop facilities, repairs to their vehicles, payment of taxes through the societies, booking of fares and freights, construction of godowns and buildings at terminal points, correspondence with Government departments and other assistance generally.

16.6 Conformably to the requirements of the Reserve Bank, a clear distinction will have to be made between the credit societies referred to at (a) above and other trading or service cooperatives referred to at (b). We see no reason why the credit societies should not undertake hire-purchase finance, availing themselves of assistance from external financing agencies, on the lines indicated in the earlier Chapters. They can function in the same manner as the well-established hire-purchase finance companies, incorporated under the

Companies Act, the only difference being that while they can accept deposits from members of the public and will be entitled to refinance, in respect of book debts, arising out of hire-purchase contracts or other otherwise, they cannot grant loans except to persons who are their members.

16.7 We understand that primary credit societies and primary co-operative banks are not governed by the directions issued by the Reserve Bank in regard to hire-purchase finance companies. Notwithstanding the fact that these directions may not in terms be applicable to them or cannot be so applied, we suggest that primary credit societies, carrying on hire-purchase transactions should, as a measure of self-discipline agree to be governed by these directions. We hope that if they are prepared to do so, refinance on a liberal scale within the co-operative movement will be available to them.

16.8 As regards non-credit societies of the type referred to at (b) above, we agree with the recommendations of the previous study group that they have a valuable role to play and are in a position to assist the individual operators, who are now unorganised and may not be able to obtain these services easily from other sources. With proper organisation and efficient management, these service cooperatives should be viable and credit-worthy; and we hope that their requirements for funds can be adequately met within the cooperative credit structure.

CHAPTER XVII

ROAD TRANSPORT CORPORATIONS IN THE PUBLIC SECTOR

17.1 Our report will not be complete, without a discussion of the finances of the road transport corporations in the public sector. The Road Transport Taxation Enquiry Committee, under Dr. B. V. Keskar we understand, reviewed the assets and liabilities and operating results of these undertakings in some detail and we do not, therefore, want to burden our report with the statistical material, which has already been included in the other report. We should like, however, to highlight some salient points arising out of our analysis.

17.2 Barring the Maharashtra and Gujarat State Road Transport Corporations, the other Undertakings do not generate adequate surpluses to be able to finance additions to their fleet, and latterly, even replacement of the existing vehicles has become a problem. The operating ratio in the case of practically all the undertakings has steadily risen in the last few years. For the Bihar, Rajasthan and Calcutta State Road Transport Corporations, the Madras State Transport Department and BEST, DTU and the Ahmedabad Municipal Transport Service, the total operating costs in 1965-66 were in excess of the gross revenue. For the Andhra Pradesh, Gujarat, Kerala, Madhya Pradesh, Pepsu and Mandi-Kulu Road Transport Corporations, and the State Transport Department, Assam, the operating ratio in that year was nearly equal to the gross revenue.

17.3 Among the departmentally managed undertakings, the Madras State Transport Department has been running at a loss since 1963-64. Among undertakings managed by municipal corporations or municipalities, BEST and DTU have incurred substantial losses already and there seems to be no prospect that these losses will be made good from future profits.

17.4 The other undertakings are not incurring losses to the same extent, but the profit margins are small and they are in the somewhat unevitable position of requiring substantial funds for increasing their routes mileage, especially on long-distance routes, and for providing more services, but not being able to obtain any portion of these funds from their retained profits or from depreciation or other reserves.

17.5 We have received the impression, as a result of our examination of the working of these undertakings generally, that no proper thought or consideration has been given to the principles on which nationalised road transport undertakings should be run. There is no reason, for example, for certain undertakings as in Madras, Punjab, Haryana, Jammu and Kashmir, Assam, Manipur, Orissa and Uttar Pradesh should still be run departmentally by the concerned State Governments. We are aware that exemption from the liability for the payment of income or other direct taxes to the Central Government under Article 289 of the Constitution is an inducement for continuing the existing arrangements for the departmental management of the undertakings in question. But this merely adds to the burden on the budgets of the State Governments concerned where the departmental undertakings are running at a loss, and involves a subsidy for the operation of certain nationalised services, for which there can be no adequate justification. There is also no reason, in our opinion, why city transport services in Madras or Greater Bombay or Delhi or in any other city or town should be expected to run at a loss. If the existing rates of passenger fares are unremunerative, a decision to raise them to an adequate level, so as to enable the undertakings concerned to operate at a profit and to retain a portion of the profits for modernisation, expansion and long-term development cannot be deferred for any long time. Finally, if and to the extent that the nationalised services operate long-distance or other routes, on which there is a profit, we do not see any reason why the profits should be directed in the form of levies at the State level on passenger fares and rates. Such taxation has the effect of draining the surpluses of such undertakings as are still in a position to generate some surpluses; and their capacity to meet the demands for more services and amenities in future is bound to be affected.

17.6 On a careful consideration of the requirements of the nationalised road transport undertakings, we recommend that

- (i) in the interests of uniformity and having regard to the desirability of running all the undertakings as commercial services, competing on equal terms with other units in the private sector, such of the undertakings as are still departmentally-managed should be incorporated as independent autonomous corporations under the Road Transport Corporations Act, 1950;
- (ii) the level of fares and rates should be raised, wherever necessary to such an extent as to enable every undertaking to run at a reasonable margin of profits;
- (iii) the margin of profit after taxation should be such as to provide, to a reasonable extent for the requirement for funds for long-term development;
- (iv) the State Governments should refrain from increasing the existing taxes on passenger fares and rates and should review the existing level of taxation on motor vehicles and passenger fares and freights with a view to giving relief wherever necessary;
- (v) the relief from taxation in the form of the restoration of the development rebate and the inclusion of the road transport industry as a priority industry for purposes of income tax, which we have already recommended, should also be available to the nationalised undertakings, but the amounts representing this relief in taxation should be funded separately and be used exclusively for purposes of the replacement of vehicles or additions to the fleet.

17.7 If these suggestions are accepted, the public sector road transport corporations will have some funds which they

may be able to utilise for purchasing new vehicles, building adequate maintenance facilities like depots and workshops and providing passenger amenities like bus stations. If their financial position, judged by the operating ratios, net profit, provision for depreciation and development rebate reserves can be improved, they may be in a position to raise debentures in the open market against the guarantee of the concerned State Governments. We would urge that some consideration should be given to the question of enabling the Corporations to issue these debentures, particularly in the context of investments from various provident funds.

CHAPTER XVIII

SUMMARY OF CONCLUSION AND RECOMMENDATIONS

1. We shall now summarise the recommendations in our report. In the absence of an adequate or well-considered plan for the development of the road transport industry, particularly on long distance routes and for the provision of financial assistance to it, the industry has managed to raise the funds, which it needs, from organised and other agencies, relying on public deposits of the hire-purchase finance companies. But the sources from which these funds have been obtained are uncertain; and there is no assurance that the growing and long-term requirements of the industry can be met.

2. For enabling the operators to provide expeditious and efficient service, especially on long-distance routes, the quality of the roads will have to be improved very considerably, taking into account the need for the provision of missing links on the national highways and additional lanes at strategic points, the replacement of weak culverts and bridges and increasing the thickness of the crusts; and it will have to be ensured that notwithstanding any reduction in the size of the annual or other plans, these schemes will receive adequate priority. [Chapter II, paras 2.2 to 2.4]

3. We have estimated that the amount of the loans and advances to be provided from organised institutions to the operators will have to be increased to Rs. 100 to Rs.125 crores per annum in 1970-71, as compared with about Rs.60 crores at present. Thereafter, the additional requirements might be about Rs. 10 to 15 crores every year during the next five years. [Chapter V, paras 5.3 and 5.4]

4. The capital cost of a commercial vehicle has been increased already, mainly because of Government levies, upto a point at which further investment by transport operators on new vehicles and the replacement of the existing vehicles is becoming difficult. Government and the automobile

manufacturers must explore ways and means of arresting any further increases in prices, and if possible, of reducing the cost and improving the quality of the vehicles, [Chapter VI, para 6.5]

5. Government's decisions on the report of the Road Transport Taxation Enquiry Committee under Dr. Keskar should be taken and announced very early. A rational scheme for the avoidance of multiple taxation should be evolved, and on inter-state routes, further increases in motor vehicles and goods taxes and taxes on diesel oil or petrol should not be authorised hereafter, except in very exceptional circumstances. As far as possible, the need for stabilising and reducing taxes should be taken into consideration. The additional revenue, resulting from an accelerated rate of development of road transport, will, in our opinion, adequately compensate the Governments for any restraint in increasing the level of road taxes any further. [Chapter VI, para 6.7].

6. In the interests of making transport by road safe and more attractive, godown and storage facilities, insurance of goods while in transit and standardisation of commercial practices relating to the treatment of lorry receipts as documents of title for goods will be necessary. Commercial banks and insurance companies respectively should provide the necessary facilities for this purpose. The nationalised transport undertakings and the operators on the approved list of the Indian Banks' Association should take the initiative in introducing a uniform procedure in regard to the treatment and handling of lorry receipts. [Chapter VI, para 6.13]

7. The Hire Purchase Bill, with the changes therein which we have recommended, with a view to removing the uncertainty in regard to title to the goods and protecting the interests of the external financiers, should be enacted and brought into force as early as possible. It is not necessary at this stage to provide for the licensing of hire-purchase finance companies. [Chapter VII, Paras 7.2 & 7.3]

8. An amendment on the lines envisaged in the Motor Vehicles (Amendment) Bill 1965, with a view to providing for the recognition and safeguarding of the financier's interest by the authorities registering motor vehicles should be promoted at the earliest opportunity. [Chapter VIII, Para 8.3]

9. The recommendations in the Twenty-sixth Report of the Law Commission on insolvency law, providing for the protection of the interests of persons with claims on the insolvent's property should be considered, and the necessary legislation for this purpose should be promoted at an early opportunity. [Chapter VIII, Para 8.4]

10. The liberal interpretation of the provisions of Section 3 of the Banking Regulation Act, 1949, permitting banks to obtain certain types of documents for safeguarding their interests, while advancing loans directly or indirectly to transport operators should be brought to the notice of the banks concerned. [Chapter VIII, Para 8.6.]

11. The development rebate which was originally granted to the road transport industry should be restored. It should also be treated as a priority industry entitled to rebate from income tax at the rate of 8% and Sections 80B and 80I of the Income Tax Act, 1961, should be suitably amended for this purpose. Companies and corporations entitled to this rebate should agree to fund the amount of this rebate, for the purposes of financing the acquisition of new or the replacement of old vehicles. [Chapter IV, Para 9.6]

12. After the other recommendations in our report have been accepted and implemented, the question of amplifying the scheme for guaranteeing loans and advances granted to small scale industries, so as to cover the smaller road transport operators, should be considered by Central Government in consultation with the Reserve Bank of India. [Chapter X, Para 10.8]

13. The Industrial Development Bank of India should consider whether loans and advances granted directly to road transport operators, which will now be for an extended period of three years, cannot be refinanced under its scheme for refinancing direct advances to small scale industries. [Chapter XI, Para 11.7]

14. The manufacturers of automobiles and the larger dealers should consider whether new hire-purchase finance companies cannot be promoted by them for mobilising resources and assisting the operators. [Chapter XII, Para 12.9]

15. The existing hire-purchase finance companies should with a view to qualifying for assistance from commercial banks and the Industrial Development Bank of India, improve their methods of working and operation, particularly by (a) conforming to the directions issued by the Reserve Bank and maintaining registers in the form of the returns prescribed by the Bank (b) segregating the cash credit accounts relating to hire-purchase transactions, which are eligible for refinance and (c) increasing their paid-up equity capital, free reserves, reserves for bad and doubtful debts and contingency or inner reserves, over a period of time. Hire-purchase companies should not undertake any business other than financial business. The existing companies which are not viable should, if possible, be amalgamated through the voluntary transfer of their assets and liabilities to other more viable institutions, and the partnership firms, which are now carrying on hire-purchase finance business should be incorporated as companies under the Companies Act, 1956, so as to facilitate the grant of loans and advances to the road transport industry, through a larger number of intermediaries. [Chapter XII, para 13.11]

16. As and when the other recommendations in our report are accepted and implemented, commercial banks should consider the question of reducing the margins in respect of advances against book debts representing claims against road transport operators. as the risks of lending may then be considerably reduced. [Chapter XIV. Para 14.4]

17. Commercial banks should, in their own interests and in the interests of the orderly growth of hire-purchase finance business in our country, consider whether the conditions specified in the Industrial Development Bank of India's scheme for the rediscounting of promissory notes should not be enforced, so far as their own lending is concerned. As there are some advantages from the banks' own point of view in discounting promissory notes under this scheme, they should examine whether the facilities available under this scheme cannot be availed of to a greater extent. [Chapter XIV, Paras 14.8 and 14.9].

18. The State Road Transport Authorities should carry out a systematic survey of the areas in which road transport

can be developed, within the respective States, and the State Financial Corporations should consider the grant of direct loans to a larger number of transport operators, within the limits indicated by the Working Group which has already made certain recommendations in this connection. [Chapter XV, Paras 15.5 and 15.6]

19. Transport cooperatives providing specialised and service facilities to the road transport industry should be promoted, wherever this is feasible, and the question of establishing cooperative hire-purchase finance societies should also be examined. [Chapter XVI, Paras 16.5 and 16.6]

20. The resources of the road transport corporations in the public sector are inadequate for financing any considerable additions to their fleet. The development rebate and the rebate from income tax, which we have recommended, if they are granted to these corporations and are conserved and utilised by them for financing the acquisition of vehicles, will supplement their resources. But the corporations should also consider whether like State Electricity Boards they can barrow certain limited amounts in the open market against the guarantee of the concerned State Governments. For this purpose and also on other considerations, the public sector road transport undertakings, which are not already incorporated under the Road Transport Corporations Act, 1950, should be constituted as independent autonomous corporations. [Chapter XVII, Para 17.6]

21. Our recommendations are based on a careful examination of the possibilities of assisting the road transport industry within the overall limitations of financial and other resources. They are realistic and do not involve any major changes in accepted policies. We suggest that our recommendations should be considered as a whole in the interests of the orderly development of the automobile and road transport industries.

(R. V. Subrahmanian)

(R. K. Seshadri)

(R. G. Saraiya)
Chairman

(T. S. Santhanam)

(Kundan Lal)

(Ved Prakash)

(S. C. Trikha)

(K. N. R. Ramanujam)

(R. K. Sharma)
Member Convenor

February 1, 1968.

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ANNEXURE I

PARTICULARS OF THE MEETINGS OF THE STUDY GROUP
ON ROAD TRANSPORT FINANCING

<i>S. No.</i>	<i>Place of Meeting</i>	<i>Number of Meeting</i>	<i>Date of Meeting</i>	<i>Names of Members of Group who attended</i>
(1)	(2)	(3)	(4)	(5)
1.	New Delhi	First	17-8-1965	Sarvashri R. G. Saraiya, R. V. Raman R. K. Seshadri, S. N. Sen Gupta, R. L. Tuli, Kundan Lal and A. S. Bhatnagar.
2.	Bombay	Second	16-12-1965	Sarvashri R. G. Saraiya, T. S. Santhanam R. L. Tuli, Kundan Lal, S. N. Sen Gupta and A. S. Bhatnagar.
3.	New Delhi	Third	11-3-1966	Sarvashri R. G. Saraiya, R. V. Raman, R. K. Sieshadri, Ved Prakash, T. S. Santhanam, Kundan Lal and A. S. Bhatnagar.
4.	Bombay	Fourth	27th, 28th and 29th April, 1966	Sarvashri R. G. Saraiya, R. K. Seshadri, M. L. Gogte (on behalf of Shri S. N. Sen Gupta), Ved Prakash, Kundan Lal and A. S. Bhatnagar.
5.	Madras	Fifth	30-9-1966 1-10-1966	Sarvashri R. G. Saraiya, R. V. Subramanian R. K. Seshadri, K. N. R. Raman, T. S. Santhanam, Kundan Lal, Ved Prakash, R. L. Tuli and A. S. Bhatnagar.
6.	New Delhi	Sixth	2-12-1966 3-12-1966	Sarvashri R. G. Saraiya, R. L. Tuli, R. K. Seshadri, K. N. R. Ramanujam Ved Prakash and A. S. Bhatnagar.
7.	Bombay	Seventh]	10-1-1967	Sarvashri R. G. Saraiya, R. K. Seshadri, Kundan Lal, T. S. Santhanam, Ved Prakash, and A. S. Bhatnagar.

(1)	(2)	(3)	(4)	(5)
8. Calcutta	. Eighth	. 27-4-1967 28-4-1967	Sarvashri R. G. Saraiya, R. K. Seshadri, K. N. R. Ramanujam, T. S. Sankaran, 'Somesh Chander Trikha and B. P. Srivastava.	
9. Bombay	. Ninth	. 29-8-1967	Sarvashri R. G. Saraiya, R. K. Seshadri, N. Radhakrishnan, (on behalf of Shri R. V. Subrahmanian), K. N. R. Ramanujam, Somesh Chander Trikha, T. S. Santhanam, Kundan Lal and Shri R. K. Sharma.	

ANNEXURE II

STUDY GROUP ON ROAD TRANSPORT FINANCING

QUESTIONNAIRE FOR STATE GOVERNMENTS ETC.

1. What is the total investment in the road transport industry in your State ? Please furnish the figures in the following table in respect of that sector of the industry which is engaged in Road Transport :

Year	No. of Commercial Vehicles		*Capitalised value of commercial Vehicles		Value of other asset, (e.g. workshops, garages, stores, tools, machinery and other equipments.)	
	Public Sector	Private Sector	Public Sector	Private Sector	Public Sector	Private Sector
1961-62 .						
1962-63 .						
1963-64 .						
1964-65 .						
(estimates may be given where actuals are unavailable)					Total value of the investment	
					Public Sector	Private Sector

*If it is not possible to indicate the capitalized value, the replacement cost may be shown.

2. What are the targets of the Third Plan in respect of the Road Transport industry in the State in the public and private sectors separately ? Has there been any shortfall both physical and financial in the achievement of these targets ? If so, to what extent ? What are the reasons therefore ? Is it due to the lack of finance ? Please give the information separately for the public and private sectors.

3. How are the financial requirements of the industry in the public and private sector generally met ?
4. What special efforts, if any, have been made by the State Government to provide finances to the industry in the private sector ?
5. What are the targets proposed for the Fourth Plan in your State for commercial vehicles and what is the order of investment required therefore ?

Please give the figures in the following Table :

Year	No. of commercial vehicles		Capitalized Value of vehicles		Value of other assets		Total value	
	Public	Private	Public	Private	Public	Private	Public	Private
*£ 1965-66
1970-71
Net addition during the IV Plan								

6. What extent of investment will, in your opinion, be met by the industry from its own resources and to what extent will it be required to be financed by agencies like hire purchase companies, banks etc. ? The information may be given as under :

- | | Public Sector | Private Sector |
|--|---------------|----------------|
| (i) Extent of investment to be met by the industry from its own resources. | . | . |
| (ii) Extent to which it may be financed by external agencies, like hire-purchase companies, banks etc. | | |
| (iii) Portion of investment uncovered, if any. | | |

TOTAL .

7. What measures do you propose to provide the necessary finances to the industry during the Fourth Plan Period ?
 8. Do you consider the present level of advances by financial institutions, *e.g.* banks, State Financial Corporations etc. to be inadequate ? Is it due to the unwillingness or inability of the institution to lend ? Please state your views in the matter.
 9. Have you any views on how the above institutions can provide more funds to the road transport industry ?
 10. Are there any legal or procedural difficulties inhibiting the flow of finance from these institutions to the industry ? If so, can these difficulties be removed by amendment of the existing laws ?
 11. Please state the number and names of hire-purchase companies, the volume of their business, and rates of finance charges charged by them, etc. The information may, as far as possible be, comprehensive and cover registered companies, partner-ship firms and other individuals.
 12. Do you think the setting up of a separate all India State Corporation for providing finance to road transport industry would solve the problem ? If so, what are your views about their capital and organisational structure.
 13. Have you any other alternative suggestions in this regard ?
-

ANNEXURE III

STUDY GROUP ON ROAD TRANSPORT FINANCING

QUESTIONNAIRE FOR HIRE PURCHASE FINANCIERS

PART A

1. (a) Name of the Company
(b) Registered Office of the Company
(c) Branches, if any, with address
2. Year of establishment.
3. Type of ownership—Individual/ Partnership, association of persons, other than partnership, Hindu Undivided Family, private or public limited Company, Co-operative Society etc.
4. Area of operation.
5. What is the extent of the total funds or Capital employed during the last four years, 1962 to 1965 ?
6. Please give the break up of the total funds employed in 1965:
 - (a) Paid-up/Share Capital
 - (b) Reserves
 - (c) Borrowings
 - (d) Other funds

TOTAL

7. Please indicate to source of your borrowing and the volume of sum borrowing for the year 1965 :

- (a) Commercial Banks :
- (b) Co-operative Banks :

Amount *Rate of Interest*

- (c) Governments :
- (d) State Financial Corporation :
- (e) OTHERS :
 - (i) Directors, Shareholders, Partners
 - (ii) All others (Brokerage paid, if any)

TOTAL .

8. What is the gross volume of business (turnover) during the last four years ?

1962

1963

1964

1965

9. (a) Please specify the quantum of advances made to the hirers for the purchase of motor vehicles only, for the last four years : (The figures should relate to the purchase of Commercial Vehicles only—'Commercial Vehicles' include Buses, Lorries, Taxis and Vans).

(b) Please state the total number of vehicles (for commercial purposes) which were financed by you, during the last four years :

1962

1963

1964

1965

10. (a) Do you render financial assistance for the purchase of any articles other than commercial vehicles ? If so, please indicate the merchandise for which finances are given.

(b) What is the volume of transactions, if any, for the years :

1962

1963

1964

1965

11. What is the maximum amount advanced for the different makes of vehicles financed by you in 1965 ?
12. (a) What are your terms of business for hire-purchase finance for commercial Vehicles ?
- (b) Do you ask the hirers to make initial payment towards the cost of the vehicles ?
- (c) If answer to sub-question (b) above is in the affirmative, what is the percentage of the initial payment to the total cost of the vehicles ?
13. (a) What is the maximum period of the hire-purchase contracts transacted by you ?
- (b) Please state the mode of payment of instalments, whether monthly, quarterly, half-yearly or annually.
14. What is the total hire-purchase price payable for a vehicle ?
- (i) Initial Payment :
- (ii) Total number of instalments :
- (iii) Any fees or service charges :
- (iv) Any other payments :

(Please specify the nature of the payments)

TOTAL .

15. What is the price of the vehicle, referred to in the preceding questions, on cash down basis ?
16. What is the finance charge on a hire-purchase Contract in terms of annual rate ?
- (i) One year :
- (ii) Two years :
- (iii) Over 2 Years :
17. Please state whether any personal guarantees are demanded other than the security of the vehicle which is the subject matter of the hire-purchase contract ; if so, the form of the document, the description of the assets which are lodged as security may be indicated.
18. (i) Please state your experience regarding repayment of the hire-purchase instalments by transport operators and others.
- (ii) Please state the average quantum of monthly collection as a percentage of the average quantum of monthly demand inclusive of the arrears.
- (iii) Do you extend the repayment period in a significant number of cases, and if so, for what periods ?
19. (a) Please state the number of vehicles repossessed for default in payment and the number of vehicles against which payments are outstanding at the end of the following years :
- 1962
- 1963
- 1964
- 1965

- (b) Please state the total amount of profit or loss incurred on the resale of the vehicles repossessed during the above period.
20. Please state in detail the problems and difficulties you encounter in your business, such as —
- (a) Repossession of vehicles in cases of default by the hirer.
 - (b) Instances of litigation involving civil or criminal trespass.
 - (c) Time lag involved in getting possession of the vehicle and legal transfer of ownership in your name.
 - (d) Payment of sales tax for hire-purchase transactions.
 - (e) Payment of arrears of vehicle tax and commercial taxes on the vehicles repossessed.
 - (f) Transfer of ownership of vehicles.
 - (g) Frauds perpetrated by hirers by forging of Registration Certificates etc.
 - (h) Any others.
- *21. What is the percentage of your 'bad debts' to your
- (a) advances
 - (b) total profits for the years 1962-65.
- *22. Please state your gross expenses as a percentage of your gross profits and as a percentage of your turnover.
- *23. Please state your net profit as a percentage of your gross turnover.
- (i) Before deduction of taxes ;
 - (ii) After deduction of taxes ;
24. What are your views regarding expansion of the hire-purchase business during the next five years ?
- (a) In general.
 - (b) By your Firm or Company, in particular.

25. What are the facilities which you require and which you think are necessary to accelerate the healthy expansion of the hire-purchase business leading to growth of the Road Transport Industry to fulfil the Five-Year Plan targets ?

*Please furnish copies of your Balance Sheet and Profit & Loss Account for the years 1962 to 1965.

ADDITIONAL QUESTIONS FOR THE ASSOCIATIONS OF HIRE PURCHASE FINANCIERS

PART B

1. Name of the Association.
2. Year of Establishment.
3. Number of members affiliated to the Association.

Year	Companies	Firms	Corporations	Indi- vidu- als	Total
In the year of inception (specify 1965)					

4. Please specify the area which your association represents (whether it is State or part thereof or a group of States).
5. How many hire purchase financiers, to your knowledge, are these in your area of operation, who are outside the Association (give the position as on 30-12-1965)?

Year	Company	Firms	Corporations	Indivi- duals	Total
1965					

6. What is the volume of transactions in Commercial Motor Vehicles by these units in 1964-65 ?

7. Has your Associations drawn up detailed rules for the grant of financial assistance to the units in transport industry ? If so, a copy of the same may be furnished.
8. The Association may also kindly furnish consolidated information in respect of questions “(4) to (25)” in Part A.

ANNEXURE IV
STUDY GROUP ON ROAD TRANSPORT FINANCING
QUESTIONNAIRE FOR BANKING COMPANIES

1. What is the extent of your advances to the road transport industry? Please furnish data in the following proforma:—

Year ending 31st December	To Transport Operators	To Dealers in Road Trans- port who are not operators	To Hire pur- chase financiers	Total
1	2	3	4	5

(Rs. in Lakhs)

1962
 1963
 1964
 1965

Kindly indicate separately under 2-5 the limits sanctioned and the amounts outstanding at the end of the year.

A. Advance to Transport Operators/Dealers in Transport Vehicles

2. What are the terms and conditions under which your bank lends to the Road Transport Industry? Please give information on the following points :
- (a) the nature of facilities granted whether demand loans, cash credits or short, medium or long term advances.

- (b) the rates of interest.
 - (c) description of securities against which advances are made.
 - (d) nature of charge on securities whether pledge, hypothecation or mortgage etc.
 - (e) are advances generally granted against hypothecation of motor vehicles plying on the road.
 - (f) whether you examine the repaying capacity of the borrowers and if so, in what manner?
 - (g) Do you advance to individual operators, who are showing consistent losses?
 - (h) in case of advances against transport vehicles :
 - (i) whether on new vehicles
 - (ii) whether on used vehicles also, if so, please specify the maximum age of the vehicle?
 - (iii) in whose name are the relative insurance policies issued and in whose possession do they remain?
 - (i) Have the borrowers been regular in the repayment of the loans?
 - (j) Please state purpose for which loans are granted, whether for the purchase of new vehicle or working capital or other capital assets.
 - (k) what difficulties are experienced by the Bank in realising such advances?
3. What are your comments on the following points relating to financing of units in the transport industry?
- (a) whether advances should be restricted to parties having a minimum number of vehicles (if so what is the minimum number)?

- (b) does your Bank show preference in the advance of loans to any particular class of transport, whether corporate bodies, partnership or individuals or cooperatives ? Give reasons for such preference.
 - (c) What, in your opinion, should be the minimum number of vehicles to make the unit a viable one, for economic operation and prompt repayment of loans ?
 - (d) Do you consider that only such units should be financed as have some prescribed standards of service such as fixed freight rates based on mileage, godown facilities and authority to ply on regular routes against permits ?
- 4.(a) What is the order of priority given to Road Transport Industry as compared to other industries ?
- (b) What are your views regarding the advisability of banks providing finance to the road transport industry ?
5. Given the importance of this industry in our economy and the larger finance required by it, what measures would you suggest for augmenting the flow of finance to this industry ? What, in your view, are the major difficulties, legal, procedural and others—which discourage banks from undertaking this business ? Could those difficulties be overcome by amendment to the existing laws ?
- B. *Advances to Companies engaged in Hire Purchase Bus.*
6. In case of advances to Finance Companies, engaged in the hire-purchase business relating to transport vehicles, please give the following information :—

- (a) What documents do you take as security for advances to hire-purchase companies?
- (i) Hire Purchase Agreements
 - (ii) Demand Promissory Notes
 - (iii) Hire purchase hundies for monthly instalments.

Do the hirers pay directly to you the monthly instalments on the due dates and retire the hundies. If not, do the hire purchase companies retire the hundies.

- (b) Do the Finance Companies generally insist on the transport operators or hirers making an initial payment and if so, what percentage of the cost of the vehicle?
- (c) Please state whether you accept guarantee policies from insurance companies for advances to hire purchase finance companies. Do you consider acceptance of such policies by Insurance Companies a satisfactory way of securing the advance? Have you had any occasion to demand from any Insurance Company on such-guarantee policies for default of any hire purchase company? If so, was your claim settled satisfactorily?

7. Do you consider advances to the hire purchase companies have the same priority as advances for other trade or commerce? If not, please state your reasons.
8. What are your suggestions for inducing the banks to increase their advances to road transport industry, and what incentives you suggest are desirable to achieve this end?

9. Do you like to suggest any amendments or changes in the Motor Vehicles Act or any other Law governing any special aspect of financing of transport vehicles for ensuring greater security to the Bank?
10. Please state how much out of the total loans sanctioned by you to the hire)-purchase companies is covered by guarantee policies of Insurance Companies.
11. Please state what is the margin which the Banks keep against deposit of hire purchase documents for such advances.
12. What is your experience in regard to the repayment of the loans advanced by you to (a) transport operators (b) motor vehicle dealers. (c) hire purchase financiers? Had the period of repayment to be extended in a significant number of cases? Have you had cases of default and has there been any occasion for you to write off as bad debts?

ANNEXURE V

STUDY GROUP ON ROAD TRANSPORT FINANCING

(QUESTIONNAIRE FOR AUTOMOBILE MANUFACTURERS)

1. Name of the manufacturer :
2. Address :
3. Name and Type of vehicles manufactured.
4. Please indicate, in the table below the number of 'commercial vehicles' manufactured during the years :

Year	Diesel	Petrol	Total
1962			
1963			
1964			
1965			

5. Please state the number of commercial vehicles sold during the same period in the following table :—

(a)

Year	Commercial vehicles sold		
	Diesel	Petrol	Total
1962			
1963			
1964			
1965			

(b)

Year	No. of vehicles sold to undertakings in				
	Central Government	State Govt.	State Road Transport Undertakings	Quasi-Govt. Organisations	Private—
1962					
1963					
1964					
1965					

6. Please indicate the total number of commercial vehicles sold by your dealers against (a) cash and (b) hire-purchase during 1962 to 1965. (The dealers may be consulted, if necessary before furnishing the information).

Year	No. of vehicles sold for cash	No. of vehicles sold under Hire-purchase terms
1962		
1963		
1964		
1965		

In respect of (b) above, break up as under may also be supplied :—

- (i) through State Financial Corporations
- (ii) through commercial banks
- (iii) through hire-purchase financiers

7. Do you have any financial interest in any hire-purchase finance company, either as a subsidiary or associate company? If so, please also answer the separate questionnaire enclosed for hire-purchase finance companies.

8. What are your targets of production of commercial vehicles for the IV Plan period? (Kindly indicate the level of production for each year of IV Plan period).

9 In view of the present fiscal and monetary policies of Union Government do you think that the Fourth Plan targets for commercial vehicles are likely to be fulfilled ? If not, what do you think, will be the short-fall in production ?

10. In your opinion, is there adequate saving in the road transport industry, for the purchase of all the vehicles that are proposed to be manufactured under the IV Plan period ? If not, what are your suggestions for augmentation of finances by way of :

- (a) reduction of taxes at the Centre or State levels
- (b) by earmarking a share of the funds with the State Financial Corporations.
- (c) liberalising the credit policy of the commercial banks to provide advances to road transport industry on the same priority, as other industries.

(d) liberalising the credit policy
to allow advances to hire-purchase financiers.

11. Do you have any other suggestions for increasing the resources of the road transport industry to absorb the targetted production of commercial vehicles during the IV Plan period ? Please state them in full detail.

ANNEXURE VI

STUDY GROUP ON ROAD TRANSPORT FINANCING

QUESTIONNAIRE FOR STATE FINANCIAL CORPORATIONS

1. Have the guide-lines which have been provided in the Report of the working Group on the study of financing of the Transport Industry by SFCs (June 1964—Chairman Shri B. Mukherje) enabled your Corporation to enlarge its financial assistance to the road transport industry ? If not, please state the practical difficulties experienced by you.
2. Please furnish the following information regarding the assistance made available by your Corporation to the transport industry since the SFCs Act was amended in 1962 to enable SFCs to do this business :

Applications received		Applications sanctioned		(Rs. in lakhs) Amount disbursed	
No.	Amount Rs.	No.	Amount Rs.	No.	Amount Rs.

3. What are the terms and conditions under which your Corporation lends to this industry? (*i.e.*, rate of interest charged, security required, period of loans etc.).
4. Do you provide financial assistance to individual transport operators or organised transport companies, both public & private, or to Cooperative Societies? Please state the extent of finance given to these different groups.

5. Please state your experience about repayment of such loans ?
6. Please state your experience in regard to the repayment of such loans advanced by you to transport operators, motor vehicle dealers and hire-purchase financiers. To what extent the loans have been repaid regularly? Has the period of repayment to be extended in a significant number of cases and if so for what periods? To what extent doubtful or bad debts have been experienced by your institution ?

ANNEXURE VII

STUDY GROUP ON ROAD TRANSPORT FINANCING

QUESTIONNAIRE FOR OPERATORS

1. How many vehicles do you own at the end of the year 1965 and how many were bought under Hire-Purchase system or otherwise?
2. Please state how your financial requirements for purchase of new vehicles and working capital are met by :
 - (i) Generation of own funds
 - (ii) Borrowing from Governmental Agency, such as State Financial Corporation.
 - (iii) Borrowing from Banks
 - (iv) A Hire-Purchase Companies
 - (v) Any other source (Please specify).
3. If vehicles are bought under hire-purchase system, please state :
 - (i) Initial payment made by you.
 - (ii) Total of monthly instalments including hire-purchase finance charges
 - (iii) Any fees or service charges
 - (iv) Any other payments (please specify the nature of payments).

TOTAL

- 4, What is your experience of getting a loan from a Bank?
- (i) for purchasing
 - (a) new vehicle—Please state the margin demanded on the cost price of the new vehicle including body.
 - (b) used vehicle—Please state the margin demanded on the market price of the used vehicle.
 - (ii) For working capital needs
 - (iii) Please state the rate of interest charged and the mode of repayment of the loan, viz., monthly, quarterly, half-yearly or annually.
 - (iv) Do you approach an insurance company for help in guaranteeing repayment to the Bank? if so, what is the premium charged by the insurance company as a percentage on the amount of guarantee?
 - (v) What security other than the vehicle is demanded? Are you able to provide it?
 - (vi) What other conditions, if any, does the insurance company impose for insurance of Guarantee Policy?
5. What is your experience of getting loans from the State Financial Corporation?
- (i) Are the rules simple and capable of being fulfilled by a majority of operators, in your opinion?
 - (ii) What is the rate of interest charged and mode of repayment ?

- (iii) Are loans sanctioned only for purchase of new vehicles or also for working capital and/or construction of warehouses, godowns, etc. ?
 - (iv) What is the usual time taken for sanctioning a loan ?
6. What are your views about the Government making available at least partly the required finance to the road transport industry by setting up either ;
- (i) a Central Road Transport Financial Corporation
 - (ii) a State Road Transport Financial Corporation
 - (iii) any other Governmental agency.
 - (iv) or should the loans be advanced through the existing State Financial Corporations ? Do you suggest that a certain percentage of the total funds available with them be earmarked for the road transport industry.
7. What is your experience of obtaining finance from the Finance or Hire-Purchase Companies ?
- (i) Is the amount available freely ?
 - (ii) Is it for the purchase of a new vehicle ?
 - (iii) Is it for buying a second-hand vehicle also ?
 - (iv) Is it available for the working capital and/or other business needs ?
 - (v) What percentage of the total price of a vehicle is usually financed ?

- (vi) What is the rate of hire-purchase charges in terms of annual rate and the mode of repayment ?
 - (vii) Is the hire-purchase charge reasonable ?
8. What is your opinion about the nature of the hire-purchase agreement which is usually executed ? What other document or documents are required to be signed in addition to this :
- (i) are these worded as to be fair both to the hirer and the financier ?
 - (ii) is it one-sided, if so, in what respects ?
 - (iii) what changes would you suggest in such clauses as you allege are one-sided, to make them fairer ?
9. (i) Are you given a copy of the hire-purchase agreement executed by you ?
- (ii) Do you receive statement of accounts from the finance companies when asked for ?
 - (iii) What charges other than hire-purchase charges are payable ?
 - (iv) Are these charges necessary, reasonable or excessive ?
10. In the event of your selling the vehicle before the payment of last hire-money due, are you required to pay the full amount due or is any proportionate relief in hire-charges given to you ? What is your own experience ? Are the Financial Companies in general reasonable in such cases ?

11. How is a dispute, if any, settled between the hirer and the Finance Company ? Is it through a civil suit or by arbitration ? Are you satisfied with the present provision for a sole-arbitrator or do you suggest it should be by a panel or three arbitrators in case of non-agreement about a sole-arbitrator.
12. It has been suggested that the name of the sole arbitrator is generally filled afterwards in the agreement. What is your view and what do you suggest to safeguard your interest ?
13. What precautions would you suggest, either by way of amendment of the Motor Vehicles Act or otherwise so that a vehicle already on hire-purchase may not be financed by another finance company either on misrepresentation or through ignorance by the second finance company ? What is your view on the frequency of occurrence of such abuses ?
14. What are your views about the liability of Sales Tax on the financing charges in the case of purchase of a new vehicle and while financing a second-hand vehicle ?
15. Is it your experience that the right of the financier to repossess the vehicle in the event of non-payment of hire money has worked unfairly and harshly ?
16. What is your view about the charging of overdue penal interest in the case of late payment of monthly hire-money ? Is it reasonable or should it not be charged ? If you suggest that it should not be charged, how would you ensure that the

monthly instalments are paid in time ? Are you in favour of having some period of grace after which only the overdue interest should be charged ?

17. Are you opposed to the insurance of your vehicle being done by the finance company or with the insurer of his choice ? If so, why ? Do you think that the settlement of a claim is expedited or otherwise delayed, if it has to be negotiated on your behalf by the finance Company ?

ANNEXURE VIII

STATEMENT SHOWING THE NAMES OF INDIVIDUALS/ COMPANIES/ASSOCIATIONS/ASSOCIATIONS ETC. * WHO SENT REPLIES TO THE STUDY GROUP'S QUESTIONNAIRES

Banking Companies :

The Karnataka Bank
The Bank of Bihar
The Andhra Bank
The Bank of India Limited
Allahabad Bank
State Bank of Travancore
State Bank of Saurashtra
State Bank of Bikaner & Jaipur
New Bank of India
The Punjab National Bank
Canara Bank
The Indian Overseas Bank
The Hindustan Commercial Bank
State Bank of Patiala

Hire Purchase Companies :

The Rupa Finance Private Limited (Ambala)
Bantia Commercial Corporation (Secunderabad)
The Kenya Land & Finance (P) Ltd., Jullundur
Sangli Brothers Pvt. Ltd., Indore.
The Sahayog Finance & Insurance Corporation, Hyderabad.
Sundaram Finance Limited, Madras
Chandigarh Financiers (P) Ltd.
Motor Finance Company, Secunderabad
Indo-African Finance Corporation
Simpson & General Finance Company, Madras
The Instalment Supply Private Ltd., New Delhi
The Motor & General Finance Ltd., New Delhi.
Upper India Hire Purchase Companies Associations, New Delhi.

*NOTE.—In addition to these parties, replies were also received from all State Governments and Union Administrations.

State Financial Corporations :

Andhra Pradesh State Financial Corporation
 Kerala Financial Corporation
 Jammu & Kashmir State Financial Corporation
 Bihar State Financial Corporation
 Maharashtra State Financial Corporation
 West Bengal Financial Corporation
 Punjab Financial Corporation
 Gujarat State Financial Corporation
 Rajasthan Financial Corporation

Transport Operators :

ANDHRA PRADESH : Shri Venson Transports, Chittoor
 The Chittoor Conveyance Corporation,
 Chittoor
 Sri C. P. Sarathy Mudaliar, C. M. T. Service
 Chittoor
 M/S M. G. Brothers, Kurnool
 The Kurnool Dt. Cooperative Motor
 Transport
 Srisailam Devasthanam Transport
 R. Kameswara Rao, Vijayawada
 Jamal Ahmad, Vijayawada
 Venkateswara Rao, Suryapet
 M. V. Ramdass, Vizianagaram
 M/S S. R. M. T. (Pvt) Ltd., Visakhapat-
 nam
 M/S V. C. M. T. S. Ltd. Visakhapatnam

ASSAM : P. Sharma, Gauhati

BIHAR : Patna Zilla Truck Owners Association
 Bihar Pradesh Truck Syndicate

MAHARASHTRA : Baroda Goods Transport, Service
 Shroff Goods Carriage, Amravati
 Kohinoor Transport Company, Baroda
 Mangatram Bros. Bombay-9
 Gondol Taluka Goods Transport, Assam
 M. S. Dikshit & Company, Poona
 Janta Transport Service, Baroda

Federation of Bombay Motor Transport Operators

Shri Jivanlal Thakar, Baroda

Indian Roads & Transport Development Association, Bombay

GUJARAT :

Dayal das Lalchand Motwari, Ahmedabad
Parshottam Godalbbhai Patel, East Bhatwara

Bidiwalla Bros. & Co., Panchvati

Panjiram Shivram, Sole village

Rajavier Transport Company, Rajkot

Malavia Transport Company, Rajkot

Khodiai Transport Company, Rajkot

Mewa Transport Company, Rajkot

Bhawnagar Motor Sangh, Gujarat

Ahmedabad Motor Goods Transport Agents Association, Ahmedabad

Gujarati Vepari Mahamandali

Ahmedabad Clearing & Casting Contractors Association, Ahmedabad

KERALA :

Palghat Central Transport

Kerala Road Lines, Palai

Devasia, Kotayam

Usha Lorry Service, Ernakulam

MYSORE :

K. S. Abraham, Chandrika Motors

Gajanana Motor Transport, Shimoga

M. P. :

Saugar Truck Owners Association, M. P.

MADRAS :

Sri Ram Popular Service Private Ltd.

S. R. V. S. Ltd. Kumbakonam

Swami Motor Transport, Tanjore

N. A. Dt. Motor Co-operative Society, Vellore

L. G. Balakrishnan, Karur

New Suraj Transport Company Limited

PUNJAB :

Ambala Bros. Syndicate P. Ltd.

Pepsu Motor Federation, Patiala

Indra Motors (P) Ltd., Rupa

- U. P. :** J. N. Pathak, Shahjahanpur
S. Jogindar Singh & Bros.
Yatayat Paryotan Vikas Sahakari Sangh Ltd.,
Munikirchi
- WEST BENGAL :** Hijli Co-operative Transport Society Ltd.
Midnapore
Road Transport Corporation, Calcutta
- NEW DELHI :** Capital Bus Service (P) Ltd., New Delhi
- MYSORE :** Shankar Transport Company (P) Ltd.,
Mangalore
Manjunatha Motor Service (P) Ltd.
Doddanavar Bros.
A. M. Bellad, Belgaum
Subash, Bidar
Gurbasappa, Bidar
Vijay Kumar, Bihar
Shiva Sharnappa, Bidar
Nagappa, Bihar
Venshetty Sirkar, Bidar
Pasha Sahib, Bidar
Ramesh, Bidar
Appa Rao, Bidar
Laxman Parshad, Bidar
Suresh Beta, Bidar
Bharat Hibbare, Bidar
Anjenaya Motor Service
Khabel Motor Service
Abid Motor Transports
M. G. Automobiles
Sivananda, Mysore
The General Motor Service, Mysore
Satyanarayania Setty, Mysore
Maruthi Motor Service, Mysore
Rajalakshmi Motor Service, Mysore
Modern Motor Service, Mysore
The Popular Motor Service
P. V. Motor Service, South Canara

Canara Public Conveyance Co. Ltd.
The United Trading Corporation, South
Canara

Canam Motor Transport Company

Shankar Vittol Motor Company

Shetty Motor Service, Mangalore

Ballal Motor Service, Modabidri

H. T. Company (Private) Limited

N. S. Pai, Belgaum

M. K. Ghongadi, Belgaum

M. B. Wali, Belgaum

D. L. Karrari, Belgaum

Mujawar & Company, Belgaum

Gidirkar Lal Damodar Das Rathi

Savitri Venkatanagiah

Coorg & Mysore Coffee Company, Munira-
bad

Salarjung Sugar Mills Ltd.

Sharnappa Patel, Raichur

Udaya Motor Transport, Shimoga

United Roadways, Shimoga

Shankar Transport, Koppa-Kadur

V. C. Akki, Ikol

I. T. Surpur, Bijapur

Golshetty, Mudhol

V. R. Pusalkar, Jam Khandi

Patwardhan, Jam Khandi

A. C. Pendari, Jam Khandi

B. A. Pendari, Jam Khandi

V. F. Meti, Bedami,

NOTE.—In addition to these operators, replies were received from operators in other regions in Mysore State whose addresses are not clear.

ANNEXURE IX

NAMES OF PERSONS WHO TENDERED ORAL EVIDENCE BEFORE THE GROUP

- I. Representatives of State Governments :
1. Shri A. M. Amin, Director of Transport, Gujarat
 2. ,, M. S. Palnitkar, Director of Transport, Maharashtra.
 3. ,, A. V. Vaz, Director of Transport, Goa Daman & Diu.
 4. ,, G. L. Balakrishna Reddy, Secretary, State Transport Authority, Hyderabad.
 5. ,, P. R. Subramanian, Executive Engineer, State Transport Authority, Madras.
 6. ,, G. Adirajaiah, Transport Commissioner, Mysore.
 7. ,, T. Anantha Shankara Iyer, Deputy Transport Commissioner, Kerala.
 8. ,, P. M. Samanta Ray, Deputy Transport Commissioner, Orissa.
 9. ,, J. C. Ghosh, Chairman, Orissa State Road Transport Corporation.
 10. ,, S. N. Misra, General Manager, Orissa Road Transport Company Limited, Berhampur (Ganjam).
 11. ,, Atthar Ali Khan, Assistant Secretary, Orissa State Commercial Transport Corporation Limited, Cuttack.
 12. ,, Kranti Kumar, Officer on Special Duty, Transport Department, Assam.
 13. ,, J. C. Nampui, Transport Commissioner, Assam and Joint Secretary, Government of Assam, Transport Department.
 14. ,, C. S. Kumar, General Manager, Bihar State Road Transport Corporation.

15. Shri J. Ram, Chief Accounts Officer, Bihar State Road Transport Corporation.
16. ,, B. Prasad, Chief of Operations, Bihar State Road Transport Corporation.

II. Others

1. Shri Durgananda R. Sawardekar Chairman, Goa Transport Limited, Marmugao.
2. Shri K. M. Paul . . . Gujarat Chamber of Commerce.
3. Shri J. V. Patel . . . Representing M/s Jahangir Automobiles, Surat.
4. Shri R. A. Murdeshwar . . . Managing Director, Commercial Credit Corporation (1943) P. Ltd.
5. Shri S. Rama Iyer . . . Director, Commercial Credit Corporation (1943) P. Ltd.
6. Shri V. V. Deora . . . M/s General Trading Company, 207, Ahmedabad.
7. Shri G. F. Nanji . . . Amco Investment, Bombay.
8. Shri T. R. Sivaraman . . . Chief Officer (Operations), State Bank of India.
9. Shri P. S. Achrekar . . . Dena Bank Limited, Officer. in charge (Advocate).
10. Shri B. V. Sonalker . . . Bank of India Limited, Asstt. Manager, Indian Branches.
11. Shri Y. V. Sivaramakrishnayya . Bank of Baroda Limited, Bombay.
12. Shri Ser Shah . . . Indian Banks' Association.
13. Shri H. P. Sanghvi . . . Indian Roads and Transport Development Association Limited.
14. Shri J. B. Patil . . . Ghatge & Patil (Transport) Limited, Kolhapur.

15. Shri P. P. Paliarli Ghatge & Patil (Transports) Limited, Kolhapur.
16. Shri D. V. Ghoora Federation of Bombay Motor Transport Operators.
17. Shri Chander Prakash Khattar Federation of Bombay Motor Transport Operators.
18. Shri V. N. Bodas Tata Engineering & Locomotive Company Limited.
19. Shri N. Balkrishna All India Automobile Manufacturers, Association.
20. Shri V. P. Medhekar Tata Engineering & Locomotive Co., Limited.
21. Shri D. P. Nayaranan Tata Engineering & Locomotive Co., Limited.
22. Shri G. K. Arvinda Tata Engineering & Locomotive Co., Limited.
23. Shri F. H. Coyajee Premier Automobiles.
24. Shri Raghavan Premier Automobiles.
25. Shri B. Rao B. Mankad Zonal Manager, Hindustan Motors.
26. Shri Ayatha Raman Vasudeva Lorry Service, Bangalore and Mysore State Lorry Owner' Association.
27. Shri R. Krishnan President, Bangalore District Taxi Drivers' Co-operative Society Limited, Bangalore.
28. Shri Acharya K. Ramalingham Proprietor, Bangalore, Tirupathi Express, Nagara-thpet, Bangalore-2.
29. Shri A. K. Bharadwaj S. R. M. S. Tourist Service, Bangalore.
30. Shri S. C. V. Gopal General Secretary, Tamilnad Lorry Owners' Federation.
31. Shri Kari Varadaswamy Tamilnad Lorry Owners' Association.
32. Shri L. S. Raghavan Sri Palaniappa Transport, Madras.

33. Shri L. S. Gopalan Commercial Goods Transport, Madras.
34. Shri V. S. Raghavan } . . . Sundaram Finance Limited,
35. Shri P. T. Krishnan } . . . Madras.
36. Shri B. Puttraj Urs . . . Secretary, Mysore State Finance Corporation, Bangalore.
37. Shri Sree Ramamurthy . . . Andhra Pradesh, State Financial Corporation.
38. Shri G. Govardhan . . . Madras Industrial Investment Corporation, Madras.
39. Shri Parasimul Chordia . . . Chordia General Finance Corporation, Madras.
40. Shri Mootha, B. W. . . . Mootha Finance Corporation, Madras.
41. Shri K. Hariharan Chairman, Motor Vehicles and Allied Industries Association.
42. Shri E. N. Krishnamoorthy . . Indian Overseas Bank, Madras.
43. Shri B. Krishnamoorthy . . . Regional Manager, Andhra Bank Limited, Madras.
44. Shri A. I. Abraham Cash Credits (Private) Limited, Kottayam (Kerala).
45. Shri P. S. Bantia Bantia Commercial Corporation, Secunderabad.
46. Shri Prakash Chand Chordia }
47. Srim ul Hirachand . . . } Financier, Madras.
48. Shri N. Ratanchand Bohra . . . Financier, Madras.
49. Shri C. K. Kurian Padinjarakkara Bankers, Kottayam (Kerala).
50. Shri Sunil Kumar Bhandari . . Motor Finance Company, Secunderabad.
51. Shri N. C. Jain Financier, Madras.
52. Shri A. S. Krishnan Secretary, Southern Roadways, Madurai.

53. Shri L. G. Meenakshisundaram } Madras Bangalore Trans-
54. Shri E. K. Balakrishnan . } port limited, Madras.
55. Shri S. Govindarajan and 3 Salem District Lorry Owners' others Association.
56. Shri Srihari President, North Arcot Bus Operators' Association, Vellore.
57. Shri Sivaprakasam . . . Co-operative Tourism & Transport Society Limited, Bangalore.
58. Shri O. R. Srinivasan . . Secretary, Indian Bank Limited.
59. Shri Sri P. R. Venkatachari . Sri Raghava Vilas Bus Service, Trivellore (Chingleput District).
60. Shri J. L. Sawhney . . . Lakshmi Commercial Bank Limited.
61. Shri B. L. Khanna . . . New Bank of India Limited.
62. Shri Autar Singh Raggi . . Punjab & Sind Bank Limited.
63. Shri Ram Nath Soni. . . Rama Bus Service (Private) Limited.
64. Shri Sarwan Singh . . . General-Secretary, Delhi Provincial Motor Transport Union Congress.
65. Shri Sarnagat Singh . . . General-Secretary, Delhi Provincial Motor Transport Union Congress.
66. Shri H. S. Chadha . . . Delhi Transporters' Association, Delhi.
67. Shri K. C. Saxena . . . Delhi Transporters' Association, Delhi.
68. Shri R. R. Gupta . . . Delhi State Co-operative Bank Limited, Delhi.
69. Shri S. L. Seluja . . . Reliable Finance Corporation (Private) Limited, New Delhi.
70. Shri M. L. Jain . . . Jain Finance Company, New Delhi.

71. Shri Ved Prakash Gupta . . . Automobile & General Finance (Private) Limited, Agra.
72. Shri R. N. Gupta . . . Goodwill India Limited, New Delhi.
73. Shri Krishan Mohan . . . Motor & General Finance Limited, New Delhi.
74. Shri R. R. Mehta . . . Delhi Instalment Finance & Investment Private Limited, New Delhi.
75. Shri B. N. Roy Chowdhury . . . Sales Manager, Patnaik & Co. Ltd., Cuttack (Dodge Dealers).
76. Shri Nicholas-Roy, MLA . . . Representing Coal and Transport permit Holders' Association as well as Assam Chamber of Inter-State Carriers.
77. Shri B. T. Thakur, Chairman } Hindustan Motor Corporation Ltd., Hire Purchase Department, Calcutta.
78. Shri P. C. Modi, Manager } }
79. Shri R. P. Patodia, President . . . Hire Purchase Association, Calcutta.
80. Shri S. M. Agrawal, Manager . . . Laxmi Finance Corporation, Calcutta.
81. Shri N. L. Todi, Director . . . Ganeshnarayan Brijlal (P) Ltd., Calcutta.
82. Shri Kalyan Bhadra . . . General Secretary, Bengal Taxi Association and also General Secretary, West Bengal Transport Operators' Federation, Calcutta.
83. Shri B. K. Dev . . . Bengal Taxi Association, Calcutta.
84. Shri B. C. Basu . . . }
85. Shri Sarwan Singh, Secretary } Calcutta Goods Transport Association, Calcutta.
86. Shri I. P. Goenka, Treasurer } }
87. Shri R. S. Banerji, Member } }
88. Shri P. D. Agrawal, Member } }
89. Shri A. Sinkaran, General Sales Manager . . . Associated Indian Enterprises (P) Ltd., Calcutta (Leyland Dealers).

90. Shri B. P. Poddar
91. Shri R. B. Shah General Manager, United
Commercial Bank,
Calcutta.
92. Shri M. Sen Sarma Chief Manager, United
Bank of India, Calcutta.
93. Shri B. N. Kapur Manager, Allahabad Bank-
Ltd., Calcutta.
94. Shri B. R. Das Gupta of the West Bengal Financial
Corporation.

APPENDIX X

MINUTES OF THE SEVENTH MEETING OF THE STUDY GROUP ON ROAD TRANSPORT FINANCING HELD AT BOMBAY ON 10-1-1967.

Present:

Shri R. G. Saraiya, Chairman.

Shri R. K. Seshadri

Shri Kundan Lal

Shri Santhanam

Shri Ved Parkash

Shri A. S. Bhatnagar, Member-Convenor.

It was explained that the views of the Study Group had been solicited regarding the provisions in the Hire Purchase Bill prepared by the Law Commission and as redrafted by the Ministry of Law, with particular reference to (a) the repercussions of enacting the bill in the proposed form and (b) the desirability of including in the bill certain regulatory provisions regarding the Licensing and control of hire-purchase financiers limitation of the rates of interest charged by them to a reasonable ceiling and other allied matters.

2. It is now more than five years since the Law Commission's report on hire-purchase finance was submitted to Government. During this period, there have been several major changes and developments, which in our opinion cannot be ignored in taking any decision on the report or the bill at this stage. The volume of hire-purchase finance business, according to all reports, has been diminished to some extent recently, as a result of the failure of certain companies in the Delhi region. Established hire-purchase finance companies, which are in a position to assist the road transport industry, are not now able to obtain financial assistance or refinance from the commercial banking system, to the extent necessary, because of credit restrictions generally and the limitations on the financing of trading activities in particular. Hire-purchase finance business, although it has grown to some extent in our country in the last few years (and will have to be organised and developed to a much greater extent) has not yet been recognised as a separate and specialised business, which will have to be assisted independently on its own merits, irrespective of any decisions, which may be taken as regards the financing of trade as it is ordinarily understood.

3. In the meantime, the Reserve Bank has been empowered to regulate, for certain purposes, the business which is carried on by hire-purchase finance companies and by the larger partnership firms with a subscribed capital of more than one lakh of rupees each. Certain directions applicable to the companies carrying on hire-purchase business, requiring them to refrain from accepting deposits from the public for periods of less than six months, to maintain liquid assets to extent of ten per cent of the deposits and to collect the outstanding hire-purchase debts within a prescribed period, have been issued by the Reserve Bank, in exercise of the powers conferred on the Bank. We understand that these directions have been issued with a view to ensuring that hire-purchase finance business will be conducted in future as an organised and well-conducted business, with assistance, if possible, from the general public in the form of deposits, from the commercial banking system, and ultimately from official agencies like the Reserve Bank and the Industrial Development Bank, if necessary.

4. Against the back ground of these changes which have taken place, since the Law Commission's report was submitted to Government, we have considered the provisions of the Hire Purchase Bill, with particular reference to the following points :

- (i) Can the enactment of the bill at present be considered to be opportune or necessary?
- (ii) assuming that the bill is enacted, should its provisions be applicable immediately to motor vehicles or should they be made applicable to motor vehicles only by notification at a latter stage ?
- (iii) should the bill, as drafted by the Law Commission, be amplified through the inclusion of a new chapter containing provisions regarding the licensing, inspection and regulation of hire-purchase financiers, control of their lending rates and other allied matters?
- (iv) should the assumption on which the bill has been drafted by the Law Commission, namely, that it would be appropriate if "the owner" under a hire-purchase transaction passes a clear title to the hirer at the last stage, instead of on the date of the hire-purchase agreement, be reconsidered?
- (v) will it be in the larger public interest if the owner's right of repossession is allowed to lapse when the statutory proportion of the hire-purchase price has been paid and if so what should be this proportion?
- (vi) in respect of any unresolved disputes between owners and hirers, particularly after the statutory proportion has been paid, can an expeditious machinery for the settlement of these disputes be evolved, in the interests of both parties and so as to facilitate the rapid growth of hire purchase business?

We deal with these questions in the paragraphs which follow.

5. We think that on the whole, the enactment of a separate Hire Purchase Bill codifying the law on this subject will facilitate the growth of this business on organised and well conducted lines. Among its other clauses, the bill, as drafted, includes provisions to the effect that hire-purchase contracts should be in writing, should contain all the necessary details and particulars and should distinguish clearly between the consideration for an agreement which is paid in cash and the consideration which is in kind and that the owner should be able to pass a clear and valid title to merchantable goods of quality. The bill also provides for the hirer's right to acquire the goods prematurely with a rebate in his favour and for the penalties for the premature termination of a hire-purchase contract. It will enable the hirer to assign his rights to other parties on easy and reasonable conditions, will require him to take good care of the property which is the subject matter of the hire-purchase agreement (and what is particularly important in regard to motor vehicles), it will make the hirer responsible for informing the owner about the location or whereabouts of the property. According to the provisions of the bill, the owner will be required to furnish to the hirer full details, on demand, relating to any agreement or to the performance of that agreement. We think that these provisions, if enacted and brought into force, will enhance the security available to both owners and hirers under a hire-purchase agreement, will improve the status of book debts supported by such agreements, as eligible securities against which finance or refinance may be granted, and will thereby facilitate the recognition of hire-purchase transactions, in respect of certain essential goods, as a legitimate and desirable activity, which can be assisted by the organised commercial banking system or even by official agencies like the Reserve Bank or the Industrial Development Bank.

6. In view of the fact that the relatively unorganised and uncontrolled hire-Purchase financiers like the smaller partnership firms and individuals have ceased or may in future cease to transact hire-purchase finance business following the failures in and around Delhi (and assuming that finance to the extent to which it is necessary for assisting the automobile or road transport industry, can be provided only if hire-purchase business is organised and hire-purchase financiers are in a position to raise or borrow resources from outside sources) the enactment of the proposed Hire Purchase Bill will not in our view, lead to any significant drying up or diminution of the resources now available for this business and will on the whole help the automobile and road transport industries.

7. We have, however, one minor modification to suggest as regards clause 21-3(b) of the Bill as drafted by the Law Commission. This clause provides that no security given by the hirer or by his surety in respect of any money payable under the Hire Purchase Agreement, shall be enforceable as against the hirer or the surety, if there is any failure

on the part of the owner to supply any particulars or information, as prescribed by the Bill. We are of the opinion that any unqualified provision in these terms diminishing or eliminating the value of a security available under a hire purchase agreement will be detrimental to the interests of banks and other financing institutions lending money against book debts, supported by such agreements. We understand that the question of modifying this provision suitably, in order to secure the interest of banks and other financing institutions and to facilitate the grant of assistance by them to hire-purchasers, has already been brought to the notice of Government. We suggest that suitable modifications should be made in this clause.

8. The considerations mentioned in the foregoing paragraph are applicable in the case of motor vehicles as in the case of other commodities; and perhaps, they are even more directly and immediately relevant so far as the automobile and road transport industries are concerned. In view of this, and having regard to the fact that the volume of hire-purchase financing business in our country at present in respect of goods other than motor vehicles, is hardly such as to justify any independent legislation, if motor vehicles are not intended to be covered, we are of the view that the Hire Purchase Bill should be applicable, from the very beginning, to or in relation to motor vehicles.

9. We have considered the arguments advanced by the Ministry of Finance, as reported to us, against the introduction in the bill of a separate new chapter, relating to the licensing and control of hire-purchase financiers. We are inclined to agree that on the whole it may not be desirable or worthwhile to introduce into a bill (which is essentially intended to codify the civil law relating to contractual obligations as between various parties) regulatory provisions, which may be beyond the scope of the bill.

10. Hire-Purchase finance business in our country is conducted by incorporated companies, by registered and unregistered partnership firms and also by individuals. While we are convinced that in the long run, the business can grow, only if it is regulated, supervised and well-organised (and while there can be no escape from the fact that the volume of credit for financing hire-purchase transactions and the purposes for which hire-purchase credit may be available should also be determined and properly defined) we think that the Reserve Bank, which has already been granted some powers and authority for this purpose, will be the appropriate body to formulate and enforce any set of directions.

11. It is true that the Reserve Bank within the scope of the powers granted to it, cannot license or refuse to license a hire-purchase finance company or firm, before it starts business; and it is also true that the Reserve Bank cannot issue or enforce any directions at all in relation to the smaller partnership firms with a subscribed capital of Rs. 1 lakh or less or the individual hire-purchase financiers. These limitations in our view are not however, important. By providing for the better organisa-

tion of all the hire-purchase financiers in the corporate sector (and in due course all the larger firms transacting hire-purchase business) by inspecting their affairs and providing an incentive to them in the form of refinance through the commercial banking system or other agencies, the Reserve Bank may ultimately be able to influence the well-established hire-purchase financiers to standardise the terms and conditions on which their business is conducted and to bring down the prevailing rates of interest to reasonable levels. The relatively smaller hire-purchase financiers, who are or will continue to be beyond the scope of the Reserve Bank's control, may not, after sometime, be able to transact any significant volume of business, in competition with the organised hire-purchase financiers, to whom assistance from outside sources may be available. The supervision and control exercised by the Reserve Bank, will, therefore, go a long way towards improving the quality of hire-purchase finance business in our country and increasing the quantum of assistance provided through hire-purchase financiers to essential industries like the road transport industry.

12. As compared with a well-considered and flexible system of control, which the Reserve Bank is now in a position to enforce, any provision relating to licensing, inspection and control of interest rates and other charges, which may be included in the Hire-Purchase Bill, will necessarily be rigid, and, perhaps, also unsuited to the changing needs and circumstances of our economy from time to time. Interest rates or other charges once specified by law cannot, for example, be altered easily. The cost of a new control and enforcement machinery, at the Centre or in the States, may well turn out to be prohibitive. Alternatively, the proposed new provisions in the Hire-Purchase Bill may not be administered, if the necessary expenditure is not incurred, and may be evaded on a very large scale. In so far as individual hire-purchase financiers are concerned, the provisions which are proposed to be included in the separate new chapter in the bill may be challenged on the ground that they amount, in substance, to the control of money-lending, which is within the State field of legislation.

13. Having regard to these and other practical considerations, it is not in our opinion worthwhile for Government to think in terms of any direct or intensive control, administered by any Government agency. It is desirable that the Hire-Purchase Bill should be as it was conceived by the Law Commission, only an attempt to codify the civil law relating to hire-purchase transactions. The question of the control, supervision and regulation of hire-purchase finance should be left entirely to the Reserve Bank, acting in its discretion from time to time, as the Bank is in a position to enforce some degree of indirect control, which will be adequate and effective for all practical purposes.

14. We now turn to questions relating to the obligations of the hire-purchase financier to pass a valid title, the right of re-possession, and provision for the expeditious settlement of unresolved disputes as between

owners and hirers. These questions have not been specifically referred to us. But they are very important in the context of the proposals for the better and more effective organisation of hire-purchase finance business in our country and the grant of assistance to hire-purchase financiers by commercial banks or other outside agencies. Our observations in the earlier paragraphs regarding the utility of the Hire Purchase Bill, and the possibilities of assistance to hire-purchase financiers from commercial banks and other outside sources are subject to what we have to say regarding these other matters.

15. We shall deal first with the obligation on the part of the hire-purchase financiers to be able to pass a valid title. The normal position under the law is that at the time that an owner disposes of any property, by making it the subject matter of a hire-purchase finance agreement, he should clearly and undoubtedly be the real owner. The Law Commission considered it desirable to depart from this position, and to recognise the right of a hire-purchase financier to enter into a hire-purchase finance agreement even though he does not have a clear title to the property at the time of the agreement, as the Commission wanted to provide for the continuance of a class of business, in which the property merely passes through the hands of the financier at the time of the agreement (in the course of being transferred from the manufacturer or dealer to the purchaser or borrower) and the title to the property is nominally acquired by the financier, when all the payments have been made and is passed on to the purchaser or borrower, as soon as it is so acquired by the financier.

16. We think in the perspective of the development of hire-purchase business in future, as an organised and well established business, supervised and regulated by the Reserve Bank, the consideration which weighed with the Law Commission may not be very important. As the well-established and relatively better organised units in the hire-purchase finance business begin to handle a relatively larger volume of credit, the financiers, who are or who come into the business without adequate resources of their own or without the ability to acquire a title to the goods in which they deal, will progressively disappear. It will not in any event be appropriate or desirable in our view for Parliament to enact a bill, which is expected to provide an acceptable framework within which hire-purchase contracts can be concluded or enforced for several years, with a view to providing for the essentially temporary and relatively unimportant and progressively diminishing needs of the unorganised sector.

17. There will be a great deal to be said on the other hand for the elimination of any uncertainty at any stage regarding the title to property, which may be the subject matter of hire-purchase transactions. Such an elimination of uncertainty will help in avoiding litigation, arising out of an uncertain situation which might otherwise be created. It will enhance the security of a book debt, supported by a hire-purchase transaction, and it will facilitate the flow of finance from outside sources for financing essential hire-purchase finance transactions.

18. Assuming that hire-purchase finance is recognised as a legitimate and well-established business and that at least the larger and better organised hire-purchase financiers will be subject to some kind of supervision and regulation, which may be exercised or enforced by the Reserve Bank, no major difficulty will, in our opinion, be caused, merely as a result of a provision to the effect that an owner's title to the goods, which are the subject matter of a hirepurchase transaction should be clear at the time of the agreement (instead of at the last stage when the sale is concluded, as recommended by the Law Commission). The Hire-purchase financier-*cum*-owner, in the conditions which we envisage, will be able to acquire a title at the state of entering into the hire-purchase agreement by means of a credit sale in his favour, as he will be able (even if he does not have resources of his own) to command the necessary credit from the manufacturers or dealers for this purpose.

19. We shall now deal with the right of re-possession. In deciding this question we should try not only to provide for a statutory proportion which, by itself, can be regarded as fair to both owners and hirers, but also to protect the interests of commercial banks and other outside parties assisting the hire-purchase financiers.

20. If the hire-purchase financier-*cum*-owner's right of re-possession is allowed to lapse earlier rather than later, and if the balance of the amount due to him, which is covered only by an actionable claim, turns out to be greater rather than smaller, the commercial bank or any outside agency, refinancing the hire-purchase financier-*cum*-owner, will be bound to add the amount which may be involved, to the margin in respect of the book debt, which will be retained by the bank or the outside agency as the case may be. The flow of funds into the hire-purchase finance business from outside sources may thus be reduced to that extent.

21. It is also relevant in this connection that while the hire-purchase price is generally a higher amount, being so defined as to include any down payment in cash to the hire-purchase financier-*cum*-owner, the actual credit granted by an owner to a hirer may be appreciably less, being the hirepurchase price less the down payment in cash. If the statutory proportion is, as it is intended to be, calculated as a percentage of the higher figure, it will turn out to be a much larger percentage of the lower figure, which for the hire-purchase financier-*cum*-owner is more relevant. The proportion of the credit in respect of which there may be only an actionable claim, considered in relation to the *actual* credit granted by a hire-purchase financier-*cum*-owner may, in other words, turn out to be a much higher than say, 25 or 10 per cent, in case statutory proportion is 75 per cent or 90 per cent as the case may be.

22. Having regard to these considerations and in the larger interests of ensuring that a reasonable volume of funds will be available for financing hire-purchase transactions in motor vehicles, we recommend that the statutory proportion, in relation to motor vehicles, should be notified

immediately, that is as soon as the Hire Purchase Bill is brought into force, as 90 per cent of the hire-purchase price.

23. We would like to suggest at the same time that in order to protect the interests of hirers, it should be clearly provided in the Hire-Purchase Bill that in the event of an owner repossessing any property, he should be liable to the hirer for the payment within a reasonable period in respect of the balance of the amount realised by the owner, from the property repossessed and sold or disposed of by him, after providing in full for the hire-purchase price and all other amounts due to him. In the event of any delay in any payment on this account to the hirer, the owner should be liable for the payment of interest at a reasonable rate on the amount due to the hirer.

24. We turn now to our last point, namely, the procedure for the expeditious settlement of claims as between owners and hirers. Even if the statutory proportion in the case of motor vehicles is raised to 90% as we have suggested, substantial sums, in respect of the motor vehicles financed by hire-purchase transactions, will be due from hirers to hire-purchase financiers-*cum*-owners. It should, therefore, be provided by law that any disputes relating to these sums should be settled outside the ordinary civil courts, by separate claims tribunals under a summary procedure for the hearing and settlement of claims. There is a precedent for our suggestion in that country courts, and certain other notified inferior courts, are empowered according to the provisions of the Hire Purchase Act, 1965, of the United Kingdom to decide similar disputes. We recommend that provisions similar to those be included in our bill.

25. The award of the separate tribunal which we have suggested, should be treated as a decree, enforceable through the civil court in accordance with normal execution proceedings, but in view of the common experience as regards the time taken for the completion of these proceedings we would suggest that an additional remedy in the form of the automatic and unconditional revival on the right of re-possession, regardless of the outcome of the execution proceedings, should also be available to the hire-purchase financier-*cum*-owner, if after a period of three months from the date of the separate tribunal's award, any amount awarded or decreed by the tribunal in favour of the hire-purchase financier-*cum* owner remains unpaid.

26. We would like to say in conclusion that as has been pointed out already, it is now more than five years since the Law Commission's report on the Hire-Purchase Bill was submitted to the Government of India. It will be desirable for the Central Government to take final decisions in regard to the report and the bill expeditiously, as uncertainty in regard to Government's decision is affecting the prospects of the stable and orderly growth of hire-purchase finance in our country and the financing of the road transport industry in particular. The passing of this legislation is also necessary to enable the manufacturers of commercial vehicles to maintain and increase the output of commercial vehicles as envisaged in the Fourth Plan.

ANNEXURE XI
INDUSTRIAL DEVELOPMENT BANK OF INDIA
RESERVE BANK BUILDING

BOMBAY 1

Telegrams : Indbankind

Phone : 254194

Post Box No. : 1241

Ref. No. 1130/OP.15-67/68

September 26, 1967

Asvina 4 1889 (Saka)

The Chief Executive Officer of all approved scheduled banks and State Co-operative Banks.

Dear Sir,

SUBJECT:—*Scheme for provision of rediscounting facilities in respect of sales o. motor vehicles to road transport operators in the private sector.*

Please refer to paragraph 4 of our circular letter No. 654/OP. 15-67/68, dated the 22nd August 1967, wherein we had indicated that in view of the special problems of the transport industry and having regard to the common practice of financing through hire-purchase finance companies, a separate scheme for extending rediscounting facilities to the transport industry was under our consideration. We have since formulated a scheme to assist the industry and a copy of the same, detailing the procedure to be followed and the conditions to be observed for availing of the rediscounting facilities, is enclosed. The scheme will come into force with immediate effect. The institutions desirous of availing of the facilities under the scheme should apply to us for sanction of limit in the form set out in Appendix III to the scheme.

2. A guide list of approved hire-purchase finance companies is enclosed. In case the discounting banks desire to avail of the rediscounting facility in respect of promissory notes made in favour of other hire-purchase finance companies, they may approach the IDBI for prior approval.

3. It is hoped that with the facilities made available under the scheme, the approved banks will be in a position to provide credit facilities to the transport industry in the private sector on a larger scale than hitherto.

4. Should there be any point relating to the scheme requiring clarification, we shall be pleased to hear from you in the matter.

5. Please acknowledge receipt.

Yours faithfully,

sd/-X X X

General Manager.

Endt. No. 1131/OP.15-67/68 of date.

Copy forwarded for information to :

- (1) The Chief Manager, Reserve Bank of India, Central Office, Bombay.
- (2) The Chief Accountant, Reserve Bank of India, Central Office, Bombay.
- (3) The Secretary, Reserve Bank of India, Central Office, Bombay.
- (4) The Controller, Exchange Control Department, Reserve Bank of India, Bombay.
- (5) The Chief Officer, Department of Banking Operations and Development/Agricultural Credit Department/Industrial Finance Department, Reserve Bank of India, Bombay.
- (6) The Economic Adviser to the Reserve Bank of India, Economic Department, Bombay.
- (7) The Secretary to the Government of India, Ministry of Finance, Deptt. of Economic Affairs, New Delhi.
- (8) The Secretary to the Government of India, Ministry of Industry, New Delhi.
- (9) The Principal, Bankers Training College, Cadell Road, Dadar, Bombay-28.
- (10) The Principal, Staff Training College, 82-B, Mount Road, Madras, 18.
- (11) The Legal Adviser, Industrial Development Bank of India, Bombay.
- (12) Shri M. K. Venkatachalam, Director (Investments), Ministry of Finance, Department of Economic Affairs, Government of India, New Delhi.
- (13) The Director (Banking and Insurance), Government of India, Department of Economic Affairs, New Delhi.
- (14) The Secretary, Indian Banks Association, 17, Horniman Circle, Bombay-1.
- (15) The Chairman, Bombay Exchange Banks Association, C/o Chartered Bank, Mahatma Gandhi Road, P.B. 558, Bombay-1.
- (16) The Deputy Director, Reserach Section, Reserve Bank of India, Calcutta.
- (17) The Secretary, All India Automobile and Ancillary Industries Association, 80, Dr. Annie Besant Road, Worli, Bombay-18.
- (18) The Secretary, Association of Indian Automobile Manufacturers, Army and Navy Building, Mahatma Gandhi Road, Bombay-1.

Sd/- X X X
Manager
 (Operatons)

Scheme for provision of rediscounting facilities in respect of sales of motor vehicles to road transport operators in the private sector

The scheme for rediscounting of bills/promissory notes arising out of sales of indigenous machinery on deferred payment basis, which was introduced by the IDBI on the 1st April, 1965 was extended to all the machinery manufacturing industries with effect from the 15th November, 1966. This scheme is, however, of limited utility to the road transport industry, as a large number of transactions involving the acquisition of commercial vehicles take place on hire purchase basis. Having regard to the importance of the transport industry in the country's economy and the practice of hire purchase financing in this industry, the IDBI has formulated the following scheme with a view to extending rediscounting facilities to this sector. The details of the scheme are set out below :—

- (i) *Nature of facility*.—The facility of rediscounting under the scheme will be extended, for the present, only to promissory notes arising out of hire-purchase sales or conditional sales and resales of motor vehicles to road transport operators by (i) the manufacturers of motor vehicles or (ii) approved hire-purchase finance companies. The rediscounting facilities will be granted under Section 9(1)(b) of the Industrial Development Bank of India Act, 1964, in respect of promissory notes made by the road transport operators in favour of a manufacturer or a hire-purchase finance company. A transport operator may be a public or private limited company, a co-operative society, a partnership firm, or a sole proprietorship. He will be regarded in all these cases as being in charge of an industrial concern as defined in Section 2(c) of the IDBI Act.
- (ii) *Eligible institutions*.—The rediscounting facilities will be available only to the commercial banks and state co-operative banks which have been approved from time to time by the IDBI for the purposes of the present scheme for rediscounting of bills or promissory notes, arising out of sales of indigenous machinery on deferred payment basis (Appendix I). One of the signatures on the promissory notes should be that of the manufacturer of motor vehicles or of an approved hire-purchase finance company.
- (iii) *Period of deferred payment under hire-purchase*.—The period of deferred payment under hire-purchase/conditional sale and resale should not be less than 6 months or, subject to the directions, if any, issued by the Reserve Bank, more than 36 months.

- (iv) *Eligible vehicles.*—The promissory notes must relate to sales of new vehicles for transport of goods (trucks and jeeps, irrespective of the tonnage per vehicle) and passenger buses plying for hire. As the scheme is intended for assistance to road transport operators in the private sector no facilities under the scheme will be available to persons who are not such operators or to Government or quasi-Government bodies.
- (v) *Rate of rediscounting by IDBI.*—The IDBI will rediscount the promissory notes at 6% per annum and the discounting bank will not charge by way of discount more than 9% per annum. The discounting bank should try its reasonable best to see that the manufacturers/hire-purchase financiers do not charge interest to the road transport operators at a rate more than 7½% flat per annum. For this purpose, the discounting bank may obtain a suitable certificate from the manufacturers/hire-purchase financiers.
- (vi) *Amount of transactions.*—The minimum amount of the transaction covering a set of promissory notes representing the deferred payment will be Rs. 10,000. Arrangements involving rediscounting of promissory notes for more than Rs. 10 lakhs in respect of a single transport operator, over a year, will require prior clearance with the IDBI.
- (vii) *Other details.*—A separate promissory note should be made in respect of each instalment. The form of promissory note is given in Appendix II. The promissory note should be made payable at two alternative places, viz., at the office of the IDBI, Bombay or at an office in Bombay of the approved discounting bank. In cases where the discounting bank does not have an office in Bombay, the promissory note should be made payable at an office in Bombay of any other approved bank to be nominated by it in this behalf in addition to the other alternative place, viz., the IDBI, Bombay. The promissory note must have an unexpired usance of not less than 3 months.
- (viii) *Additional information and requirements.*—Each set of promissory notes must be accompanied by a certified copy of the pro-forma invoice indicating also the date of delivery of the vehicles. The discounting bank must also certify that the following conditions have been or will be complied with :—
- (a) the hire-purchase or any other contract, within the framework of which the promissory notes are made and discounted, should set out completely all the details

- of the hire purchase price as defined in the bill, which is now pending, and also the details of all sums payable by way of penalty, compensation or damages by the purchaser;
- (b) no scrutiny or examination or credit investigation of other similar charges, by whatever name called, should be levied before the contracts are completed;
- (c) the manufacturer's or hire purchase finance company's rights as the owner and the hirer's or purchaser's rights should be or should have been assigned to the discounting bank; and they should also undertake not to assign their rights to any other party, without the consent of the discounting bank
- (d) the hirer or purchaser should undertake to allow the manufacturer or hire purchase finance company as the owner to enter into any premises where the vehicle may be parked, so long as there is any debt owed to them under a hire purchase contract or otherwise, and where the premises are hired, the hirer or the purchaser should agree to obtain the landlord's consent to allow such entry, for the purposes of protecting the financier's interests;
- (e) the vehicle should be comprehensively insured and the hirer or purchaser should be free to choose his own insurer for this purpose;
- (f) the hirer or purchaser should undertake, if required by the manufacturer or hire purchase finance company, to keep separate accounts in respect of the vehicle which is covered by the hire purchase or other contract, to provide for depreciation and all other charges and to submit the accounts for inspection, if required, by the manufacturer or hire purchase finance company as the owner or by the discounting bank.
- (ix) *Procedure in connection with payment of rediscounted promissory notes.*—It will be the responsibility primarily of the discounting bank availing itself of the rediscounting facility to make payment on the promissory note to the IDBI, which will be under no obligation to present the promissory notes for payment on the due date. The discounting bank will, notwithstanding such non-presentation by the IDBI, remain liable on the notes. The aforesaid discounting bank should take delivery of the promissory notes against payment, *not less than three working days* before the respective dates of their maturity. In the case of any such discounting bank not having an office in Bombay, it should take delivery of

the promissory note against payment through the Bombay Office of the nominated institution referred to in sub-paragraph (vii) above. On receipt of the payment, the promissory note will be endorsed by the IDBI in favour of the discounting bank which makes the payment, without recourse to the IDBI. Payment on the promissory note will be made to the IDBI by a cheque or a draft drawn on the Reserve Bank of India, or any bank which is an approved institution, and payable at Bombay.

- (x) *Premature retirement or payment of promissory notes.*—The promissory notes may be retired or paid before due dates; pro rata refund of rediscount will be made by the IDBI in such cases.

2. Procedure for availing of rediscounting facilities :

- (i) *Fixation of limits.*—Approved banks will apply to the IDBI as per form in Appendix III for sanction of limits for rediscounting of promissory notes under the scheme. Renewed limits will be available in respect of fresh promissory notes and will be independent of the facilities availed of under the previous limits. A discounting bank enjoying a limit should submit its renewal application to the IDBI sufficiently in advance.
- (ii) *Application for availing of rediscounting facilities.*—When a promissory note is to be rediscounted under a sanctioned limit, the approved bank will apply in the form annexed (vide Appendix IV) certifying that the promissory note has arisen out of a bonafide commercial or trade transaction relating to sale of motor vehicles to a transport operator and that the promissory note has been made by such an operator. The discounting bank shall also furnish a certificate from the manufacturer/financier as per form in Appendix V.
- (iii) The discounting bank will be required to pass a Board resolution authorising it to avail itself of the rediscounting facilities in respect of eligible promissory notes from the IDBI under the scheme up to the sanctioned limit. The resolution should also authorise the signing of certificates and undertakings, endorsing of promissory notes and execution of all instruments or documents as may be required for the purpose of the scheme, by authorised officials of the discounting bank. Attested signatures of such officials together with a certified copy of the aforesaid resolution should be furnished to the IDBI before the discounting bank commences to avail itself of the facility under the sanctioned limit.

APPENDIX I

LIST OF APPROVED INSTITUTIONS

1. Allahabad Bank Ltd.
2. American Express Co. Inc.
3. Andhra Bank Ltd.
4. Bank of America National Trust and Savings Association
5. Bank of Baroda Ltd.
6. Bank of India Ltd.
7. Bank of Madura Ltd.
8. Bank of Maharashtra Ltd.
9. Bank of Rajasthan Ltd.
10. Bank of Tokyo Ltd.
11. Banque Nationale de Paris.
12. Bareilly Corporation (Bank) Ltd.
13. Belgaum Bank Ltd.
14. British Bank of the Middle East.
15. Canara Bank Ltd.
16. Canara Banking Corporation Ltd.
17. Central Bank of India Ltd.
18. Chartered Bank.
19. Dena Bank Ltd.
20. Eastern Bank Ltd.
21. First National City Bank.
22. General Bank of the Netherlands.
23. Hongkong & Shanghai Banking Corporation.
24. Indian Bank Ltd.

25. Indian Overseas Bank Ltd.
26. Karnataka Bank Ltd.
27. Karur Vysya Bank Ltd.
28. Krishnaaram Baldeo Bank Ltd.
29. Kumbakonam City Union Bank Ltd.
30. Lakshmi Commercial Bank Ltd.
31. Lakshmi Vilas Bank Ltd.
32. Mercantile Bank Ltd.
33. Miraj State Bank Ltd.
34. Mitsui Bank Ltd.
35. National and Grindlays Bank Ltd.
36. National Bank of Pakistan.
37. New Bank of India Ltd.
38. Pengal Nayak Bank Ltd.
39. Punjab National Bank Ltd.
40. Sangli Bank Ltd.
41. South India Bank Ltd. (Tinnevely).
42. South Indian Bank Ltd.
43. State Bank of Bikaner and Jaipur.
44. State Bank of Hyderabad.
45. State Bank of India.
46. State Bank of Indore.
47. State Bank of Mysore.
48. State Bank of Patiala.
49. State Bank of Saurashtra.
50. State Bank of Travancore.
51. Syndicate Bank Ltd.
52. Tamilnad Mercantile Bank Ltd.
53. Tanjore Permanent Bank Ltd.
54. Union Bank of India Ltd.

55. United Bank of India Ltd.
56. United Commercial Bank Ltd.
57. United Western Bank Ltd.
58. Vijaya Bank Ltd.
59. Vysya Bank Ltd.
60. Andhra State Co-operative Bank Ltd.
61. Gujarat State Co-operative Bank Ltd.
62. Madhya Pradesh State Co-operative Bank Ltd.
63. Madras State Co-operative Bank Ltd.
64. Maharashtra State Co-operative Bank Ltd.
65. Mysore State Co-operative Apex Bank Ltd.
66. Punjab State Co-operative Bank Ltd.
67. Uttar Pradesh Co-operative Bank Ltd.
68. West Bengal Provincial Co-operative Bank Ltd.

APPENDIX II

(SPECIMEN OF PROMISSORY NOTE TO BE MADE OR ISSUED BY ROAD TRANSPORT OPERATORS)

Place

Date

Rs.....
days after date (inclusive of the days of grace) we.....
.....

(Transport operator)

promise to pay at**.....
Bombay or at the Industrial Development Bank of India, Bombay
to.....

(Manufacturer of commercial vehicles or hire purchase finance company)

or order the sum of Rupees.....
inclusive of interest at.....
for value received.

Sd.

(Transport operator)

(Endorsement on the reverse of the note by the payee).

Pay to.....(or order)
(Name of discounting bank)

Sd.

**Name of the discounting bank.

APPENDIX III

(APPLICATION FOR LIMITS BY BANKS FOR THE REDISCOUNTING OF PROMISSORY NOTES MADE IN FAVOUR OF THE MANUFACTURER OF COMMERCIAL VEHICLES OR OF THE HIRE PURCHASE COMPANIES)

The General Manager,
Industrial Development Bank of India,
Reserve Bank Building,
Bombay.

Dear Sir,

We hereby apply for the facility of rediscounting by the Industrial Development Bank of India of promissory notes of road transport operators arising out of bonafide commercial or trade transactions relating to sales of motor vehicles on hire purchase/conditional sale and resale basis and request that a limit of Rs..... in our favour may be fixed for that purpose for the year ending 30th September. A statement giving details of the credit facilities sanctioned by us to the manufacturers of commercial vehicles and to hire purchase finance companies for covering sales of vehicles during the last three years is attached.

It is understood that in the event of your sanctioning a limit for the aforesaid purpose and rediscounting any promissory notes, the terms and conditions laid down in the scheme prescribed by the Industrial Development Bank of India (*vide*) as modified from time to time shall be fully binding on us. It is also understood that the sanctioning of the limit will not affect the right of the Industrial Development Bank of India to withdraw or alter the same at its discretion except in respect of commitment already made.

A certified copy of our Board's resolution authorising the availing of the facility up to the sanctioned limit and specimen signature of the officers concerned will be forwarded to you after receipt of the sanction of the limit.

Yours faithfully,

APPENDIX IV

(APPLICATION FOR ACTUAL REDISCOUNTING BY THE BANKS)

The General Manager,
Industrial Development Bank of India,
Reserve Bank Building,
Bombay.

Dear Sir,

We refer to your letter No.....dated.....
stipulating a limit of Rs.....for rediscounting
facilities in respect of promissory notes of Industrial Concerns. We
forward herewith a promissory note(s), particulars of which are noted
overleaf, which may be rediscounted under the scheme of the Indus-
trial Development Bank of India *vide*.....
as modified from time to time.

As required under the said scheme, we certify that the promissory
note(s) arose out of bonafide commercial or trade transaction(s) re-
lating to sales of motor vehicles to a road transport operator on hire
purchase/conditional sale and resale basis and that the conditions
stipulated in sub-paragraph (viii) (a) to (viii)(f) of paragraph I of the
scheme have been/will be complied with. We also hereby certify
that**.....are
financially sound, solvent and credit-worthy and, as such, their sig-
nature(s) appearing on the promissory note(s) endorsed by us in your
favour for the purpose of rediscounting, the particulars of which are
noted overleaf is/are genuine and good signatures. We hereby further
certify that having discounted for the full amount thereof we have full
title to the promissory note(s). A certificate in the prescribed form
(Appendix V) signed by the manufacturer of commercial vehicles/
hire purchase financier and duly certified copy/copies of the pro-
forma invoice(s) relating to the promissory notes indicating also the
dates of delivery of the relative motor vehicles are enclosed.

We request that the amount of the promissory note(s) (less dis-
count) may be paid to us by cheque drawn on the Reserve Bank for
credit to our account with the.....

Certified copy of our Board's resolution authorising the availing
of the facility and specimen signatures of the authorised officials are
enclosed/have already been furnished to you *vide* our.....

Yours faithfully,

(Signature of authorised officials)

**Name of the manufacturer of commercial vehicles or hire pur-
chase financier.

APPENDIX IV—*contd.**Particulars of promissory note(s)*

Date of promi- ssory note	Date of discount by appli- cant bank	Name and add- ress of the maker	Name and add- ress of the payee	Period of usance	Date of matu- rity	Amount	Rate of discount charged by the appli- cant bank	Amount paid on the note
------------------------------------	--	--	--	------------------------	-----------------------------	--------	--	----------------------------------

APPENDIX V

The General Manager,
Industrial Development Bank of India,
Bombay.

Dear Sir,

We hereby certify that the undernoted promissory notes arose out of bonafide commercial or trade transaction(s) relating to sales of motor vehicles to a transport operator on hire purchase/conditional sale and resale basis, and have been drawn by an industrial concern as defined in section 2(c) of the Industrial Development Bank of India Act, 1964.

We also confirm that in the case of.....
(discounting bank)
availing itself of rediscounting facility from the Industrial Development Bank of India (IDBI) in respect of the aforesaid promissory notes. IDBI will be under no obligation to present the promissory notes for payment on due dates and not with standing the non-presentation, we will remain liable on the said promissory notes.

Yours faithfully,

(Signature of authorised official)@:

Date of promissory note	Name and address of maker	Amount of promissory note	Usance	Name of endorsee
(1)	(2)	(3)	(4)	(5)

@Note.—A certified copy of the relevant authorisation for waiving the presentation is enclosed/has already been forwarded to you.

Guide list of hire purchase finance companies

Sr. No.	Name of company	Registered Office
1.	Sundaram Finance Ltd.	Madras
2.	The Motor & General Finance Ltd..	New Delhi
3.	Pal Hire Purchase Ltd.	Bombay
4.	Hindustan Motor Corporation Ltd.	Calcutta
5.	The Instalment Supply Pvt. Ltd.	New Delhi
6.	The Commercial Credit Corporation(1943) Pvt. Ltd.	Bombay
7.	Delhi Auto & General Finance Pvt. Ltd.	New Delhi
8.	Goodwill India Ltd.	New Delhi
9.	Great Finance Co. Pvt. Ltd.	New Delhi

Press Note

The credit problems faced by the road transport industry in certain parts of the country have been under the consideration of the Industrial Development Bank of India. To facilitate the sale of new commercial road transport vehicles, a scheme for rediscounting promissory notes arising out of the sales of new trucks, jeeps, and passenger buses, on the basis of credit sales or on hire purchase basis, has been formulated and will come into force with immediate effect.

2. The scheme should be of assistance to road transport operators in the private sector by enabling them to secure commercial vehicles on hire purchase or conditional sale and resale basis from automobile manufacturers or hire purchase finance companies. Promissory notes of such operators in favour of any of the manufacturers of commercial vehicles or in favour of any hire purchase finance company approved for this purpose by the IDBI can be discounted by certain scheduled and the state co-operative banks. The names of these banks are approved from time to time by the IDBI, under its scheme of rediscounting of bills or promissory notes, arising out of deferred payment sales of indigenous machinery. The approved banks in turn will be given rediscounting facilities by the IDBI which will rediscount the promissory notes at a rate of 6% per annum, provided the banks do not charge by way of discount more than 9 per cent per annum to the manufacturing or hire purchase finance company. The manufacturing or the hire purchase finance company, which is the payee, will be expected to charge to the road transport operator, in respect of promissory notes rediscounted under this scheme, a rate of interest which is not more than 7½% flat, exclusive of any penalties on the amount of the loan, which is supported by the promissory note.

3. The promissory notes rediscounted under the scheme should be in pursuance of contracts, which set out completely all the details of the amounts payable by the road transport operator in order to complete the purchase of goods. No scrutiny or examination of credit investigation or other similar charges, by whatever name called, should be charged to the road transport operator under the relevant contracts. The rate of interest, the down payment deposit or other initial payment and the penalties, if any, including penal rates of interest and compensation or damages for any breach of the agreement should be clearly specified. In addition, provision should also be made normally in the contracts for the usual safeguards, such as comprehensive insurance of the vehicle and assignment of the rights of the manufacturing or hire purchase finance company under the agreement relating to the vehicle to the discounting bank.

4. The scheme will cover deferred payments arrangements for a minimum period of 6 months and, subject to any directions issued in this behalf by the Reserve Bank, a maximum period of 36 months. The minimum amount of a transaction covering a set of promissory notes representing the deferred payment has been fixed at Rs. 10,000. The arrangement involving rediscounting of promissory notes for more than Rs. 10 lakhs in respect of a single road transport operator, over a year, will require prior clearance with the IDBI. The scheme is intended for assistance to road transport operators in the private sector. No facilities under this scheme will be available to purchasers of commercial vehicles, who are not themselves road transport operators or to Government or quasi-Government bodies.

5. It will be open to the IDBI under the scheme to refuse to rediscount any promissory note, where it finds that the conditions as regards interest and safeguards for protecting the interest of the discounting bank are not satisfied.

6. Road transport operators in the private sector may usefully approach their bankers for further details of the scheme.

**INDUSTRIAL DEVELOPMENT BANK
OF INDIA**

**RESERVE BANK BUILDING
BOMBAY**

Dated the 26th September, 1967.

ANNEXURE XII
INDUSTRIAL DEVELOPMENT BANK OF INDIA
RESERVE BANK BUILDING
POST BOX No. 1241
BOMBAY-1.

GRAMS :
'INDBANKIND''

Phone
259111

Ref. No. 1283/OP. 15-65/66

August, 5, 1965,
Sravana 4, 1887 (Saka)

The Chief Executive Officers of all

approved banks and financial institutions,

Dear Sir,

Scheme for redicounting bills of exchange/promissory notes arising out of sales of indigenous machinery on deferred payment basis.

Representations have been received from certain machinery manufacturing concerns that since the issue of directive by the Reserve Bank in June 1965 restricting the level of unsecured advances, banks are generally restricting the discounting facilities in respect of bills covering sales of indigenous machinery on deferred payment basis, although such bills could be rediscounted with the Industrial Development Bank of India (IDBI) under the above Scheme.

2. Under the Reserve Bank's directive, banks are required to maintain the aggregate of their unsecured advances granted by way of loans or otherwise and outstanding as on the last day of each fortnight, as stipulated therein, at a level not exceeding such aggregate amount as on the 25th June 1965 (*vide* Reserve Bank's Circular letter DBOD No. Sch. 910/C. 96-65 dated the 29th June 1965). Although the discounting of bills of exchange/promissory notes covered by the Scheme is in the nature of granting an unsecured advance, these on being rediscounted with IDBI would, *on the Bills Discounted Account being adjusted*, no longer constitute their clean advances but would be merely their contingent liabilities (*vide* the form of balance sheet furnished in the Third Schedule to the Banking Companies Act, 1949 in terms of which liability on such 'bills of exchange rediscounted' is required to be shown under 'contingent liabilities'). Thus, under the above procedure, an eligible bank's level of its unsecured advances in the form of bills discounted would not be raised if the relative bills/promissory notes are rediscounted with IDBI

during the same fortnight in which they are discounted. Where the bills/promissory notes are submitted to IDBI for scrutiny before they are actually discounted by the banks, the period elapsing between discounting and rediscounting of such bills/promissory notes will be reduced to a minimum. If you desire any clarification regarding the above procedure, please let us know.

3. As the object of the above Scheme is to assist an essential industrial sector, viz., indigenous machinery manufacturing industry, it is hoped that in view of the position indicated above, eligible banks will not find any difficulty in providing necessary assistance to the industry

Yours faithfully,
(sd.)
General Manager.

No. 1284/OP. 15-65/66 of date.

Copy forwarded for information to :

- (1) the Chief Accountant, Reserve Bank of India, Central Office, Bombay.
- (2) the Secretary, Reserve Bank of India, Central Office, Bombay.
- (3) the Chief Officer, Department of Banking Operations & Development/Agricultural Credit Department/Industrial Finance Department, Reserve Bank of India, Bombay .
- (4) the Economic Adviser to the Reserve Bank of India, Economic Department, Bombay.
- (5) the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs, New Delhi.
- (6) the Secretary to the Government of India, Ministry of Industry, New Delhi.
- (7) the Principal, Bankers Training College, Cadell Road, Dadar, Bombay-28.
- (8) the Principal, Staff Training College, 82B Mount Road, Madras, 18.
- (9) the Legal Adviser, Industrial Development Bank of India-Bombay.
- (10) the Director (Banking and Insurance), Government of India Department of Economic Affairs, New Delhi.

- (11) the Director (Investments) Ministry of Finance, Department of Economic Affairs, Government of India, New Delhi.
- (12) the Secretary, Indian Banks' Association, 17, Horniman Circle, Bombay-1.
- (13) the Chairman, Bombay Exchange Banks' Association, C/o Chartered Bank, Mahatma Gandhi Road, Post Box No. 558, Bombay-1.
- (14) the Deputy Director, Research Section, Reserve Bank of India, Calcutta.

Sd/-

Manager
(Operations)

ANNEXURE XIII
RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS & DEVELOPMENT
BOMBAY NO. 1

TELEGRAMS :
"RESERVBANK"
BOMBAY

Post Box No. 1030

Ref. DBOD. No. Sch. 1236/C. 96-67

August, 9, 1967

Shravana 18, 1889 (Saka)

To

All Schedule Commercial Banks.

Dear Sirs,

At a meeting which I had with the Chairman and/or Chief Executives of the larger Indian and foreign banks on July 31, 1967, I indicated to them the need for scheduled commercial banks enlarging their assistance to priority sectors like agriculture, exports, small industries and, in the context of the current recessionary trends, to the domestic engineering industries especially those having export potentialities. To this end, I mentioned that the Reserve Bank of India and the Industrial Development Bank of India would introduce certain measures to facilitate an increase in the flow of commercial bank credit at lower rates of interest to these sectors. I enclose a Memorandum which sets out the measures which the Reserve Bank is now bringing into effect. A separate communication will follow regarding the steps to be taken by the Industrial Development Bank of India.

2. The point had been raised at the meeting referred to above that during the slack season banks, would find it more advantages to use their own resources, currently earning less than the rate at which refinancing is proposed to be offered by the Reserve Bank, to finance the sectors mentioned above rather than have recourse to the Reserve Bank. I had indicated that banks could approach the Reserve Bank for accommodation whenever they felt the need for such assistance in relation to their credit operations in respect of these sectors, but since the prime object of the Bank is to bring about a reduction in the level of interest rates charged to the sectors mentioned in paragraph 1 to the levels indicated in the Memorandum attached, the Bank believes that ceiling rates in respect of advances to these sectors should be observed by banks

irrespective of whether or not banks seek refinance from the Reserve Bank in respect of any of these classes of transactions on the concessional terms indicated above.

3. The question of relief in respect of the net liquidity ratio had also been raised at the meeting referred to above as it was felt that lending to the sectors mentioned above at the rates suggested (and indicated in the Memorandum attached) would mean banks working on low differential margins and that the impact of making such advances even though refinanced at the rates indicated would otherwise be to lower banks net liquidity ratio. It has been decided that for the purpose of computing the net liquidity ratio, the *increase* in a banks advances to each of the sectors mentioned in the preceding paragraphs and those in respect of small scale industry which are guaranteed by the Credit Guarantee Organisation over the average of such advances during the period July to October 1966 inclusive (for the slack season) and November 1966 to April 1967 inclusive (for the busy season) will not be taken into account. Whether a bank has any borrowing from the Reserve Bank outstanding or not, the rate at which it can borrow from the Bank will be determined as if an equivalent amount of advances had not been made. In view of the relief now being afforded in respect of the computation of the net liquidity ratio, banks should have no resource constraint in enlarging considerably the volume of their assistance to the sectors for which the concessional refinance terms are being offered.

4. As already indicated by me at the meeting, it has also been decided to exclude from the application of the norm (referred to in the Bank's letter DBOD. No. Sch. 666/C. 96Z-67 dated May 3, 1967) relating to the total of unsecured guarantees and unsecured advances. (i) packing credit advances, (ii) Export D/A bill advances, (iii) advances in respect of machinery supply bills which have been accepted by the purchaser's bank, (iv) advances to finance, on hire purchase or deferred payment basis, sales of machinery/equipment for agriculture, dairying or fisheries as well as of trucks/commercial vehicles and (v) advances granted to exporters against their deferred receivables by way of cash subsidies, excise duty drawbacks, etc. Further modifications in the policy towards unsecured advances will be announced when the Working Group now examining this question has made its recommendations.

5. A number of points relating to the distribution of banks' advances were also clarified at the meeting on July 31, 1967. It was made clear that the Directive issued last October requiring that not less than 80 per cent of the incremental advances in the busy season should be to industry and against export/import bills was no longer in force and should not be invoked to restrict credit to any sector. As regards the current slack season, while banks should continue to effect a sizeable reduction in their credit against seasonal commodities in short supply, the advice contained in the Bank's letters to the larger banks in this regard need not apply to advances against raw jute whether to mills or trade in view of the larger market arrivals of the new crop. Similarly, advances against

sugar to mills and to the I.S.M.A.'s Export Division need not be subject to reduction beyond what is indicated by the releases ordered by Government. Advances against gur, however, need to be drastically curtailed.

6. In the face of a slowing down in the rate of deposit accretion and the emergence of heavy credit demands of the banking system, it is necessary to have purposive planning of credit expansion. Banks should keep in close touch with the Reserve Bank regarding their credit plans both for the busy season and for the near future. Such contacts could also help to draw attention to cases where genuine productive activity may be hampered by lack of adequate credit.

7. I would like to take this opportunity of impressing upon banks once again the need to increase their assistance either directly or indirectly to the agricultural sector per production, marketing and development. It is proposed to discuss, in greater detail, with representatives of emmerical banks the manner in which they could enlarge their assistance to the agricultural sector.

8. Please acknowledge receipt.

Encl :1 Sheet

Yours faithfully,

Sd/- L. K. JHA,
Governor

MEMORANDUM

The Reserve Bank is reintroducing with immediate effect the facilities of the Bill Market Scheme under Section 17(4)(c) of the Reserve Bank of India Act; the Scheme for the present will be restricted to the refinancing of credit granted to the sectors mentioned in the following paragraphs.

2. The Reserve Bank will be prepared to provide refinance, irrespective of a bank's net liquidity ratio, at a preferential rate of 4½% per annum in respect of packing credit advances made by scheduled commercial banks to exporters of engineering and metallurgical products. This facility which will be available in respect of both manufacturer-exporters and merchant-exporters will be subject to the following conditions:—

- (a) The bank's advance will carry a rate of interest not exceeding 6% per annum.
- (b) There should be a firm export order or a letter of credit in favour of the domestic exporter. However, in special cases and to take into account traditional trading practices in respect of certain export commodities, the Reserve Bank will be prepared on a representation being made to it, to waive this requirement. Such waiver will be considered at the time of approving the bill limits in respect of these transactions.
- (c) The bills to be lodged with the Reserve Bank in respect of such packing credit advance should not be of more than 90 days' maturity. However, in appropriate cases, the Bank will be prepared to make one more fresh advance against a fresh set of bills.

3. The Reserve Bank will be prepared also to provide refinance, irrespective of a bank's net liquidity ratio, at Bank rate in respect of packing credit advances made by scheduled commercial banks to exporters of products other than engineering and metallurgical. This facility, which will be available in respect of both manufacturer-exporters and merchant-exporters, will be subject to the following conditions:—

- (a) The bank's advance will carry a rate of interest not exceeding 8% per annum.
- (b) There should be a firm export order or a letter of credit in favour of the domestic exporter. However, in special cases and to take into account traditional trading practices, in respect of certain export commodities, the Reserve Bank will be prepared, on a representation being made to it, to waive this requirement. Such waiver will be considered at the time of approving the bill limits in respect of these transactions.

(c) The period of the packing credit advance to the exporter should not exceed 90 days prior to shipment in respect of any single transaction for which refinance is availed of.

4. Refinance will also be available to scheduled commercial banks, irrespective of their net liquidity ratio, at Bank rate under Section 17(3A) of the Reserve Bank of India Act in respect of postshipment export bills denominated in currencies other than Indian rupees and they will be expected to lend to their customers at a rate not exceeding 8% per annum.

5. The Rupee Export Bill scheme will continue to operate as at present.

ANNEXURE XIV
RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT,
BOMBAY-1.

Post Box No. 1030,

CONFIDENTIAL

Ref. DBOD. No. Sch. 666/C. 96Z-67

May 3, 1967
Vaisakha 13, 1889 (Saka)

To

All Scheduled Commercial Banks

Dear Sirs,

In recent years there has been a rapid growth in the amount of guarantees executed by commercial banks on behalf of their constituents. At the end of September 1965, such guarantees of the 21 large banks operating in India amounted to Rs. 412 crores or 60 per cent more than in September 1962. Of this, guarantees executed in favour of Government and other public authorities in India amounted to Rs. 171 crores while guarantees to foreign sellers in respect of imports on deferred payments basis accounted for Rs. 154 crores (a figure which would now need an upward revision on account of devaluation). This growth in guarantee business has occurred both in absolute terms and, more importantly, in relation to the growth of banks' overall resources. The outstanding guarantees in September 1965 of the 21 banks referred to above amounted to 17 per cent of their deposit liabilities and, in respect of 18 Indian banks covered, to over five times the total of their capital funds. The guarantees executed by banks comprise both performance guarantees and financial guarantees; guarantees also show wide variety in terms of security, maturity and purpose.

2. With a view to assessing the implications for the banking system of this increase in the guarantee business and examining the need for regulation in this respect, I had appointed an Informal Advisory Committee, sometime ago, consisting of Sarvashri B. N. Adarkar (Deputy Governor, Reserve Bank of India), C. H. Bhabha (Vice-Chairman, Central Bank of India), R. N. Chettur (Managing Director, State Bank of India), B. K. Dutt (Managing Director, United Bank of India), T. D. Kansara (General Manager, Bank of India), K. M. Nanjappa (General

Manager, Indian Overseas Bank), R. L. Tuli (since replaced by S. C. Trikha, General Manager, Punjab National Bank) and D. R. Joshi (since replaced by M. Narasimhan, Deputy Economic Adviser, Reserve Bank of India). This Committee has now submitted its unanimous Report to me.

3. The Committee has discussed the various types of guarantee business and has provided factual information on the growth of guarantees executed by commercial banks with details regarding purpose, maturity, security and the rates charged. The Committee refers to the circumstances that have led to the increasing magnitude of guarantees, namely the growth of investment activity, the growing volume of Governments' commercial transactions, the larger role of the public sector in infrastructural investment and expansion of industrial capacity with imported machinery obtained on the basis of suppliers' credit. The Committee is of the opinion that as an important criterion for judging the soundness of a banking institution is the size and character, not only of its assets portfolio but also, of its contingent liability commitments, it is necessary to evolve guidelines on the extent to which banks may, with due regard to the safety of their depositors' interests, undertake this business. The guidelines, according to the Committee, should take into account the varying degrees of risk in guarantee business and provide for a measure of selectivity. The guidelines have, therefore, been evolved by the Committee with reference to the purpose of the guarantee, the period of maturity, the security offered and the distribution of risk. The Reserve Bank has accepted the Committee's suggestions and enjoins on commercial banks that they should follow the guidelines suggested by the Committee in the conduct of their guarantee business. The guidelines are indicated below :

4. (i) As regards the *purpose* of the guarantee, commercial banks should, as a general rule, limit themselves to the provision of financial guarantees and exercise due caution with regard to their performance guarantee business.

(ii) As regards *maturity*, as a rule, it would be advisable for banks to guarantee shorter maturities and leave longer maturities to be guaranteed by other institutions. No bank guarantee should normally have a maturity of more than 10 years.

(iii) As regards *security*, banks should limit their commitments by way of unsecured guarantees in such manner that 20 per cent of a bank's outstanding unsecured guarantees plus the total of its outstanding unsecured advances should not exceed 15 per cent of its total outstanding advances. Banks are expected to conform to this norm within a period of twelve months.

(iv) For the purpose of conforming to the above norm, guarantees covered by counter-guarantees of the Central Government and the State Governments, public sector financial institutions and insurance companies.

will be regarded as secured guarantees; however, in respect of deferred payment guarantees banks are advised that such guarantees should be backed by adequate tangible security or by counter-guarantees of the Central Government or the State Governments or public sector financial institutions, or by counter-guarantees of insurance companies or other banks provided the counter-guarantees of insurance companies and banks are themselves backed by adequate tangible security. In exceptional cases, banks may give deferred payment guarantees on an unsecured basis for modest amounts to first class customers who have entered into deferred payment arrangements in consonance with Government policy, but such unsecured guarantees should be accommodated within the limits suggested in paragraph 4(iii) above.

(v) As regards the total volume of guarantee business of individual banks, each bank should so restrict its credit and/or guarantee commitments as to allow sufficient scope for a contingent rise in its credit-deposits ratio to take place without impairment of its liquidity. The Reserve Bank will review individual banks' performance in this regard in the course of its annual inspection.

(vi) Banks should, as a rule, avoid giving unsecured guarantees in large amounts and for medium and long terms and should avoid undue concentration of guarantee commitments to particular groups of customers and/or trades.

(vii) Unsecured guarantees on account of any individual constituent should be limited to a reasonable proportion of a bank's total unsecured guarantees. Guarantees executed on behalf of any individual constituent should bear a reasonable proportion to the constituent's equity.

5. The Reserve Bank believes that if commercial banks follow the broad guidelines set out above, they will be able to continue rendering this valuable service to Indian trade and industry without incurring undue risks in regard to the safety or liquidity of their funds. It is essential that banks, like all other agencies concerned, should realise that guarantees contain inherent risks and that it would not be in their interest or in the public interest generally, to encourage parties to over-extend their commitments and embark upon enterprises solely relying on the easy availability of guarantee facilities.

6. Please acknowledge receipt.

Yours faithfully,

Sd/- P. C. Bhattacharya,
GOVERNOR.

ANNEXURE XV

CALCULATIONS FOR HIRE-PURCHASE BUSINESS ON THE BASIS OF HIRE PURCHASE OF 7½% p. a. FLAT

(i) Hire-purchase charges 7½% flat for a period of 2 years, allowing one month's time for body building, amount to be paid in 23 monthly hire instalments works out to a true rate of	14·6%
(ii) Same rate of 7½% flat for a period of three years (36 months), allowing one month's time for body building, to be paid in 35 monthly hire instalments, works out to a true rate of	14·2%
(iii) Expenses based on our experience for the past five years are as under:—	
(i) Interest payable to commercial banks, who get rediscounting, facility from Industrial Development Bank of India	9%
(ii) Charges payable by the Hire-purchase Company against Insurance Policy in favour of the Commercial Banks.	1%
(iv) Provision against bad and doubtful debts.	1·6%
(v) Management and collection expenses	2·5%
TOTAL	14·1%