Company Notes

Fifty Years of Tata Steel

THIS year the Tata Iron and Steel Co as also the Indian Steel Industry celebrates its Golden Jubilee. A half century of steel is also a half century of India's progress. But the natural temptation to read into the history of the steel Industry, variegated though it is, the history of the country's industrial development has to be resisted. Had the one reflected the other, the story would have been so very different.

Jamshedpur indeed is Sir Jamshedji Tata's dream come true to life. Of course the geologists knew what lay underground in the districts of Simbhum and Manbhum. The predominance of British personnel in the Geological Survey of those days and the general inability of the few Indian capitalists who had the capacity of availing of it, to find an opportunity of developing even coal mines of any quality, seem to support the common belief that a hush hush was maintained about the minerals deposits so that no Indian could ever get at them. Why the British did not try to get at some of the world's richest reserves of iron ore, is a question that has never been satisfactorily answered. There is a small bust in Jamshedpur of a Bengali geologist who had divulged the secret of its hidden treasure to Jamshedji and the rest of this beehive of industry is Bombay enterprise to which the Imagination and acumen of Jamshedji gave such a sharp focus. The entrepreneur was not only an innovator; he had also unique qualities of leadership which attracted not so much the calculating investor as the patriotic Indian, not necessarily of much means, who saw in the development of modern industry India's path of future progress.

The Company was founded in 1907 with a capital of Rs 2 crores. It sold pig iron and steel for the first time in 1911-12. But already by 1914, it had become a substantial producer of iron and steel. It was the first World War, however, which brought home to the British not the value of steel but the value of steel production in their war flung empire. India was the base for military operations in the Middle East Behind the Mesopotamian disaster, there was also the failure of supplies from India, the story of which had its unsavoury features that lead to the suppression of the Munition Board case. But the British had learnt a lesson —the nascent steel industry was not allowed to be whisked off as it would have been whisked off by the trade depression of the post-war years. That was the time when Tata Steel was exposed to the blast of Continental competition, intensified by the competitive exchange depreciation. Tatas were enabled to float debentures in the London money market. The amount was small, interest charges prohibitive though the debentures carried the guarantee of the Secretary of State for India Then came he principle of discriminating protection and steel became the model and perhaps one of the few solitary cases of the successful operation for such protection. Before another war came, the Chairman of the Company was in a position to declare proudly that the industry required no protection any longer. Production had by then increased to 6,80.000 tons a year. World War II saw production rise to 8,31,000 tons saleable steel, which is still the record, but it is soon going to be more than doubled!

The immediate post-war years, however, were not happy for the industry, though it was almost the world's lowest cost producer of steel. Price control had robbed the Company of the ability to carry out rehabilitation and modernisation of its old plant and it was only. from 1951 when Government realised and accepted that development has to be paid for from the current price that things began to gradually improve. The present plans of expansion to be completed by the end of 1959 will *push* up production to two million tons of saleable steel. Tatas were for many years the largest single producer of steel in the Britten Commonwealth. They will regain the position with no fear of challenge when the programme of expansion is completed.

The Company's expansion and modernisation plans for the live years 1955-60 are expected to cost an aggregate of Rs 118.7 crores. Of this amount, the IBRD loan will provide Rs 36 crores, the unspent balance of special Government advance Ra 5.2 crores, bank borrowings Rs 10 crores, retained earnings and sale of investments Rs 37 crores; the balance of Rs 17 crores is proposed to be raised in the USA. By the end of the accounting year 1956-57, the Company had drawn the entire Government advance, and Rs 8.83 crores of the IBRD loan. Of the total amount of Rs 8.99 crorea payable on new Ordinary shares in two instalments of Rs 35 each which fell due during the year, only Rs. 8.60 crores was received before closing of accounts. The company sold gilt-edgeds worth Rs 1.76 crores during the year.

The depreciation allowances under the Income Tax Act for the current year amounted to Rs 395 lakhs. Since this will continue for the next two years at least, a sum of only Rs 247 lakhs has been provided for depreciation this year, representing the normal depreciation for tax purposes including the extra shift allowance but excluding double normal depreciation, .saving on account of which is estimated at Rs 75 lakhs. This more even spreading out of book depreciation will help stabilise the Company's net income over the next few years. Since heavier taxes and higher Works' consumption of steel have forced -reductions in amounts transferred to the Plant Rehabilitation and Development Reserve by Rs 54 lakhs compared to last year, the Company has asked for suitable additions to retention prices to take care of additional taxes.

The Company's extra liability on account of the Budget proposals amount to Rs 70 lakhs, including Rs 22 lakhs for the Wealth Taxi This amount is however, more than equalled by the amount set aside for development reserve (saving on tax rebate) of Rs 95 lakhs. The total tax provision made by the Company this year amounts to Rs 357 lakhs, including Rs 15 lakhs for deferred taxation reserve, against Rs 345 lakhs last year. The tax liability has not risen significantly in spite of heavy additional taxation this year due to liberal depreciation allowances.

The Company enjoys an enviable position to-day and there is no

doubt that the earning capacity of the Company will increase substantially when the expansion programme is completed. The expansion is being undertaken mostly through loans obtained with the backing of the Government and the loaes are to be repaid through the price increase allowed by the Government. The shareholders have not put in sufficient money for the expansion projects though they can legitimately claim that had there been no price control, the Company would have been able to raise the necessary resources without any help from the Government.

How will the shareholders fare in future and how far can they legitimately expect to share the prosperity of the Company? It depends on what would be regarded as fair returns in a socialistic pattern of society. The question is complicated by the widening disparity between the share capital and the fixed assets of the company. In 1953-54, for example, while the share capital was Rs 17 crores, the fixed values of the assets was Rs 51 crores. By 1956-57, the share capital had increased to Rs. 25.94 crores while the fixed assets had jumped up to Ra 93.44 crores. If the depreciated value of The assets are considered, the disparity is oven wider. As against Rs 17 crores of share capital, the depreciated value of the Company's assets in 1953-54 was Rs 18.18 crores while the figures for 1956-57 are Rs 25.94 crores and Rs 54.78 .crores respectively.

BURMAH SHELL REFINERIES
Accounts for 1956

THE Directors' Report and Balance Sheet for Burmah-Sheli Refineries Ltd. for the year 1956 is of outstanding performance as well as of unusual interest, for this is the first report to cover a full year's working of the refinery.

The Directors report uninterrupted working of the refinery apart from scheduled shut downs for routine inspection and maintenance. The company processed during the year 2.35 million tons of crude petroleum yielding 2.19 million tons of refined products and saving the country Rs 7.51 crores in foreign exchange. The financial results of the working of the refinery had been sufficiently encouraging to enable the Directors to recommend to the company in September last year that the Government of India be advised that from October 1, 1956 the company would forgo the duty protection on motor spirit of As 2 per gallon provided for under the agreement for the construction and operation of the refinery. This was estimated to yield to the Government of India revenues in a full year of Rs 2 crores.

The net income of the company for the year to December 31, 1956 amounted to Rs 632 lakhs, after providing for normal depreciation and the estimate of liabllty for taxation. Out of this, the Directors propose additional provision for depreciation, in excels of the depreciation (including development rebate) allowed for taxation purposes to date of an amount of Rs 511 lakhs, This leaves a net amount of Rs 121 lakhs out of current year's earnings. Adding the balance brought forward from 1955 of Rs 186 lakhs, the total available for disposal amounts to Rs 307 lakhs from which Rs 302 lakhs are recommended to be paid out in dividends, leaving a balance of Rs 5 lakhs to be carried forward.

No specific provision has been made for debenture redemption and debentures will have to be redeemed, when they fall due, from reserves and from further earnings.

The Directors, however, are not equally optimistic about future financial prospects. Apart from the effect of foregoing protection on motor spirit, the Directors' point out that experience in oil refineries elsewhere shows that maintenance costs of plant progressively increase with each year's operation and this has an adverse effect on profit margins. The recent increase in crude oil prices in the Persian Gulf will also have an impact on refining margins.

The company incurred capital expenditure amounting to Rs 3.02 orores during the year. Its development programmes progressed satisfactorily. The processing unit for improving the quality of kerosene came into operation in June 1956 and the construe ton of the platform unit proceeded according to plan so that at the end of the year only minor items remained to be completed.

The training of Indian staff and the programme of Indianisation also progressed according to schedule and the number of expatriate staff was reduced during the year from 43 to 32.

SEN-RALEIGH

SEN-RALEIGH Industries were one of the very first to enter into collaboration with foreign firms for the manufacture of bicycles of worldwide repute which had also an established market in the country. The company completed seven years of its life on 30th September, 1956. That its Annual Report should become available almost a year after the closing of accounts may be regrettable but the company's operations during the year give some reason for satisfaction. Production increased by 50 per cent and sales rose to Rs 1.65 crores from Rs 1.13 crores. The profit margin after depreciation, however, declined from 9.8 per cent to 8.7 per cent on account of substantial reductions In prices. The company is still not subject to income tax due to liberal depreciation allowances but a provision of Rs 45,000 has been made in anticipation of Wealth Tax, Net block stands at Rs 1.13 crores while current assets and investments amount to Rs. 98.5 lakhs and Rs 13.9 lakhs, respectively. Secured loans have risen slightly to Rs 71.8 lakhs, including Rs 38 lakhs from the Industrial Finance Corporation, which has sanctioned a further loan of Rs 15 lakhs.

Paid up capital of the company has Increased by Rs 5.8 lakhs during the year to Rs 85 lakhs while reserves and surplus have risen from a mere Rs 71,000 to nearly Rs 10 lakhs, of which general reserve and reserve for repayment of IFC loan are Rs 2 lakhs each while reserve for machinery replacement and rehabilitation gets Rs 4 lakhs. Of the net profit after depreciation of Rs 14.36 lakhs against Rs 11.07 lakhs, distribution including dividend on preference shares amounts to only Rs 4.73 lakhs, indicating the company's firm resolve to plough back earnings.

In February. 1957 the Company received permission for substantial expansion of capacity for production of bicycles and components. It has now decided to sponsor a number of ancillary small scale units for manufacture of some of those components the manufacture of which the company does not propose to or is not in a position to take up.