From the Chair

Bombay Suburban Electric Supply Limited

Speech of the Chairman, Mr. A. N. Haksar

THE following is the Speech delivered by the Chairman. Mr A. N. Haksar, at the Annual General Meeting of Bombay Suburban Electric Supply Limited held in Bombay on Wednesday, 9th August 1961 :

The Report and Accounts already before you reflect a satisfactory record of operations during the year ended 31st March 1961. Increase in sales energy has kept up the trend of the past average of 20%. The pace of increase in the coming year should, if anything, be steeper; this is, of course, assuming that bulk power in sufficient quantity will be available to meet the needs in the Company's area of supply.

From a preliminary study of the power requirements in the Company's System, it is estimated that the demand by 1976 would be in the region of 200 MW. In this context studies are, therefore, now under way to formulate a 15-year development plan. This involves appraisal, both technical and financial, of the future design of the whole system. Substantial progress in the study of the problem is expected to be made during the current year.

All these future developments involve considerable investment; but investment in the Electric Supply Industry is being impeded by the financial regulations governing it. The fact that the return at present prescribed by the Electricity (Supply) Act, namely, 2% over the Reserve Bank rate of 4%, which again is subject to deduction of tax, is definitely inadequate, has been obvious for some time, and persistent efforts are being made to obtain a measure of relief. This involves important amendments to the Electricity (Supply) Act,

Indications at present are that the proposals to amend the Electricity (Supply) Act may be brought into effect from 1st April 1962, and I earnestly hope that this expectation will materialise. In the meantime, in some of the States, including Maharashtra, the State Governments have permitted undertakings, as a special appropriation, the tax saving represented fay the difference between the pre-1959 tax rate of 51.5% and the new rate 45% based on the Finance Act of 1959, This interim relief, is I think, an earnest of the authorities' acceptance of the Industry's case for a fair deal.

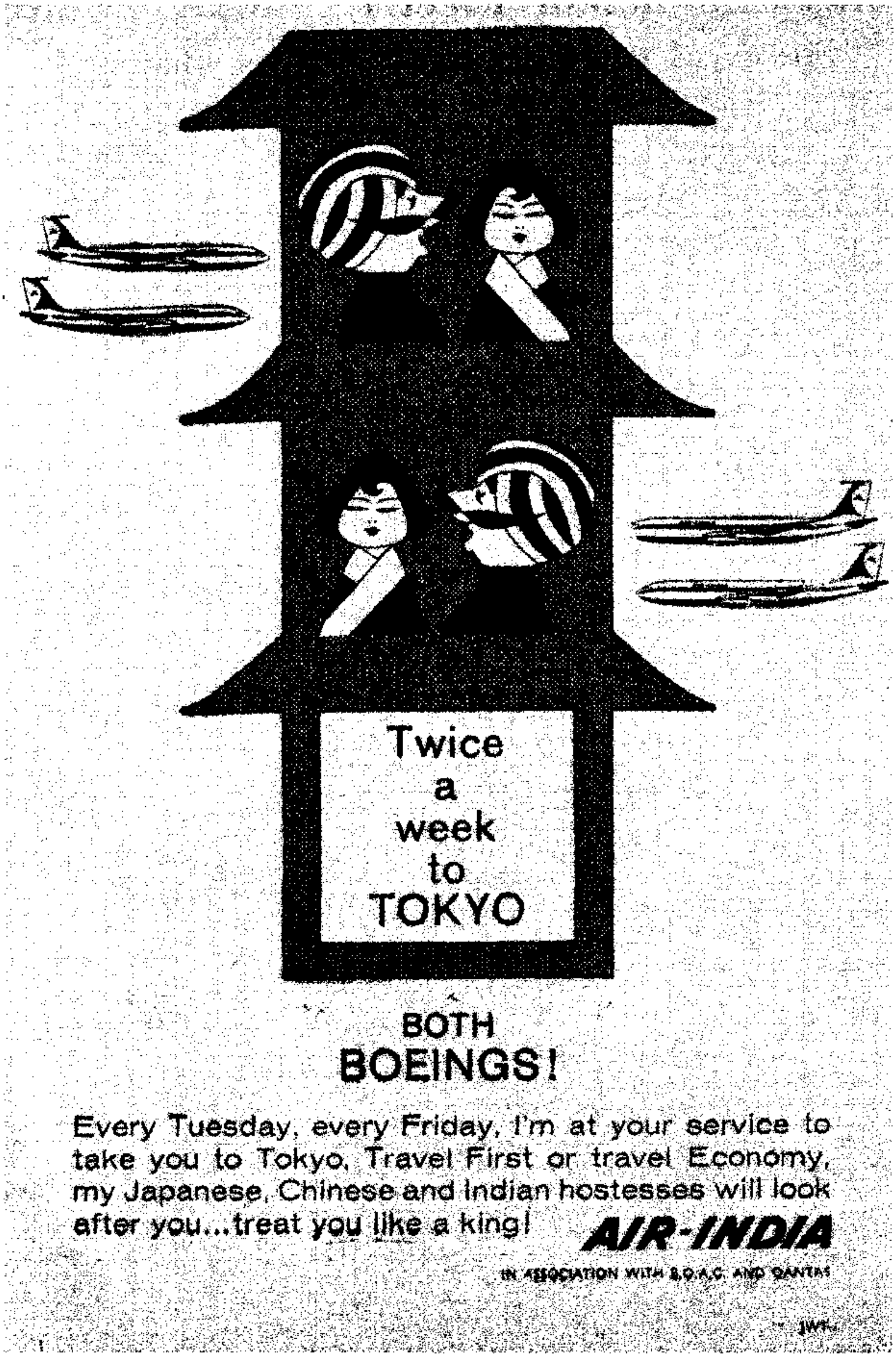
Extent of Relief

I would now like to make some comments on the extent of relief required to rehabilitate the Industry, and enable it to raise capital for development. Two primary factors have tended to depress equity values in the Electric Supply Industry. These, in broad terms, are—

1. The change in the tax pattern introduced by the Finance Act, 1959, whereby the grossing up of dividends in the hands of shareholders was abolished, and in addition the law provided for deduction of tax at source at the prescribed rale (currently 30%). While this is a common feature affecting Industry at large, the Electric Supply Industry is placed in a position of not being able to take advantage of the tax relief offered by the Finance Act in other directions, in that whereas in other industries this relief has accrued to the benefit of the investor, in the case of the Electric Supply Industry this has not been so. This certainly is not in conformity with the scheme of the Electricity (Supply) Act, One would have thought that with the Electricity (Supply) Act providing for *all* taxes on income and profits being charged up to the consumer's account, taxation in all forms on the Electric Supply Industry would have automatically become the consumer's liability. As things have shaped this position has not been achieved. The priority from the Industry's point of view, therefore, is the need for such changes in the Electricity (Supply) Act as would make the return free of all tax liability, be it to the undertaking or to the investor.

2. The second issue has directly arisen out of the official Bank Rate (to which is linked the return permitted "to the investor in the Industry) lagging behind the realistic interest rates. In a capital intensive Industry like Electric Supply, greater reliance has to be placed on long term finance as the Industry's requirements for development finance are, by and large, insatiable. Consequently the return fixed from time to time should be at such level as would firstly arrest disinvestment and secondly continue to attract capital for expansion. The recent change in the Reserve Bank's lending rate to Scheduled Banks as an instrument of the credit squeeze involves three-tier interest rates : first Rs. 50 lakhs at 4%, follow on Rs. 50 lakhs at 5% and the balance al 6%, producing a resulting average lending rate of about 5%, This, by itself, has put the official Bank Rate out of focus in relation to money market conditions. Another aspect which has significant relevance is that inflation has had its effect in diluting the limited return permitted to the investor in the Industry. In the light of these considerations it is only proper that the permissible return should be upgraded suitably.

I have in my opening remarks referred to your Company's expansion being dependent on the quantum of bulk power which would be available in the years to come. For the present the power supply position is far from easy, and releases of power to consumers is subject to control under the Bombay Electricity (Special Powers) Act. A measure of decontrol is, however, in existence in that the Licensees in the area have been empowered to connect up small demands up to 20 kW for industries and domestic connections are permitted freely up to 5 kW. These decontrol measures provide a degree of normal growth. To what extent relief will be available after the commissioning of the first set of the


Twice
a
week
to
TOKYO
BOTH
BOEINGS!
Every Tuesday, every Friday, I'm at your service to take you to Tokyo. Travel First or travel Economy, my Japanese, Chinese and Indian hostesses will look after you...treat you like a king!
AIR-INDIA
IN ASSOCIATION WITH B.O.A.C. AND QANTAS

Koyna Hydro Electric Project early next year is too early to say. At one stage it was thought that the bulk of the power from the Koyna Project would be available for use in Bombay/Poona area, but currently there are indications that a sizeable portion of the Koyna power will be reserved for use in Western Maharashtra. This has led to the possibility of the Tata Hydro Companies being permitted to extend their Trombay Thermal Station and, in addition, the Maharashtra Electricity Board considering installation of a new thermal station. This trend emphasises that the power needs of the Bombay/Poona area on which base area must perforce depend industrial development elsewhere in the State, will be met. Your Company's plans for expansion should therefore proceed on the basis that it, along with other Licensees in the region, will be able to obtain sufficient bulk power releases.

From this premise will arise the question: How best the Company can finance its future development? For the present development has been sustained by Bank finance and before the current financial year is out the need for raising further finance will arise in all seriousness. By that time the proposals to modify the Electricity (Supply) Act will, we hope, have reached finality and 1 hope will produce a measure of incentive to the investor in the Industry. Your Board will then be in a better position to consider this matter further.

The large scale development in the Company's power system involving massive investment in the coming years, will pose the problem as to whether the rates for supply now in force will produce a sufficiency of earnings to service adequately the capital employed, and meet in addition the enlarged operational expenses inherent in development. While there is no doubt that the enlarged scope of operations will tend to spread overhead costs, one must reckon with the inflationary factor. One way to hold the price- line in electric supply is to diversify the sale so as to obtain a higher load factor, that is. secure the beneficial utilisation of the power facilities more fully. There are, of course, limitations in this direction, as consumer choice is not a thing which can be rigidly endorsed. A strict watch on expenditure is yet another remedy to control operational costs, but here again there are limits beyond which a public utility cannot go. For example, in a basic service like electric supply, continuity of supply overshadows all other considerations, and no undertaking can risk diluting its service facilities for economic considerations which are marginal. The need to supply power at the lowest economic cost must therefore be circumscribed by the greater need to maintain reliability and continuity of supply. This assumes greater importance in your Company's area of supply which has to contend with rigorous monsoon weather and unfavourable atmospheric conditions. A higher standard of maintenance of the Company's supply system is, therefore, necessary.

In the immediate years ahead the distributing Licensees in the Bombay/Poona area may have to face an increase in the bulk supply rate consequent to the injection of the Koyna power into the System. There is also the likelihood of higher fuel costs applicable to bulk power supply which might tend to curtail net earnings as the Company's rates for supply do not contain an escalator clause to take care of adjustments in fuel prices. This has been so because until recently bulk supply in the area has been from hydro sources, but this situation has been altered by the coming into being of a larger thermal component than existed before. To what extent the first cause may have its impact on your Company's overall earnings is too early to visualise at this stage. The second cause is the more immediate one to be reckoned with, and your management are now considering how best the situation can be met. It is possible that your Company may have to consider introducing a fuel adjustment clause to ensure that the rise or fall in fuel costs applicable to bulk supply will automatically be on account of the consumer.

Accounts

Dealing with the Accounts, I would like to clarify the Reserve created to augment production facilities, and the appropriations so far made to that Reserve. The first instalment of appropriation to this Reserve was made in the year 1959-60 consequent to the Maharashtra Government permitting the Company, along with other Licensees in the State, a special appropriation of 6½% of the tax saving about which reference has been made earlier. When the accounts for 1959-00 were finalised, it was not certain as to what form the relief available would take. It was then thought that the amount permitted as special appropriation would be available for distribution to shareholders, but as events developed the scope of the sanction was limited to ploughing back the sum into the business without deduction from the Capital Base. It was in this context that the sum of Rs. 1,01,656 was taken into the Dividend Equalisation Reserve in the Accounts for 1959-60 and which amount has since been transferred to a Reserve to augment production facilities in the light of the subsequent Government sanction. This Reserve now stands at Rs. 2,06.130 taking into account the sum of Rs. 1,04,474 appropriated for the year under review, for which the sanction of the State Government is yet to be secured. Although the amount standing in this Reserve is not available for distribution, the benefit which will be derived by shareholders is not slight, as the assets acquired will remain the property of the Company and the return on the amount ploughed back will also be available for the benefit of the shareholders.

Note: This does not purport to be the proceedings of the Annual General Meeting which can be seen by any shareholder on request.