CHAPTER IV

FINANCIAL BACKGROUND OF THE SELECT INDUSTRIES

This Chapter introduces the samples of public limited companies selected for intensive analysis of their financial behaviour. Five industrial groups have been chosen from Tamil Nadu State: Textiles and sugar representing consumer goods industries, Chemicals denoting intermediate industry and Engineering and Cement coming under the capital goods industries. Each industrial group has been represented by five public limited companies (excluding the cement industry which has only four private companies), fairly medium and large, selected at random from among the companies listed with the Madras stock exchange. The criteria of the choice of the sample has been given in detail in the introductory Chapter.

The financial and other developmental aspects of each of the twenty four selected units have been summarised. The trends in the net profits, retained earnings, dividend payments, production and gross sales have been explained both in terms of percentage change and actual values. The capital structure, cash flow position and the fluctuation in the security prices of the respective companies have also been surveyed. Moreover, a brief review on the recent
development of the five major industrial groups in the state have been given in order to provide a proper perspective to the detailed accounts of the finances of the individual companies. Thus the detailed survey of the samples will form a broad basis for the time-series empirical analysis made in the next chapter.

COTTON TEXTILE INDUSTRY

The traditionally dominant textile industry in the state has a total number of 214 mills which formed about one third of the total number of cotton textile mills in the country. But the performance of these mills, many of them more than five or six decades old, has not been uniformly satisfactory; some of them have gone sick, and have become unviable. The production data does not indicate much of a rapid stride over the fifteen year period, 1961-76; for three years since 1971, the industry met with the worst recession and stagnation. In 1961, the production of cotton yarn stood at 1.28 lakh tons, cotton woven piece goods at 190 million metres and staple fibre yarn at 16,459 tons; in 1976, the corresponding figures of production have increased only marginally to 1.85 lakh tons of cotton yarn, 167 million metres of cotton woven piece goods and 22,394 tons of staple fibre yarn.1 Actually there has been a slight

decline in the production of cotton cloth from 1961 to 1976. In terms of capital formation also (fixed capital plus working capital), according to the data given by Annual surveys of Industries, the factory sector of spinning, weaving and finishing of textiles increased from Rs. 66 crores to 101 crores, over the long period, 1961-76, which is not very much impressive.

The major problems affecting the industry in the State have been (a) slump in the price of yarn (b) relatively higher price of raw cotton when compared with the selling price of cotton yarn (c) power-cut being a regular feature, imposes a minimum of 30% of shut down in a working year and (d) many of the mills being small sized mills, with outdated machinery. One peculiar aspect of the structure of cotton textile industry in the State is that about 90% of the total number of mills are confined to spinning only; hence the vicissitudes of the yarn market which are manipulated mainly by the buyers of Bombay looms affect the destinies of the spindle units of the State. The raw cotton which accounts for 65 to 70% of the cost of yarn production, does not follow any sympathetic price trend with that of yarn. The price of cotton, for example, increased by 40% in 1974-76 whereas the yarn price registered only 11% increase. Moreover the yarn market faces recession, with poor and irregular off-take by loom.

1. Director of Statistics, Govt. of Tamil Nadu - AJI Data, 1961-76.
sector. The mills are numerous in Tamil Nadu but most of them are small and old. The state accounts for 31% of the total number of mills in the country, but contributes only 23% of the national spindleage and 5% of the loom production.

The package of relief measures announced by the Government of India in 1978, include the enhancement of ex-mill price of controlled cloth by 35% (but the increase is to be borne by the government as subsidy amounting to Rs.31 crores), continuance of total or partial exemption granted to weaker mills from the production of controlled cloth, guaranteeing liberal loan facilities by the commercial banks and liberal import of viscose, polyester fibre and also the raw cotton from abroad. These measures have considerably relieved the industry from the strain of stagnation.

The units chosen for the present study represent some of the leading mills, all the five units engaged in both spinning and weaving activities, with fairly long record of normal performance: Lakshmi Mills Ltd., Hettur Beardsell Ltd., Free Keenakshi Mills Ltd., S Chenalakshmi Mills Ltd., and Radhakrishna Mills Ltd.

The Lakshmi Mills Ltd. is one of the largest companies in the Corporate sector, established as early as in 1910, with three production units at Coimbatore, Kovilpatti and Palladam. All these three units are being considered.
for the purpose of the present analysis, as a single company as it is managed by one and the same board of management led by a very resourceful industrialist, Mr. G. V. N. Devarajulu. The spindle capacity has trebled, from 63,104 spindles in 1950 to 178,912 spindles in 1977; and the loom capacity has nearly doubled, from 200 to 394 looms during the same period. The authorised capital amounts to Rs. 2 crores of which Rs. 1.60 crores was subscribed. The gross reserve fund has already crossed over Rs. 2.55 crores and the loans from the credit institutions stood at Rs. 5 crores. The magnitude of turn-over has been so huge that the gross sales of the company were estimated at Rs. 27 crores in 1977. The success of this concern can be seen from the fact that the company has continuously maintained its upward swing in net profits, without incurring loss even in a single year, in the 12 year period, 1966-77. The net profits which was Rs. 9 lakhs in 1966 increased to more than Rs. 1 crore in 1974, though subsequently declined to Rs. 30 lakhs in 1977. The profits retained ranged from 20% to 60%; in 1977, exceptionally the retentions worked out to be more than 90%. The stability in the dividend behaviour was maintained consistently at the average of 12% throughout the period. Hence the security prices touched on the higher side in most of the auctions in the stock market, the lowest price being Rs. 51 on a very few instances. The depreciation allowances also registered a
regular upward trend, from Rs.25 lakhs in 1966 to Rs.46 lakhs in 1977. Another interesting feature of one of the units at Palladam is the highest degree of capital-deepening with minimum possible labour employment. This is considered to be a big achievement comparable even with the Western standards of mechanisation.

The Mettur Beardsell Ltd. was the original nucleus in Mettur Industries Ltd., which was established in 1936 with a humble equity investment of Rs.16 lakhs, at Mettur in Salem district. The company made a remarkable progress in due course that its equity capital grew by more than five times in 1967. By 1969-70, the company got amalgamated with W.A. Beardsell & Co. Private Ltd., and hence the present name for the company. In the same year, it purchased about 50% interest of the Alexander & Finlay Thread Company and thus the total equity value became Rs.1.14 crores in 1969-70. The trend of growth and expansion was well maintained that the company diversified and started a subsidiary, Heliplastics Ltd., to produce polythene pipes. This led to Rs.1.52 crores of gross equity investment. The total loan assistance accounted for Rs.3.5 crores. The gross sales have increased enormously by more than eight times, from Rs.2.2 crores in 1966 to Rs.17.4 crores in 1977. The net profit has been consistently growing without any interruption of loss. And the dividend rate has been as high as 25% in 1973 and 1975 and in the
remaining years the dividend rate was maintained at 18% on the average. This is perhaps one of the very few companies in the country paying consistently the highest possible rate of dividend. Paradoxically enough the company has effectively retained about 80 to 90% of the current net profits throughout the period of study. The dividend payment has been facilitated by the maintenance of a huge backlog of reserve fund which touched the level of Rs.1.28 crores in 1977. The cash flow position has also been comfortable though with a more volatile component of depreciation reserve which increased by more than seven times during 1966-77. Obviously, it does not require any explanation that company's securities reigned supreme in the share market, the highest price reaching as high as Rs.293 (nearly three times the face value of the share) and the lowest price never falling below Rs.150. This is indeed a record of extraordinarily successful concern in the corporate sector, especially from the view of financial management.

The Sree Meenakshi Mills Ltd. established by late Karumuthu Thiagaraja Chettiar, a name to be reckoned with in the entrepreneurial history of Tamil Nadu, in 1921 with a small capital of Rs.6 lakhs; it has the capacity of 1,10812 spindles and 294 looms spread over the three mills at Madurai, Paravai (near Samayanallur) and Manapparai, with a total
equity capital of Rs.93 lakhs in 1977. This is of course supported by a sizeable loan of more than Rs.5 crores, the major contributors being the IFCI and TIIIC and commercial banks. The gross sales which was just Rs.4 crores in 1966 has reached nearly Rs.10 crores in 1977. But the company has not achieved an appreciable record either in cash flow or in the dividend payment. The net profit was negative in six years out of the twelve year period 1966-77. In the remaining years also, the net profit was not adequate enough to provide for a regular rate of dividend payment. The company announced dividend of 10% for 3 years and 5% for one year; in all the other eight years it drew blank. And the retentions account also show a poor record. Throughout the period under study, the company has managed to retain only Rs.12 lakhs from out of the net profits. The depreciation account was, strangely enough, irregular in its trend. The depreciation was, for instance, provided for once in two or three years, without being able to maintain a regular provision as an annual feature. The financial management has thus been far from satisfactory, deviating from the standard norms of efficiency.

The Dhanalakshmi Mills Ltd. located at Thirupur in 1932 with an authorised capital of Rs.1 crore (of which Rs.0.72 crore was subscribed) has the capacity of 53,148 spindles and 480 looms. Relatively the loom capacity is
higher unlike in the previously mentioned three companies chosen for the study. The growth rate of both the number of spindles and looms has been more than 200% during 1950-77. So also, the equity investment has increased by more than 9 times, from Rs.8 lakhs in 1932 to Rs.73 lakhs in 1977. The reserve fund has also more than doubled during 1966-77. The company has been able to raise a loan of Rs.2.26 crores. The gross sales which stood at 1.91 crores has increased substantially to Rs.8 crores in 1977. Hence the net profit account also showed a consistently good performance. Excepting in 1976, when the company sustained a loss of Rs.7 lakhs, in all the other years during 1966-77, it has secured uniformly high profits, the peak level being Rs.52 lakhs in 1973. The retention of net profits accounted for 50 to 70% on the whole. Despite the high share of net profits having been retained, the company was financially sound to honour the dividend payment at a stable rate of 10% during 1966-71 and 12% on the average in the remaining years (excepting in 1976 when the company reported net loss). The regular and stable dividend behaviour, uniformly higher retention ratios supported by adequate reserve accumulations and a consistent record of net profit, have all been reflected in the higher prices of the company’s securities registered in most of the auctions. Only in three years out of the twelve year period, the security price fell, marginally, below Rs.100. The cash flow position has also been strongly supported by the
continuously accumulating depreciation funds, from Rs.9 lakhs in 1966 to Rs.20 lakhs in 1977. Thus this company has proved to be another illustration of corporate sector growing from within, a process of self-sustained expansion from a small beginning.

The Radhakrishna Mills Ltd. established in the same year of 1932 (as that of preceding company), at Peelamedu in Coimbatore with an equity investment of Rs.8.5 lakhs, has grown to Rs.63 lakhs in 1977. During 1950-77, the spindle capacity has nearly doubled. At present the company has 65,264 spindles and 301 looms, the net sales amounting to Rs.3.46 crores in 1977. The net profit shows a negative trend since 1975 onwards; prior to that year also, the net profit was not uniformly on the increasing trend, the peak year being 1973 with a net profit of Rs.10 lakhs. The retention of profits to reserve fund has been very low throughout. And the dividend payment was modest at the rate of 10% on the average from 1966 to 1972, from which year onwards, the dividend record showed nil payment because of recurring losses. The security prices showed, naturally a declining trend; the highest price quoted was only Rs.43 as against the lowest one of Rs.10. Unlike the Dhanalakshmi Mills Ltd., this unit has failed to come up to the normal standards of the efficiencies of financial management.
The sugar industry in Tamil Nadu accounts for only a marginal share of sugar production in the country; its share which was 6.7% in 1969-70 has reached a low ebb of 4.2% in 1975-76, though with a slight increase in the intervening years. There are about 20 sugar mills with a total installed capacity of 34,750 T.C.D., of which 10 sugar mills are in the co-operative sector. The Tamil Nadu Sugar Corporation was set-up in 1973-76 with the aim of establishing more sugar production units in the public sector particularly in the industrially backward regions where there is potentiality for sugarcane cultivation. The present policy of the State government is to encourage expansion of the existing sugar mills in the private sector rather than starting new ones under private sector. The major problems affecting the industry has been the low recovery, underutilisation of the productive capacity and the reluctance on the part of the farmers to supply the necessary quantities of sugarcane to keep the factories going. Of the total quantity of sugarcane produced in the state, only about one third has been forthcoming to the factory sector for crushing because of price factor and defaults in the payments to the sugarcane supplying ryots. There was an excess capacity of as high as 62% in 1975-76 due to poor crop as well as the poor response from suppliers to the factories. During the other years, the
utilisation of the capacity worked out about 70 to 80%.
The recovery trend has hardly exceeded 9% during the last
decade. The sugar production which stood at 2.88 lakh tons
in 1969 has increased only marginally to 3.22 lakh tons
in 1977. The peak year of production, 1973-74, realised
sugar production of 4.43 lakh tons, having crushed a record
quantity of 52.87 lakh tons of sugarcane.

The units selected for the present study cover
about 65% of the total installed capacity. These five units
are among the leading production units in the private
corporate sector: Aruna Sugars Ltd., Sakthi Sugars Ltd.,
Kothari Sugars & Chemicals Ltd., Cauvery Sugars & Chemicals
Ltd., and Madurai Sugars. Among these, the last two were
started in 1947-48 and the other three were established in
1960-61.

Aruna Sugars Ltd., at Pennadam in South Arcot
district, has an authorised capital of Rs.2 crores of which
1.4 crores was paid-up. It has an installed capacity of
4000 tonnes per day. The company produced 14,262 tons of
sugar, 17,864 tons of molasses and 115 tons of brown-sugar
in 1977. There has been a three-fold increase in the production
of sugar from 1967 to 1977. The expansion schemes were under-
taken with the help of finances from Unit Trust of India

1. The Director of Sugar, Madras.
(Rs.30 lakhs), and a consortium of Banks (Rs.130 lakhs). On the profit allocation pattern, the company has been maintaining a policy of progressive retention of profits. It has not announced any dividend for five out of twelve years (1966-77). But in the remaining seven years, 1968-74, the dividend rate has been 12 to 15%, though it reached a peak of 20% in 1972. The tendency to maintain the stable dividend payment was noticed; for example, in 1970, 7.5% of dividend was paid despite the net loss of Rs.7.5 lakhs incurred by the company during that year. The depreciation reserve was accumulated progressively over the period, from Rs.1.2 lakhs in 1966 to Rs.31 lakh in 1977, showing a sound cash flow trend in the firm.

Sakthi Sugars Ltd. at Appakkudal near Shavani in Coimbatore district produces both sugar and industrial alcohol. The sugar production has a capacity of 4000 tons per day and the distillery has about 3 million gallons per annum. The production follows the double sulphitation process. The sugar production which stood at 27,956 tons in 1969 made a rapid increase to 67,776 tons in 1974, crushing nearly 8.13 lakh tonnes of sugarcane. In 1977-78, the distillery unit recorded a production of 3879 Kilo litres of rectified spirit, 6318 K.L. of denatured spirit, 182 K.L. of Methylated spirit and 15,623 K.L. of molasses. The company which has a paid-up capital of Rs.1.59 crores, has drawn credit to the
tune of Rs.1.87 crores from the agencies of TIC, IFCI, IDBI and LIC. The pattern of profit disposition shows a retention level of 80 to 90% during the profit earning years, 1971-75. The company reported heavy loss of Rs.1 crore in 1977. The dividend payment was maintained fairly stable at the rate of 12 to 15% during 1966-74. 6% of dividend was paid in 1970 from out the company's reserve fund because of current loss of Rs.5 crores sustained by the company. The company did not pay any dividend in 1975 and 1976, though it had net profits of Rs.64 lakhs and Rs.44 lakhs respectively. This indicates the company's preference for retention to build up a comfortable reserve position before renewing the dividend payments.

The depreciation fund which was Rs.13 lakhs in 1969 has substantially increased to Rs.64 lakhs in 1976. The security prices showed a wide margin between Rs.17 to Rs.3.25, during the period under study.

Kothari Sugars & Chemicals Ltd., has two production units, one at Kattur in Tiruchi District and the other at Sirugappa in Karnataka, each with an installed capacity of 1500 tons per day. It undertakes the production of sugar, super phosphate, chemical and natural fertilisers. The sugar production which was 24,955 tons, crushing 3.51 lakh tons of sugarcane in 1968-69, declined to 16,237 tons of sugar, crushing 2.67 lakh tons of sugarcane in 1977-78. The company
has an authorised capital of Rs.5 crores out of which paid up capital was Rs.1.6 crores, with a reserve accumulation of Rs.50 lakhs. The net-profit was negative in 1969-70 and 1975-77, accounting for a total loss of Rs.2.2 crores, during the twelve year period, 1966-1977. During the remaining seven years, the net-profit permitted the dividend distribution of 10% on the average. The retentions out of current earnings were modest throughout, ranging from 35 to 50%. The company's dividend behaviour followed a very simple uniform pattern that the company has not paid any dividend in all the five losing years and has paid sizable dividend in the profitable periods. The depreciation fund showed a huge upward trend from Rs.9 lakhs to Rs.50 lakhs, during 1966-77. The security prices reached a peak of Rs.12.25 and trough of Rs.2.50 during the period under study, indicating very violent fluctuations in the gains of industry that are reflected in the stock market.

The Cauvery Sugars & Chemicals, established in 1948, at Pettavathalai in Tiruchi District has a daily crushing capacity of 1250 tons, with an authorised capital of Rs.1 crore and subscribed capital of Rs.60 lakhs. Relatively this unit is a small one with modest amounts of net profit and dividend payments. The dividend payment ranged from as low as 3.5% to 11% during the profitable years and nil payment during the losing years. Since the net profits were negative for five
years, (even during the seven profit making years), the company made only very small retentions accounting for only 15 to 40% of the net profits. Even the depreciation funds did not increase consistently over the period. The security (shares of Rs.100 value) prices fluctuated between the highest level of Rs.125 in 1969 and the lowest level of Rs.24 in 1977.

The Madura Sugars Ltd., formerly (prior to 1964) known as Madura Sugars and Allied Products Ltd., was established at Pandiarajapuram in Madurai District in 1947 with an authorised capital of Rs.50 lakhs and subscribed capital of Rs.20 lakhs. The firm, having a daily crushing capacity of 600 tons, produced 4208 tons of sugar in 1967 which declined to 1942 tons in 1976. This unit happens to be one of the smallest companies among the samples chosen for the study; this helps the analysis of the peculiar financial conditions of a small firm in relation to that of bigger firms. Relatively, this firm has fared well, incurring net loss only for 3 years when compared with the other bigger sugar units which have incurred cumulative loss for more than five years during the last decade. The dividend payment has also been very encouraging. In 1966, it paid 6% dividend entirely out of its reserve fund; the dividend rate registered a sharp increase to 12% in 1968 & 1969 and again shot up to 20% in 1972 and 1973. Only for two years, 1975 & 1976, the company drew blank in its dividend record. Consequentially, the security prices did maintain stability on the upward
trend, the lowest level never falling below Rs. 8 and the highest level at Rs. 12.50. The retentions however have been quite modest, accounting for 20% to 60% of the net profits. But the depreciation funds, a key element of the cash flow of the firm, reflected remarkably higher rates of increase over the period. For a small firm like this, it reveals really a very efficient financial management.

**CHEMICAL INDUSTRY**

The Chemical industry which is normally categorised as intermediate group, supplementing both consumer goods and capital goods industries, largely consists of companies producing inorganic fertilizers such as nitrates and super phosphates, and caustic soda, sulphuric acid, oxygen and acetylene (dissolved). The state accounts for a share of 17% of nitrogen, 23% of phosphate and 7% of sulphuric acid in the national production. As on 1979-79, there were nine fertilizer manufacturing plants (six in the private sector, two in the public sector and one in the joint sector), and 76 fertilizer mixing units. The fertilizer production stood at 520,000 tons accounting for 18% of the country's production. The production of caustic soda amounted to 95,000 tons and that of oxygen and acetylene (dissolved) to 67.61 lakh cubic meters. As per the ASI survey, the productive capital of the group comprising basic industrial chemicals has increased substantially from
Rs.15.76 crores to Rs.146.62 crores during the period 1962-76; this increase of nearly 10 times, indicates a rapid rate of gross capital formation. In terms of labor employment also, the number increased from 7,536 to 12,106 during the same period. But this gives only a partial coverage of the picture. The other chemical units like paints and varnishes and pharmaceuticals have not been included in this comparison.

The major problems confronting the industry are the high cost of production and hence higher selling price resulting in poor consumption. Especially in the case of fertilizers, the high cost and unfavourable weather conditions have been effective deterrents of consumption demand from the farm sector. For example, in 1976-77, the state registered a 7.7% decline in the consumption of fertilizers as against the increase in consumption by 40% in the country in the same year.

The units chosen for the study represent a wide variety of companies producing different types of chemicals including fertilizers, industrial alcohol, paints and varnishes, heavy chemicals and gases: The Mettur Chemical & Industrial Corporation Ltd., Chemicals & Plastic India Ltd., Ultra marine & Pigments Ltd., Premier Fertilizers Ltd., and Trichy Distilleries and Chemicals Ltd.

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The Mettur Chemical & Industrial Corporation Ltd., at Mettur Dam in Salem District, was established in 1936 with an authorised capital of Rs. 5 crores of which Rs. 3 crores was subscribed. The main factory at Mettur is fed by the salt units of Adirampettinam and Vedaranyam and the limestone quarries at Shankaridrug and Tiruchengode. The installed capacity and the production figures (given within brackets) of the company in 1978-79 are as follows: heavy chemicals, 126,030 tons (91,365 tons); potassium chlorate 624 tons (311 tons); bromine 120 tons (419 tons); aluminium sulphate, calcium chloride, chlorinated paraffin was 2850 tons (1023 tons); silicon tetrachloride, esters of silicic acid & their polymers, copolymers, silicon chlorophorm etc., 1203 tons (319 tons); Vanaspathi & vegetable oils 3600 tons (766 tons) and soaps, 280 tons (205 tons). The gross sales which stood at Rs. 3.5 crores in 1966 has consistently increased to Rs. 11 crores in 1977.

Both in terms of gross sales and capital investment, the company has emerged as one of largest units in the private corporate sector with a long standing. The net profit has all along shown positively increasing trend; but the retention ratio has not exceeded 50% of the net profits in any year and no retention was reported for three years, 1967-69. The dividend rate was on the average 10 to 12%; but there was no dividend announcement for four years, despite the realisation of profits during these years. But the company's cash flow aspect was quite comfortable.
with a broad cushioning provided by an increasing allocation to the depreciation funds.

The chemicals and plastics India Ltd., has two production units, at Mettur and Krishnagiri, besides owning an industrial alcohol producing factory with an annual capacity of 5 million litres in Sharmapuri. The company manufactured PVC resins & compounds of 13,502 M.r. and PVC pipes and fittings of 5,548 M.r. in 1978-79. The company's capital composition included Rs.66 lakhs of preference shares and Rs.175 lakhs of equity shares supported by a reserve fund of Rs.250 lakhs and the credit amount of Rs.308 lakhs in 1979. The net sales amounted to Rs.16.73 crores in 1979 as against Rs.3.57 crores in 1970. The net profit was not encouraging in the beginning. It sustained a total loss of Rs.28 lakhs for four years, 1970-73; but the loss was soon made up by the accelerating trend in the net profit in the subsequent period. The net profit reached a peak mark of Rs.124 lakhs in 1979. The retention ratio was roughly 90% in three years; in the remaining years it was as low as 15 to 20%. The losses were just carried over to the reserve account. The security prices were not very much affected by the dividend behaviour. Even during the long period of non-divided years, 1970-71, the securities commanded reasonable prices ranging from the lowest level of Rs.42 and the highest level of Rs.133. However, when the company announced 15% dividend in 1978-79, the security price shot up to Rs.170.
The Ultramarine & Pigments Ltd., established in 1960, has two production units, at Ambattur in Madras and at Ranipet in North Arcot District. The company manufactures a wide ranging list of chemicals such as ultramarine blue, ultramarine colours, organic and inorganic pigments, metal powders, chemical raw materials for paint industry, varnishes, enamel oils, soaps and plastics. It produced 694 tons of ultramarine blue and synthetic detergents of 553 tons. The capital structure of the company includes Rs.60 lakhs of equities supported by a reserve fund of Rs.104 lakhs and the loan assistance of Rs.25 lakhs. The depreciation account has registered a rapid increase from Rs.4 lakhs in 1969 to Rs.11 lakhs during 1969-77. The net sales indicated a consistently increasing trend, but the net profits account has declined in the last four years, after having reached a peak level of Rs.26 lakhs in 1973-74. The retention ratio, however, has been uniformly about 80 to 90% and the dividend rate has also been impressively higher throughout the period, excepting only in 1975-76 when the rate was 4% and 6% respectively. In all the other years, the rate of dividend ranged between 12 and 18%. The security prices reflect the impact of stable and progressive dividend behaviour. The prices reached the highest level of Rs.410 and the lowest being only Rs.103.

The Trichy Distilleries and Chemicals Ltd., established in 1964, has the installed capacity of 3 million gallons of alcohol
and 900 tons of carbon dioxide per annum. Recently it has secured a licence to diversify the production and manufacture of various alcohol based chemicals. It has received a rupee loan of Rs.22 lakhs and foreign exchange loan of Rs.437 lakhs worth of Dutch Mark, from the IFCI, for the expansion and diversification purposes. The gross sales of alcohol, rectified and methylated spirits and carbon dioxide amounted to Rs.1.29 crores in 1977 as against Rs.0.42 crore in 1968. The net profit which has increased progressively from 1968 to 1974, declined marginally in the subsequent years. The retention ratio, however, was maintained relatively at a stable level of 60 to 70% on the whole. A dividend rate of 13% was paid on the average during 1969 to 1976, which is really an impressive performance. And hence the security prices never fell below their face value; the highest quoted price was Rs.177. In spite of the heavy dose of excise taxation, the company has managed to achieve a satisfactory level of financial management both on the counts of pay-out and retention ratios.

The Premier fertilisers Ltd., established in 1960 at Cuddalore in South Arcot District commenced its production in 1963. The company manufactured superphosphate of 1604 tons, sulphuric acid of 1166 tons, NPK mixtures of 10,058 tons and the pesticide BHC 10%, 220 tons, in 1978-79; the net sales value of these products amounted to Rs.5.59 crores. The capital structure shows some strange features. The equity capital of
Rs. 50 lakhs is backed by a loan assistance of Rs. 48 lakhs; but the reserve account shows only negative figures accumulated throughout the period of 1969-77. The negative reserve shows the precarious financial condition of the concern. And the cash flow position is also very dismal with declining rate of depreciation provision. The net profit has been negative throughout. The company has just carried over the current net losses to the reserve fund and hence the negative retention ratio leading to accumulation of negative reserves. Hence the company could not make any dividend payment either. This was found reflected in the security prices, ranging from as low as Rs. 0.45 to Rs. 5, just covering the face value only in two years. The financial unsoundness of this company is to certain extent an indication of the malaise affecting the fertilizer industry as a whole, as mentioned in our introductory remarks.

ENGINEERING INDUSTRY

The engineering industry, a capital-goods component of the industrial sector, besides providing a strong industrial base for sustained development, plays a strategic role in the structural transformation of the industrial sector in particular and of the economy in general. Though the State lacks the sinews of engineering industry namely iron and steel (Salem Steel Plant is yet to launch its production stream), the metal-based engineering industry has developed quite fast in the recent decades. The
engineering skill and talents richly available in the state have been well exploited by the entrepreneurs of industries, particularly in the manufacture of transport equipments, electrical machineries, internal combustion engines, textile machineries and several types of structural fabrications.

Besides, the engineering group has been broadly diversified to manufacture the spare parts of metal-based mechanical appliances and productive equipments. According to the Annual Surveys of Industries, the engineering industry has been assessed to be a dynamic and progressive group in the industrial structure of the state. In terms of productive capital, the manufacture of machinery (excluding electrical) which accounted for Rs. 954 lakhs in 1961 has registered nearly six fold increase, to Rs. 5552 lakhs in 1970; and number of units coming within the purview of the ASI coverage has increased from 245 to 418, the labor employment in these units having been more than doubled in a decade. The manufacture and repair of motor vehicles deserve a special mention in the engineering-map of the state; the number of units as per 1970 ASI survey stood at 300 with total employment of 30,606. The position of engineering group has since considerably changed during the last decade. In 1977, the production statistics of some of the key engineering industries of the state are as follows: internal combustion engines 40,200; power driven pumps, 1,28,400; power transformers, 11,31,000 KVA; Electric Motor, 98,900; automobiles and automobile
bodies manufactured and assembled, 12,169; structural and fabrications, 21,250 tons; metal-cutting tools, 64,91,000; spinning frames, 748; railway coaches, 650 and railway wagons, 7501. These data can give a reasonable index of rapid progress made by the dynamic sector of the State's industrial structure.

with a view to analyse the finances of different types of engineering industries, the following sample was chosen, representative of the various leading industries of the engineering group: Ashok Leyland Ltd., Engine Valves Ltd., Lakshmi Machine Works Ltd., Tiruchi Steel Rolling Mills Ltd., and Simco Meters Ltd.

The Ashok Leyland Ltd., got its name in 1955, from the erstwhile Ashok Motors Ltd. which was established in 1948 at Madras with an authorised capital of Rs.15 crores of which the subscribed capital amounted to Rs.9.4 crores. The company manufactures comet chassis, Leyland 'Tigers' & Titan chassis and Leyland Diesel engines. The gross sales value of the company reached its peak level of Rs.128 crores in 1976, though it declined in the next year to Rs.95 crores. The production trend was inevitably affected by shortage of steel accessories and power-cut periodically. In 1971-72, the production at Ennore was affected by the go-slow and militant action of the

workers forcing the closure of the factory and hence the turnover declined to Rs.31.88 crores. In 1972-73, the power-cut varied from 25% to 75%; in 1974-75, despite the power-cut causing a loss of 28 working days, the production of comet vehicles increased by 9% over the previous year's level. The technical collaboration with the British Leylands company has enabled the maintenance of much reputed quality standard of the company's vehicles. The loan assistance by the credit agencies amounted to Rs.11 crores in 1977. This includes the loan of Rs.60 lakhs provided by Commonwealth Development Finance Company Ltd., and £2.5 million by Leyland Motors Ltd. in 1963-64. In 1967-68, ICI sanctioned a sterling loan of one million pounds to meet the import of new machinery. As on 1978, a sum of Rs.116 lakhs was outstanding against the foreign exchange loans from ICI. Thus, there has been an adequate supply of funds from the various industrial development agencies as well as banks. The reserves accumulation which stood at Rs.2.74 crores in 1966 has enormously increased to Rs.16 crores in 1977; and the depreciation funds amounted to Rs.1.64 crores in 1977 as against Rs.0.56 crore in 1966. There has been a steady growth in the volume of sales as well as net profits over the period under study. The net profit has increased consistently from Rs.0.74 crore to Rs.5.37 crores.

In 1976, the net profit reached a maximum level of Rs.6.52 crores. The company has managed to retain as much as
40 to 80% of the net profits towards the reserves. The dividend behaviour has been exceptionally stable and on the higher level. In fact in 1966 and 1967, the company paid dividend of 10% and 8%, only out of the reserve fund and not out of the current profits which was entirely withheld as retentions. On the average the dividend rate was maintained at 9% during the five years 1968-72, and at 15% during the remaining five years, 1973-77. It was as high as 18% in the years, 1976 and '77. Thus this engineering company conforms quite satisfactorily to the norms of higher retention ratios and relatively stable dividend behaviour. It also implies that larger the size of the corporate unit, more the leverage it enjoys and hence can avoid radical fluctuations in the financial ratios.

The Engine Valves Ltd., located at Adhampakkam at Madras, manufactures a wide range of valves for internal combustion engines and ATU valves for Mercedes Benz and other engineering spare parts. The factory was established in 1954 with an authorized capital of Rs.1.5 crores of which Rs.1.01 crores was subscribed by equity shares and Rs.2.77 lakhs by preference shares. The finances, supported by loan institutions accounted for Rs.1 crore in 1977; this includes the rupee loan of Rs.24 lakhs and U.S. dollar loan of 0.39 million provided by the ICICI in 1972-73 for the expansion scheme. Consequently, the company has increased its capacity from 3 million valves to
5 million valves in 1975-76. In 1973-74, the firm entered into technical collaboration with Kar Valves Ltd. and purchased the latter's equity shares worth of Rs.8 lakhs. The valves which are marketed under the brand name of EVL have wide export market. For instance, in 1968-69 the exports of EVL earned a foreign exchange of Rs.8.4 lakhs which has substantially increased since then. The gross sales which stood at Rs.70 lakhs in 1966 has increased consistently over the period and reached the level of Rs.4.15 crores in 1977. The net profit has also been markedly positive during the said period; it has experienced nearly three fold increase, from Rs.13 lakhs to Rs.34 lakhs during 1966-77. The retention ratio has been uniformly high, ranging from 70% to 80%. And the dividend payment was extremely regular and on the high side of 15% on the average. In 1966, the rate announced was an all-time record of 30% in the corporate history of the State. Obviously the security prices of the company never fell below its face-value, always maintaining its selling-sprae, an index of the efficient performance.

The Lakshmi Machine Works Ltd. was started in 1962, at Periyanakampalayam in Coimbatore, mainly for the manufacture of textile machinery and their spare-parts and also the foundry equipments. The company has been supported by
the growing demand potential from the numerous textile mills and other engineering units located in and around Coimbatore. Within the seven year span the Company reached the production level of 218 draw-frames, 61 speed-frames, 189 ring-frames and one mono-cylinder for the blow-room in 1969; the export earnings of the company amounted to Rs.71.09 lakhs in the same year. It undertook an expansion scheme in 1974 and completed it by 1977 with the credit assistance from ICICI (rupee loan of Rs.50 lakhs and foreign exchange loan of Rs.46.50 lakhs). The capital structure of the company is as follows: authorised capital, Rs.6 crores; subscribed capital, Rs.2.6 crores of equity shares and the loans accounting for Rs.3 crores. The gross sales which were valued at Rs.60 lakhs in 1966 made a steady upward progress during the ten year period and reached a record level of Rs.2043 lakhs, a manifold increase, by 1976. And the net-profits also never showed negative trend, excepting in 1966 when the company reported a net-loss of Rs.28 lakhs. The peak year of profits was 1970, when the company registered a net profit of Rs.113 lakhs which subsequently declined; in 1976, the profits amounted to Rs.46 lakhs. The dividend record shows a consistent level of 10 to 20%, though in the earlier years of 1967-69, it did not announce any dividend in spite of the profits. And the 10% dividend in 1970 was paid out of reserve fund though the company made enormous net-profits in that particular year. This trend clearly shows that the company follows a long term policy with regard to
retention, dividend and reserve accumulations over the period. It does not necessarily link the current dividend with current profits; there has been a perceptible lag in the dividend payment particularly during 1967-70. The security prices instantaneously reflected the dividend movement. During the non-dividend years, the securities commanded lower prices compared with the consistently higher prices ranging from Rs.120 to 198 during the dividend yielding years.

The Tiruchi Steel Rolling Mills Ltd., represent metal casting constituent of the engineering group of industries. It manufactures iron & steel bars, rods, angles, channels, sheets, hoops, wires and also grip-bars and mild steel bars. The factory which was established in 1963 has made rapid progress since then. In 1977-78, the manufacture of bars, rods including wire rods were 23,480 tons; Flats, angles and channels, 434 tons; mild steel ingots, 11,205 tons; and steel castings of 172 tons. The equity investment is a modest figure of Rs.37 lakhs supported by reserve fund of Rs.21 lakhs and loan assistance of Rs.136 lakhs, as on 1978. The gross sales have registered substantial increase, from Rs.130 lakhs in 1969 to Rs.473 lakhs in 1977. Though the company reported net-loss of Rs.6 lakhs and Rs.5 lakhs in 1975 & 76 respectively, it has made consistently increasing rate of net profits in the remaining years ranging from Rs.2 lakhs in 1969 to Rs.11 lakhs in 1974. And the dividend payment also showed an uniform trend in
all the profitable years; there was no dividend payment in 1975-76, during which the company reported loss. The retention ratio moved with a wide margin of 30 to 80%. But it must be noted that rate of retention moved sympathetically with that of net profit. This is a fair indication of the frugal financial management by this relatively smaller firm among the engineering units chosen for the study.

The Simco Meters Ltd., was established in 1961 at Tiruchi, originally as a feeder unit to the then electricity-distributors of South Madras Electricity Corporation (since taken over by the state government and brought under the TNEB), owned by the same management. The company has since been widely diversified to produce different types of electrical machineries. Its manufacturing list includes industrial and domestic meters, measuring and recording instruments, gadgets, tools and implements, indicators, electric and electronic machineries and appliances. As on 1978-79, the production consisted of 116,000 meters, 2,200 switch meters and 87,000 polyester variables condensers, in addition to the magnetic level gauge, high energy batteries and other electric and electronic appliances. The production stream was interrupted by the strikes and lockouts during 1978-79. The capital structure consists of Rs.3 lakhs of preference shares, Rs.45 lakhs of equity shares; it is supported by reserve accumulations of Rs.50 lakhs and loan assistance to the tune
of Rs.98 lakhs. The Southern Electronics Private Ltd., was amalgamated with the company in May, 1974 and hence the sharp increase in the investment and production. The gross sales which was Rs.54 lakhs in 1966 rose to Rs.302 lakhs in 1977, a six-fold increase during the twelve year period. The net profits suffered a set-back only in 1968; in all the other years, it has been substantially positive; it rose from Rs.2 lakhs to Rs.15 lakhs during 1966-77. The retention ratio was substantially higher throughout the period ranging from 60 to 80%. Dividend rate has got stabilised only since 1973; before that, excepting in 1969-71 when the rate was about 9%, the dividend record drew blank. The security prices, of course, reflected the dividend trend of the firm; in all the dividend-years the prices ranged from Rs.9 to Rs.16, whereas in the non-dividend years, it fluctuated between Rs.5 and Rs.8.

CEMENT INDUSTRY

The Cement industry in the State consists of eight factories, including six in the private sector and two in the public sector. The total installed capacity is about 41 lakh tonnes, taking into account the recently commissioned cement plant at Ariyalur with a capacity of 5 lakh tonnes. Tamil Nadu accounted for about 17% of the national production of cement in 1977\(^1\). Though the state has vast potential of raw material

\(^1\) The Cement Controller, Southern Region, Madras.
reserves necessary for the cement production, the units could not make much headway because of uncertain and inadequate power supply which have curtailed the full utilisation of the production capacity. The capacity utilisation on the average worked out about 80% during 1969-77. Under the barter system agreed between Kerala and Tamil Nadu, the latter has been forced to exchange cement for power supplied by Kerala. Hence there has been a continuous discrepancy between the domestic demand and supply. Another major problem affecting the industry is its dependence on the supply of coal from the far away mines in North India. Apart from the heavy cost of transport, the supply itself is irregular for want of wagons and other dislocations.

The present study has covered the financial aspects of the four public limited units in the private corporate sector, viz., Chettinad Cement Corporation Ltd., Dalmia Cements (Sharath) Ltd., Madras Cements Ltd., and the India Cements Ltd. These units account for about 90% of the total installed capacity of the industry.

The Chettinad cement corporation Ltd. has its production unit established in 1962 at Puliyur near Karur in Tiruchi district, with an authorised capital of Rs.5 crores of which Rs.3 crores has been subscribed (Rs.2.1 crores of equity capital and Rs.0.9 crore of preference shares). This unit has also raised credit of Rs.41 lakhs from Indi, Rs.20 lakhs
from IFCI, Rs.15 lakhs from ICICI and Rs.15 lakhs from LIC, during 1975-76. The factory produces both portland cement and clinker. The production of clinker ranged from 193,922 tons of clinker in 1970 to 335,990 tons in 1979; similarly the cement production showed a steady progress from 200,136 tons in 1970 to 362,201 tons in 1979. During the ten year period 1969-78, the unit has reported net-loss for five years and net-profit for the remaining five years. Both the net-profit as well as net loss have been carried over to the reserve account and hence the factory has not announced any dividend during the said period. The depreciation account shows a continuously accelerating trend throughout the period, from Rs.16 lakhs in 1969 to Rs.53 lakhs in 1978. Thus the internal finance can be considered to be substantially high as there is no dividend announcement at all, with continuous accumulation of depreciation reserve. The absence of dividend yield has reflected itself on the equity price which ranged from as low as Rs.2.40 in 1976 to not more than Rs.5 at any time.

The India Cements Ltd, the oldest among the cement units, established in 1946, has two production units, one at Shankarnagar in Tirunelveli district and the other at Shankaridrug in Salem district. This is one of the largest units in the corporate sector. It has also established a foundry at Nandhampakkam at Madras and is thereby diversifying
its activities. The production of clinker increased from 463,190 tons in 1969 to 757,216 tons in 1978 in the Shankernagar unit and from 415,837 tons to 601,500 tons in the Shankaridrug unit during the same period. The cement production reached a record level of about 13.64 lakh tons in 1978 from 9 lakh tons in 1969, from both these units. These units were established with an authorised capital of Rs.10 crores of which Rs.5.23 crores was subscribed, consisting of Rs.4.9 crores of equity shares and Rs.3.33 crores of preference shares. Initially, the subscribed capital stood at Rs.1 crore and it has gradually increased to Rs.2.57 crores in 1961 and then to the current level of Rs.5.23 crores. The IDBI, LIC and IFCI have contributed loans amounting to Rs.40 lakhs, Rs.25 lakhs and Rs.0.76 lakhs respectively. During the 12 year period, 1966-77, the company has registered net-loss only during 1973 and 1974; it has reported substantial net profit throughout the remaining period. Hence, the company was able to pay a stable dividend of about 8 to 9% throughout the period excepting in 1974 and 1975 when there was no dividend payment. One striking feature in the company's dividend policy is that it has striven to maintain a stable dividend rate of 8% even in the year 1973 when the company reported a net-loss of about Rs.32 lakhs (it paid the dividend out of its reserve funds). And the dividend did not respond spontaneously to current profits in some years, thus indicating its lagged behaviour. The company's retained earnings has also
been in a comfortable position during the same period; more than 60% of the net earnings were retained in most of the profitable years. The company's security prices did not fluctuate much in almost all the years, thus showing a consistent trend.

The Dalmia Cements (Sharath) Ltd. was established in 1951 at Dalmiapuram in Tiruchi District, with an authorised capital of Rs.6 crores of which Rs.3.77 crores was subscribed as on 1977. The subscribed capital consists of Rs.3.46 crores of equity capital and remaining Rs.0.31 crores of preference shares. This company is one of the most diversified units in the corporate sector in Tamil Nadu. Its activities include a wide ranging list from Govan travels and Shri Rengam Investments to export of engineering goods and Cashew processing and trading. Strictly speaking, the non-cement activities has been increasing relatively over the last decade. The company has 3 plants at Dalmiapuram with an annual capacity of 4.67 lakh tons, besides the production of drainage pipes, water supply pipes, culverts, porcelain sanitary ware and insulated acid-resisting tiles. The production of the major commodities in 1978 were as follows: the cement, 5.22 lakh tons; clinker 4.91 lakh tons; iron ore, 3.63 lakh tons from the mines in the Bellary, Hospet area; cashew kernels, 1.78 lakh tons and deadburn magnesite of 0.49 lakh tons. The company, mainly because of widely dispersed activities, has maintained a huge net-profit level throughout the period, 1966-77, without incurring loss even in a single year. It has retained nearly
the entire current earnings, during the period 1966-75 and 50 to 60% of the current earnings in 1976 and 1977. This is an unique feature in the corporate finance, especially when we note that the company has also maintained a stable dividend rate of 12.5% from 1966 to 1973 and about 22% in the last six years. In spite of very high retention of current earnings, the company could effectively maintain a stable and higher dividend rate also because the dividend payments were made out of the reserves built-up during the preceding prosperous years. This has been achieved despite the fluctuations in the cement production; possibly the sound financial condition can be explained mainly in terms of other subsidiary activities, economically lucrative, though unconnected with cement in any way. For instance, the company had even a diary industry under its control up to 1975, subsequent to which it has developed as a separate entity, Balima Diary Industries Ltd. The security price naturally commanded the highest level of Rs.17.50 in 1977 with not much of downward trend.

The Madras Cements Ltd. at Thulukkappatti in Ramnad district, was established in 1957 with an authorised capital of Rs.4 crores of which Rs.2.74 crores was subscribed. The equity component formed about Rs.2.22 crores and the preference shares accounting for Rs.0.52 crores. The company received liberal credit facilities for its expansion during 1971-74:
SIPCOT, an interest free loan of Rs. 50 lakhs; ICICI, Rs. 240 lakhs; IDBI, Rs. 75 lakhs; ICICI, Rs. 75 lakhs; LIC, Rs. 75 lakhs; SIPCOT, Rs. 15 lakhs and Indian Bank, Rs. 200 lakhs. Having been backed by these liberal external funds, the company planned to redeem 12,000 preference shares in 1979; but the plan could not materialise because of set-back in its current earnings since 1973. The company's production of clinker increased substantially from 1.8 lakh tons in 1969 to 3 lakh tons in 1978 and that of cement from 1.78 lakh tons to 3.21 lakh tons during the same period. The company was able to pay a stable dividend of 10 to 12% during 1966-71, whereas it could hardly pay any dividend since then, because of net loss incurred in these years. In 1975-76 the company showed some sign of recovery, but again met with a loss of Rs. 83 lakhs in 1977. Another intriguing feature about the company is that it has not cared to retain a considerable portion of its current earnings, especially during the profitable years of 1966-72; its retentions during these years were anything but meagre and it could ill afford to save much in the subsequent years also because of continuing decline in its net earnings.