

Tata Engineering and Locomotive Company Ltd

Statement of the Chairman Shri JRD Tata

THE following is the statement, of Shri J R D Tata, Chairman of the Tata Engineering and Locomotive Company Limited, for the year 1964-65.

To the Members,

While the Company's operations during the year showed material progress over the previous year, they could have been substantially better had it not been for the troubles which arose on the labour front at Jamshedpur to which a reference has been made in the Directors' Report. Internal rivalries within the recognised Union which have split the ranks of our labour force, brought down standards of discipline and productivity and affected production. In fact, during the month of December 1964, the Company was compelled to shut down the plant for two weeks. The position at the moment shows some signs of improvement and it must be earnestly hoped that the situation will return to normal and better conditions will prevail during the current year.

2. During the year, the gross block of the Company increased by Rs 8.7 crores mainly in connection with the current expansion programme of the Automobile Division on which Rs 13.6 crores have already been spent. The first stage of this expansion has been completed and capacity for production at the rate of 18,000 vehicles per year, or 1,500 per month, has been established. In fact output in excess of this rate was achieved during the latter part of the year under review. Thus the large capital expenditure incurred during the last two or three years has begun to show appreciable results and an increase of 28% in turnover was achieved during the year together with a proportionate increase in profits despite rising costs of raw materials and bought out components.

3. The final stage of the expansion for 24,000 vehicles per year is under way. The second A I D Loan Agreement for \$ 11.8 million has been finalised and orders for the requisite plant and equipment are now being placed. Additional capacity is also being set up for the production of Tata-PEH excavators for which the demand continues to be very good. This product

is already the second largest contributor to the turnover of your Company.

4. The improved profits for the year have made it possible for the Company to maintain the dividend on Ordinary Shares at 14 ½% on the increased capital without having to draw upon reserves as was necessary during the past two years. The allocation of Rs 16 lakhs to deferred taxation reserve was considered necessary by your Directors because the depreciation charged in the accounts, in accordance with the principles in force in your Company, was lower than that calculated under income-tax rules. The resulting tax saving this year will be made up by higher tax payments in future years for which the deferred tax allocation is intended to provide.

5. Prospects of further substantial progress in the current year were bright until the recent suspension of imports as a result of the foreign exchange crisis hit us without any prior notice. Since April 1965, the Company has received no import licences whatever for essential raw materials and supplies; neither has it received any indication as to when shipments will be resumed. The Company cannot hold excess stocks of imported raw materials and components in order to provide a cushion for an unforeseen major break down in supplies both because the rate of imports is closely regulated by Government and because of lack of finance. As a result, the cessation of imports for the whole of the first quarter of the current year has compelled us to cut back on production with effect from June 1965. Even if import licences for our full requirements for the year are issued in the near future, it will not be possible to make fully up for such loss of output and the production of vehicles during the current year is not likely to exceed materially that achieved in the past year while the incidence of depreciation and interest will increase substantially.

6. Such a situation is not only a source of great disappointment to us all but it also involves a serious loss to the country far transcending our own, for apart from Teleo, the present foreign exchange crisis affects all manu-

facturing industries which require imports of materials from abroad. Thus, manufacturing facilities established by us and others at great cost remain partly unutilised.

7. While planning is recognised as a necessary instrument of rapid economic growth in a country in which scarce resources have to be allocated on a careful order of priority, sound planning requires that imbalances within the economy be foreseen and prevented as far as possible. The shortage of various kinds facing a number of industries today has arisen largely from the failure to back up the rapid increase in their capacity with a corresponding expansion of sources of indigenous raw materials and components, as a result of which additional capacity installed at heavy cost to the economy is only partially utilised.

8. The present situation in our own Company is a typical illustration of this state of affairs. When the current expansion of our Automobile Division capacity from 12,000 to 24,000 vehicles per annum was undertaken at the instance of Government as part of the overall expansion of the Automobile industry in the Third Plan, Government were fully aware of the requirements of special steels and other materials essential to the operations of the new facilities. Yet, at the end of the Third Plan and over ten years after we began to make commercial vehicles, virtually none of the special steels incorporated in our vehicles are made in the country or likely to be made for some years.

9. Instead of creating large additional industrial capacity which cannot be fully utilised due to paucity of foreign exchange or of indigenous raw materials, the logic of industrial planning should in fact allow, at the very outset, for some margin in raw materials and time—in raw materials, to ensure that the plant, when installed, is kept fully utilised, and in time, to allow for unexpected delays.

10. The high cost of borrowing has, as you will observe from the accounts, greatly increased the interest charges paid by your Company. The regulatory additional duty of 10% on the value

of all imports, indiscriminately on capital as well as current account, has increased our capital and production costs. During the current year your Company alone will have to pay almost Rs 2 crores more as a result of this new impost. Recently, a new measure requiring the deposit of 25% of the value of imported raw materials and components has been announced. This will impose yet another burden on the strained finances of the Company and industry generally,

11. Your Company has been conscious of the need to make vigorous efforts to earn as much foreign exchange as possible by exporting its products. Thanks to the assistance of our associates, Messrs Daimler-Benz, the export orders during the current year have increased significantly. The value of exports already made and of firm orders on hand exceed a crore of rupees. We have every hope that hereafter we shall be able to secure a sizeable export market for our products.

12. In view of the wide public interest evinced in the small car project and press reports about the possibility of your Company undertaking it, I would like to clarify the position as far as we are concerned. To your Company which has made a success of the production of commercial vehicles, the manufacture of a passenger car would be a logical extension of our existing operations and your Directors have therefore maintained their interest in the possibility of such a project being entrusted to Telco. In May this year, having ascertained that the Government of India might be willing to consider such a possibility, we held discussions in Germany with our partners, Messrs Daimler-Benz, to ascertain the feasibility of producing in India a suitable model of the DKW car manufactured by Messrs Auto Union which has been for some time a 100 per cent subsidiary Daimler-Benz. As a result of recent developments, however, Daimler-Benz no longer hold a controlling interest in Auto Union. Our discussions' revealed that as a result, of the altered circumstances and for other reasons, it would be neither desirable nor feasible for your Company to undertake the production of any model of the DKW. We have therefore had reluctantly to inform Government that we are not in a position to put forward a scheme for the manufacture of a small passenger car.

13. From recent newspaper reports, it would seem that the project is likely to be shelved for the present owing

to the current economic situation and foreign exchange crisis. While there is therefore no possibility of your Company entering the field of passenger car manufacture in the near future, your Directors will continue to keep the matter under review and hope that sooner or later the day may come when the Company will round off and diversify its operations by entering the passenger car field. With the continued industrialisation and economic development of the country and in view of our enormous population, it is clear that a large expansion in the production of passenger cars must be undertaken sooner or later. When that time comes, your Company, with its large resources and experience in the field of commercial vehicles, will be in an exceptionally favourable position to take part in such a development. I can only hope that circumstances and Government policies will then make it possible for us to do so.

14. Causes for rejoicing are so rare these days that I must refer to the gratifying landmark in the history of our Automobile Division, which we passed on the 3rd of June this year when our 100,000th Tata Mercedes-Benz vehicle came off the assembly line. As a token of our Company's appreciation of the support and loyalty which it has consistently received from users of our vehicles, we made a gift of the 100,000th vehicle at a special function at Jamshedpur to the Montgomery Co-opera live Goods Transport Society, New Delhi in exchange for the oldest T M B truck on the road. This was despatched to its owners on the 4th November, 1954, and has since then given trouble-free and profitable service for about 500,000 miles. We can take justifiable pride both in the number of vehicles we have produced and in their high quality and productivity.

15. The production of our 100,000th vehicle brings into focus the progress achieved, in the face of innumerable difficulties and obstacles, since the beginning of the Automobile Division a little over ten years ago. In that period we have produced equipment worth Rs 356 crores, and saved about Rs 105 crores in foreign exchange; we have paid Rs 37 crores in wages, Rs 76 crores in taxes, excise and customs duty; distributed Rs 10 crores in dividends; invested Rs 40 crores into the business. Apart from the direct employment we have created for 15,000 people, a million or more people have obtained their livelihood from the 100,000 vehicles and other products we have

sold in the last 10 years. Last but by no means the least, we have created technical and managerial skills of the highest order, amongst the most scarce and valuable assets in a developing country.

16. We may therefore look back with some satisfaction on these ten years of achievement, progress and service to the country. To all those who have contributed to the success of this great undertaking, to our staff and workers, to our collaborators and our dealers we owe a deep debt of gratitude.

17. While we do not propose to rest on our oars after we complete our current expansion projects and will look for further opportunities of profitable and constructive expansion, I may assure you that we shall not overlook the need to digest our present programmes and to consolidate our resources in labour and managerial skills and in finance.

18. While we must be prepared for a temporary setback in the current year due to the cat back in our production, we shall by 1967 have established in Telco an incomparably strong, versatile, resourceful and self-sustaining engineering base. Subject only to uncertainties in regard to Government's future policies and the general economic situation in the country, our ability to produce and sell such a large volume of products of the highest quality should not only ensure the continued profitability of our operations and the financial security of our Company but also our ability to take full advantage of my rewarding opportunity that may offer itself for further growth in the years to come.

19. Before closing my remarks, I would like to record our deep regret at the passing away of one of our ablest and most loyal officials in the person of Mr V Srinivasan who was the Chief Accountant of the Company in Bombay for nearly nineteen years until his death in May this year. Your Directors have placed on record their deep appreciation of his invaluable services and devotion to duty.

20. On behalf of the Directors and on your behalf, I would like to express my thanks and appreciation to the Company's workers and staff who, under the leadership of Lt Gen S D Verma, our General Manager, have made possible the results achieved during the year in the face of innumerable difficulties.

N B : This does not purport to be a record of the proceedings of the Annual General Meeting.