E.C. No. 184

# ESTIMATES COMMITTEE

## 1959-60

## NINETY-FOURTH REPORT

(SECOND LOK SABHA)

## MINISTRY OF COMMERCE AND INDUSTRY

## HINDUSTAN MACHINE TOOLS LTD., BANGALORE

(REPORTS AND ACCOUNTS)

LOK SABHA SECRETARIAT
NEW DELHI
April, 1960/Vaisakha, 1882 (Saka)
Price : Re. 0.20 nP.

CORRIGENDA

94th Report of the Estimates Committee(2nd Lok Sabha) on Hindustan Machine Tools Ltd., Bangalore(Reports & Accounts)

| Page | Para | Line | For | Read |
|---|---|---|---|---|
| (iii) | | | '4.Shri N.R.Ghose' | '4.Shri N.R. Ghosh' |
| " | | | '18.Shri M.Mathu-krishnan' | '18.Shri M.Muthu-krishnan' |
| 7 | 17 | 5 | 'come' | 'came' |
| 8 | Item 5 of statement | Below 1956-57 | '216.21' | '197.60' |
| 9 | " | 7(a) " | '69.3' | '59.3' |
| " | " | 7(b) " | '1 : 4.3' | '1 : 3.9' |
| 13 | Item 9 | 5 | 'without' | 'with' |

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# ESTIMATES COMMITTEE
# 1959-60

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3. Shri T. N. Viswanatha Reddy
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27. Shri Sunder Lal
28. Shri A. M. Tariq
29. Shri M. G. Uikey
30. Shri Jagan Nath Prasad Pahadia.*

## SECRETARIAT

Shri A. K. Ray — *Deputy Secretary.*
Shri R.K.A. Subrahmanya — *Under Secretary.*

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* Elected w.e.f. 19th December 1959, *vice* Shri Mathuradas Mathur resigned.

# INTRODUCTION

I, the Chairman, Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Ninety-Fourth Report on the Ministry of Commerce & Industry— Hindustan Machine Tools Ltd., Bangalore (Reports and Accounts).

2. The Report is based only on a general study of the published Annual Reports and Accounts of the Hindustan Machine Tools Ltd. for the year ending 31st March, 1959 by the Sub-Committee on Public Undertakings. The Report was approved by the Sub-Committee on the 20th April, 1960 and by the main Committee on 22nd April, 1960.

3. The Committee wish to thank Shri S. Prakash Chopra, Chartered Accountant (Honorary Adviser, Management Accounting, Department of Company Law Administration) for giving evidence and making valuable suggestions to the Committee.

H. C. DASAPPA,
*Chairman,*
*Estimates Committee.*

NEW DELHI;
*The* 26 APR 1960 *April, 1960*
*Vaisakha , 1882(S)*

## A. Short Background

The Hindustan Machine Tools Ltd., was incorporated as a Company under the Companies Act on 7th February, 1953. Date of Establishment.

Under the agreement entered into with Messrs. Oerlikons, a Swiss firm (on 28.3.1949), for the establishment of machine tool factory, they were to be partners in the Company. A revised agreement has since been executed with them on 1st March, 1957 by which the Oerlikons have ceased to have any financial interest in the Company but continue to act as purely technical consultants.

2. The main object of the Company is to carry on business and manufacture of machine tools, small tools etc. the other objects being to carry on business of iron founders, mechanical engineers, manufacturers of all types of implements, machinery etc. and to deal with machinery, implements and hardware of all kinds. The present business, however, consists of manufacture and assembly of lathes, milling machines and radial drills. Objects and its present principal business.

3. The total investment in the company made by the Government upto 31st March, 1959 is given below: Government Investment.

| | | |
|---|---|---|
| (i) Share capital | - | Rs. 485,00,000 (about 91.3% of the issued capital of Rs. 531,00,000. |
| (ii) Unsecured loans | - | Rs. 167,05,953 |
| | | Rs. 652,05,953 |

(i) *Share Capital:* During the year 1958-59 the subscribed capital of the company was raised from Rs. 390 lakhs to Rs. 475 lakhs by conversion to share capital of advances received from the Government of India in the past, and the Issued Capital to Rs. 531 lakhs by obtaining Rs. 56 lakhs of additional capital from Government to finance the Foundry Project. Of the sum of Rs.56 lakhs, Rs.10 lakhs has already been subscribed in cash.

(ii) *Unsecured Loans:* The loans from Government were necessitated by the additional working capital required by the Company to finance its increased volume of production.

## B. Results and Trends of Operation

4. The following statement gives the particulars regarding the results and trends of operation of the Company:-

| Particulars | 1956-57 | 1957-58 | 1958-59 |
|---|---|---|---|
| 1. Production: | | | |
| Lathes (Nos.) | 135 | 313 | 240 |
| Milling Machines (Nos.) | - | 89 | 262 |
| Radial Drills (Nos.) | | | 50 |
| Total: | 135 | 402 | 552 |
| Sale (No. of machines) | 119 | 385 | 529 |
| 2. Sales (lakhs of Rs.) | 29.36 | 144.61 | 202.46 |
| Transferred to stores and plants. | 17.32 | 16.01 | 24.58 |
| Works-in-progress (lakhs of Rs.) | 51.53 | 87.46 | 86.68 |
| 3. (a) Net profits including interest (lakhs of Rs.) (Taxes not paid)* | 7.90 | 30.70 | 41.96 |
| (b) Percentage of (a) to total capital** | 1.4 | 4.3 | 5.50 |

* At the time of factual verification, the Committee were informed that non-payment of taxes was in accordance with the exemption admissible under Section 15(c) of the Indian Income-tax Act. The company was exempted from payment of income tax for the first five years if total profits made were less than 6% of the total capital employed and they were less than 6% after allowing for initial and double depreciation development rebate and preliminary expenses.

** Total assets minus fictitious assets.

| | Particulars | 1956-57 | 1957-58 | 1958-59 |
|---|---|---|---|---|
| | (c) Percentage of (a) to sales (including transfers to Stores & Plants). | 17.0 | 19.2 | 18.5 |
| 4. | Interest on Govt. loans (lakhs of Rs.) | 3.91 | 9.08 | 8.98 |
| 5. | (a) Net profits (excluding interest) (lakhs of Rs.) (Taxes not paid)*. | 3.99 | 21.62 | 32.98 |
| | (b) Percentage to net worth*** | 1.00 | 5.60 | 6.80 |
| 6. | Ratio of total capital to sales (including transferred to Stores & plants). | 1 : .08 | 1 : .22 | 1 : .29 |
| 7. | Ratio of working capital † to Sales (including transferred to Stores and plants). | 1 : .27 | 1 : .75 | 1 : .99 |
| 8. | Salaries, wages etc. (lakhs of Rs.) | 39.71 | 43.92 | 54.76 |
| 9. | Worker's Staff Welfare Expenses (lakhs of Rs.) | 0.69 | 0.82 | 1.34 |

5. During the year 1958-59, the production increased from 402 machines in 1957-58 to 552 machines (*i.e.* by about 38%) but it fell short of the revised target of 600 machines by 8%, due to inadequate supply of castings and temporary unsettlement in the labour situation. The number of lathes produced declined from 313 in 1957-58 to 240. + The total production when compared to the orders on hand (for 728 machines) amounted to 75.8%.

* At the time of factual verification, the Committee were informed that non-payment of taxes was in accordance with the exemption admissible under Section 15(c) of the Indian Income-tax Act. The company was exempted from payment of income tax for the first five years if total profits made were less than 6% of the total capital employed and they were less than 6% after allowing for initial and double depreciation development rebate and preliminary expenses.

*** Paid-up capital plus reserves.

† Current assets minus current liabilities.

+ At the time of factual verification, the Committee were informed that the reduction in the number of lathes produced during the year was due to the fact that the demand for this type of heavy duty high precision lathes had not been so much as compared with other types of machines taken up for manufacture.

**Rate of Turn-over of capital.**

6. While the production increased by about 38%, the sales went up by about 40% (from Rs.144.61 lakhs in 1957-58 to Rs.202.46 lakhs). The rates of turnover to total and the working capital also showed improvement over the previous year, but there is scope for improvement. The five-years' average (1951-55) of the ratios of net working capital to sales in the Industrial Machinery in U.S.A., according to Roy A. Foulke (Practical Financial Statement Analysis) amounted to 3.81%. *The Committee consider that details of the assets, if any, which are not utilized for productive effort in a particular year should be clearly indicated in the Annual Reports of the Public Undertakings. It is also significant that the percentage of net profit (including interest) to sales decreased from 19.2% in 1957-58 to 18.5% which suggests that the profit element of the sales came down.*

**Reduction in the sale price of machines.**

7. In this connection, it may also be pointed out that the sale price of lathes (which was reduced from Rs.36,000 to Rs.33,000 on 1.6.1957) was further reduced from Rs.33,000 to Rs.29,500 w.e.f. 1st June, 1958. The price of milling machines of sizes 2 and 3 is also stated to have been reduced by Rs.1,500 to Rs.2,000 respectively w.e.f. 1st June, 1958. The original and the reduced selling prices of lathes and milling machines are not, however, given in the Report. The sale price of all machines reduced by Hindustan Machine Tools is stated to be below the landed cost of the imported machines, although the landed cost of such machines has not been given in the Report.

8. The Committee were informed by Government that the prices of the various machines produced by Hindustan Machine Tools were fixed every year by the Board of Directors after taking into consideration all relevant factors including the cost of production and the prevailing price of comparable machines imported into the country. The company aimed at keeping prices close to the landed cost of imported items and not charging unreasonably high prices on the ground of lack of competition. They were

further informed that the selling prices for the machines were reduced well below the landed cost with a view to assist customers. It was also the desire of the company to pass on a part of the benefit of reduction in cost on account of higher volume of production to the consumers.

9. In this connection it may be noted that the Company is in the initial stages (with fictitious and intangible assets amounting to Rs. 56.80 lakhs to be written off) and has neither declared any dividend so far nor built up any reserves whatsoever for expansion. Even for working capital it has to borrow money at heavy interest. *In the circumstances the Committee are unable to appreciate the justification for reducing the prices especially when there is stated to be no competition in such machines within the country.*

**Works-in-Progress.**

*10. The works-in-progress which, as in the previous year, stood at Rs. 87 lakhs amount to about 40% of the annual production of Rs.2.2 crores during 1958-59, i.e. equal to 5 months' production, and appear to be on the high side.* The method adopted for arriving at their cost has also not been indicated in the Report.*

**Percentage of Profits.**

11. The net profits of the company (excluding interest but including the provision for deferred revenue expenditure) increased from Rs. 21.62 lakhs in 1957-58 to Rs. 32.98 lakhs in 1958-59, *i.e.* by about 50% over the last year, raising the percentage of profits to paid up capital from 5.6% during 1957-58 to 6.8% in 1958-59. Government stated that the percentage of net profits including interest of (Rs.8.98 lakhs in 1958-59) on loans amounting to Rs. 167.05 lakhs may be expressed as a percentage on the paid-up share capital excluding loans from Government and that the figures for the financial year 1957-58 and 1958-59 would be 7.87% and 8.65% respectively. *The Committee consider that there is no justification for treating the interest on*

* At the time of factual verification, the Committee were informed that the manufacturing cycle varied from 6 to 9 months depending on the type of the machine. In view of this the works-in-progress at the end of 1958-59, which was approximately 5 months' production, was not high.

*loans as a return on paid-up capital unless the loan is converted into share capital. In the circumstances, they do not agree with the view that in comparing net profits interest on loans may be included in the profits, as that would not indicate the correct position.*

Deferred Revenue Expenditure.

12. *It is observed that the net profits have been computed before making any provision for 'deferred revenue expenditure' amounting to Rs. 30.03 lakhs which should more appropriately have been charged to revenue.*

Net Profits.

13. The amount available for appropriation after making adjustment of the deferred revenue expenditure (Rs. 30.03 lakhs) was Rs. 3.54 lakhs out of which a sum of Rs. 74,450 has been appropriated towards Development Rebate Reserve, leaving a balance of Rs. 2,79,690 to be carried to the Balance Sheet. *Thus, the net amount available for distribution is very insignificant when compared to the paid-up capital of the Company viz. Rs. 4.85 crores.*

Miscellaneous Expenses/ Receipts.

14. It is observed that details of neither Miscellaneous Expenses which increased from Rs. 5.52 lakhs in 1957-58 to Rs. 6.71 lakhs in 1958-59, nor of Miscellaneous Income which increased from Rs. 4.74 lakhs to Rs. 4.95 lakhs are given in the Report. Expenditure on items like 'Publicity' has also not been indicated separately. The Committee were informed by Government that the presentation of expenses in the Profit & Loss Account of the Company was generally done in accordance with the regulations prescribed for the purpose in the Companies Act, and that details for the various expense items were presented to Government Auditors and Statutory Auditors for audit.

15. *While the existing procedure might be in accordance with the provisions of the Company Law, the Committee feel that when the Miscellaneous Expenses or Receipts are of this magnitude, details of at least the major items falling under the heads should be indicated in the Report.*

16. No manufacturing or trading account has been appended to the Annual Report. The Department of Company Law Administration (at the instance of Director of Commercial Audit) recently suggested the desirability of including these accounts in the Annual Reports of the Public Undertakings. *The Committee trust that a beginning would be made to include such an account in the next annual report of the company.*

**Manufacturing & Trading Account.**

17. The expenditure on Workers' and Staff Welfare Schemes (*e.g.* increased medical facilities, co-operative canteen etc.) increased from Rs. 0.82 lakhs in 1957-58 to Rs. 1.34 lakhs in 1958-59. The number of quarters built for the various categories of staff come to 683 on 31st March, 1959 as against 2,659 employees. In addition, the Company had taken 114 quarters at Rajajinagar on rent from Mysore Housing Board for their employees. Thus only 30% of the employees were provided with housing facility, and the Company proposed to construct another 148 quarters of different types during 1959-60. *The Committee suggest that in the Directors' Report more details of such facilities offered to the employees might be given, e.g. the number of employees in each category, the number of employees provided with housing facility, etc.*

**Workers' and Staff Welfare Schemes.**

18. It is stated that Hindustan Machine Tools has been selected as the first unit in the public sector for introduction, on an experimental basis, of workers' participation in management and a Joint Council of Management was inaugurated by the Minister of Industry on 30th June, 1958. It is, however, understood that the representative of labour on the Joint Council is not an employee of the company. The very object of securing the workers' participation would be defeated by such an arrangement. *The Committee suggest that in all such cases the workers' representative on the Joint Council should be an employee of the Undertaking concerned.*

**Workers' Participation in Management.**

19 Following are the other important observations:—

(i) The expenditure on salaries, wages and bonus includes several items (*e.g.* repairs of machinery, buildings etc.) *The expenditure on Bonus ought to have been shown separately so that the increase in the administrative expenses could be worked out;*

(ii) *The amount of interest accrued on Government loans has been provided for from the gross profit but has not been paid so far. The liability on this account amounted to Rs. 22.20 lakhs on 31.3.59; and*

(iii) The net profits include a sum of Rs. 22,169 as profit on sale of assets of the company. *It would have been desirable to transfer this amount to Capital Reserve.*

## C. Financial Position of the Undertaking

20. In the following statement is reflected the financial position of the Company as on 31st March, 1959, as shown in the Balance Sheet on that date:

*(Figures in lakhs of Rupees)*

| Particulars | 1956-57 | 1957-58 | 1958-59 |
|---|---|---|---|
| 1. Capital (Subscribed and paid-up) | 390 | 390 | 485 |
| 2. Deferred Liabilities. | 164 | 235 | 167 |
| 3. Current Liabilities.* | 49.86 | 148.60 | 162.66 |
| 4. Fixed assets (net block) | 314 | 344.60 | 368.20 |
| 5. Current Assets.** | 216.21 | 362.34 | 392.94 |
| 6. (a) Intangible Assets. | 3.00 | 6.67 | 21.80 |
| (b) Fictitious Assets. | 74.38 | 61.00 | 35.00 |

* Including secured loans.
** Including loans/advances and Cash and Bank Balances.

*(Figures in lakhs of Rupees)*

| Particulars | 1956-57 | 1957-58 | 1958-59 |
|---|---|---|---|
| 7. (a) Percentage of fixed assets to total capital. | 69.3 | 49.1 | 49.8 |
| (b) Ratio of current liabilities to current assets. | 1:4.3 | 1:2.4 | 1:2.4 |
| 8. Depreciation | 13.02 | 23.47 | 27.42 |
| 9. Book Debts | 14.27 | 65.31 | 70.53 |
| 10. (a) Stock of finished goods. | 6.01 | 10.58 | 22.99 |
| (b) Percentage of (a) to sales. | 12.7 | 6.8 | 10.1 |

Intangible Assets.

21. The intangible assets of the Company (Licence Rights) have risen from Rs. 3.00 lakhs in 1956-57 to Rs. 21.80 lakhs during 1958-59. *The Committee suggest that the company should write if off by spreading it over a reasonable period of time.*

Raw Materials.

22. The raw materials in stock on 31st March, 1959 amounted to Rs. 80.48 lakhs as against Rs. 79.59 lakhs worth of raw materials consumed by the company during the year 1958-59. Thus the company has stock-piled raw materials to the extent of one year's requirement. It was explained that the raw materials included steel, castings and other standard parts. In the initial years and with rising production, sufficient stock of high speed steel and standard parts had to be maintained for subsequent periods, allowing for rise and delivery period of 8 to 12 months as they had to be

imported. Similarly, castings had to be procured much in advance for natural seasoning for at least 6 to 8 months before they were sent for machining. In view of the peculiar nature of theseraw materials, the stock for the year 1958-59 was stated to be not high.

23. *While there might be justification for holding large stocks of these materials, but, in view of the fact that the working-capital position of the Company is not satisfactory which has been discussed later, the Committee suggest that the feasibility of reducing the stock of raw materials be considered.*

Bock Debts.

24. The book debts which stood at Rs. 65.31 lakhs on 31st March, 1958 amounted to Rs. 70.53 lakhs on 31st March, 1959. Of this Rs. 23.73 lakhs are stated to be outstanding for more than three months. In this connection, the remarks in paragraph 26 may be seen.

Loans from Commercial Banks.

25. It is noticed that the Company have taken a loan of Rs. 72.24 lakhs from the United Commercial Bank. This point was raised in the debate on the Annual Reports of the Company in the Lok Sabha on 7th December, 1959 when it was urged that the Hindustan Machine Tools could have taken the loan from the State Bank of India unless the terms offered by the United Commercial Bank or any other private Bank were better than those offered by the State Bank of India. It is, however, not clear whether the United Commercial Bank had offered better terms than the State Bank of India. *The Committee suggest that, other things being equal, the State Bank of India should be preferred.*

26. The net working capital* of the Company (Rs. 230 lakhs) was invested in the inventory (raw materials, works-in-progress and finished goods) to the extent of 85.6% (Rs. 191.51 lakhs) and the book debts accounted for another Rs. 70 lakhs with the result that the company had to go in for an over-draft to the extent of Rs. 72.24 lakhs during 1958-59 and pay heavy interest of Rs. 3.61 lakhs. During the year 1957-58, the interest on such loans amounted to Rs. 1.70 lakhs. *The Committee urge that effective steps should be taken to realise the book debts without delay in order to improve the position of working capital of the company.* Working Capital.

## D. Conclusion

27. *The Committee are glad to note that the production and sales of the company have gone up. The financial results, however, leave room for improvement. The intangible and fictitious assets of the company should also be reduced in due course.*

NEW DELHI,
*The* 26 APR *April,* 1960
*Vaisakha , 1882(S)*

H. C. DASAPPA,
*Chairman,*
*Estimates Committee.*

* Current assets minus current liabilities.

## APPENDIX

*Summary of Conclusions/Recommendations*

| S.No. | Ref. to the para No. of the Report | Summary of Conclusions/Recommendations |
|---|---|---|
| 1 | 2 | 3 |
| 1 | 6 | The Committee consider that details of the assets, if any, which are not utilised for productive effort in a particular year should be clearly indicated in the Annual Reports of the Public Undertakings. |
| 2 | 9 | The Committee are unable to appreciate the justification for reducing the prices of lathes and milling machines, especially when the company has neither declared any dividend so far nor built up any reserves whatsoever for expansion and there is stated to be no competition in such machines within the country. |
| 3 | 10 | The works-in-progress of the company appear to be on the high side. The method adopted for arriving at their cost has also not been indicated in the Report. |
| 4 | 11 | The Committee consider that there is no justification for treating the interest on loans as a return on paid-up capital unless the loan is converted into capital. In the circumstances, the Committee do not agree with the view that, in comparing net profits, interest on loans may be included in the profits as that would not indicate the correct position. |
| 5 | 12 | The net profits have been computed before making any provision for 'deferred revenue |

| 1 | 2 | 3 |
|---|---|---|
| | | expenditure' amounting to Rs. 30.03 lakhs which should more appropriately have been charged to revenue. |
| 6 | 13 | The net amount (Rs. 2.79 lakhs) available for distribution, after making adjustment of the deferred revenue expenditure and appropriation towards development rebate reserve, is very insignificant when compared to the paid-up capital of the company, *viz.* Rs. 4.85 crores. |
| 7 | 15 | The Committee feel that details of atleast the major items falling under 'Miscellaneous Expenses' and 'Miscellaneous Receipts' should be indicated in the Report. |
| 8 | 16 | The Committee trust that a beginning would be made to include the manufacturing and trading accounts in the next annual report of the company. |
| 9 | 17 | The Committee suggest that in the Directors' Report more details of facilities offered to the employees *e.g.*, the number of employees in each category, the number of employees provided without housing facility, etc. might be given. |
| 10 | 18 | The Committee suggest that the workers' representative on the Joint Council should be an employee of the Undertaking concerned. |
| 11 | 19 | (i) The expenditure on 'Bonus' ought to have been shown separately so that the increase in the administrative expenses could be worked out; |

| 1 | 32 | 3 |
|---|---|---|
| | | (ii) The amount of interest accrued on Government loans has not been paid so far; and |
| | | (iii) It would have been desirable to transfer the amount of net profits of Rs. 22,169 on the sale of assets of the company to Capital Reserve. |
| 12 | 21 | The Committee suggest that the company should write off the intangible assets of the company amounting to Rs. 21.80 lakhs by spreading it over a reasonable period of time. |
| 13 | 23 | In view of the fact that the working-capital position of the company is not satisfactory, the Committee suggest that the feasibility of reducing the stock of raw materials be considered. |
| 14 | 25 | The Committee suggest that, other things being equal, the State Bank of India should be preferred for taking loans. |
| 15 | 26 | The Committee urge that effective steps should be taken to realise the book debts of the Company without delay in order to improve the position of working capital of the Company. |
| 16 | 27 | (i) The financial results of the company leave room for improvement. |
| | | (ii) The intangible and fictitious assets of the company should be reduced in due course. |