some gratification that I look back on these and other constructive efforts which the Bank has initiated and is pursuing for the promotion of staff welfare as well as for the building up of harmonious relations between Staff and Management. I thank all members of the staff at all levels for their good work and devotion to duty during the year.

Before I conclude, I should like to place on record, on behalf of my colleagues on the Board and myself, our high appreciation of the services rendered by Shri B Mukerji and Shri N A Krishnan, Managing Directors, who are no longer with the Bank, as also of all those other Directors of the Central Board or Members of the Local Boards who have ceased to be on these Boards since we last met. It now remains for me to bid farewell to all of you — Shareholders of the Bank, Directors and Members of Boards, and colleagues of all ranks in the institution — and to thank you for the goodwill and co-operation I have consistently received from you during my term of office as Chairman. My successor, Shri Dehejia, has wide experience of finance. He is well-known to you. He will take over in a few days and I am confident that you will give him all the support which, over these three years, you have so kindly extended to me.

The Industrial Credit and Investment Corporation of India Ltd

Statement of the Chairman, Shri G L Mehta

The Annual General Meeting of the Shareholders of the Corporation will be held at the Registered Office of the Corporation, 163, Back-bay Reclamation, Bombay 1, on Thursday, April 8, 1965, at 4 pm. The following is the Statement by the Chairman, Shri G L Mehta, circulated to the Shareholders with the Directors’ Report and Accounts for the year ended December 31, 1964.

Before I place for your consideration the Tenth Annual Report of the Board of Directors of the Corporation for the year ended December 31, 1964, I would like to refer to the sad demise of Pandit Jawaharlal Nehru. Of his multifarious interests, the one that concerned ICICI was his deep interest in India’s economic growth and his faith in planning to achieve it. We owe to him in no small measure a consciousness of planned endeavour both for the national economy and for ICICI ICICI is a small element in the total economy but its experience under planning and of planning is sufficiently long to enable us to draw some lessons for the future.

At a time when it has become habitual in some quarters to blame planning for all the evils of the economy, let me state that planning has helped the economy to grow at a fairly rapid pace and in a reasonably orderly manner. Psychologically, it has helped to induce some measure of discipline in the use of scarce resources and to bring hope to the mass of people by breaking the vicious circle of stagnation in the economy.

Within the ambit of planning the economy has grown, and ICICI has grown with it. Planning has led to the setting up of several non-traditional industries; we have participated in the setting up of many of them. Under planning, several new entrepreneurs have been induced to enter industry; we have helped in this process by financing many of them. Planning has helped to decentralise the location of industry, and our operations, following this, are distributed all over the country.

Our operations, however, have also been subject to the limitations that certain policies under planning have involved. To some of these I would like to allude specifically.

To begin with, I would like to refer to the existence of price and distribution controls on many essential commodities, notably cement, sugar and paper. One of the results of this policy has been to reduce, severely, investment interest in these industries. Cement shares are not fancied by the investing public, and most new paper shares are quoted at substantial discount. This, combined with the failure of these industries to generate internally sufficient funds for their expansion, has led to a perpetuation of the shortages which initially brought about price controls. Price controls have not prevented inflation, but only helped to divert inflationary pressures in other directions. Where we have taken interest in these industries, it has been due mainly to a sense of public spirit and in the hope that the Government would modify their policy in regard to these industries.

Moreover, Government has required many industries, both chemicals and engineering, to follow a phased programme of manufacture. This has created undue strain on several industries, particularly as economies of scale in different lines of manufacture vary. A phased programme necessarily depends upon co-ordinating several manufacturing activities, and where one of them lags behind for any reason, it upsets activity in other lines. For example, the failure to set up adequate capacity for basic chemicals, pig iron and flat products, has created difficulties for many fine chemical and pharmaceutical manufacturers, foundries, and structural engineering companies.

Besides, as the economy has grown, it has become increasingly difficult to provide for all its requirements for raw materials and components — what have come to be called maintenance imports. As each new industry is set up to meet some existing need of the economy, it, in its turn, creates a
demand for other imported goods. As we become more industrialised, the demand for imports does not decrease; it only gets transformed. Unfortunately, while we are putting up more factories, we have failed to provide for their requirements of maintenance imports. Many of ICICI’s clients, at a conference we recently held, referred to this shortage of imported raw materials and components.

We also need to take a more critical look at the kind of industries we are setting up. Many industries we have set up, involve high costs which are reflected both in the price differentials of products in India and abroad as well as in our export performance. There are many reasons for this, such as the high level of taxes on imported capital equipment and materials, inadequate utilisation of capacity and so forth. But there are other reasons, like setting up plants of less than an optimum scale, which are within the planners’ control, and we should seek to overcome such limitations.

Unbalanced Growth of the Economy

Furthermore, we have suddenly come face to face with unbalanced growth, shortages in respect of some goods and surpluses in the case of others. The growth rate itself has tended to falter in recent years and the emergence of surpluses has tended to dampen the enthusiasm of entrepreneurs. The emergence of surpluses indicates that the demand assessment made by the planners in many cases has been too optimistic.

Finally, as our economy has grown, the mechanism for procedural control has become more complex. In our day-to-day operations, the procedure that concerns us most is import control for capital goods. This is a detailed system of control by reference to individual pieces of equipment—a process which is necessarily time-consuming. Last year, a Committee examined these procedures, and suggested various measures for expediting action. In fact, the system of having a preliminary clearance by the Capital Goods Committee which has been recently introduced, has facilitated considerably the issue of import licences.

As we are in the midst of assessing our performance under the Third Plan and, on this basis, are endeavouring to formulate the outlines of the Fourth Plan, we need to take into account these lessons of the Third Plan. A 10 to 15 per cent shortfall in investment with a much larger shortfall in physical output, as also at least one economic crisis, have become common features of each of our plans so far. We can ill-afford to carry on in this manner for long.

We need, therefore, to take a close look at our system of planning and the policies needed to achieve the plan objectives. First of all, it is necessary to break through shortages in certain critical commodities; besides foodgrains, these items are sugar, cement, fertilisers, steel and alloy steels. In many of these cases, the adoption of proper pricing policy would help to work off the shortages. There is little justification for keeping low the prices of these basic goods for all uses. There is a case for allowing free sale of a part of the total output of these goods which can go to meet their low priority uses.

Another step would be to examine the implications of our industrial programmes on the maintenance import budget and to frame a programme which would, at the least, not worsen our position in this respect. It is essential to intensify the programme aimed at import substitution or export promotion to a significant degree.

We should then seek to so formulate our procedures that the execution of the programme laid down is expedited. We are even today suffering owing to the fact that we did not have the steel plant which we planned during the First Plan period, the alloy steel capacity which we planned for the Second Plan period, and the fertiliser capacity we planned for the Third Plan period. Even in the much smaller projects which ICICI finances, we find that delays occur, sometimes of periods exceeding one year, in the completion of projects, resulting in corresponding loss of output.

During the last two years, the Government has done considerable re-thinking which concerns the direction of our economic policy. As a result, we have removed, wholly or partially, controls on many commodities, revised procedures to make for quicker decisions, and sought to change the bias of planning in favour of less spectacular but more essential projects. The increasing emphasis on agriculture will have its impact on fertiliser and tractor output, and thus may help to shape industrial programmes. We are living in the midst of a dynamic situation and there can be no end to the process of re-thinking. It must go on, even as new economic problems face the economy.

I have deliberately not referred above to the condition of the capital market—a situation which affects directly a finance institution like ours, and which, therefore, needs to be examined closely. It is only emphasising the obvious when I state that the capital market has been stagnant throughout the last year and remains so at this moment.

Underwriting Operations

The impact of such a situation is felt on our operations. During the last 10 years of completed share underwriting operations of Rs 11.52 crores, ICICI was left with Rs 6.10 crores. As against this, of the nine share underwriting operations for Rs 132 lacs completed during 1964, ICICI was called upon to take up as much as Rs 122 lacs. This, by any standards and in relation to our past experience, is a high figure. It is hardly a satisfactory position in the long-run for a financial institution.

This is not purely a financial phenomenon but has its repercussions on the economy as a whole. Entrepreneurs, faced with an unfavourable capital marker, hesitate to take up projects or take much longer to complete the financing of their projects. We have to weigh this factor in undertaking underwriting obligations as one after another share issue underwritten by us has failed to meet with public response.

Underwriting has some meaning when there is a fair prospect of success for a public issue. And, while we do not object to holding an investment in the construction phase of a project, we do look forward to a time when we can dispose of our investments on the market. A development bank like ICICI depends upon revolving its funds invested in shares. And yet, in the last year, we have found it difficult to sell much of our holdings of ordinary shares.

The capital market has passed through almost three difficult years. After a lag, this is being reflected in a fall in the fresh issues of equity capital, as well as in the rate of growth of industrial production, and presumably also in that of the industrial investment rate. If investment activity has been sustained, it has been principally because of institutional support. I believe that this situation can be easily and quickly corrected by appropriate fiscal measures. The re-
cently announced tax relief for subscription to new issues is welcome as an indication of Government's concern about the capital market. I hope that Government will follow this up with further measures to help revive the market without which industrial development and economic growth will not be possible.

ICICI sanctioned in 1964 net financial assistance of Rs 19.08 crores; of this, the amount sanctioned for new projects was Rs 14.03 crores for 67 projects. The total cost of these projects, on completion, is estimated to come to Rs 112.26 crores (including Rs 27.65 crores for working capital). This cost is expected to be financed by the issue of Rs 30.83 crores of share capital (Rs 26.13 crores ordinary and Rs 4.70 crores preference), long-term loans of Rs 38.52 crores and bank borrowings and cash accruals of Rs 42.91 crores. When these projects reach normal production, their turnover is estimated to amount to Rs 68.48 crores. These projects would then bring about a net foreign exchange saving of Rs 24,96 crores.

With the continued growth of our operation, we have found it necessary to increase our resources. In 1964, we obtained two further lines of credit, one of DM 10 million and another of DM 5 million, from Kreditanstalt fur Wiederaufbau, making in all DM 40 million from that institution. We are obliged to the Kreditanstalt authorities for their continued confidence in ICICI.

Towards the end of the year, we also exhausted the fifth line of credit of $ 30 million from the World Bank. We have approached, with the concurrence of the Government, the World Bank for a further line of credit of $ 50 million, for which negotiations have started. The negotiations have as always been cordial, and we are grateful to the World Bank and to the International Finance Corporation for their understanding of our problems and their continued support to ICICI. We appreciate the co-operation and support of the Government extended to us in this matter.

As our loan obligations have increased, we have felt the necessity to strengthen our equity base. We are, therefore, considering the question of making a rights issue of one for every two shares held. I trust we shall receive your valued support for this issue.

In 1964, the Corporation earned an income of Rs 311.85 lacs from interest, dividends, underwriting commission and other sources. After deducting interest on loans and other expenses, profit subject to tax amounted to Rs 124.60 lacs against Rs 101.54 lacs in 1963. From this, we have provided Rs 54.49 lacs for taxation and Rs 1.01 lacs for doubtful debts, the balance carried to appropriation account being Rs 69.10 lacs against Rs 57.88 lacs in 1963. An amount of Rs 31.50 lacs has been transferred to Reserves. The capital gain of Rs 3.06 lacs has been transferred to Capital Reserve Not Available for Dividend.

The Directors are glad to recommend a dividend of 7½ per cent, as against 7 per cent last year. Subject to adequacy of profits and the need to build up reserves necessary for a development bank like ours, the Directors have kept in view the shareholders' interests and have raised the dividend rate, whenever possible.

We have recognised the need to build up friendly relations with other development banks, both in India and abroad, and also with our constituents. We received in 1964, Mr S Barkhordarian and Mr I Hedayat, both of the Industrial and Mining Development Bank of Iran, Mr Samuel Odame-Labi of the National Investment Bank (Ghana) and Mr Paul C loe-Adigwe of the Nigerian Industrial Development Bank (Nigeria) as trainees. We are also setting up a regular training programme for two officers from development banks in other countries.

Finally, I would like to express my appreciation of the work of our staff whose competence and devotion to the organization have helped to bring it to its present position.


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