A SURVEY OF STATE ENTERPRISES IN INDIA

FORUM OF FREE ENTERPRISE
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"People must come to accept private enterprise not as a necessary **evil,** but as an affirmative good."

EUGENE *BLACK*
President, World Bank

INTRODUCTION

"WE BELIEVE that in the circumstances prevailing in our country today, there is ample room for State enterprise to function alongside of Free Enterprise in the service of the people. Monopoly of any kind, whether State or private, is undesirable. Should any single organisation arrogate to itself the right to do everything, it would upset the delicate mechanism of a free and democratic social order. Under monopoly conditions, the consumer would be forced to buy only that which is offered to him; the worker would find himself gradually deprived of his right to choose his job, to demand higher wages, and to deny his labour; the investor and the entrepreneur would be denied the opportunity to promote the development of industries of their choice." These words from the Manifesto of the Forum of Free Enterprise, published in July 1956, were prophetic. In view of the large public funds spent on state undertakings, and disturbing reports on their operations—e.g., strike at the Bhopal Heavy Electricals, the fiasco in steel plants, the breakdown of production at Sindhri Fertilisers—the time has come for a realistic assessment of their working. Dogmatic assertions that state enterprises are superior to private enterprises, or that they are efficient will not convince the public that its money is being spent wisely and profitably.

One major difficulty in assessing the performance of state enterprises is the difficulty of getting authentic information. It is a matter of regret that even the Estimates Committee of Parliament had to point out this deficiency. This paucity of data is strange in view of the claim that state enterprises are owned by the public, while private enterprise companies are subjected to the most rigorous scrutiny at all levels.

The Economic Times has done a great service to the public of India by conducting a survey of state enterprises and presenting the result in an intelligible form. The Forum of Free Enterprise is grateful to the editor of *The Economic Times* for permitting it to reproduce these articles and editorials in the form of a booklet.

A. D. SHROFF
President
Forum of Free Enterprise

TIME FOR STOCK-TAKING

The Estimates Committees of Parliament have highlighted, often to the point of monotonous repetition, the many flaws and errors of omission and commission in the functioning of public sector undertakings; but no effort has so far been made to assess the relative efficiency of the fast expanding public sector and the private sector. *The Economic Times* today publishes a survey of 16 industrial units accounting for about 91-112 per cent. of Central Government companies actively functioning at present. The results of this survey are of far-reaching significance, especially when viewed against the background of the analysis of the working of private sector units published earlier in this newspaper and also by the Reserve Bank. The public sector results have been tabulated both with and without Hindustan Steel's figures to counter any suggestion that the findings have been vitiated by the steel company which has yet to overcome its teething troubles and attain a normal level of operational efficiency.

Viewed from any angle, it is conclusively proved that the tax-payer, who in the ultimate analysis is the shareholder of the public sector undertakings, has had a raw deal so far. The figures show that irrespective of whether we take into account profits before tax as a percentage of total capital employed or the ratio of gross profit to net worth plus borrowings or profits after tax as percentage of net worth, the performance of the public sector units is considerably inferior to that of the private sector. Any suggestion that the lower ratios reflect a greater concern on the part of the State undertakings for the consumer is also far from true; in fact, the study shows that the 16 Government companies realised 15.3 per cent. profit on sales in 1959-60 and 24.9 per cent. in the subsequent year against the average figure of 10 per cent. charged by the private sector units. This proves that along with the tax-payer, the consumer has also had a raw deal from Government companies.

The general picture that emerges from the study is one of an awful lack of co-relation between the amount invested in each public sector undertaking and its profits, although on a given sale the public sector has taken a much larger margin from the consumer than private enterprise. This state of affairs can be described in varying technical jargon—a woefully adverse capital-output ratio or low profitability of capital employed. But it can equally effectively be conveyed in plain terms, namely the amount of return that the nation is getting on the mounting investment in public sector undertakings is disappointingly low and definitely much lower than what it would have obtained if the funds had been channelised into production through the private sector. The performance should be considered particularly disappointing because the interest paid on borrowings works out at only around 2-1|2 per cent; it is obvious that it would have been considerably worse if the public sector units had had to bear an interest burden similar to that of private sector units. It is perhaps inevitable that this low return on public sector investment—in this context it is significant that even Hindustan Machine Tools which is the showpiece of the public sector has poorer profitability ratios than private enterprise as a whole—has had its adverse impact on other fronts as well. For instance, the retained profits are much lower as also the quantum of dividends to the Government. Even in the sphere of taxation, the poor performance has implied lower returns to the exchequer on a given amount of investment and production.

Referring to the projected investment in the public sector of Rs. 1,550 crores in the Third Plan against Rs. 1,200 to

1,300 crores in the private sector, Mr. Manubhai Shah recently claimed that he is happy "to speak from housetops" that the Government is deliberately taking the step to ensure that no concentration of power or wealth takes place in this country. The Prime Minister has also on several occasions extolled the virtues of the public sector and made adverse references to the efficiency of the private sector. Although comparisons may be odious, a mixed economy functioning under a democratic political set-up cannot for ever elude comparisons. The figures published by The Economic *Times* today are significant, for they conclusively prove that the public sector is trailing much behind the private sector in operational efficiency and that the nation as a whole is having a much lower return on investments in the public sector than in the private sector. This is an aspect which no amount of ideological mud-slinging directed against private enterprise can hide from the public in the long run. The accounts of the public sector units clearly show that neither the tax-payer nor the consumer nor even the labourer in the public sector has had a better deal than his respective counterpart in private enterprise.

An article alongside shows that even in the matter of presentation of accounts the Government, which initiated refdrms in private sector accounting with the characteristic zeal of a crusader, does not believe in the dictum of example being the better form of precept. Again, the Third Plan lays great store by the surpluses of public enterprises —Rs. 300 crores from Central undertakings and Rs. 150 crores from State units. Is the current performance of the public sector attuned to producing this surplus in five years? Can the prices charged by the public sector units be pushed up further when the profit margins in relation to sales are already pitched embarrassingly high? Or, is this the reason why Hindustan Steel, which bulks so large in the public sector scheme, has already advanced its claim for higher prices based on its own inflated level of costs when New Delhi is committed to maintaining a uniform price structure for the public and private sectors?

The editor of a wellknown newspaper in the West is reported to have remarked in a lighter vein that "capital punishment is when the Government taxes you to get capital in order to go into business in competition with you, and then taxes the profits on your business to pay for its losses." We are perilously near completing this circle in India and it is time that both Parliament and the Government took note of this unhappy prospect. The public sector in India today has grown sufficiently in importance, magnitude and glare of expert scrutiny and comparison. Its vindication in the national scheme of development under a mixed economy lies in the path of facing, boldly and squarely, such a probe by a high-power independent Commission.

(editorial in "Economic Times" of Feb. 8, 1962)

A SURVEY OF FINANCES OF GOVERNMENT COMPANIES*

A survey of the finances of Government companies by ***The Economic Times*** reveals that their operating results were on the whole poor and despite the considerable improvement shown during 1960-61 in comparison with the previous year, the level of profits measured in terms of capital employed remained substantially below those of their counterparts in the private sector.

* ***The tables referred to in this article are given in the Appendix.***

Fifteen Government companies, excluding Hindustan Steel, showed profits before tax amounting to 6.0 per cent. of total capital employed during 1960-61 while the corresponding ratio for private sector companies was 8.2 per cent. In the previous year the difference was larger, the ratio for Government companies being 3.8 per cent, against 7.8 per cent. for the private sector.

The ratio of gross profits to net worth plus borrowings worked out at 5.1 per cent in 1959-60 and 7.8 per cent. in 1960-61 for 15 Government companies against 13.1 in 1959-60 for the private sector units. Profits after tax as percentage of net worth stood at 5.5 per cent. in 1959-60 and 9.1 per cent. in the subsequent year for the Government units against 11 per cent, for the private sector; the difference in this case is less because the Government sector units provided a lower proportion of profit for taxes compared with their counterparts in the private sector. The profits of Government companies thus remained substantially below those of the private sector units measured in terms of all the usual criteria, in spite of the fact that the public sector undertakings realised substantially larger profit margins on their sales than those realised by the private sector units.

Scope of the present survey: This survey is the first of a series of studies on the finances of Government companies. It covers only 16 Central Government companies, including Hindustan Steel. Statutory corporations and State Government companies are not included in the present survey.

The total paid-up capital of the 16 companies covered by the survey stood at Rs. 362 crores in 1959-60 against a total of Rs. 396 crores for all Central Government companies, excluding six units which were only in the project stage during the two years covered by the survey. The present survey thus covers 91.4 per cent. of all the Central Government companies by paid-up capital excluding of course companies in the project stage. If Hindustan Steel is excluded the paid-up capital of the remaining companies amounted to Rs. 96 crores in March, 1960 and the 15 companies included in this study account for about 65 per cent. of it.

It is hoped that the units left out will also be covered at a later date when a more exhaustive study on the finances of all the Central Government companies will be published in The Economic Times.

A special arrangement has had to be made in presenting the combined accounts for all the 16 units by showing separate figures for Hindustan Steel, because this company alone accounts for 83 per cent, of the total paid-up capital; the accounts of the remaining 15 are shown separately as otherwise it will be difficult to judge their performance.

Considerable difficulty was experienced in processing statistics and presenting them on a comparable basis owing to the lack of uniformity in the methods of presenting of accounts by the various units. In spite of the difficulties experienced in the classification of the various items, the figures relating to capital formation, and profits and their allocations can be regarded as dependenable since clarity was lacking mainly in the case of many expenditure items.

Moreover, even if there is difference of opinion regarding the interpretation of some items, it will not, as a matter of fact, result in any changes in the basic conclusions arrived at by this study as the doubtful figures are not so large in magnitude. It may be emphasised that while processing the data, as far as possible, uniformity in the definitions has had to be maintained and such items as profits have been adjusted in many cases for this purpose. The figures presented in the tables (see Appendix) are thus fairly comparable.

Combined Balance-Sheet: **A** combined balance-sheet of the 16 companies is presented in Table I. Their total assets at the end of 1960-61 amounted to Rs. 815 crores of which

Rs. 664 crores relate to Hindusan Steel. In terms of total assets, therefore, Hindustan Steel accounted for 81.5 per cent. of all the 16 units studied.

At the end of 1960-61, the total gross block stood at Rs. 609 crores of which Rs. 520 crores related to Hindustan Steel alone. The latter had provided depreciation amounting to Rs. 10 crores and the other companies Rs. 20 crores. Thus; the net block including capital-work-in-progress stood at Rs. 579 crores, of which Hindustan Steel's share was Rs. 510 crores. The inventory built up by all the 16 companies amounted to Rs. 82 crores, of which Hindustan Steel accounted for Rs. 47 crores. The composition of the assets of these companies is indicated below.

(As Percentage of Total Assets)

	15 Companies. excluding *Hindustan* Steel	16 Companies *including Hindustan* Steel
Net fixed assets	45.7	71.0
Inventories	23.5	10.0
Receivables	2.4	1.5
Investments	16.6	14.1
Cash	7.2	1.5
And Others	4.6	2.9
Total	100.0	100.0

As the Hindustan Steel had not gone into full production at the end of ,March, 1961, its inventory was small in proportion to its fixed assets; the composition of assets would materially change when adequate inventory is built up.

Capital and Liabilities: The total paid-up capital amounted to Rs. **382** crores and reserves Rs. **6** crores. The 15 companies excluding Hindustan Steel have paid-up capital amounting to Rs. 82 crores and reserves Rs. 8 crores.

Borrowed funds played a prominent role: The total borrowings at the end of the year stood at Rs. 362 crores of which loans from the Government alone amounted to Rs. 340 crores. Excluding Hindustan Steel, the 15 companies had borrowings to the extent of Rs. 44 crores of which about three-fourths were from the Government. The composition of the capital and liabilities of these 15 companies is indicated below.

Percentage of Total Liabilities

	15 Companies excluding Hindustan Steel	16 Companies including *Hindustan* Steel
Paid-up capital	54.3	46.9
Reserves and surplus including taxation reserves	5.3	0.7
Borrowings	29.2	44.4
Trade due and other current liabilities	11.2	8.0
Total	100.0	100.0

As these units are young, their reserves and surplus cannot be expected to be very large, but considering the fact that a few of the 15 units had in fact gone into production some years ago, the 5.3 per cent. of accumulated reserves and surplus against 54.3 per cent. of paid-up capital should be regarded as a poor performance.

Table II (Appendix) shows the sources and use of funds of the 16 companies. The gross total capital formation in these units amounted to Rs. 141 crores of which Hindustan Steel accounted for Rs. 109 crores. The remaining 15 companies showed gross fixed assets formation of Rs. 19 crores and inventory accumulation of Rs. 11 crores.

A substantial part of Hindustan Steel's expansion has been financed by borrowings of Rs. 98 crores, of which Rs. 88 crores were from the Central Government.

The assets formation of Rs. 32 crores of the other 15 companies was financed mainly by paid-up capital (Rs. 19 crores) and depreciation reserve (Rs. 5 crores). Retained profits were low at Rs. 3.0 crores; the other major item was 'trade dues and other current liabilities' which amounted to Rs. 3.9 crores.

The combined income, expenditure and appropriation account of the 16 companies is presented in Table II (Appendix). The sales income of the 15 companies has shown a sizable increase from Rs. 34 crores to Rs. 41 crores or by 22 per cent. The closing stock of finished goods and works-in-progress at the end of the year was nearly double that of the previous year. In the case of Hindustan Steel, which had not gone into full production, the sales income rose from Rs. 12 crores to Rs. 41 crores and the stocks increased to about two and a half times the previous year's closing level.

All manufacturing items showed increases over the previous year. Raw material consumption rose from Rs. 7.1 crores to Rs. 8.8 crores for the 15 companies, and other manufacturing expenses from Rs. 7.4 crores to Rs. 9.6 crores. Salaries and wages at Rs. 10.6 crores showed a rise of 20.3 per cent. over the previous year. Expenses relating to welfare of employees also increased from Rs. 75 lakhs to Rs. 96 lakhs.

During 1959-60, the 15 units paid Rs. 86 lakhs as interest and Rs. 1.18 crores in the subsequent year. Referring to Table I (the combined balance-sheet) it will be seen that the total borrowings stood around Rs. 43 crores at the end of both the years in respect of the 15 companies and of this, three-fourths were from the Government.

Assuming that throughout the year 1960-61 the level of borrowing stood at a more or less uniform level (i.e., Rs. 43 crores) it would appear that the interest paid on these borrowings worked out at about 2-112 per cent. It is not clear how the interest charges were worked out so low when the borrowings were high. If interest were to be paid on such borrowings at rates which banks charge on their lendings to private sector units, the interest charges would have wiped out a substantial portion of profits. In other words, if loans made by the Government to these companies were charged interest at the normal market rates actual profits would have been lower than what is shown in the tables.

It may be recalled that for the list of 1,001 companies chosen by the Reserve Bank of India, the interest charges paid during 1959-60 amounted to Rs. 30 crores against the average figure of borrowings amounting to Rs. 560 crores. This rate works out at more than double the rate paid by Government companies against their borrowings most of which are from the Central Government.

As all the plants of the Hindustan Steel have not gone into full production during the years covered by the present study, it is not possible to assess from the published accounts the performance of this company in relation to that of other units. Though production has gone up by more than three times compared with 1959-60, the company has not yet turned the corner.

Depreciation: The depreciation provision which was Rs. 2.9 crores in 1959-60 increased to Rs. 4.4 crores in the subsequent year, at which level, it worked out at 4.9 per cent. of the gross block and 6.3 per cent. of the net block. As indicated clearly in the report of Hindustan Steel, the provision for depreciation made during the year is inadequate to the extent of Rs. 13 crores, and the actual loss of this company for the year 1960-61 would be more when this figure of Rs. 13 crores is added to the loss of Rs. 0.74 crore shown in the table.

Profit allocation: Profits before tax almost doubled from Rs. 4.7 crores in 1959-60 to Rs. 9.1 crores in 1960-61. It may

be noted here that this profit has been arrived at after deducting interest charges, miscellaneous expenses and depreciation for the year. The profit figures of individual companies have been adjusted by excluding credit and debit items relating to earlier years in order that they may relate exclusively to the operations of the year concerned.

Tax provision: All the 15 companies together made tax provision of Rs. 1.12 crores in 1960-61 against Rs. 1.06 crores in the preceding year, showing very little increase. The tax provision worked out at 12 per cent. of profits before tax against a requirement of 45 per cent. less tax concessions. The present provision is so low presumably on account of the fact that these companies are young and as such entitled to large tax concessions. But for this fact profits after tax and also the ratio of profits after tax to net worth (discussed later) would have been lower. The private sector (E.T. 51 industrial giants") had to make a tax provision of 33 per cent. of profits before tax, as that sector as a whole is entitled to fewer tax concessions, the number of young units being fewer in proportion.

Total dividends of the 15 companies amounted to Rs. 76 lakhs in 1960-61 against the much smaller figure of Rs. 17 lakhs in the previous year. The latest year's dividend worked out at about 1 per cent. of the total paid-up capital. Retained profits at Rs. 7.2 crores during 1960-61 were larger than in 1959-60 (Rs. 3.4 crores).

Individual Companies: The principal items of assets and liabilities and allocation of profits for individual companies are shown in Table IV (Appendix). A large increase in borrowings is noted in the case of Hindustan Steel measured in terms of total assets. Hindustan Steel, the National Coal Development Corporation and Hindustan Machine Tools have recorded large growth rates. The acquisition of

* *The reference is to a study of 51 industrial giants in "Economic Times" of Nov. 27, 1961.*

gross fixed assets amounted to Rs. 176 crores in the case of Hindustan Steel; the National Coal Development Corporation stood second (Rs. 11 crores) and Western Shipping third (Rs. 1.9 crores). Hindustan Steel's inventory accumulation during 1960-61 amounted to Rs. 24 crores and that of the National Coal Development Corporation Rs. 6.4 crores.

The increase in the profits of National Coal Development Corporation and Hindustan Machine Tools was large; other companies showed only small increases in absolute terms, though in relative terms the increase was large in some cases. This was because of the fact that in 1959-60 profits were extremely meagre.

Profit Ratios: Table V (Appendix) shows some of the important profit ratios. Numerous profit ratios are currently used in this country and abroad. Some of the most commonly used ratios are indicated in the table. Gross profits as percentage of total capital employed measures the earning capacity of the total funds in business including all borrowings and inter-corporate liabilities. In 1959-60, the 'ratio for the private sector companies covered by the Reserve Bank sample of 1,001 companies was 9.8 per cent. Against this, the 15 Government companies showed a ratio of 4.5 per cent.

The Reserve Bank's ratio for 1960-61 is not available, but a comparison of available ratios for "The 51 Industrial Giants," which account for 37 per cent. of the total paid-up capital, reveals that between 1959-60 and 1960-61 the profitability ratios showed very little variations (The Economic Times, November 28, 1961 and January 8, 1962). Thus, if the profitability level of the private sector units remained in 1960-61 around the 1959-60 level, the figure of 6.8 per cent. for gross profits as percentage of total capital employed for the year 1960-61 is substantially lower than the corresponding figure of private sector companies.

Profits before tax as percentage of total capital employed stood at 3.8 per cent. in 1959-60 and showed some improvement at 6.0-per cent. in 1960-61. Corresponding figures were substantially higher in the case of private sector companies at 7.8 per cent. in 1959-60; the comparable ratio for the "51 Industrial Giants" worked out at 7.7 per cent. for the subsequent year. This position emerges only if Hindustan Steel is excluded from the picture. As indicated earlier, the inclusion of Hindustan Steel distorts the picture since it had not gone into full production in the years covered by this study.

The ratio of gross profits as percentage of net worth plus borrowings gives an indication of the earning capacity of funds employed in the business excluding trade dues and current liabilities; the figure of profit used for this ratio includes interest charges and tax provision. The Reserve Bank sample shows a ratio of 13.1 per cent. for 1959-60 against 5.1 percent. for Government companies. Since this ratio can be reasonably assumed to hold good more or less for the private sector units around 13 per cent. during 1960-61 also, as is clear from the study of 51 Industrial Giants, the ratio of 7.8 per cent. in 1960-61 for the 15 Government companies shows that their profitability is very low compared to that of private sector companies.

The difference is large here since profits before providing for interest charges and tax are taken. This ratio reveals an unbiased picture of the efficiency of the capital used in business, since the circumstantial advantages of low interest charges and low tax provision of Government companies do not vitiate the validity of the comparison.

If the ratio of profits after tax to net worth (paid up capital plus reserves) is considered, the difference between Government companies and private sector units narrows down to some extent. This is because of the low tax provision that has been made by Government units particularly on account of the larger tax concessions they are entitled to; considered as a whole, these companies are younger than the 1,001 companies. In spite of this, in 1959-60, profits after tax to net worth worked out at 5.5 per cent. for the 15 Government companies against 10.5 percent. for the Reserve Bank sample and 11.8 per cent. for 51 'Industrial Giants'.

In the subsequent year even the Government companies showed a substantial improvement to 9.1 per cent. against 11.0 per cent. for industrial giants. If out of the total profits made by the Government companies tax provision was made in the same proportion as in private sector companies, much of this improvement in 1960-61 would have disappeared. The present advantage of lower tax requirments cannot be relied upon in the long run.

The combined picture that emerges is that the profitability of the Government units was substantially lower than that of the private sector units. It may be argued that this might be due to the pricing policy adopted in respect of the products of the Government sector units. The problem arises whether these units have adopted a policy to benefit the consumers even at the stake of reducing the return on the money employed in business.

The ratio of gross profits to sales proves that this is not true. The 15 Government companies realised 15.3 per cent. gross profits on sales in 1959-60 and 24.9 per cent. in the subsequent year against 10 per cent. by the private sector units. This shows that measured in terms of sales, the profit realised was very large, though it was not sufficient to give a satisfactory return on capital employed in business. If the margin on sales is reduced to the level realised by the private sector units, then, the return on capital employed by the Government units or on their net worth would be considerably lower than the percentages shown in Table V.

The capital work in progress of the 15 Government

companies stood at Rs. 0.9 crores at the end of 1959-60 and Rs. 2.6 crores at the end of 1960-61. They formed only less than **3** per cent. of the gross block of these units. As such it cannot be argued that any substantial part of the plant of these 15 companies was in the stage of erection.

Table VI (Appendix) shows the important profit ratios for each unit. The percentage of gross profits on total capital employed is highest in the case of Hindustan Antibiotics at 20.2, Travancore Mineral stands second with 14.0, and Ashok Hotel third with 12.7. For the year 1960-61, the ratio for all the other units including Hindustan Machine Tools should be deemed below normal as they fall short of 10 per cent. On account of the large tax concessions referred to earlier, the ratio of profits after tax to net worth is reasonably good in some cases during 1960-61.

The ratio of profits before tax to net worth plus borrowings representing the return on funds employed in business (excluding trade dues) is high in the case of Hindustan Antibiotics and Travancore Minerals. The figure of Ashoka Hotel is also good at 11.2 per cent. Considering the figure of 13.1 per cent. for private sector units in 1959-60, the rates for all other units (including Hindustan Machine Tools, the National Coal Development Corporation, Hindustan Cables and Nahan Foundry, though higher than 8.5 per cent.) should be regarded as relatively low.

(from "Economic Times" of Feb. 8, 1962)

ACCOUNTING PECULIARITIES IN STATE ENTERPRISES

The Economic *Times* study of the published accounts of 16 Central Government Companies against the background of the standards prescribed by the Companies Act in the presentation of annual accounts shows that the public sector is lagging much behind the private sector.

Even the few instances listed below are only representative of the irregularities and not exhaustive.

Date of Publication: According to Section 210 of the Companies Act, there should not elapse a period longer than six months between the date up to which a company's accounts are made and the date on which the annual general meeting (at which the accounts are to be presented) is held. It is, therefore, difficult to understand why the accounts of the State Trading Corporation Ltd. for the year ended 31st March, 1961 have not been made available to the public till now. Even, according to the Act, the normal extension given by the Registrar should not go beyond December 31, 1961.

There are also other instances of delays. The accounts of the Fertiliser Corporation of India (one of the largest units in the public sector) for the year 1960-61 have not been printed till now. The accounts of Hindustan Shipyard for the year ended 31st March, 1961 were presented at a general meeting held on 26th October, that is, nearly seven months after the last day of the accounting year.

Method of Presentation: One regrettable feature of the published accounts of some public sector companies is that they do not give in their profit and loss accounts adequate information regarding the transactions or working of the company in the year concerned. The standards set by the public sector in this sphere are far below those of the corporate units in the private sector. Schedule VI, Part II, of the Companies Act 1956, provides: "The profits and loss accounts shall set out the various items relating to income and expenditure of the company arranged under the most convenient heads; and in particular, shall disclose the following information. . . . . ." It proceeds to mention "expenditure on each of the following items – consumption of stores and spare parts; and salaries and wages and bonus."

The manufacturing accounts of Indian Telephone Industries Ltd. contain a debit for direct wages. In the profit and loss account, there is a debit for salaries and wages, but it is far from clear whether these two items constitute the whole of the salaries and wages. Presumably, the debit for "overhead" in the manufacturing accounts contains an element of indirect wages. Indeed, the term "overhead" covers many other expenses in addition to indirect wages, which thus remain invisible to the reader.

What is contemplated by the Companies Act and what the shareholders and the public expect from a company is a set of financial accounts and not a "cost profit and loss account." In the private sector too, there are large manufacturing companies, some of which adopt scientific costing systems. But in their published accounts, they furnish all the particulars as required by the Companies Act mentioning total amounts expended on raw materials, power and spares, salaries and wages, power and fuel, freight and administrative expenses. It is no convincing argument to say that the final profit is not affected by the form in which the debit and credit particulars are presented; for, the purpose of a set of accounts is not merely to show *what* profit was made, but *how* it was made.

The Director of Commercial Audit has drawn attention to an irregularity in the account of Hindustan Shipyard for the year 1960-61, with regard to stock of materials on hand. Pig iron and steel plates of the value of Rs. 5.12 lakhs and cast iron blocks valued at Rs. 1.21 lakhs were placed as ballast in M. V. *Andamans.* In spite of the materials having been issued for a job, the value thereof has been treated as part of materials on hand. The explanation of the company that the cast iron blocks were partly manufactured by them and partly by outside contractors and, therefore, the correct values could not be ascertained, is untenable. It is also not possible to concede that until the replacement of pig-iron by cast iron blocks in all the holds is completed the material continues to belong to the company, Surely. it was not proposed to take back the cast iron blocks.

Also the comment on the accounts of the same company for the year 1959-60 shows that certain materials valued at Rs. 2.72 lakhs received in 1958, 1959 and early 1960 were not taken into stock because they remain'ed uninspected, when the 1959-60 accounts were finalised. At least those received in 1958 should have been inspected by the middle of 1960!

In 1960-61, the management of Praga Tools Corporation wrote off as much as Rs. 6.64 lakhs representing work-in-*process accumulated over the years.* A prompt review at the end of each year must have been made and what was of no value must have been written off in time. Thus, the profits of such years were overstated to the extent that the work-in-process was of no tangible value.

Discrepancies between actual stock of raw materials and stores on hand and the quantities shown in the books are normal (within a reasonable limit) in any industrial company but the shortages revealed in the accounts of Hindustan Steel for 1960-61 appear to be alarming. A total shortage in all the three units of Rs. 45.20 lakhs is admitted by the company to be normal but the actual shortage is over Rs. 100.58 lakhs or substantially more than twice the normal. An amount of Rs. 47.39 lakhs out of this has been written off to the profit and loss account with the narration "shortage of raw materials under investigation". The phrase 'under investigation' has the familiar ring of bureaucratic evasion.

It has also been pointed out that depreciation for the

year amounting to Rs. 1,306.54 lakhs has not been charged in the accounts which means that the actual loss for the year is larger than the amount shown in the accounts.

National Coal Development Corporation: The Director of Commercial Audit has pointed out that the closing stock of Jatraj Seam Coal (Korba) project on March 31, 1961 has been valued at Rs. 19.92 per ton, whereas the price realised is only at the rate of Rs. 17 per ton, though invoices were made out at Rs. 19.92 per ton. The result is that the said stocks have been valued above market price; to what extent the profit has been overstated as a result of this cannot be ascertained from the published accounts alone. The Corporation's contention that the recovery at Rs. 17 per ton is only provisional may or may not prove correct.

The same authority has also pointed out that the Corporation has taken credit for Rs. 6.47 lakhs (included in miscellaneous account) in respect of claims made by them on the Coal Board for subsidy on account of steepness and gassiness of mines. So far, claims amounting only to Rs. 72,000 have been admitted by the Coal Board and the fate of the balance is not yet known. A sound practice would appear to be to wait for the admission of such claims and then take credit for them rather than take credit in the accounts and then wait for admission by the party concerned.

No provision for royalty payable in 1960-61 (Rs. 2.79 lakhs) has been made in the accounts and therefore the profits have been overstated to that extent.

Quite apart from the discrepancy between actual stock on hand verified by physical checking and stock per books of this company, the financial books and the stock registers disclose the following large differences with regard to stock of stores, food grains, spare parts and machinery:

		(Rs. lakhs)	
Year ended	*Stock per financial books*	*Stock per Stock Registers*	*difference*
March 1958	76.64	101.13	24.49
,, 1959	251.92	276.16	24.24
,, 1960	553.46	577.92	24.46
,, 1961	910.28	885.80	24.48

The difference of approximately Rs. 24 lakhs has been persisting from March, 1958, and in each year's notes to the accounts it is stated that the difference relates to the previous period and "arrangements for the adjustment of the two figures are being made." Will this difference be ever reconciled?

(from "Economic Times" of Feb. 8, 1962)

A PROFITLESS STUDY

It is a pity that the *Reserve Bank of India Bulletin* should have allowed to appear in its latest issue an analysis of the finances of Government companies which does justice neither to the high standards set by this publication nor the importance of the subject chosen. The thought of analysing the financial aspect of the fast expanding public sector of industry was indeed brave; but somewhere, in between those responsible for the analysis appear to have struck a vacuum instead of gold, and then staged a hasty retreat. The result is a study of the finances of Government companies in 1959-60 without the inevitable profit and loss analysis. There is an oblique reference to the infancy of the Government companies, but it is overlooked that excepting perhaps Hindustan Steel, most Government companies are old enough to be attired in the customary garb of profit and loss accounts.

The plain truth may be that the Reserve Bank decided to skip the profit analysis because the profits were meagre or nil, but the "source and uses of funds" statement, which for some inscrutable reason takes the pride of place in the latest analysis, has badly let down those cautious research men who believe in the art of selective concealment. The 50 companies covered in the study account for 99 per cent. of the paid-up capital; this is indeed the redeeming feature in what otherwise seems to have been a strenuous game of tight-rope walking. But those who venture to go beyond the figures published in the *Bulletin* will not fail to notice that the dividends received by the Government on its industrial ventures have been embarrassingly small. Retained profits, excluding depreciation, account for less than Rs. 10 crores if the increase in taxation reserve is set off against advances of income-tax. On balance, it is clear that the profits after tax would not have been much larger than Rs. 10 crores on a total capital employed of about Rs. 885 crores!

The important "sources and uses of funds" statement, on its part, makes the equally important disclosure that the State industrial sector's growth was financed mostly by paid-up capital (obviously subscribed mostly by the Government) and loans—also given by the Government. The study very wisely fails to add that where there are no profits, internal resources cannot be developed; in any case the silence is only eloquent in its emphasis of the role of profits in financing corporate expansion. It might have been on the whole discreet on the part of the Reserve Bank if it had not rushed in where only the lesser fry like *The Economic Times* venture to tread—and return unscathed.

(Editorial in "Economic Times" of Feb. 16, 1962)

Appendix

TABLE I: COMBINED BALANCE SHEET OF 16 LARGE CENTRAL GOVERNMENT COMPANIES, 1959-60 AND 1960-61

(Rs. Lakhs)

	15 Companies (excluding Hindustan Steel)		*Hindustan* Steel		*16* Companies (including Hindustan *Steel)*	
	59-60	60-61	59-60	60-61	59-60	60-61
CAPITAL AND LIABILITIES						
A 1 Paid-up Capital (a)	62,47	81,85	300,00	300,00	362,47	381,85
B 2 Reserves and Surplus (b) ..	3,02	5,99	–1,57	–1,74	1,45	4,25
C 3 Taxation Reserve ..	1,91	1,92	–	–	1,91	1,92
D Borrowings ..	43,26	43,97	219,86	318,13	263,12	362,10
4 From Banks ..	5,23	3,60	1,76	12,03	6,99	15,63
5 From Other Financial Institutions ..	1,09	1,12	–	–	1,09	1,12
6 From Government	32,69	33,96	218,10	306,10	250,79	340,06
7 Others ..	4,25	5,29	–	–	4,25	5,29
E 8 Trade Dues and Other Current Liabilities ..	12,63	16,51	42,66	47,88	55,29	64,39
F 9 Miscellaneous Non-current liabilities	25	46	–	–	25	46
10 TOTAL ..	123,54	150,70	560,95	664,27	684,49	814,97

(a) Includes Preference Capital of Rs. 100 lakhs of one company in both years. (b) Includes Capital Reserve of Rs. 4 lakhs for both years. (c) Includes investment of Rs. 1 lakh in Industrial Securities in 1959-60.

	15 Companies (excluding Hindustan Steel)		*Hindustan* Steel		*16* Companies (including Hindustan Steel	
	59-60	60-61	59-60	60-61	59-60	60-61
ASSETS						
G Gross Fixed Assets	69,27	88,69	343,88	519,84	413,15	608,53
11 Land & Buildings	14,68	17,59	26,23	39,80	40,91	57,39
12 Plant and machinery	26,38	33,35	175,02	386,12	201,40	419,47
13 Others ..	27,29	35,13	32,93	41,68	60,22	76,81
14 Capital work-in progress ..	92	2,62	109,70	52,24	110,62	54,86
15 Less Depreciation	14,77	19,78	4,38	10,04	19,15	29,82
H 16 Net Fixed Assets	54,50	68,91	339,50	509,80	394,00	578,71
I Stocks and Stores	24,08	35,41	22,48	46,70	46,56	82,11
17 Raw Materials ..	7,49	9,34	3,09	5,70	10,58	15,04
18 Finished goods and work-in-progress	7,50	12,94	4,82	11,79	12,32	24,73
19 Others ..	9,09	13,13	14,57	29,21	23,66	42,34
J Receivables ..	24,11	25,08	179,52	89,73	203,63	114,81
20 Book debts ..	12,15	13,90	1,59	3,16	13,74	17,06
21 Loans and advances	11,96	11,18	177,93	86,57	189,89	97,75
K Investments (c)	3,60	3,63	–	–	3,60	3,63
22 Government Securities ..	70	72	–	–	70	72
23 Shares of Subsidiary companies ..	2,89	2,91	–	–	2,89	2,91
L 24 Advance of Income tax ..	98	1,40	–	–	98	1,40
M **Other Assets** ..	6,97	5,49	17,93	16,66	24,90	22,15
25 Intangible, Assets	5,93	4,79	4,22	5,59	10,15	10,38
26 Others ..	1,04	70	13,71	11,07	14,75	11,77
N Cash and **Bank** Balances ..	9,30	10,78	1,52	1,38	10,82	12,16
27 Bank Balances ..	9,19	10,48	1,14	94	10,33	11,42
28 Cash in hand ..	11	30	38	44	49	74
29 TOTAL ..	123,54	150,70	560,95	664,27	684,49	814,97

TABLE II: SOURCES AND USES OF FUNDS OF 16 LARGE CENTRAL GOVERNMENT COMPANIES—1960-61

(Rs. lakhs)

	15 Companies (excluding Hindustan Steel)	*Hindustan Steel*	*16 Companies (including Hindustan Steel)*
SOURCES			
A 1. Paid-up Capital	19,38	—	19,38
B 2. Reserves and Surplus	2,97	–17	2,80
C 3. Depreciation Reserve	5,01	5,66	10,67
D 4. Taxation Reserve less Income Tax advance	–41	—	–41
E 5. Borrowings	71	98,27	98,98
6. From Banks	–1,63	10,27	8,64
7. From Government	1,27	88,00	89,27
8. Others	1,07	—	1,07
F 9. Trade Dues and other current liabilities	3,88	5,22	9,10
G10. Miscellaneous non-current liabilities	21	—	21
11. TOTAL	31,75	108,98	140,73
USES			
H Gross Fixed Assets	19,42	175,96	195,38
12. Land and Buildings	2,91	13,57	16,48
13. Plant and Machinery	6,97	211,10	218,07
14. Others	7,84	8,75	16,59
15. Capital work-in-progress	1,70	–57,46	–55,76
I Stocks and Stores	11,33	24,22	35,55
16. Raw Materials	1,85	2,61	4,46
17. Finished goods and work-in-progress	5,44	6,97	12,41
18. Others	4,04	14,64	18,68
J Receivables	97	–89,79	–88,82
19. Book Debts	1,75	1,57	3,32
20. Loans and Advances	–78	–91,36	–92,14
K Investments	3	—	3
21. Government Securities	2	—	2
22. Shares of subsidiary companies	2	—	2
L Cash and Bank Balances	1,48	–14	1,34
23. Bank Balances	1,29	–20	1,09
24. Cash on hand	19	6	25
M 25. Miscellaneous Assets	–1,48	–1,27	–2,75
26. TOTAL	31,75	108,98	140,73

TABLE III: COMBINED INCOME, EXPENDITURE AND APPROPRIATION ACCOUNT OF 16 LARGE CENTRAL GOVERNMENT COMPANIES, 1959-60 AND 1960-61

(Rs. lakhs)

	15 Companies (excluding Hindustan Steel)		Hindustan Steel		16 Companies (including *Hindustan* Steel)	
	59-60	60-61	59-60	60-61	59-60	60-61
EXPENDITURE						
1. Opening Stock of Finished goods and work-in-progress	7,58	7,60	95	4,68	8,53	12,28
2. Raw materials consumed	7,05	8,84	7,36	16,87	14,41	25,71
3. Salaries & wages	8,78	10,56	2,07	5,32	10,85	15,88
4. Other Manufacturing Expenses (a)	7,36	9,63	3,16	12,23	10,52	21,86
5. Employees' Welfare Expenses	75	96	25	35	1,00	1,31
6. Interest	86	1,18	—	17	86	1,35
7. Other Expenses (b)	2,93	4,08	4,07	11,61	7,00	15,69
8. Depreciation Provision	2,92	4,35	45	2,98	3,37	7,33
9. Profits before tax	4,66	9,09	–1,19	–74	3,47	8,35
10. Tax Provision	1,06	1,12	—	—	1,06	1,12
11. Profits after tax	3,60	7,97	–1,19	–74	4	7,23
12. Dividends	17	76	—	—	17	76
13. Profits retained	3,43	7,21	–1,19	–74	2,24	6,47
14. TOTAL	42,89	56,29	17,12	53,47	60,01	109,76
INCOME						
15. Sales/Main Income	33,87	41,17	12,16	40,97	46,03	82,14
16. Other Income	1,65	2,08	14	71	1,79	2,79
17. Closing Stock of Finished goods and work-in-progress	7,37	13,04	4,82	11,79	12,19	24,83
18. TOTAL	42,89	56,29	17,12	53,47	60.01	109,76

NOTE: The profit and loss account of Kargali Coal Washery has been merged with that of the National Coal Development Corporation; 'Praga Tools' data for 1959-60 have been estimated from 9 months' accounts on proportional basis. (a) Including 'Board and Lodge Expenses' of Ashoka Hotels and 'Operating Expenses' of shipping companies. (b) Including excise duty paid by Hindustan Steel—Rs. 67 lakhs for 1959-60 and Rs. 359 lakhs for 1960-61.

TABLE IV : SELECTED ITEMS FROM THE ACCOUNTS OF 16 LARGE CENTRAL GOVERNMENT COMPANIES 1959-60 AND 1960-61

	Hindustan Shipyard		*Praga Tools*		*National Coal Development Corporation*		*Ashoka Hotels*		*Hindustan Machine Tools*		*Hindustan Antibiotics*		*Indian Rare Earths*		*Trav. Minerals*	
	59-60 (1)	60-61 (2)	59-60 (3)	60-61 (4)	59-60 (5)	60-61 (6)	59-60 (7)	60-61 (8)	59-60 (9)	60-61 (10)	59-60 (11)	60-61 (12)	59-60 (13)	60-61 (14)	59-60 (15)	60-61 (16)
(Balance Sheet items)																
1. Paid-up Capital	5,48	5,60	1,37	1,37	13,85	25,40	1,50	1,50	5,31	5,31	2,47	2,47	1,00	1,00	50	50
2. All Reserves including Taxation Reserve	–9	–8	6	3	86	1,75	–32	–6	7	9	2,80	3,49	–13	–8	25	24
3. Borrowings	5,88	7,83	–	–	22,88	23,83	1,25	88	1,65	2,53	–	–	–	–	–	–
4. Trade Dues and currentliabilities	84	78	12	15	5,50	7,01	39	20	81	1,71	95	1,33	14	15	51	29
5. Total net Assets (a)	12,11	14,13	1,55	1,55	43,09	57,99	2,82	2,52	7,84	9,64	6,22	7,29	1,01	1,07	1,26	1,07
6. Gross Fixed Assets	4,65	4,82	82	1,00	23,82	34,76	2,73	2,72	4,66	6,16	2,58	3,21	88	87	18	20
7. Net Fixed Assets	3,46	3,40	35	47	19,05	27,45	2,29	2,17	4,00	5,18	1,92	2,39	49	45	15	15
8. Inventory	6,61	9,64	73	79	6,13	12,51	14	14	2,94	3,17	92	1,41	12	12	17	21
(Profit allocations)																
9. Depreciation provision for the year	22	24	5	5	55	1,37	12	12	27	35	14	16	2	3	1	2
10. Profits before tax	1	1	5	3	1,38	4,77	10	26	39	69	1,46	1,46	1	5	17	15
11. Tax Provision	–	–	–	–	–	–	–	–	–	–	63	65	–	–	8	7
12. Dividends	–	–	–	–	–	–	–	–	–	33	–	–	–	–	5	3

	Western Shipping		*National Newsprint*		*Hindustan Steel*		*Eastern Shipping*		*Hind. Cables*		*Nahan Foundry*		*Indian Tele. Industries*		*Bharat Electronics*	
	59-60 (17)	60-61 (18)	59-60 (19)	60-61 (20)	59-60 (21)	60-61 (22)	59-60 (23)	60-61 (24)	59-60 (25)	60-61 (26)	59-60 (27)	60-61 (28)	59-60 (29)	60-61 (30)	59-60 (31)	60-61 (32)
(Balance Sheet items)																
1. Paid-up Capital	7,25	12,90	4,93	4,94	300,00	300,00	8,20	10,00	1,25	1,25	40	40	4,00	4,00	4,96	5,21
2. All Reserves including Taxation Reserve	9	36	–93	–62	–1,57	–1,74	78	91	38	44	4	6	1,15	1,37	–8	1
3. Borrowings	4,82	1,91	1,26	92	219,86	318,13	3,58	3,87	89	74	8	8	97	1,38	–	–
4. Trade Dues and currentliabilities	29	42	28	39	42,66	47,88	67	1,20	27	42	5	9	1,50	1,68	31	69
5. Total net Assets (a)	12.45	15,59	5,54	5,63	560,95	664,27	13,24	15,99	2,83	2,89	57	63	7,82	8,77	5,19	5,94
6. Gross Fixed Assets	7,07	8,89	5,40	5,56	343,88	519,84	8,51	11,53	1,48	1,67	15	17	3,69	4,10	2,65	3,03
7. Net Fixed Assets	6,69	8,05	3,99	3,85	339,50	509,80	6,25	9,02	1,11	1,18	8	10	2,40	2,58	2.27	2,47
8. Inventory	–	–	62	72	22,48	46,70	1	2	29	64	28	29	3,69	4,34	1,43	1,44
(Profit allocations)																
9. Depredation provisionfortheyear	24	46	31	29	45	2,98	45	61	7	11	3	4	30	32	14	18
10. Profits before tax	5	30	43	37	–1,19	–74	–7	5	14	24	4	5	37	47	13	19
11. Tax Provision	–	–	–	–	–	–	–	2	8	8	4	2	23	28	–	–
12. Dividends	–	–	–	–	–	–	–	–	2	8	–	2	10	10	–	–

(a) 'Total net assets' comprises net fixed assets, inventory, receivables, investments, advance of income-tax, cash and bank balances and other miscellaneous assets; it is equal to total capital plus liabilities.

TABLE V : IMPORTANT PROFIT RATIOS

	1959-60					1960-61			
	Fifteen Government Companies excluding Hindustan Steel	*Hindustan Steel*	*Sixteen Government Companies including Hindustan Steel*	*R.B.I. 1,001 companies*	Economic Times 51 Industrial Giants	*Fifteen Government Companies excluding Hindustan Steel*	*Hindustan Steel*	*Sixteen Government Companies including Hindustan Steel*	Economic Times 51 industrial Giants
1. Gross profits as percentage of sales	15.3	–9.8	9.4	10.1	–	24.9	–1.4	11.8	–
2. Gross profits as percentage of net worth *plus* borrowings.	5.1	–0.2	0.7	13.1	–	7.8	–0.1	1.3	–
3. Gross profits as percentage of total capital employed	4.5	–0.2	0.5	9.8	–	6.8	–0.1	1.2	–
4. Profits before tax as perqentage of total capital employed	3.8	–0.2	0.5	7.8	7.7	6.0	–0.1	1.0	8.2
5. Profits after tax as percentage of net worth	5.5	–0.4	0.7	10.5	11.0	9.1	–0.2	1.9	11.0

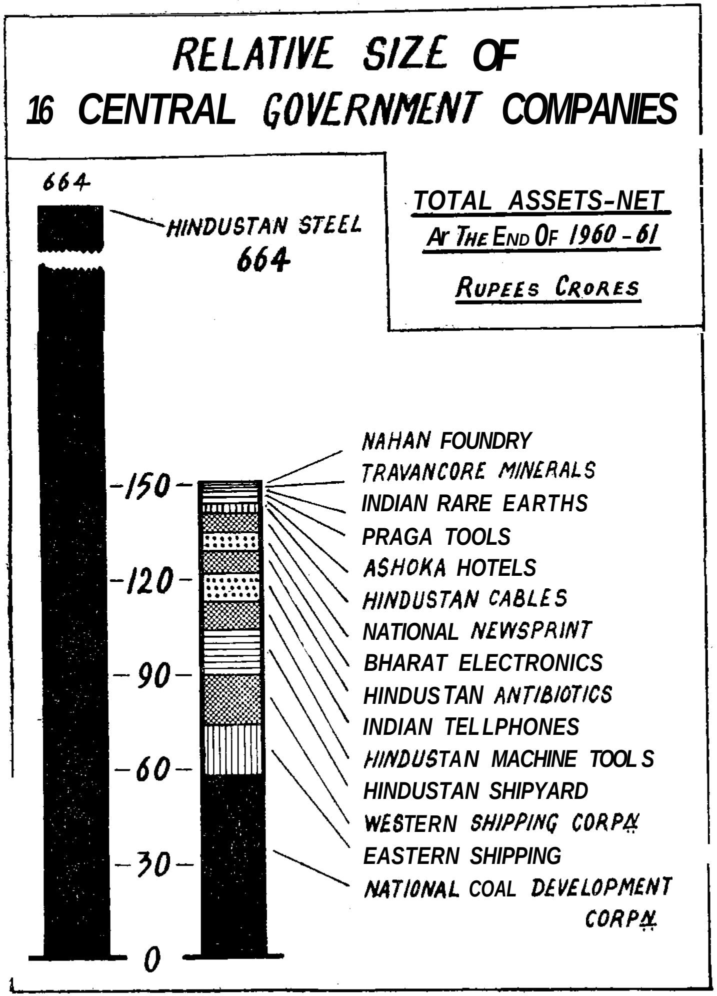
Note : Gross profits include profits before tax, interest charges and managing agents' remuneration, but exclude depreciation.

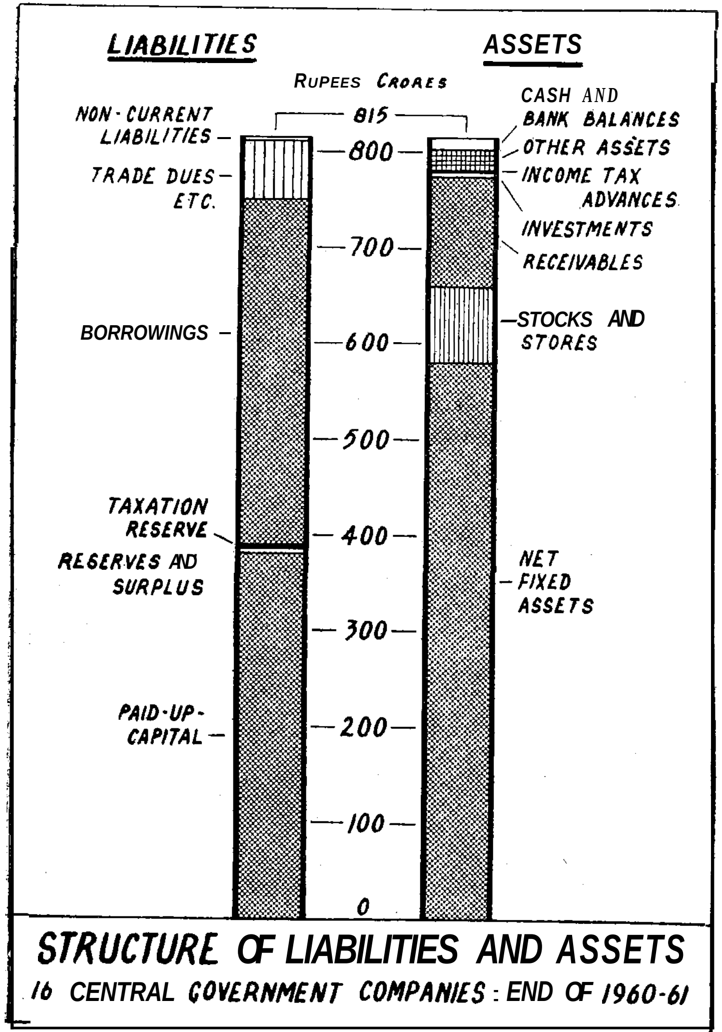
TABLE VI: PROFIT RATIOS OF 15 LARGE CENTRAL GOVERNMENT COMPANIES

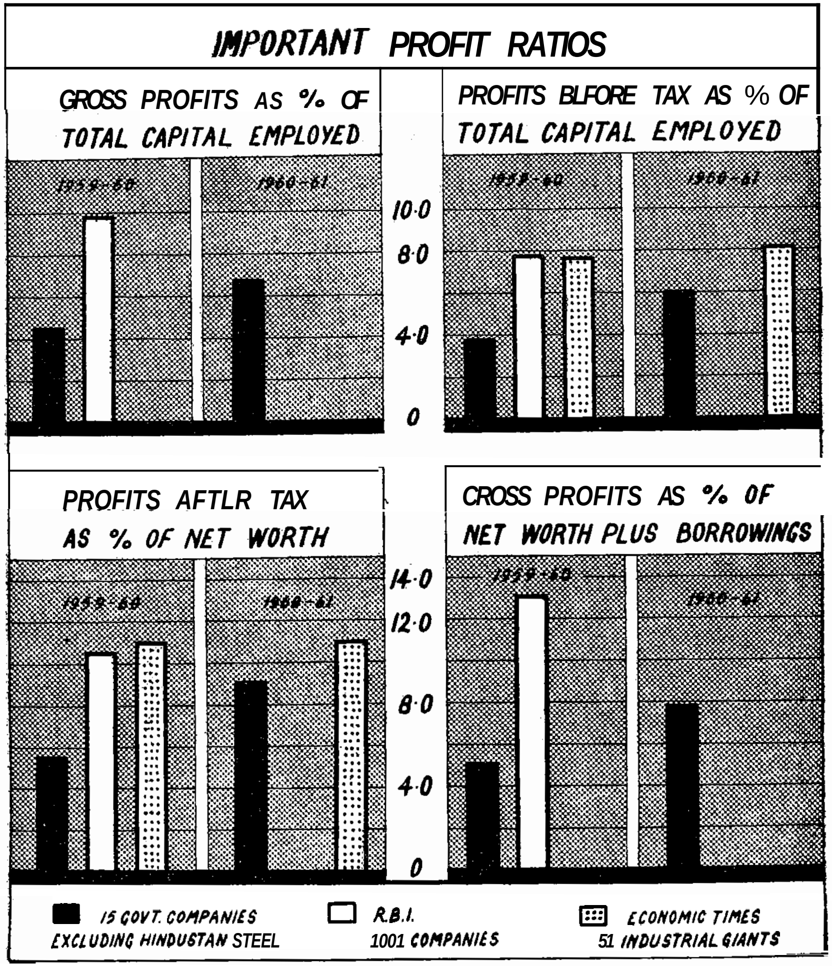
	Gross profits as percentage of total capital employed		*Profits after tax as percentage of net worth*		*Profits before tax as percentage of total capital employed*		*Profits before tax as percentage of net worth plus borrowings*	
	1959-60	1960-61	1959-60	1960-61	1959-60	1960-61	1959-60	1960-61
1. Hindustan Shipyard ..	0.7	0.2	0.2	0.2	0.1	0.1	0.1	0.1
2. Praga Tools ..	3.2	1.9	3.5	2.1	3.2	1.9	3.5	2.1
3. National Coal Development ..	4.1	9.2	9.4	17.6	3.2	8.2	3.7	9.4
4. Ashoka Hotels ..	6.0	12.7	8.5	18.1	3.6	10.3	4.1	11.2
5. Hindustan Machine Tools ..	6.3	8.1	7.3	12.8	5.0	7.2	5.6	8.7
6. Hindustan Antibiotics	23.5	20.2	15.8	13.6	23.5	20.0	27.7	24.5
7. Indian Rare Earths ..	2.0	4.7	1.2	5.4	1.0	4.7	1.2	5.4
8. Travancore Minerals ..	13.5	14.0	12.0	10.8	13.5	14.0	22.7	20.3
9. Western Shipping ..	0.6	3.2	0.7	2.3	0.4	0.2	0.4	2.0
10. National Newsprint ..	8.5	6.6	10.8	8.6	7.8	6.6	8.2	7.1
11. Eastern Shipping ..	–0.2	1.5	–0.8	0.3	–0.5	0.3	–0.6	0.3
12. Hindustan Cables ..	5.7	9.3	3.7	9.5	5.0	8.3	5.6	9.9
13. Nahan Foundry ..	8.8	7.9	—	6.5	7.0	7.9	7.7	9.3
14. Indian Telephones ..	5.4	5.4	2.7	3.5	4.7	5.4	6.1	7.0
15. Bharat Electronics ..	2.5	3.2	2.6	3.6	2.5	3.2	2.6	3.6

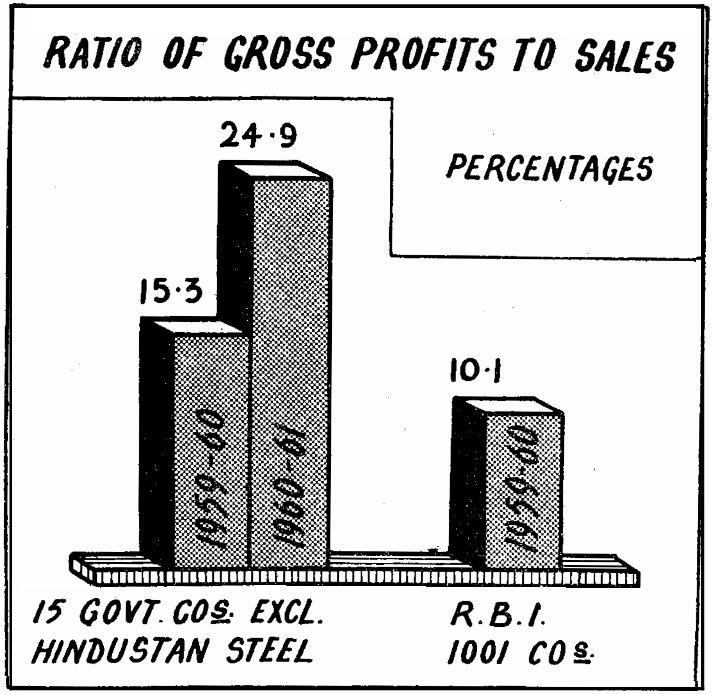
ILLUSTRATION CHARTS

The following charts will help the readers to survey at a glance the performance and position of state enterprises.









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—A. D. SHROFF

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