CHAPTER IV
WORKING OF THE ENTERPRISES:

Hindustan Aircraft: originally started as a private enterprise in 1941, was later taken over by the Government of India and is now being administered under the Ministry of Defence, Government of India. The Company manufactures aeroplanes, Prentice Trainer for use in the Indian Air Force and Civil Flying Clubs, integral rail coaches for the Indian Railways. There are also programmes for producing fighter aircraft, basic jet trainer and a number of other products. The Board of Directors of the company consists of 9 members, all officials.

The total paid up capital of the company is Rs.2000 lakhs of which the Government of India holds Rs.1940 lakhs worth of shares and the Government of Mysore has paid up Rs.60 lakhs. Loans have been an unimportant source of capital for the company and since 1952-53 the loan as a percentage of equity capital has been decreasing as is revealed in the Table 4.1. As against the amount of share capital, the reserves and surplus have been inadequate, being, as at present, only 19% of the share capital. The Company was unable to build up adequate reserves even when it declared dividend once only in 1949-50 at 3 p.c. only during more than twenty years of its existence. Further, depreciation
provision has also been inadequate. Depreciation on fixed assets has been on the basis of ordinary income tax, which is fixed on the basis of overall expected life of assets. An industry like aircraft changes very rapidly and radically and depreciation on the basis of income tax cannot be adequate. In U.K., for instance, the aircraft industry has practically to write off its assets every five years and has to provide much larger depreciation.*

The amount of net assets has increased from Rs. 515 lakhs to Rs. 2162 lakhs - more than a four fold increase. Sales also showed increasing trend upto 1960 after which in 1961 it fell from Rs. 884 lakhs to Rs. 832 lakhs in 1961 and Rs. 881 lakhs in 1961-62. Similarly net profit has been increasing over the years. On the whole sales rose by 34 p.c. and total net assets by 127 p.c. over the period. Total assets consists also of investments in new projects which do not yield profits. But if we take only the old projects and investments on them as they stood in 1958-59, we find the ratio of sale to net assets to be falling since 1959 from 85 to 74, 69, 46 and 41 per cent respectively for the years between 1958 and 1962. Sales is at present only 41% of the total net assets. The sales to working capital has also been low. This ratio was however rising upto 1959-60 after which it tended to fall, revealing insufficient utilization of working capital.

On the other hand, net profit to sale has never been more than 6% and actually the ratio fell to 5, 3 and 4 per cents respectively for the years 1960, 1961 and 1962. The percentage of net income to total net assets has been insignificant as can be examined from the Table 4.1.

All these show that although not assets of the company showed increasing income earning activities were not up to the mark so that the ratios showed only poor results.

The Bharat Electronics Ltd was established in 1954, under the overall administration of the Ministry of Defence to produce electronic equipments in the country. It is under the control of a Board of Directors consisting of 9 members, all of them being officials from different Ministries of the Government of India.

In addition to electronic equipments, it has since 1961 been producing radio receiving valves and from 1962 mica capacitors. Machinery for producing ceramic condenser was installed in the same year. The Company has entered into agreement with different foreign collaborators for the production of radar equipment, transistors, tape recorders, receiving equipments, transmetres, M.7 beacons, navigation and communication equipments etc.

The total paid up capital of the company stands as Rs.521 lakhs. Upto 1960-61, the company did not take any loans from any source; only in 1961-62, Government of India issued
a loan of Rs. 25 lakhs at a rate of interest of 5%. Loans have thus been of little importance for the company. It has a cash credit arrangement with State Bank of India of an amount of Rs. 75 lakhs. Reserves and surplus have similarly been of insignificant amount and the ratio of reserves and surplus to share capital showed insignificant value, the highest figures being 2% and 2% for the last ten years. The net assets of the company showed an increase of Rs. 49.44 lakhs over the whole period. Over the last three years the increase was by 46%. Sales on the other hand increased by about 23% over the last three years. But the rate of increase was not steady, being 99%, 32%, 77% and 45% during the last four years of the study. Net profit for the same period increased by about 186%. The company began making profit only from 1959-60. The accumulated losses till this year were Rs. 20.37 lakhs. Obviously the figure would have been higher if dividend foregone was considered. If for instance, dividend were calculated at 6% of the paid up capital, the loss would show to be Rs. 113.76 lakhs.

The percentage of sales to net assets was increasing, being 2.1, 14, 23, 31 and 41 respectively for the years between 1957-58 and 1961-62. Sales as a percent of working capital also showed increase. For the same period the figures were 5, 31, 51, 63 and 79. Net profit to sales for the last three years was 7.6 p.c., 8.5 p.c. and 8 p.c. and net profit
to total capital employed was 2.7 p.c., 3.0 p.c. and 3.3 p.c. respectively.

There are various reasons why the company was not able to make profit prior to 1960. The project was originally conceived rather ambitiously. There were foreign exchange difficulties which stood in the way of increasing output and sale. The planning of production was also poor: the company did not pay sufficient attention to production of standard equipment which could be readily available in large quantity. It was not even able to supply any electronic equipment to the Defence Services although it is under the Ministry of Defence. Secondly, because of installing large capacities at the beginning rather than a gradual expansion the company had the burden of very heavy overheads in the initial stage of production, so that there was large unutilized capacities. The degree of utilization of machinery was 6.6% in 1956-57, 28% in 1957-58 and 54% in 1958-59.*1 In 1959-60, however, the extent of utilization gone up to 52% and 55% in 1959-60.*2 It is now 62% which for an electronic industry is, on the whole satisfactory.*3 The ratios also showed rising figures, the working of the company was thus improving. All these may be seen in Table 4.2.

*2 Principal Public Sector Undertakings - 1960-61
Cabinet Secretariat, New Delhi, p.59
Hindustan Cables was set up in 1952 to manufacture tele-communication cables and accessories. It is managed by a Board of Directors consisting of 8 official and 2 non-official members.

The total share capital of the company is Rs.125 lakhs all paid up by the Government of India. Loans of the company increased over the years and was a significant source of capital, the equity loan ratio for the last three years having been 75, 59, 67 expressed in percentage. But the amount of reserves and surplus in relation to paid up capital has been very low, being 28, 29 and 30 per cent. for the last three years.*

The total net assets of the company showed sustained improvement. This can be seen from Table 4.3.

The index of net asset showed improvement from 41 in 1954 to 201 in 1962. Since 1957-58, the indices for the figure were 100, 120, 130, 139, 194, 201 - a marked improvement in capital formation by the company. Sales had similarly been showing steady increase, the indices of sales for the same period being 100, 116, 139, 169, 196. The indices of net profit were 100, 170, 160, 160, 200 - on the whole an increase over the period.*

*With this we see that the current ratio also showed persistent fall; since 1957-58 the ratio was 477, 446, 434, 225, 208.*

(Vide the annual reports of the company for the relevant years)
However, the ratio analysis does not give such a bright picture. The ratio of sales to net asset remained more or less stable from 1957-58 till 1961-62. It showed that income earning activities could not keep pace with the increase in assets. Net profit to sales figures also been falling on the whole since 1958-59 - revealing that cost of sales was increasing.

**Indian Telephone Industries** : was set up in 1947, the first public enterprise established after the independence. The enterprise, originally a departmental concern, was converted into a jointstock company in 1948 under the Mysore Government Act and later under the Indian Companies Act with effect from 1950. The object of the Company is to carry on all kinds of business relating to telephone, telegraph, radio and railway signalling and fascimille equipments of all kinds.

The company is managed by a Board of Directors consisting of 8 members of whom 3 are non-officials. The Government of India is the majority share holder. Mysore Government and Automatic Electric Co. Ltd. of Liverpool, the foreign collaborators, have some shares.

The total paid up capital of the company is Rs.400 lakhs only. Loans taken by the company also increased during the period and at present it is 40% of the share capital. Loans are taken from the Government of India and the State Bank of India. The Company has a cash credit of Rs.86.8 lakhs.
The ratio of loans to share capital has been 21, 24, 35, and 41 from 1957-58 to 1961-62. Loans have therefore been increasingly an important factor in the capital structure of the company. The reserves and surplus of the company which was consistently increasing was still very inadequate in comparison with the total paid up capital. From the Table 4.3 it is found that the reserves to paid up capital showed increase over the period from 5% in 1954 to 18% in 1962. However the ratio remained low throughout.

Table 4.4 shows also that the increase in the total net assets was from ₹236 lakhs in 1952-53 to ₹715 lakhs in 1961-62 — an increase by over 200%. The rates of increase for all the years were not uniform; however, from 1958-59, this rate increased the indices for the last four years being 96, 105, 106 and 119 respectively. The amount of depreciation provision was adequate, but variations in the amount of depreciation provision over these years do not seem to be based on any scientific formula, for increases in the amount of depreciation was made without any corresponding increase in machinery and plants or in production.* The company has been one of the few public enterprises that have been declaring dividends regularly from 1955-56. But this policy did not always prove to be a sound one. In 1956-57, for instance, dividend was declared without making any provision for the General Reserve.

As for sales we find that except a fall in the year 1955-56, sales figure rose consistently over the period of study. In 1952-53, the index of sales was 52 and in 1961-62 it became 182. The net profit of the company registered consistent increase from 1956-57, the indices of profits being 85, 100, 100, 117, 158 and 208 respectively from 1957-58 to 1961-62.

When, however, we turn to the turnover ratios, they do not give an encouraging picture. Table 4.4 shows that the ratio of sales to net assets rose during the period, for the last four years the percentages having been 63, 64, 71, 78; sales to working capital also showed increase by 50 per cent. This is to be considered in view of the fall in price of its products.\(^1\) The reduction in price, however, took place when costs of material, labour etc. were rising.\(^2\) The prices of the product were artificially kept at a low figure and were based on a rough cost plus basis, because these are purchased by the Government Departments. The company sells automatic telephone to Posts & Telegraphs Department at Rs.73 each, while the lowest imported cost is Rs.108 each for similar equipment. This seems to be a wrong

\(^1\) Prices of Telephone:
\begin{tabular}{lcccc}
Rs.82 & Rs.79 & Rs.73 & Rs.73
\end{tabular}

\[\text{Vide Annual Reports of the Company for the years.}\]

\(^2\) Estimates Committee-Report No. 11 of 1957-58.

p.23.
approach. The price policy has to be formulated on considerations usual for a commercial undertaking and not on any artificial ground. And since the Government acquires these products for commercial purposes, the cost implications are borne by the eventual consumers.*

However, the ratio of net profit to sales did not increase correspondingly with the ratio of sales to net assets, the percentage figure for the last four years having been 4, 4, 5, 4. This shows that costs of sales must have been rising with rising sale, so that income from sale remained more or less stationary. Similarly net profit to net assets, also remained constant at 2 for the last four years. There was therefore no improvement in its working over these years.

Hindustan Machine Tools Ltd: was incorporated in 1953 for carrying on business and manufacture of machine tools of more advanced type not likely to be made by the private businessmen. It produces milling machine, radial drill machine, general purpose lathes, grinding and special purpose machine etc. It has now been manufacturing Wrist Watches too. It is managed by a Board of Directors consisting of nine members, of which two are non-officials.

The capital structure of the company consists of ordinary share capital and loans from the Government. The

amount of paid up share capital is ₹.531 lakhs - all subscribed and paid up by the Government of India. The amount of loans is ₹.282 lakhs only - advanced by the Government of India. The company had a cash credit account of ₹.300 lakhs with the United Commercial Bank, Bangalore. In 1961-62 the Company secured ₹.86.60 lakhs from the bank. On the whole, loans have been increasing since 1956-57, though over particular years, the amount became less in comparison with the previous year. This can be seen from the Table 4-5. However, the equity-loan ratio moved rather in an erratic way over the years. The estimate of loan calculated as a percentage of share capital is, as shown in the same table, was 42 in 1956-57, and rose to 76 in 1957-58 and then was 49, 31, 43 for the periods between 1958-59 and 1961-62 respectively.

The reserves and surplus of the company have been rising considerably. In 1956-57, the amount was ₹.1.68 lakhs and in 1961-62 it increased to ₹.73.65 lakhs, an increase by over 8 times the previous year amount. Although compared to the amount of share capital, the reserve has to increase, yet the increase in the reserve show that the company has been trying to build up a significant reserve.

The total net assets of the company is ₹.357 lakhs which was ₹.435 lakhs only in 1956-57, i.e., that has been an increase by 120%. Except for the year 1959-60, the amount of net assets has been consistently rising though the rate
of increase slackened around 1960. It rose again in 1961-62 when the index for the figure was 134.

Sales of the company rose steadily, rates of increase having been different. In 1956-57, the total sales was Rs.43 lakhs only, while in 1961-62 it increased to Rs.476.3 lakhs. Between 1960-61 and 1961-62, the increase in sale was two fold.

Profits of the company also showed steady progress. From Rs.4 lakhs in 1956-57, it increased to Rs.127.52 lakhs in 1961-62 and over 1960-61, the increase in 1961-62 was by 56%.

When we examine the turnover ratios, we find that the ratio of sales to net assets expressed in percentage term, increased from 10% in 1956-57 to 52% in 1960-61. This is a remarkable achievement and shows that total investment of the company had been more and more effectively utilized. Sales to working capital figure also improved from 30% in 1956-57 to 33% in 1960-61 — showing that working capital taken separately was also effectively utilized.* It must be noted here that throughout its operations the selling prices were 10 to 20 p.c. below the landed price of the imported product while the duty on imported goods is 10 to 15 p.c. only.

* The current ratio of the company improved during the company showing strong liquid position of the company.

(Vide the annual reports of the company for the relevant years)
Thus increase in sales figure was definitely not due to increase in the prices of the products manufactured by the company.* Similarly, the net profit to sales increased from 9 to 28 p.c. between 1956-57 to 1961-62, while net profit to net assets employed also registered steady improvement from 1% in 1956-57 to 11% in 1961-62. This is remarkable on any standard of commercial efficiency. This achievement is to be placed against the fact that the average monthly earnings per worker increased from ₹.116 in 1956-57 to ₹.180 in 1961-62 - an increase on average, by 55%. The Company maintained a conservative dividend policy, it started paying dividend only from 1960-61 at 10%. Out of the profits made it has been able to find means to set up the second machine tools factory in Bangalore and has started work on the setting up of a third machine tools factory at Punjore.

*Total production of the company has increased from ₹152 lakhs to ₹330 lakhs - an increase by 27.8 p.c., the actual production being far above the targets as can be seen below:

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>136</td>
<td>402</td>
<td>552</td>
<td>702</td>
<td>1002</td>
</tr>
<tr>
<td>Target</td>
<td>57</td>
<td>131</td>
<td>238</td>
<td>314</td>
<td>400</td>
</tr>
</tbody>
</table>

[Vide Annual Reports of the Company for the relevant years.]
in Punjab. It is expected to be completed by the year 1963. Two more factories are shortly to be established, one at Kalamassery in Kerala State and another in Sanatnagar in Hyderabad. Moreover a Watch Factory was also established in 1962.

Further from the following table it is evident that the company has not only maintained improvement in production, the production has also been diversified.

**HINDUSTAN MACHINE TOOLS**

**PRODUCTION OF VARIOUS TYPES OF MACHINE TOOLS**

(Value in Rupees in lakhs)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Value</td>
<td>No. Value</td>
<td>No. Value</td>
<td>No. Value</td>
</tr>
<tr>
<td>Lathes</td>
<td>313</td>
<td>113</td>
<td>240</td>
<td>79</td>
</tr>
<tr>
<td>Milling Machines</td>
<td>89</td>
<td>39</td>
<td>262</td>
<td>103</td>
</tr>
<tr>
<td>Radial Drills</td>
<td>-</td>
<td>-</td>
<td>50</td>
<td>17</td>
</tr>
<tr>
<td>Grinding Machines</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Special Accessories</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Special Machines</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>402</td>
<td>152</td>
<td>552</td>
<td>199</td>
</tr>
</tbody>
</table>

Source: Agenda Papers—Meeting of the Central Advisory Council, Ministry of Commerce & Industry, Govt. of India. 1961-62, p. 16.
The Nahan Foundry was incorporated in 1952 for manufacturing cane crushers, sugar boiling pans and other miscellaneous items. The Company is under the management of a Board of Directors of 10 members of whom 2 are non-official.

The total share capital of the company is ₹40 lakhs only paid up by the Government of India. Loans were never more than 25% of the paid up capital. At present it is 19%. The company has a cash credit arrangement with the State Bank of India upto ₹3 lakhs only. Amount of reserves and surplus has been negligible as compared with the amount of share capital. The total net assets of the company has increased from ₹44 lakhs to ₹53 lakhs, but the increase was not uniform. Sales have been increasing since 1955-56, but the rate of increase fell during the last three years under study. Total profit continued to increase upto 1960-61 but it fell by 25% in 1961-62 from ₹4 lakhs to ₹1 lakh.

All these may be examined in table 4.6. The ratio of sales to net assets increased over the years. But so far as yearly figures are concerned for the last five years the rise was not consistent and showed some fluctuations. The percentage of net income to sales also rose upto 1960-61, but after that there was a sharp fall in the ratio because of a sudden fall in the profit. The fall in the profit can however be explained largely in terms of increase in salaries, allowances etc. to implement the Pay Commission recommendations, to
increase in wages due to regularisation of casual workers.\textsuperscript{1} But this was not the only reason; there was a fall in the output also which cannot be explained by the reason cited above.

One of the difficulties explained by the company was shortage of working capital although the company is somewhat overcapitalised.\textsuperscript{2}

The capital of the company, if suitably reconstructed and written down will probably give better results in the future. Another difficulty which is standing in the way to a better result is the delay in payments due to it from different government agencies. A sum of Rs. 65031 was due from Co-operative Organisation in the U.P. on account of goods supplied to it for more than two to three years ago. The Khadi and Village Industries Commission also made undue delays in making such payments.\textsuperscript{3}

Further, production programming was sometimes faulty. In 1953-54 for instance, the company undertook manufacture of Sarovar pumps and incurred a loss of Rs. 1,22,998 due to certain defects in the machinery.\textsuperscript{4} According to the Public Accounts Committee the development of the Sarovar Pumps was

\textsuperscript{1} Ministry of Commerce & Industries - Review of the working of Nahan Foundry laid on the Table of Parliament\textsuperscript{[Memorandum]} New Delhi, 1962.

\textsuperscript{2} Public Accounts Committee 1958-59 - 18th Report, p.19

\textsuperscript{3} Audit Report 1959, p.52 para 54.

\textsuperscript{4} Public Accounts Committee 1961-62 - 42nd Report, p.28
not very scientifically planned. The development of production from one stage to another had been rather too hurried and scant respect had been paid to the accepted principle of modern methods in design.*

The Praga Tools Corporation was incorporated in 1943 for manufacturing high speed cutting tools and measuring instruments. The manufacturing programme was later diversified from time to time. At present the company manufactures:

(1) Machine tools like milling machines, lathes, drilling machines etc.,
(2) Machine tools accessories like lathe chucks, drill chucks etc.,
(3) Precision tools,
(4) Auto and diesel parts; and
(5) Railway duplicators.

The company was previously under the Government of Hyderabad which appointed a firm as Managing Agents which was entrusted to the day-to-day management of the company. The arrangement however ended in 1954, when the Government of Hyderabad took it under the direct supervision. The affairs of the company were not satisfactory and its very existence was threatened. The Government of India then took up the administration of the Company as machines tools are important from the point of

view of economic development of the country.

It is now managed by a Board of Directors consisting of 6 official and 1 non-official members.

At the time of the transfer of the firm to the Government of India the financial structure of the company was as follows:

<table>
<thead>
<tr>
<th>Rupees in lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>Net Fixed Assets</td>
</tr>
<tr>
<td>Reserve &amp; Surplus</td>
</tr>
<tr>
<td>Current Assets</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>Loans &amp; Advances</td>
</tr>
<tr>
<td>Cash &amp; balances</td>
</tr>
<tr>
<td>Current Liabilities</td>
</tr>
<tr>
<td>Accumulated loss</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

At the time of the transfer, therefore, the company had an accumulated loss of Rs.30.64 lakhs, the major portion of which was wiped off by reduction in share capital and waving of interest on State Government loans. The balance of loss was made good by profits earned during the subsequent years. The total paid up capital of the company stood at Rs.150.54 lakhs subscribed as under:

<table>
<thead>
<tr>
<th>Rs. in lakhs</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>83.64</td>
</tr>
<tr>
<td>Andhra Pradesh Govt.</td>
<td>47.57</td>
</tr>
<tr>
<td>Public</td>
<td>18.35</td>
</tr>
<tr>
<td>Forfeited shares</td>
<td>0.98</td>
</tr>
</tbody>
</table>
The company secured loan of Rupees 20 lakhs only after three years of total dependence on equity capital. Even then the amount of debt is insignificant in relation to the amount of paid up share capital. The loans come to about 13% only of the share capital. Reserves and surplus of the company is only Rs.2.66 lakhs as at present and was Rs.6 lakhs in 1959-60, the highest figure in the period. The net assets of the company showed a sharp increase in 1958-59 from Rs.88 lakhs to Rs.137 lakhs - an increase of 56%. For the three years, however, the figures remained more or less the same. In 1961-62, there was a 20% increase in the net assets figure. [Table 4.7]

The sales of the company fell in 1959-60 but showed steady increase for the next three years. But profits did not move accordingly as can be seen from the Table 4.7. There was actually a loss of Rs.4.3 lakhs in 1961-62.

Output however did not increase as expected. According to the estimates given output was expected to increase to Rs.60 lakhs in 1959-60 and Rs.105 lakhs in 1961-62. In 1961-62 actual output was only Rs.68 lakhs. In 1959-60 too actual output was Rs.68 lakhs.

During the last five years under study total capital invested by the company increased by 73% whereas output increased by 33%.

[Vide Annual Reports of the Company for the relevant years.]
When we come to the ratios* we find that sales were more or less increasing over the last three years, though the rate of increase was not very significant. Sales to working capital however, showed marked improvement showing better utilization of working capital of the company. Since profits were very low and losses in the last year of the study, the income ratios are not calculated. The profits which were made after the company was reorganized were utilized in making good the accumulated losses of the preceding years. The poor result of the company was partly due to unsettled labour conditions that prevailed since 1959 and partly to defective technical layout and other productive conditions.*

The Company is however engaged in expanding the work in two phases, viz., increasing existing capacity, better organisation of work etc. and diversification of production.

* See Table 4.

Hindustan Shipyard was established in 1941 and the first vessel was launched in March, 1948. It is entrusted with the task of building and repairing ships. It was formerly a company under the Managing agency of Scindia Steam Navigation Company Ltd. But it was taken over by the Government of India in March, 1952. Till recently the Scindias were allowed to retain one-third of the share capital of the company. In 1962, however, all the shares were acquired by the Government of India.

The total share capital of the company as on 31.3.1962 stands at Rs.578.60 lakhs only all of them being ordinary share held by the Central Government. The loans, advanced by the Government of India are Rs.775 lakhs on the same date, increasing from Rs.349.60 lakhs in 1952-53. The loans are all repayable and bears an interest of 4½ per cent per annum. The equity loan ratio stands at 1:1.34, thus loans exceeds the stipulated boundary. The company has a cash credit arrangement with the State Bank of India of an amount of Rs.400 lakhs only. The Company has been unable so far to build up any reserve. Net assets which is supposed to represent net capital formation of the company increased from Rs.494 lakhs in 1952-53 to Rs.1343 lakhs in 1962-63. From an examination of Table 4.8 it will be revealed that this growth was not uniform over the period; from 1955-56 there was a fall in the figure of net assets from Rs.943 lakhs in
1954-55 to Rs. 793 lakhs in 1955-56 - a decrease by 19%.

In 1956-57 the figure came down to Rs. 789 lakhs, a decrease by 5%, over the previous year figure. In 1957-58, net assets stood at Rs. 937 lakhs which was still less than what it was in 1954-55. From 1958-59, the position improved, the amount in the year being Rs. 1169 lakhs - an increase by 25% over the previous year. In the next year, the amount again fell to Rs. 1123 lakhs and rose to Rs. 1343 in 1961-62. The working capital of the company too did not show a steady movement; it continued falling from 1955-56 till 1957-58 when the amount showed some increase. However, the amount started falling again in 1959-60.

Further, it may be seen in the same Table that sales over the period have been erratic. This can partly be explained by the nature of the business: Since the business consists of sale (and repair) of ships, the years in which the construction of ships and their sale are completed, show higher sale figures and since the market was not wide, sale cannot take place every year. However, that the business was conducted in an unsatisfactory way can be seen from an examination of net profit/loss from Table 4.3.

Upto 1959 the company made losses. From 1959-60 the company was able to make some profits. But the amount of profit is not only insignificant, but on closer examination spurious too. For every year the company is paid quite considerable amount of subsidy - an amount which increased over the years.
The subsidy is shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of subsidy in rupees in lakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-56</td>
<td>64</td>
</tr>
<tr>
<td>1956-57</td>
<td>62</td>
</tr>
<tr>
<td>1957-58</td>
<td>97</td>
</tr>
<tr>
<td>1958-59</td>
<td>45</td>
</tr>
<tr>
<td>1959-60</td>
<td>115</td>
</tr>
<tr>
<td>1960-61</td>
<td>54</td>
</tr>
<tr>
<td>1961-62</td>
<td>87</td>
</tr>
</tbody>
</table>

The subsidy is determined on the basis of actual construction cost and the price at which the ships are sold which is supposed to be U.K. parity price. Actually, sale price is decided by negotiation between the company and the intending purchasers who always managed to get a lower quotation than originally obtained by the Shipyard. This price is lower than the U.K. parity price. This sort of subsidy goes clearly against any inducement for the Shipyard to strive to reduce its cost of production.

When we examine the ratios the operations of the enterprise are better revealed to us. The ratio of sales to working capital show wide fluctuations, showing that working capital was not properly utilized. The percentage of sales to net assets was low all through the period showing a lack of effort on the part of the company.

*Public Accounts Committee 1962-63, 7th Report. p.18

*See Table 4.8
The income ratios, namely, ratios of net profit to sale and net profit to capital were insignificant, or negative in some cases, and in those cases the ratios were not calculated. This poor result took place inspite of inadequate provision of depreciation.*1 The Director of Commercial Audit observes that no depreciation has been charged on machinery worth Rs.18,41,036 purchased at different times during the last five years which is lying uninstalled.*2 This poor result was inevitable in an atmosphere of sluggish administration. There were, for example, defects in plans and designs of ships so that after completion it was found that they were unfit for delivery and purchasers cancelled their order.*3 This cost the Shipyard Rs.1.11 lakhs. There were also cases when ships were constructed without proper contract so that ultimately the purchasers could make it to their advantage.*4

Administrative delays and lack of vigilance have also been responsible for the poor showing of the shipyard. On the basis of the annual estimated requirement of about 1000 tons of Oregon Pine Timber, quotations were invited in March 1957 by the Company on the condition that the tender should

*1 Hindustan Shipyard Ltd. Annual Report No.7 p.34  
*2 Ibid p.34  
*3 Public Accounts Committee 1958-59, 80th Report. p.77  
be submitted within one month and supplied by June, 1957. Tenders were opened in April, 1957, orders placed on 7th June, 1957 and timber received in February 1958. But meanwhile the company purchased 90 tons of timber in October and December 1957 from the stockholders at an extra cost of £45000.*

*Public Accounts Committee 1961-62, 42nd Report, p.93

The output figures which are available for this company were as follows:

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From 1958 the rate of increase was declining from 20% to 15%.

(Vide the annual reports of the company for the relevant years)