

From the Chair

# United Bank of India Limited

## Speech of the Chairman, Dr., N. N. Law

THE following are extracts from the speech delivered by the Chairman, Dr. N. N. Law, at the Tenth Annual General Meeting of the United Bank of India Limited, held on the 25th of April, 1960:

"The economy of the country is entering an important and crucial phase. In this the last year of the Second Plan, preparations are afoot for launching the Third Plan which, it is hoped, will mark the achievement of the self-generating stage in India's economic development. In this context, I take your leave to make a few observations bearing upon the banking system generally, before I proceed to present your Bank's balance sheet for your consideration.

### THE TREND IN BANKING

"Despite the strains and stresses that banking in India has had to contend with during the 1950s, its contribution to the developmental effort of the Nation has not been insignificant. There has been a marked growth in deposits as well as in advances; more areas have been provided with banking facilities; banking habit has been further stimulated; finance for foreign, trade, in addition to the growing demand for inland trade and industry, has been provided; and Government borrowings have been supported.

### OPERATING EXPENSES

"The growth of the banking system has, however, been inhibited by the rising operating expenses, a factor which has cut into the already thin margin of bank profits. Between 1950 and 1958, the ratio of operating expenses to deposits has, in the case of Indian scheduled banks, gone up from 2.97 per cent to 4.24 per cent. This means a rise of about 43 per cent as against a rise of 29 per cent in the ratio of operating earnings from 3.84 per cent to 4.96 per cent.

"Operating expenses comprise mainly (a) cost of deposits and (b) establishment charges, over neither of which has the banking system been left with any appreciable measure of effective control. Firstly, in regard to the cost of deposits, while it is true that the upward trend in

the rate of interest on deposits was checked by an inter-bank agreement in 1958, it cannot be said that the average cost of deposits has since been appreciably brought down in-as-much-as in recent years the pattern of deposits, with a preponderance of time deposits has remained unchanged; in 1959 time deposits constituted 60 per cent of the total deposits of Scheduled Banks as against 33 per cent in 1950.

### ESTABLISHMENT CHARGES

"Secondly, in regard to Establishment charges, these are mounting from year to year and have for some time been quite outside the control of the banks. While there has been, in recent years, appreciable increase in the overall remuneration of bank workers, it can by no means be said that there has been a corresponding improvement in their productivity. I appreciate the difficulties experienced by all workers and fixed-income groups, during a period of rising prices. But in a fast developing economy, it is the lot of all citizens to bear such hardships. Unless there is a determined effort to increase productivity and unless an increase in remuneration is linked to a corresponding increase in output, the circle of wage rise and cost inflation would continue unbroken. I would, therefore, appeal to all workers and particularly to the bank employees, to appreciate the situation and extend their wholehearted co-operation in an endeavour to improve the standard and norm of production.

"While on the subject of operating expenses, I want to sound a note of warning against the dangers of a situation, in which, to meet the growing expenses, banks are reluctantly forced to seek increased earnings by a quick rise in their Advances. Expansion of bank credit, when occasioned by development efforts, may be a necessary feature in the process of economic growth, but it becomes a different matter when a rise in advances is sought for the purpose of meeting the disproportionate increase in the banks' operating costs. An enquiry into the manner in which, and the extent to which,

the rising operating expenses have so far been absorbed, and whether the process has not adversely affected the banking system and the sound growth of the national economy, would prove, to be a very useful study.

### OPERATING EARNINGS

"The imbalance between rising operating costs and comparatively less elastic operating earnings, has acquired the dimensions of an international problem. It is instructive to note that despite significantly high service charges of the American banks, the Vice President of the American Bankers Association has, in a recent address, thought it fit to emphasise the necessity of educating the banks' customers with a view to further passing on the incidence to them. The banks in India are now faced with a similar problem of improving their earnings without much altering their pattern of assets.

"Besides meeting the rising costs, the banking system must have a better pattern of earnings to be able to provide better and newer services. Owing to the inter-play of various forces, domestic and international, it has become necessary for the banks to organise and increasingly develop departments which earn no profit for them, such as Economic research, methods and systems research, cost analysis, study of specific industries etc. Faster expansion of branches would also require ability to bear losses on the new branches. Again, adoption of new techniques of advances, to meet the requirements of the economic development efforts, needs to be backed by a better built-in cushion.

### MONETARY POLICY

"Having discussed some of the aspects of the trend in Indian banking, I now turn to an important monetary measure recently introduced in this country.

"Any step, which is expected to restrain inflation, the most crippling force in an economy, would be welcome even when it is taken in anticipation. While introducing such a measure, however, it is necessary to ensure a proper spread of its inci-

Since over the different segments of the economically active people. Complexity arises when, for reasons of inability or expedience, the attack cannot be directed at the source or the sense of equity cannot be allowed to prevail.

"It is in this context that the directive, issued in early March this year, by the Central Banking authority, has to be judged. Banks are now required to maintain with the Reserve Bank, as cash deposit, 25 per cent of any increase in deposits accruing after 11 March, 1960, in addition to the requirement of the usual statutory deposits at 2 per cent of the Time and 5 per cent, of the Demand liabilities. 'Although such measures were adopted before in other countries of the world, when (occasion arose, the present directive is the first of its kind in imposing quantitative restriction on the use of bank resources in this country.

#### ADVANCES-DEPOSITS RATIO

"The purpose for which this step has been taken, is, according to the statement in the press, to meet the situation arising out of substantial liquidity in the banking system, expansion of money supply and bank credit and their impact on the price level. With regard to liquidity of banks, early in March this year, the Advances-Deposits ratio of all scheduled banks including the State Bank of India was 56.66 per cent. If the figure for the State Bank (31.01 per cent) is isolated, the ratio of other scheduled banks would stand at over 69 per cent about the date when the directive came into effect. If the amount of about Rs.300 crores of the P-L-480 counter-part funds lying with the State Bank in deposit, (and which is slated to have been entirely invested in Government Securities) is isolated from its total deposits of about Rs. 644 crores, the advances ratio of that bank to the net figure, will be of the order of 60 per cent. If this figure is taken with the figure of other scheduled banks, the overall ratio of all scheduled banks would be around 67.4 per cent.

"As for bank credit, expansion may be allowed as far as the productive requirements of the economy would warrant. In a fast developing economy there is need and scope for flexibility of approach in this regard. The impact of bank credit on the price level, at the present

time, is at best insignificant. A major contributor to a cost inflationary trend is the impact of a disproportionate rise in wages. It is our view that wage rise, as it is taking place today, is completely dissociated from the realities obtaining in the life of the masses as a whole. In such a situation, I wonder how far the effect of such non-monetary causes can be neutralised by monetary measures, particularly when the latter cover only a small portion of the total economic activity of the country.—the bulk remaining outside the channels comprising the organised money market. On the other hand, a substantial expansion of the banking system can be an important corrective, and this, we think, needs real encouragement.

"Future will answer whether or not the step taken has been much ahead of its time and whether the context in this country was or was not the same as, those in which such steps were taken in some other countries. It must, however, be admitted that, if any monetary measure is at all indicated, it is more welcome in its present form than in the form of other conventional restraints. If this measure will succeed in keeping the prices under control, and holding the value of the rupee, and not aggravate the situation by hampering production, the step will have been justified and the banking system will have no complaints.

#### BANK'S PROGRESS

"I now draw your kind attention to the Bank's Accounts for the past year, which have been in your hands for some time. The results depict yet another year of progress. Deposits have gone up from Rs 43.54 crores in 1958 to Rs. 47.68 crores. There has been a slight decrease, in advances by Rs. 12.2 lakhs to Rs. 27.51 crores. More foreign exchange business was transacted during the year as compared to the previous year. Against the background of general economic growth, the eastern part of the country suffered considerably, during the year under review, from flood and excessive rain. Having a large number of offices in this affected area, your bank could not but feel the repercussions. Judged in this context, therefore, the progress achieved has been both satisfactory and encouraging.

"I feel happy to be able to report better operating results than in the

previous year. The profit for the year under review has been arrived at after payment of bonus to the staff, an item which figured in the previous year as an allocation from the profit. Although your Directors are now able, to recommend dividend at a gross rate of 4.30 per cent, on account of the Finance Act, 1959, the net rate at 3.01 per cent remains almost the same as before. At the recommended rate, payment of dividend will absorb Rs. 11.39 lakhs as against Rs. 7.83 lakhs in the previous year. It may be relevant to mention here that, the new pattern of Income tax has further dug into the elective profits after taxes in the hands of the banks and the shareholders. As a result, there has been a noticeable decline in the value of bank shares with a few exceptions.

#### NEW BRANCHES

"During the year under review, we opened four new branches at Barrackpore, Naihati, Kharagpur and Dum Dum. The new branches, along with the others, are making satisfactory progress. More branches will be opened during the current year and preparations for this purpose are in hand."

#### FINANCE TO SMALLSCALE INDUSTRY

Welcoming the move taken by the Reserve Bank to introduce a scheme of guarantee to cover a portion of the losses that may be suffered by commercial banks in financing the small-scale industrial units, Dr. N. N. Law observed:

"However, in-as-much-as inadequacy of risk capital continues to be a major problem in financing the small business, the idea of establishing an Issue House to assist new floatations and offer facilities for sale and purchase of non-marketable equities, may also be considered at the same time."

He declared that the Bank, which has already been financing small and medium industrial and business units in large numbers, has now decided to organise a separate section at its Head office to handle the small business loans with special attention. "This", he observed, "will enable us to better understand the problems of small scale industries and to see how far the Bank may further augment its financial assistance to them."

#### Pakistan

Referring to the activities of the Bank's branches in Eastern Pakis-

tan he said, "In recent years the efforts at economic development in Pakistan have been receiving further momentum. The Government have rightly emphasised the priority of development of agriculture, and of small and medium industries based on agricultural produce. It is to be hoped that, efforts in this direction will draw wholehearted support from the people and enthuse them to inspired activity. Your Bank, through its branches in that country, will not fail to make its utmost contribution, in its humble way, toward such developmental efforts."

With regard to developments in the field of banking in Pakistan, Dr.

### Company Notes

## Mahindra & Mahindra

THE activities of Mahindra & Mahindra are steadily changing over from Trade to manufacture and investment in affiliated companies. Its sales turn-over during the year ended October 31, 1950 declined to Rs 932 lakhs from Rs 1776 lakhs owing to lower steel imports and their direct financing by government. Cross profit, however, improved from 5.6 per cent to 8 per cent. Net earnings after tax have gone up from Rs 23 lakhs to Rs 29 lakhs. Earning on capital invested has consequently risen from 3.2 per cent to 1.6 per cent. As a result of the substantial increase in share capital, however, earning on net worth has fallen from 19 per cent to 13 per cent. Preference dividend is now covered only 6.1 times against 14 times in the previous year. Net earning per equity share is Rs 4.86 against Rs 3.44. Dividend is Rs 1.25 gross against Rs 2.20 net. The substantial increase in share capital during the previous year and its employment in full through the latest year is largely responsible for the cut in dividend. Moreover, the company is no longer subject to Section 23A of the Income Tax Act and does not therefore have to distribute the greater portion of its profits. At the current price - of Rs 22.21 x d, Mahindra & Mahindra Ordinary is quoted at about 12 times its earning and approximately 25 times its net dividend.

The company is actively investigating the possibilities of exporting steel to various countries after the new steel plants get into stride. It has been appointed controlled stock-

Law referred to the report of the Credit Enquiry Commission, appointed by the Government of Pakistan in February, 1959, with Mr. Abdul Qadir, Governor, State Bank of Pakistan, as Chairman, and observed: "It will be out of place to discuss the Report here, but it is worth noting that, the Commission has made a detailed study of the problems and has advanced suggestions which merit careful consideration. One of its recommendations is that the subsidy arrangements with the National Bank of Pakistan, for opening new branches, be extended by the State Bank of Pakistan to other Pakistani commercial banks. This is a very useful suggestion and

we think that such a measure, if adopted here, would be welcome also in this country."

In this connection, reiterating the need for appointment of a Banking Expansion Commission in this country. Dr. Law said that such a Commission, could serve the useful purpose of making a close examination of the entire banking system and suggesting ways and means for further improvement and expansion on proper lines.

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Note ; This docs not purport to be a record of the proceedings of the Annual General Meeting.

ist of steel at Calcutta and Bombay and hopes to cover a still wider area in the near future. Clearance and distribution of steel imports on Government account is being done increasingly with the assistance provided under the 3 U S Development tons.

Distribution of Jeeps and allied vehicles registered a record level of 1,691 units against 2,792 units in the previous year. Still greater attention is being devoted to improvement of the distribution and service network. The company has incidentally been complimented by the Jha Committee for the commendable work it has done in this field. It is, therefore, disappointed that no definite recommendation has been made by the Committee, to which it had proposed a small car model the only one which met all the specifications laid down for such a model and which, moreover, had the least foreign exchange cost.

The company proposes to centralise its jeep manufacturing operations in one area. A suitable site is being acquired in Baroda for this purpose. Two affiliated companies, both of which enjoy foreign collaboration in share capital, will shortly manufacture tractors and self-lubricating bearings.

### Steel Production Begins At Durgapur

STEEL started flowing out from Durgapur Steelworks with the first open hearth furnace going into operation on April 25th. The second Furnace is also ready for operation and the third one will

follow in about two weeks. Each of the furnaces have a capacity of 200 tons.

Molten iron from the blast furnaces is stored in the Mixer Bay in two Inactive Hot Metal Mixers of 800 tons capacity each. It is taken from the Mixers, in ladles and de-siliconised by the application of pure oxygen to the molten metal by means of a lance.

The molten iron is brought in ladles from the de-siliconising plant and charged into the furnace. A typical 'charge' consists of 70 to 80 per cent molten iron and 20 to 30 per cent scrap together with small amounts of iron ore and Duxes. The furnace is fired with a mixture of Coke Oven Gas and Circoid Pitch (residue of Tar Distillation) both of which are produced in the By-Products Plant of the Coke Ovens.

The Durgapur Steel Plant will eventually have eight Open Hearth Furnaces, seven of 200 tons capacity and one of 100 tons capacity for the production of special steel, giving a total output of 2800 tons of steel per day. The Plant has been designed to accommodate four more furnaces at a later date.

### Refrigerated Rail Vans

SIX refrigerated vans for the transport of fish are being introduced as an experimental measure during the current hot weather. The first of these vans, which are being constructed at Central Railway Carriage and Wagon Workshop at Matunga, Bombay, is expected to be delivered by this month-end. The