GOVERNMENT OF INDIA

TARIFF COMMISSION

REPORT

ON

THE FIXATION OF FAIR SELLING PRICES OF AUTOMOBILES

BOMBAY

1968

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GIPN—S6—8 T. C. Bom./69—28-4-70—600.

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GOVERNMENT OF INDIA

MINISTRY OF I. D., I. T. & C. A.

DEPARTMENT OF INDUSTRIAL DEVELOPMENT

New Delhi, the 4th October, 1969

RESOLUTION

No. 1(58)/68-A.E. Ind.(I).—The Tariff Commission submitted its Report in August, 1968 on the Fixation of Fair Selling Prices of Automobiles on the basis of an enquiry undertaken by it under section 12(d) of the Tariff Commission Act, 1951 (50 of 1951). Its recommendations are stated below. Professor K. T. Merchant, one of the three members of the Tariff Commission who have signed the Report has, in a note of dissent, expressed views different from those of the other two members on recommendations Nos. (ii), (iii), (iv), (xii), and (xiii), and his views are given briefly in brackets below the said recommendations :—

(i) The fair price of Fiat car cannot be related to the cost structure but judging from differentials based on the functional properties of the three cars, it would be desirable to fix the price of this car at a figure midway between Ambassador and Standard. The net dealers prices of Ambassador, Fiat and Standard Herald (2 door model) should be Rs. 14,120, Rs. 13,300 and Rs. 12,485 respectively.

(ii) The rate of dealer's margin applicable to each type of vehicle may be left to mutual settlement between the dealer and the manufacturer. In the case of passenger car, a margin of 7½% of the ex-factory price is considered adequate.

(Professor Merchant has not agreed with the view that 7½% of the ex-factory price as commission to dealers on passenger cars would be adequate. He is of the view that this may be left to be decided by the parties concerned.)

(iii) Comparative study of the estimates of demand for passenger cars and their anticipated production during the next three years indicate that there would be a large gap between supply and demand and the abandonment of the procedures now obtaining for the registration of the vehicles and obtaining them by order would not only create enormous amount of confusion but also open the door for discriminating sale and malpractices. The same holds good of price control which exists now. Until the availability is equivalent to the demand no effective competition as between different makes of vehicles can be generated.

(Professor Merchant has expressed the view that price control on passenger cars should be removed and market forces allowed to determine their prices. In order, however, to provide incentive to efficient units—efficient in costs and quality—he has recommended that an increased amount of foreign exchange for raw matarial should be allowed to efficient units and that allotted to inefficient units curtailed.)

(iv) A comparative study of the cost of passenger cars manufactured in India with their successor models in foreign countries shows that the cost of manufacture of indigenous cars is decidedly very high.

(Professor Merchant has expressed the opinion that the comparison of prices of indigenous cars with those of foreign cars is not valid as they differ in many respects and the conditions, methods and techniques of production in India and abroad are dissimilar.)

(v) A reasonable ex-works price of jeep including return is determined at Rs. 14,247.

(vi) The fair ex-works prices of Simpson's engines are indicated in paragraph 10.5 and those of different types of commercial vehicles in Table 21.

(vii) In the context of lifting of control on the prices of all commercial vehicles there is fairly intense competition between different manufacturers of trucks and this will ensure that prices will automatically be adjusted according to the performance of the respective models. The question of fixing fair selling prices of commercial vehicles as such has not therefore been specifically dealt with by the commission.

(viii) With the production and supply position increasing all round in the coming years and also the improvements recently noticed in the general economy, the introduction of either statutory or informal price control on commercial vehicles is not favoured.

(ix) The costs indicated in this Report in respect of commercial vehicles are not intended to be the basis for any statutory or informal price control. The study into costs, however, has revealed many areas in which economies could be achieved.

(x) Since prices of commercial vehicles are decontrolled and there is no possibility of reimposition of controls in the near future, cost examination of the commercial vehicles is more or less of academic interest. If and when market conditions require re-control, the present estimates would have already been rendered out of date and a fresh cost examination will become necessary. It would then be more desirable to proceed from the very outset with the objectives enunciated in the analysis of costs in this Report, in order that more scientific results are arrived at.

(xi) As the vehicles in which Simpson's diesel engines are used are no longer under price control, it is anomalous to seek to maintain this control only on one item of bought-out finished assembly.

(xii) The ISI or some other expert body may draw up a detailed list of components of which an automobile is composed and prescribe the ranges of specifications for the materials needed for them. It is also desirable to include in the same standard the input weight as related to the output of each item.

(Professor Merchant has observed that each company has its own standards in relation to its foreign collaborators, which need to be suitably modified to include all indigenous materials and fabrication facilities. Each unit should also set up a standards department and collaborate with ISI for evolving standard specifications for components and raw materials.)

(xiii) Along with the steps to be taken for evolving standards for materials both in relation to specifications and quality, standards may also be laid down for the uniformity

of nomenclature of components and the aggregation of the components into sub-assemblies and assemblies for passenger cars and commercial vehicles.

(Professor Merchant has expressed the view that automobile is not a standardised product and therefore, it is not feasible to have uniform constituents for assemblies and sub-assemblies and that standards for uniformity of nomenclature need not be viewed as essential.)

(xiv) A substantial reduction should be made in the rates of import duty on items of raw materials which are not likely to be produced in the near future and for which no indigenous substitutes are available. These rates may periodically be revised to ensure that items for which production capacity has been set up do not continue to enjoy the concessional rate.

(xv) A stricter control over the import of deleted CKD packs is necessary.

(xvi) In the case of all items which can be produced in the country, imports should not be encouraged. In some cases this may lead to higher costs, but such a step would still be desirable since it will be conducive to saving on foreign exchange besides reducing dependence on foreign sources.

(xvii) The industrial base available in India today connot be considered inadequate for the support of a low volume of automobile industry, if there is adequate coordination and planning.

(xviii) Systematic efforts should be made by the producers of passenger cars to introduce the necessary economies in production with a view to reducing the remaining disparity and reaching parity with foreign manufacturers.

(xix) Although no price control has been recommended for commercial vehicles, a proper study into the industry's requirements of foreign exchange which should be kept to the minimum is recommended.

2. In regard to recommendation No. (i), the Tariff Commission had arrived at the net dealer price of Ambassador car as Rs. 14,120 on the basis of an annual production of 22,000

cars and 13,600 trucks. In view of the higher rate of car production since achieved by the Hindustan Motors Ltd., the Commission were requested to rework the net dealer price of Ambassador Car on the basis of an annual production of 24,000 cars and 12,000 trucks. The Commission have accordingly, in a supplementary report, recommended the net dealer price of Ambassador Car as Rs. 14,006. Government accept the revised recommendations of the Commission in so far as the Net Dealer Price of Ambassador Car is concerned.

As regards the Fiat Car, Government are not in agreement with the method adopted by the Commission in determining the net dealer price for this make of car. They have accordingly decided to request the Commission to recost the Fiat Car on the basis of the manufacturing unit operating as a really efficient production unit and recommend fixation of a fair selling price, taking into account all the relevant facts and data relating to production, the interests of the consumer and the quality standards, as expeditiously as possible. Pending receipt of the revised recommendation of the Commission, Government have decided to accept the recommendation that the price of Fiat Car should be fixed at figure midway between the prices of Ambassador and Standard Herald cars recommended by them and have accordingly fixed the net dealer price of Fiat Car at Rs. 13,245 for the time being.

As regards Standard Herald Car, the net dealer price recommended by the Commission relates to the two door model which has long since been replaced by the four door model. The Commission has already been requested to cost the four door model of this make of Car and recommend the fair selling price for it. The net dealer price of the four door model will be fixed on receipt and examination of the recommendations of the Commission. In the meantime, Government have decided not to revise the current net dealer price of the Standard Herald Car.

3. In regard to recommendation No. (ii), Government are of the view that the current approved amounts of dealers' commission in respect of the three makes of cars are adequate and need not be raised. Government, however, agree with the Commission that the rate of dealers' margin may be left to mutual settlement between the dealer and manufacturer within the ex-factory price notified by the Government.

4. Government accept recommendation No. (iii). In view of the recent action of two of the car manufacturers in raising the selling prices of their cars by large amounts in disregard of the system of informal price control and the practice hitherto

in vogue, Government have further decided to control the prices of cars as on a statutory basis under Section 18G of the Industries (Development and Regulation) Act, 1951.

5. Government have noted recommendations No. (iv), (xvi) and (xvii).

6. As regards the recommendations No. (v), (vi), (vii), (viii) and (x), Government had removed the price control on commercial vehicles and jeeps in September, 1968. Government agree that there is no need to reimpose price control on these types of automobiles, for the present. Government would, however, keep a close watch on the market conditions and the developing trends in prices and review the position periodically with a view to satisfying themselves that circumstances continue to be such as not to warrant reimposition of price control.

7. Government accept recommendation No. (xi). In view of the fact that Government have removed price control on commercial vehicles on which diesel engines manufactured by Messrs Simpson and Company are fitted, they have decided that the informal price control on vehicular diesel engines manufactured by this company may also be removed.

8. Government will examine recommendation No. (xii), (xiii) and (xiv) in consultation with the concerned authorities.

9. Government have taken note of recommendations Nos. (xv) and (xix) and suitable action will be taken to implement them to the extent practicable.

10. The attention of the industry is invited to recommendations No. (ix) and (xviii).

ORDER

ORDERED that a copy of the resolution be published in the *Gazette of India* and a copy thereof communicated to all concerned.

Sd.

(R. V. SUBRAHMANIAN)

Joint Secretary to the Government of India.

REPORT ON THE FIXATION OF FAIR SELLING PRICES OF AUTOMOBILES

1. Introductory

1.1. In the Report on the Continuance of Protection to the Automobile industry, a reference has been made to the Government of India, Ministry of Commerce letter dated 31st May, 1966 by which the Commission was requested to undertake, as part of its tariff inquiry into the automobile industry, an inquiry into cost structure and fair selling prices of automobiles under Section 12(d) of Tariff Commission Act, 1951 and also to examine the dealer's margins and make suitable recommendations. The circumstances which led Government to make the above reference to the Commission are set out below :

(i) No systematic study of the production costs of the automobile industry has been made so far for the purpose of determining the fair selling prices of automobiles, although the automobile units had been subject to cost examination by the Cost Accounts Branch of the Ministry of Finance on certain occasions in the past. Government therefore felt that it would be advantageous if the Tariff Commission would, as a part of its protection inquiry into the automobile industry, also inquire into the cost structure and fair selling prices of different types of automobiles at present under production in the country. Accordingly, they asked the Commission to conduct an inquiry under Section 12(d) of the Tariff Commission Act and forward its recommendations.

(ii) The profit margin for dealers of commercial vehicles and cars was fixed at 7½ per cent and 10 per cent respectively on the basis of the Commission's last Report. Since then, while increases in prices of these vehicles were approved by Government from time to time, profit margins of the dealers were pegged at the levels originally fixed by Government. Representations were made by dealers to the effect that profit margins available to them were inadequate in view of the steadily rising cost and should be suitably increased. The Commission was requested to inquire into this question also and forward its recommendation.

1.2. We have held a combined inquiry into the questions of protection and fair selling prices of automobiles but decided to

submit two separate Reports on these subject matters as mentioned in paragraph 2.6 of the protection Report. The present Report relates to the fair selling prices of automobiles and the dealer's margins.

1.3. The main inquiry was in respect of continuance of protection to the automobile industry and therefore information relating to scope of the inquiry, method of inquiry, implementation of the ancillary recommendations made in the last Report, present position of the industry, domestic demand, raw materials, quality, marketing system, imports and exports is given in the protection Report. To avoid repetition, we refrain from giving these paragraphs in this Report and a reference may be made to them wherever necessary.

2. Selling prices

2.1. The Commission in its 1956 Report had gone into the question of fixation of fair selling prices of automobiles and had come to the conclusion that a rigid system of price control was likely to have adverse repercussions on the development of the industry and that the interest of the consumers could be adequately safeguarded by replacing the then prevalent system of price control by a more flexible system under which no maximum prices were fixed, but, subject to a general obligation not to charge excessive prices, the manufacturers were left free to vary prices at their discretion. The Commission also suggested that careful watch should be maintained over the rates of dividend declared by the manufacturing firms with a view to ensuring that the maximum proportion was ploughed back into their reserves and periodical investigations should be held into the costs and profits to ensure that the obligation was actually fulfilled by them. Government, while broadly agreeing to the above recommendations also decided to leave the automobile manufacturers free to revise their prices from time to time according to changes in costs, but subject to the following conditions :—

(i) A month's notice of any variation will be given to Government so that, if the change proposed is *prima facie* unreasonable, Government may intervene in the matter;

(ii) The net dealer prices (*i.e.* the ex-factory price charged to the dealers) should not exceed the ex-works cost by more than 10 per cent;

(iii) The approved manufacturers will, as recommended by the Commission, maintain their cost data in sufficient

detail to enable the costs of production of individual assemblies as well as of complete vehicles to be easily ascertained. The above policy constitutes what is known as the "Informal Price Control" on automobiles.

2.2 The Jha Committee in its report had observed that there was good reason to believe that there was room for economy and improving efficiency in order to bring down costs and prices. According to the Committee,

> Although initially the decision was to follow a fairly flexible policy regarding prices, as supplies began to fall short of demand the price control of Government became more strict. A close scrutiny was made of all proposed increases in prices and these were only allowed after Government were satisfied that there had been an actual increase in costs. Thus through the course of events rather than by deliberate intention what was indicated by the Tariff Commission as a yardstick for judging the fairness of remuneration of the industry and to the distributor has become the basis of price control. Today, therefore, the industry's profits are controlled. As, however, increases in costs have been taking place, prices to the consumer have been going up."

The Committee further commented that the above arrangement had satisfied neither the consumer nor the industry. It, therefore, explored the possibilities of evolving a price policy whereby the industry, under conditions of efficient and economic running got a fair return on its large investment and yet not at the cost of the consumer. The Committee observed that its study of the dividends declared by the automobile units indicated that the shareholders did not seem to share the profits of the industry and considered it only legitimate that any policy of price fixation should be one which would enable a reasonable return to be made to the investor, provided the units worked efficiently and economically. This was all the more necessary, because an industry like automobiles needed large investments and only good profit would give the necessary incentives for this. The Committee was, however, not in favour of giving any benefit to the investor at the cost of the consumer and on this ground, it did not support the cost-plus system as a basis of price fixation under normal conditions. After examining other alternatives like provision of remuneration to the industry in the shape of return on capital employed and finding

them unsuitable, the Jha Committee felt that effective control over prices could be achieved by increasing the availability of vehicles from different factories in India and then giving freedom to the consumers to purchase that vehicle which he considered to be the best value for the money he paid. However, on account of the then prevailing shortage of vehicles, the Committee considered that the fixation of prices should be on an *ad hoc* basis influenced in particular by the following two considerations :—

(i) An efficient producer who has succeeded in keeping his costs down should be able to make better profits than one whose costs are unreasonably high;

(ii) A firm which uses more indigenous components should get a better return than a firm which uses more imported components.

2.3. The Committee also considered the question of price controls from two angles, namely, whether there should be price controls at all and if so, over what vehicles. As regards the former, while it was in agreement with the Commission's view that price control should not be introduced for a developing industry, it recognised that under conditions of shortage prevailing, there was a latent danger that without price control, the consumers might be exploited. It, however, recognised the greater danger of the consumer being compelled to pay much more than the official price and thereby depriving the industry of internal resources, the shareholders of a fair return on their investment and the exchequer of legitimate taxes. The Committee was aware of the various possibilities of price control being circumvented. It was therefore sought to be ensured by Government that passenger cars should be sold strictly in the order of dates of registration and resale prohibited for a prescribed period. After examining the different aspects of this issue, the Committee came to the following conclusions :

(i) price control over cars should continue;

(ii) price control over commercial vehicles should be abolished; and

(iii) the price at which commercial vehicles are purchased by State Transport Undertakings and other similar agencies should be settled by entering into rate contracts with the producers of those vehicles.

2.4. Though fixation of prices for cars was not strictly within the scope of the Committee's inquiry, yet it dwelt upon this issue on the basis of the cost reports given to it by the Chief Cost

Accounts Officer of the Ministry of Finance and recommended small adjustments. The Committee felt that unless pressure was exercised towards reduction of prices, there would be no imporvement in the situaton at all. It therefore recommended the following reduction in prices :

Hindustan Motors : Ambassador cars
Premier Automobiles : Fiat cars
} Rs. 500 each

Standard Motor Products : Standard Ten—Rs. 400

The above cuts were to apply to the consumer prices at which dealers were expected to sell the vehicles.

2.5. The Committee also recommended that prices of commercial vehicles should also come down, although they were in favour of decontrol of their prices. As regards jeeps, since Mahindra & Mahindra was the only producer of such vehicles, the exercise of price control over it was considered justifiable. The Committee also recommended a reduction of Rs. 200 in the price of jeeps and jeep station wagons. No price control was, however, found necessary on its 1-ton truck. In the case of engines the Committee saw not only sufficient reason to retain the price control, but also a case for reducing the price by Rs. 150 from the then existing prices for O. E. sales.

2.6. Government of India, however, felt that once production had increased substantially and the acute shortage then prevailing had eased, decontrol of prices would be desirable but so long as that shortage existed, decontrol of prices of even commercial vehicles was likely to lead to many abuses. As regards the cut proposed by the Committee in the prices of passenger car and jeep, which was in a sense linked with the decontrol of the prices of commercial vehicles, Government did not propose to enforce the cut at that stage. Meanwhile as a result of informal discussions, two of the car manufacturers and Mahindra & Mahindra had reduced the prices of their vehicles by Rs. 200 and Government hoped that all manufacturers would further review their cost structure, and reduce their prices as early as possible.

2.7. Since 1957 all the manufacturers have revised upward the prices of their respective vehicles with the approval of Government for one or more of the following reasons :

(i) Enhanced Customs/Excise duties;

(ii) Increase in c.k.d. pack prices and ocean freight;

(iii) Tax levies by State Government from time to time;

(iv) Variations in the parity rate of the Indian rupee and other foreign currency of the country from which imports are made by manufacturers and ancillary suppliers;

(v) Increase in the prices of tyres and tubes; and

(vi) Increases allowed as a result of reduction of imported components (Deletion allowance).

2.8. Table Nos. 1, 2 and 3 given below indicate the prices of the various manufacturers in respect of passenger cars since 1957 and of jeeps and commercial vehicles since 1961. As a result of a constant dealer's margin during the period of rising net dealer price, retail prices rose by only 3 per cent less than the net dealer price itself.

TABLE—1

Increases in the prices of passenger cars since* 1957

(Price in rupees)

Year	NAME OF CAR					
	Hindustan Landmaster/ Ambassador		Fiat 1100		Standard/Ten/Herald	
	Net dealer Price	Retail Price	Net dealer Price	Retail Price	Net dealer Price	Retail Price
1	2	3	4	5	6	7
Price fixed in 1957 following Tariff Commission's Report (1956)	9,090	9,999	8,868	9,755	8,043	8,850
1958 .	10,146	11,161	8,868	9,755	8,591	9,450
1959 .	10,146	11,161	8,868	9,755	8,591	9,450
1960 .	10,506	11,554	8,896	9,870	8,621	9,480
1961 .	10,506	11,554	8,937	9,828	9,129	9,988

1	2	3	4	5	6	7
1962 .	10,619	11,667	8,815	9,631	9,381	10,040
1963 .	11,083	12,131	8,880	9,696	9,444	10,103
1964 .	11,147	12,195	9,502	10,393	10,182	10,841
1965 .	11,507	12,555	9,558	10,449	10,191	10,850
1966 .	12,422	13,466	10,887	11,778	11,102	11,761
1967 .	13,857	14,901	12,664	13,555	12,154	12,813
1968 .	13,857	14,901	12,679	13,570	12,598@	13,257@

*The prices are as in January of each year.

@The prices actually charged are : Net dealer Rs. 12,544, and Retail Rs. 13,202.

TABLE—2

Increases in net dealer prices of jeeps and jeep vehicles since 1961*

(Price in rupees)

Year	Specifications			
	C J 3 B Jeep	2 W D Wagons	4 W D 1 Wagons	4 W D 1-Tonne truck chassis
	1	2	3	4	5
1961	12,388	16,004	17,939	13,204
1962	12,753	15,928	18,493	13,700
1963	12,928	16,069	19,391	13,970
1964	14,237	18,126	22,199	15,996
1965	14,237	18,126	22,199	15,996
1966	15,129	..	..	..
1967	16,567	..	..	..

*The prices are as in January of each year.

TABLE—3

Increases in net dealer prices of Commercial vehicles since* 1961

1. HINDUSTAN MOTORS LTD.

(Price in rupees)

Year	Specifications					
	120" W.B. Diesel chassis	167" W.B. Diesel chassis	120" W.B. Petrol chassis	167" W.B. Petrol chassis	179" W.B. Diesel chassis	S B 216" Diesel chassis
1	2	3	4	5	6	7
1961 .	22,400	22,180	16,875	16,655	22,867	4,872
1962 .	22,400	22,180	16,875	16,655	22,867	24,872
1963 .	23,374	22,247	16,914	16,729	22,895	24,872
1964 .	24,051	24,699	18,326	19,144	24,936	25,776
1965 .	24,232	24,880	18,507	19,325	25,117	26,705
1966 .	25,419	26,067	20.041	20,859	26,188	27,873
1967 .	29,196	29,844	23,429	24,247	30,066	28.599

*The prices are as in January of each year.

2. PREMIER AUTOMOBILES LTD.

(Price in rupees)

Year	Specifications			
	153"/165" Petrol trucks	Dodge	193"/190" Diesel Bus	116"/133 1 tonne truck
1	2	3	4	5
1961	18,289	23,916	24,074	13,922
1962	18,289	23,916	24,404	13,922
1963	18,289	23,916	24,174	13,963
1964	19,802	25,483	25,558	15,409
1965	19,991	25,671	25,634	15,432
1966	22,201	27,637	27,512	16,605
1967	24.297	29.605	29,432	16,902

3. ASHOK LEYLAND LTD.

(Price in rupees)

Year	ECPO 2 /A LACOP			ECOS 2/ALCO			
	IR or 1/1	2R or 1/2	3AR or 1/3	4R or 1/1	IR or ½	2R or 1/3	1/4
1	2	3	4	5	6	7	8
1961 . .	33,200	32,800	31,610	32,500	32,000	31,800	..
1962 . .	33,840	33,440	32,250	33,140	32,640	32,440	..
1963 . .	34,186	33,786	32,596	33,486	32,986	32,786	..
1964 . .	35,668	35,268	34,078	34,979	34,479	34,279	34,903
1965 . .	35,686	35,286	35,246	35,597	35,497	35,097	35,721
1966 . .	38,717	38,417	38,277	38,665	38,565	38,165	38,789
1967 . .	41,767	41,385	41,237	41,684	41,576	41,130	41,754

4. TELCO

(Price in rupees)

Year	Specifications				
	L 312/42	LP 312/48	LA 312/36	L 12010/42	LP 1210/52
1	2	3	4	5	6
1961 . . .	27,601	29,236	33,717	..	..
1962 . . .	28,315	29,941	34,431	..	..
1963 . . .	28,562	30,210	34,678	..	..
1964 . . .	30,831	32,088	37,430	..	..
1965 . . .	31,046	32,282	37,988	33,412	34,648
1966 . . .	34,230	35,139	41,607	35,593	36,559
1967 . . .	37,286	38,101	46,895	38,877	39,849

5. BAJAJ TEMPO LTD.

(Price in rupees)

Year	Specifications					
	Tempo-3 wheeler Chassis	Tempo-3 wheeler with Cabin	Pick up Standard	Pick up with body	Delivery Van	Auto rickshaw
1	2	3	4	5	6	7
1961 .	5,616	6,471	6,886	6,960	7,380	6,606
1962 .	5,730	6,585	7,000	7,075	7,495	6,720
1963 .	5,784	6,643	7,092	7,171	7,593	6,824
1964 .	6,218	7,081	7,541	7,622	8,046	7,273
1965 .	6,218	7,081	7,541	7,622	8,046	7,273
1966 .	6,218	7,081	7,541	7,622	8,046	7,273
1967 .	7,236	8,046	8,451	8,505	8,856	8,298

2.9 Manufacturers of automobiles have pointed out to us particularly that no increase in prices was ever permitted during the last ten years for increases in costs due to factors such as rapidly increasing wages, higher cost of indigenous raw materials and components, scrap, electricity, freight, maintenance and repairs as well as overheads.

2.10. We are informed by D.G.T.D. that, on the whole, the price increases attributable to increase in manufacturing costs have been negligible compared to other factors such as those given above and that the increases which have taken place since 1956 were beyond the control of vehicle manufaturers. The consensus of opinion at the public inquiry was that the high prices of vehicles were due mostly to the existing multiple taxes on the automobiles at different stages of production and till it reaches the final consumer. It has been represented to us therefore that if the burden of taxation is reduced, there would be significant reduction in the prices of automobiles.

2.11. Very recently, Government of India by their letters, dated 22nd May 1967 and 15th September 1967 have lifted the price control on commercial vehicles and jeeps. We have not therefore gone into this question. We have however, examined the question of control on the price of passenger cars. Passenger cars are

also needed for taxis, for the use of Government both Central as well as that of States, by business organisations and also in places where alternative means of transport are not available. Passenger cars used for those purposes can not be considered to be items of luxury to be indulged in only by the affluent. In the context of the cumulative technological development that has taken place up to now, an automobile is no longer a dispensable luxury and in many of its uses some of which have been mentioned above, it is an item of necessity. If accurate data with regard to the number of passenger cars in use for purposes referred to above were available it could be readily demonstrated that the number of cars so-used are greater than those used as a mere comfortable alternative means of transport. The average annual fresh registrations for passenger cars during the last four years works out to about 44,500. There was at the end of September 1967 a backlog of about 110,000 cars. Fresh demand is likely to be suppressed owing to the pessimism generated by the unfulfilled orders and the possibility of effecting a purchase being remote; the frequency of replacement is also lower owing to non-availability of cars and potential buyers have to continue to use old cars when they would have preferred to discard them. Owing to these limitations fresh registrations do not fully represent potential demand which has developed or would develop as a result of the increase in the administrative, social and economic activities and the rise in the income of certain classes as a result of which they could afford to purchase cars. We have come to the conclusion earlier in the course of our Report on the protection to the automobile industry that the demand for passenger cars during the current and next two years would be of the order of 45,000, 55,000 and 65,000 respectively while the current rate of production estimated by us is only 35,000. There would therefore be a large gap between supply and demand and the abandonment of the procedures now obtaining for the registration for vehicles and obtaining them by turn would not only create an enormous amount of confusion but also open the door for discriminating sale and mal-practices. The same holds good of the price control which now exists. Until the availability is equivalent to the demand, no effective competition as between the different makes of vehicles can be generated.

3. Overall profitability of the automobile industry & return on capital employed.

3.1. All the automobile manufacturers are engaged in the production of automobile components for their own use and for selling them as spare parts in the replacement market. Besides, four of the units, namely, Hindustan, Premier,

TELCO and to some extent Ashok Leyland are engaged in other manufacturing activities also as shown below :—

Activities other than Automobiles

1. Hindustan .	Cranes, Bullodozers, Scrapers, Rear Dumpers, Shovels & Attachments, Steel structurals and Diesel Engines.
2. Premier .	Room Airconditioners, Mild steel tubes, Railway springs, Industrial Diesel Engines, Mechanite castings for machine tools, diesel oil engines, sugar machinery etc.
3. TELCO . .	A. At Jamshedpur Steam locomotives, Diesel industrial shunters, Excavators, pulp and paper making machinery, steel castings, alloy iron castings and forgings. B. At Poona Machine Tools, Press Tools and Dies.
4. Ashok Leyland	Industrial Engines

3.2. The figures given in table 4 show the percentage of sales realisation of automobile manufacturers from their various activities during 1965-66 and 1966-67 as reported by them.

TABLE—4

Sales realisation of automobile manufacturers from various activities

(In percentage)

	1965-66					1966-67				
	Cars	Trucks	Spares	Others	Total	Cars	Trucks	Spares	Others	Total
1. Hindustan Motors . .	58.8	30.8	5.6	4.8	100	67.5	23.3	5.2	4.0	100
2. Premier Automobiles . .	21.1	60.5	11.3	7.1	100	41.5	40.7	11.3	6.5	100
3. Standard Motor Products .	88.9	1.7	7.9	1.5	100	41.3	47.6	8.5	2.6	100
4. Ashok Leyland . . .	..	80.0	19.4	0.6	100	..	78.9	20.7	0.4	100
5. TELCO	..	75.8	12.4	11.8	100	..	80.5	8.2	11.3	100
6. Mahindra & Mahindra .	83.3 (Jeeps)	8.2	8.5	..	..	70.3 (Jeeps)	17.0	12.7	..	100
7. Bajaj-Tempo . . .	..	84.7	14.6	0.7	100	..	72.8	22.2	5.0	100

3.3. In estimating the future volume of production we have taken into account 10 per cent of the capacity adopted for assembled vehicles for the purposes of the manufacture of spare parts in the replacement market. This activity is to be conducted through the same plant and machinery as for automobiles. While the prices of automobiles have remained under informal price control, components and spare parts were never subject to any control and fairly high margins were earned on the sale of these.

3.4. We have made an analysis of about 100 components manufactured and sold as spare parts for replacement by three units which manufacture passenger cars and discovered that the margin of profits in these cases range from 32.7 per cent to 71.8 per cent over the cost of sales. This related exclusively to the spare parts activity. The profits earned by the units have to be related to their requirements for the purpose of payment of dividends on paid up capital, corporate tax and compulsory bonus. We have made actual calculations of the requirements of four of the units for which we conducted cost examination and find that in the case of two units the amount needed was 13·6 per cent and 13.9 per cent, in the case of one 15.2 per cent and in the case of the smallest unit it worked out to 17.5 per cent. Broadly speaking, about 14 to 15 per cent of the capital employed reckoning the working capital of 4½ months cost of production is needed to meet the requirements of the industry. It has, however, to be remembered that the same units are engaged in the same precesses of manufacture for the production of spare parts for the replacement market over which they have earned the profit. Our analysis shows that a set off between 2½ to 3½ per cent would fall to additional profits earned on spare parts for replacement. In fact if more meticulous examination is made it may have been found that a greater set off may be omitted. We have also taken into consideration the fact that there has been a fall in the bank rate recently and that the commitments on interest charges on borrowings would need to be lessened. In deciding the quantum of return to meet the requirements such as interest on borrowings, minimum bonus, under the Bonus Act, Corporate Taxes, managing agency commission etc. and to leave a residual balance for purposes of dividend and to create adequate reserves we have taken the above fact into consideration and consider that a return of 12 per cent of the capital employed would be reasonable and fair to the industry.

3.5. Our calculations in respect of the requirements of the four units of the return in order to provide for the discharge of their commitments are being separately enclosed along with the statements of costs in a confidential cover.

4.1. Introduction

4. Fixation of fair selling prices—our approach

4.1.1. When the inquiry into the cost structure and the fair selling prices of automobiles was entrusted to us, informal price control existed for all kinds of automobiles produced in India. Particulars of the automobiles classified according to engine capacity or carrying capacity are as follows :—

Vehicle	Engine Capacity or carrying capacity	Type/Model	Name of the manufacturer
1	2	3	4
Passenger cars			
1. Small . .	Upto 12,00 cc.	1. Fiat 1100	Premier Automobiles Ltd.
		2. Standard Herald.	Standard Motor Products of India Ltd.
2. Medium . .	1200 cc to 2000 cc.	3. Hindustan Ambassador.	Hindustan Motors Ltd.
Jeeps			
Jeep . . .	2199 cc.	4. Jeep CJ 3B	Mahindra & Mahindra Ltd.
Commercial vehicles			
1. Light . .	Upto 3 tonnes	5. Dodge/Fargo D300 and D250	Premier Automobiles Ltd.
		6. Bedford full forward control	Hindustan Motors Ltd.
		7. Standard 20	Standard Motor Products of India Ltd.
		8. Tempo Hanseat	Bajaj Tempo Ltd.
		9. Tempo Viking	
		10. Jeep FC 150	Mahindra & Mahindra Ltd.

1	2	3	4
2. Medium	3 to 5 tonnes	11. Dodge/Fargo 109 PA6, 89PA6, 99PA6, 109 P6, 109 T, 109-M4, PT 195, 89P6, 99P6,89T, 99T, 89M4 and 99M4.	Premier Automobiles Ltd.
		12. Bedford J4S, J4L, SB	Hindustan Motors Ltd.
3. Medium Heavy.	5 to 9 tonnes	13. Tata Mercedes Benz L—312, LA-312, L1210, LP-312, LP-1210.	Tata Engineering and Locomotive Co. Ltd.
		14. Comet Passenger 15. Chassis ALCO-P 3/1, 3/2, 3/3. 16. Comet goods chassis ALCO 3/1, 3/2, 3/3,	Ashok Leyland Ltd.
4. Heavy	Over 9 tonnes	17. Beaver/Hippo	Ashok Leyland Ltd.

In addition to these, automobile diesel engines produced by Simpson & Co. Ltd., Madras were also under informal price control. Subsequently on the 22nd May, 1967 light commercial vehicles below 3 tonnes were decontrolled. Thus price control was lifted from item Nos. 5, 6, 7, 8, 9 and 10 above. On an enquiry regarding commercial vehicles below 3 tonnes Government of India in the Department of Industrial Development, Ministry of Industrial Development and Company Law informed us on June 29, 1967 that the Commission should go into the question of costs of commercial vehicles and recommend reasonable selling prices for them. In arriving at this conclusion Government had been, they observed, influenced by the consideration that the current selling prices of vehicles were still related to the basic price recommended ten years ago to which Government has been adding from time to time increases in prices as claimed by the manufacturers in accordance with certain formulae. It was apprehended that the present prices did not have direct relation to the cost of production and, therefore, it was necessary that a fresh inquiry into the price structure be made and the reasonableness of the present selling prices ascertained from that point

of view. The second consideration before the Government was that since they did not consider it possible to ascertain cost of production of cars in the three units in isolation it would be necessary for the Commission to go into the cost of production of both cars and commercial vehicles in these units. Accordingly the Commission continued with the cost investigation of commercial vehicles and the jeep also. Later, on the 15th of September, 1967 all other commercial vehicles as well as jeeps were withdrawn form the scope of the informal price control. Thus item Nos. 4 and 11 to 17 above also went out of the purview of informal price control. At present only the three passenger cars at item Nos. 1, 2 and 3 in the above table and Simpson's diesel engines are still governed by the informal price control.

4.1.2. We have pointed out in our Report on the Continuance of Protection to the Automobile industry that protection extends to the automobile industry under I.C.T. Item Nos. 75, 75(1), 75(3) which relate to complete vehicles and Item Nos. 75(9), 75(10), 75(11), 75(12) and 75(14) which relate to components and sub-assemblies. The automobile manufacturing units produce complete vehicles as also components for the replacement market as a result of the same manufacturing activity but the reference received form Government relates to the fair selling prices of automobiles only and not to components for replacement. At the outset it may appear a little anomalous since an automobile is composed of component and the cost developed for an automobile can only result from the aggregation of the cost of components. Neither before de-control, nor even now for the automobiles under control is therefore any informal price control on components and sub-assemblies manufactured by the automobile manufacturers but sold as such. The same activity is also shared by the ancillary manufacturers. Government asked us to undertake an inquiry into the cost structure of some of the major ancillary items also with a view to determining their fair selling prices as original equipment. No investigation was envisaged in the case of ancillary manufacturers too for equipment used for replacement. It was left to the discretion of the Commission to select such items for cost examination as may be contributing substantially to the economies of production of vehicles by the main manufacturers.

4.1·3. There is another factor which is of considerable importance in so far as costing and recommendation of fair selling prices of automobiles are concerned. This relates to the presence of a very large proportion of finished components in an automobile in the manufacture of which the automobile manufacturer played no direct part. The percentage of finished imported

as well as finished indigenous components in the various vehicles manufactured in the country based on the actual period costed is as given in table 5 below.

TABLE 5

Value of bought out finished components in percentage on factory cost

Sl. No.	Name of the unit	Type of vehicle	Percentage of value of finished bought out components on factory cost
1	2	3	4
1.	Hindustan Motors 1966-67 . .	(i) Ambassador .	39.0
		(ii) Bedford 167" W.B. Diesel Truck . .	74.2
2.	Premier Automobiles 1965-66	(i) Fiat Car .	53.7
		(ii) New Truck chassis with perkins engine .	72.1
		(iii) New truck chassis with PA made petrol engine	57.1
		(iv) New bus chassis with Perkins engine .	71.0
3.	Standard Motors 1965 . .	(i) Herald Saloon .	70.6
		(ii) 1 tonne Vehicle Std. 20. . .	88.0
4.	Ashok Leyland 1965-66 . .	Comet chassis . .	56.1
5.	TELCO 1965-66 . . .	(i) L-312-42 . .	44.1
		(ii) L-1210-42 . .	44.7
		(iii) L-1210-52 . .	43.8
6.	Mahindra & Mahindra 1965-66 .	CJ-3B Jeep. . .	61.7

1	2	3	4
7. Bajaj -Tempo 1966-67.			
	(a) Three Wheelers . . .	(i) Bare chassis . .	49.3
		(ii) Auto-Riksha .	46.7
		(iii) Pick-up Van . .	45.6
	(b) Tempo Viking (4 wheelers)	(i) Chassis with Cab .	63.2
		(ii) Delivery Van . .	60.1
		(iii) Station Wagaon .	60.6
8. Simpson & Co. (Engines) 1966-67		(i) P 6 Bare Engine .	52.2
		(ii) P 6 for KEW Dodge chassis . . .	47.4
		(iii) P 6 for Bedford chassis . .	53.0

It would be observed that in the case of 14 items more than half the value of the finished material cost of an automobile is composed of items purchased from outside and in the remaining eight it ranges from 39.0 percent to 49.3 percent. The scope of the costing therefore becomes even more limited and is thus confined to the cost of production of the remaining items of components which range between 12 per cent for Standard 1 tonne vehicles and 61 per cent for Hindustan Ambassador, in addition to assembly charges, selling expenses and royalty.

4.2. Costing periods

4.2.1. Our Cost Accounts Officers have examined the costs of production of the vehicles and engines produced by the following units for the period mentioned against each.

Name of unit	Period for which actual cost of production examined.
1	2
1. Hindustan Motors Ltd. . . .	April 1966 to March 1967
2. The Premier Automobiles Ltd. . .	July 1965 to June 1966
3. Standard Motor Products of India Ltd.	January to December 1965
4. Mahindra & Mahindra Ltd. . .	November 1965 to April 1966

1	2
5. Tata Engineering and Locomotive Co. Ltd.	April 1965 to March 1966
6. Ashok Leyland Ltd.	October 1965 to May 1966
7. Bajaj-Tempo Ltd.	April 1966 to March 1967
8. Simpson & Co. Ltd. . . .	June 1966 to May 1967.

The inquiry was taken up in he latter half of the year 1966 and the cost examination of several units had been undertaken in the same period. In the case of Standard Motors which was visited by our Cost Accounts Officer during October, 1966 it was found that while during the year 1965, as many as 3,630 vehicles could be assembled, the production for the nine months upto September 1966 was only 1,555 vehicles. The Company had to stop production of cars on 31st January, 1966 and lay off the labour because of, it was stated, non-availability of adequate licence for import of c.k.d. packs. It could again resume production only in May, 1966. The costs for this period would, therefore, have been unrealistic. Hence actual costs were investigated for the year 1965. The first three units produce both cars and commercial vehicles; the fourth unit jeeps and jeep like vehicles; the fifth, sixth and seventh units only commercial vehicles and the last unit only diesel engines.

4.2.2. It would have been much more desirable to work out the cost for the latest period preceding the date of the public inquiry but a fresh cost examination of those units which were costed for the year 1965 or for the composite year 1965-66 could not be undertaken. The actual costs have, therefore, been adopted as a guide for developing estimates of future cost after making such additions and alterations as have been warranted by anticipation in respect of each of the elements of costs.

4.3. **Principles adopted in working out the costs**

4.3.1. The elements generally adopted for the break-down of the cost of production of a commodity are usually materials, direct labour, services, manufacturing overheads, administrative overheads, depreciation and selling overheads. In the case of most commodities cost data are built up with the help of these elements which are further sub-classified according to the requirements of the particular product wherever necessary.

4.3.2. An automobile differs essentially from other products in the sense that it is not a uniform article of differing sizes or volumes but an assembly of disparate components which run into many thousands. The techniques of manufacture of each of these components and the processes involved are specific and sometimes unrelated. To a large extent the same component or sub-assembly has but for minor variations in design and specifications the same function in the different vehicles for which it is used. The cost examination, therefore, of an automobile is essentially the costing of the thousands of parts of which the automobile is composed and each of these parts has to be costed as an independent item which has its own material cost, distributed into imported and indigenous, and further sub-classified into semi-finished and basic material, direct wages, service charges, overheads, administrative overheads, depreciation and royalty. Treating the vehicles as a unit only the assembly and selling overheads can be segregated. Since each component has its own separate process of manufacture detailed calculations have to be made in respect of each component. The multiplicity of the components which go into an automobile makes the costing of an automobile an exercise entirely different from that for any other commodity.

4.4. **Problems encountered in working out the costs**

4.4.1. For costing of automobiles the two primary factors which are of paramount importance are the existence of cost data for each production centre and standards in respect of each component as related to the particular production centre both for material as well as conversion charges broken up under different heads for direct expenses as well as for indirect expenses. It was discovered that the practice in the case of the different units was far from uniform. One of these needs particular mention on account of lack of any cost system at all and two others for having worked them out with meticulous detail. The remaining five find their place in the middle. In the case of Hindustan Motors satisfactory data for manufacturing cost were not available to obtain the desired accuracy in costing. Its record of issue of raw material and utilization as against the number of components manufactured was not kept. Standards for the quantity needed for items fabricated out of sheets, plates, bars and billets were available but in the absence of a proper costing system the standard requirement of raw materials could not be verified with the actual consumption. Even in respect of the purchase of material, data were not available to indicate the rates at which a particular raw material was purchased from time to time in order to arrive at an average rate. Computation had, therefore, to be made by the Cost Accounts Officer

on the basis of invoices for sheets and plates covering about 48 per cent of the total purchase made during the year under costing and in regard to billets and bars the average rate was assessed on the basis of an adequate number of invoices of a particular class of steel comprising of items of representative dimensions usually used. Bajaj-Tempo did not have records showing the materials drawn and consumed for the various products and estimation had to be made. In the case of TELCO and Mahindra & Mahindra detailed costings were maintained by cost centres. Pre-determined rates of standard time for the fabrication of each component relative to the processes of each production centre have been developed in both cases. In the case of Standard Motors no production order for the manufacture of a batch is issued with the result that actual consumption of raw material for each component *vis-a-vis* standard required could not be computed in this unit. Standards had however been worked out for the raw material requirement of each component including allowance for scrap and wastages. Premier Automobiles, Ashok Leyland and Simpson & Co. maintain fairly reasonable cost accounts from which the data could be collected.

4.4.2. One of the chief handicaps with which we have been faced in evaluating the cost is in respect of lack of usable standards either of (a) range of specifications and properties of raw material required, (b) weight input relative to output and (c) wastages in castings, forgings and machinings. Iron and Steel constitutes by far the bulk of the material used for the manufacture of an automobile and while it is claimed that the list of specifications of steel bars, billets and sections to be used for automobiles has been narrowed down to 28. We have also not been able to find out whether or not the material being used is within the normal ranges permissible for the particular product and not excessive in cost on account of its being of a quality or rate higher than required. On the other hand though it is not a matter for cost analysis it could not be found whether or not the raw material used conformed to the minimum requirement from the point of view of quality and specifications. In the matter of actual costing, standards are a must for determining the quantum of material required for a particular product. Here again we were faced with the problem of having no data whatsoever. We, therefore, very strongly recommend that the I.S.I. or some other expert body may (not only for the purpose of cost examination but also for quality control and limiting the range of raw material needed and conserving of foreign exchange) draw up a detailed list of the components of which an automobile is composed and prescribe the ranges of specifications for the

materials needed for them. It is also desirable to include in the same standard the input weight as related to the output for each item, or group of items of such components. The number of components in an automobile which have to be cast or forged is not very large and it should be possible to make similar classifications for these with regard to specifications of the material and normal percentages of wastage under normal manufacturing conditions. Similar precentages of wastages could be laid down in the case of components, members, frames or sheets manufactured from billets, ingots, rods and sheets. Owing to lack of standards for wastages as well as quantities of input it has not been possible for us to ascertain the extent to which reasonable economies have been observed by the units concerned.

4.4.3. It has already been stated that an automobile is composed of many thousands of components which are assembled in order to make a vehicle. The costs, therefore, have been worked out under each of the cost elements for each of the components and sub-assemblies according to the following principles. The costs of the various service departments have first to be apportioned to that of each production centre. The cost of each such centre has then to be apportioned as between various cost elements such as material, direct labour, overheads, administrative overheads, depreciation, selling expenses and royalty. These costs by different elements are then to be worked out for each component for each cost centre. At the next stage the cost of each element for each cost centre for each component is to be added to arrive at the cost of each component under different elements of the heads of costs. These components have then to be aggregated into assemblies and sub-assemblies in order to arrive at a uniform list of sub-assemblies and assemblies which may be comparable to similar lists of other units. This is essentially a very complicated exercise and since componentwise and sub-assemblywise costs were not developed at the very outset these were later on computed from the working sheets prepared by the Cost Accounts Officers at a subsequent stage. Owing, however to the fact that the nomenclature for assemblies and sub-assemblies differs from unit to unit, the constituents of the assemblies and sub-assemblies are not uniform in the case of various units, and the task was rendered even more difficult. Nevertheless assembly and sub-assemblywise costs were developed for each of the units costed in so far as passenger cars are concerned and these have been shown in so far as the final costs are concerned in table No. 9. As regards commercial vehicles it was not considered necessary for the reasons given in paragraph 4.8.1. to develop such detailed costs for the purpose of comparison between one unit and another.

4.4.4. It needs to be emphasised that both for the purpose of uniformity of nomenclature as well as for the evaluation of costs uniform constituents should be adopted for assemblies and sub-assemblies. The total number of assemblies in a vehicle are not more than 20 and these could be further sub-divided into a total of about a hundred sub-assemblies. It is necessary that the particulars of the components which relate to a particular sub-assembly should be clearly indicated so that uniformity for the purpose of comparison may be ensured. We, therefore, recommend that alongwith the steps to be taken for evolving standards for materials both in relation to specifications and quality, standards may also be laid down for the uniformity of nomenclature of components and the aggregation of components into sub-assemblies and assemblies for passenger cars as well as for commercial vehicles.

4.5. The actual costs were discussed with the representatives of the respective units and after these discussions we have framed our estimates for the future. The reports of the Cost Accounts Officers for the actual period as well as the Commission's estimates for future are being sent to the Government as separate enclosures. The principal factors taken into account in framing our estimates are briefly dealt with in the following paragraphs.

4.6.1. As a result of capacities adjudged by our Cost Accounts Officers and the discussions held both with the individual units and also with D.G.T.D. and the information conveyed to us at the public inquiry, we arrived at the installed capacities as in paragraph 6.9. of our protection Report. As against these installed capacities, we have worked out the average production per annum for the three years 1968 to 1970 as follows :—

Unit	Vehicles	Capacities adopted by us for the protection inquiry (Nos.)	Estimated pro-duction (Nos.)
1	2	3	4
Hindustan Motors . .	Passenger car . .	24,000	22,000
Hindustan Motors . .	Commercial vehicles .	15,000	13,600

Premier Automobiles . .	Passenger Car . .	9,000		9,000
Premier Automobiles . .	Commercial vehicles .	5,700		5,700
Standard Motor Products .	Passenger Car . .	5,000		5,000
Standard Motor Products .	Commercial vehicles .	1,500		1,500
Mahindra & Mahindra .	Jeep	12,000		8,000
Mahindra & Mahindra .	Commercial vehicles .			2,000
TELCO . . .	Commercial Vehicles .	24,000		23,000
Ashok Leyland . . .	..	7,400		5,883
Bajaj Tempo . . .	..	4,000		2,800
Simpson & Co. . .	Engines . . .	8,000		7,000

4.6.2. Suitable additions have to be made to the cost of materials on the basis of the revised rates resulting from devaluation and making necessary adjustments for the revision in the rates of customs duty. The degree of escalation as between the actuals and future costs in the case of each of the representative vehicle costed has been indicated in the Commission's estimates and the reasons for the same have been explained below.

4.7. The costs of automobiles contain a substantial element of bought out finished components. Since no costing of the finished components bought either from foreign or indigenous sources was possible the cost analysis has been confined only to the conversion costs and other overheads relating to the unit and the total material of finished components has been made on the basis of verification as was possible by the Cost Accounts Officers. In the case of components and sub-assemblies which constituted the subject of our cost examination in the inquiry relating to the automobile ancillary industry we have worked out certain fair selling prices. But these prices were not adopted for developing the estimates of automobiles. Even if we had adopted these prices, the items covered by our inquiry would have constituted only a very small fraction of the total value of finished items purchased by

the automobile manufacturers, as the following figures would show :—

TABLE 6

Proportion of ancillaries costed in passanger cars

(In Rupees)

Name of vehicle	Value of finished bought out items or future estimates both imported and indigenous	Value of items included in the ancillary inquiry	Percentage of 3 to 2
1	2	3	4
Ambassador	4,926	1,292	26.2
Fiat	5,672	808	14.2
Standard	6,606	1,341	20.3

We have therefore adopted the costs intimated to us by the units with suitable modification.

4.8.1. It has already been mentioned that except for the three passenger cars, all makes of automobiles are outside informal price control. We have nevertheless undertaken the cost examination of commercial vehicles and the jeep too. Since prices of commercial vehicles are decontrolled and there is no possibility of reimposition of controls in the near future cost examination of the commercial vehicles is more or less of academic interest. If and when market conditions require recontrol the present estimates would have already been rendered out of date and a fresh cost examination will become necessary. It would then be more desirable to proceed from the very outset with the objectives enunciated in this analysis in order that more scientific results are arrived at. We have therefore, worked out the cost data in detail for passenger cars and in a more general way for commercial vehicles. Since Simpson's engines constitute a protected item we have dealt with it in our Report on the Continuance of

Protection to Automobile industry, but as in the case of other ancillaries we have not utilised prices determined by us for those engines in this Price Report. Simpson's diesel engines are used only for commercial vehicles, and since such commercial vehicles are not under price control we consider it anomalous to seek to maintain this control only on one item of bought out finished assembly.

4.8.2. The cost analysis of a product which is similar in function and constitution but varies in size and performance necessitates the establishment of certain differential values as between the items under consideration in order to facilitate comparison and evaluation. While the size and performance of some components may be similar for all or some of the vehicles, by and large, most components are influenced by the relative size of the vehicles. There can however, be no ready-made answer to the question of the value in proportion to the relative size of a whole automobile. For, there are numerous characteristics which operate as determinants such as, cubic capacity of the engine cylinders usually denominated in terms of cubic centimetres, the brake horse power rating, wheel base, load carrying capacity, kerb weight and a few other factors. The most common and accepted distinguishing feature is the brake horse power at specified revolutions per minute. In the case of the three passenger vehicles under consideration the brake horse power which each engine is capable of developing at the specified number of revolutions per minute is as follows :—

Ambassador	50 at 4200 RPM
Fiat	43 at 5000 RPM
Standard Herald	33 at 4500 RPM

The cubic centimetre volume of the engine cylinders of these cars is as follows :—

Ambassador	1489 c.c.
Fiat	1089 c.c.
Standard Herald	948 c.c.

It would be logical to expect that for engines which do not have material difference in design, the cost of production in identical conditions would broadly speaking be related to the brake horse power. But a factor which has no scientific relevance to the horse power, size, or capacity of a vehicle, but which nevertheless governs consumer choice and the marketability of the vehicle is the historical differential based on its price. Over the years the comparative position of prices adopting the 1st January of each year as the point for comparison and with Ambassador as the base has been as follows :—

TABLE 7

Prices of passenger cars over the years

Year	Ambassador			Fiat			Standard		
	Price	Variations	Base	Price	Variation	Ratio to Ambassador price	Price	Variations in price	Ratio to Ambassador price
	Rs.	%	%	Rs.	%	%	Rs.	%	%
	1	2	3	4	5	6	7	8	9	10
1957 . . .	9,090	100	100	8,868	100	98	8,043	100	88
1958 . . .	10,146	112	100	8,868	100	87	8,591	107	85
1960 . . .	10,506	116	100	8,896	100	85	8,621	107	82
1962 . . .	10,619	117	100	8,815	99	83	9,381	117	88
1964 . . .	11,147	123	100	9,502	107	85	10,182	127	91
1966 . . .	12,422	137	100	10,887	123	87	11,102	138	89
1968 . ..	13,857	152	100	12,679	143	91	12,598	157	91

4.8.3. In 1956 the Ambassador car was leading with higher price whereas Fiat and Standard was about 96 per cent of its price. Subsequently the price of Standard was higher than that of Fiat in each case except in the year 1960. Taking all factors into consideration the range of differentials in terms of percentages works out as follows :—

	Ambassador %	Fiat %	Standard Herald %
B.H.P.	100	86	66
Engine capacity	100	73	64
Price differential in 1968 . . .	100	91	91

By and large price differentials are narrower than the B.H.P. or Engine capacity. We tried to ascertain the practice that obtains in other countries for cars in similar ranges of horse power and capacity manufactured by the same unit and we came upon an example which is given below :

Particulars	Engine capacity	Per-centage	Brake Horse power	Per-centage	Sale price excluding P. T. as in Jan. 1968 in U. K.	Per-centage
Fiat 124 . .	1197 cc	100	60	100	£ 629	100
Fiat 1100R . .	1089 cc	91	48	80	£ 554	88
Fiat 850S . .	843 cc	70	34	56.7	£ 454	72

This example shows that the price differential conforms more or less to the engine capacity but has a narrower range than the B.H.P. The engine capacity may be a reasonable yardstick in the case of vehicles of the same maker where compression ratio and other factors are adopted on a common basis, but would not be a safe guide when vehicles manufactured by different makers, who employ dissimilar principles for engine performances, are compared.

5. Analysis of cost elements

5.1. After having considered the relative sizes of the vehicles we make an analysis in some detail of the various cost elements involved and the adjustments that we have made in respect of them in working out the estimates.

5.2.1. **Material.**—From the point of view of source, the material needed for an automobile can be classified under the following heads :

A. **Finished components**

(i) Imported

(a) as part of the deleted C.K.D. pack.

(b) outside the C.K.D. pack but from the same source.

(c) from other sources.

(ii) Indigenous bought out.

B. **Semi-finished material.**—These are usually in the form of castings and forgings and may be classified into :

(i) Imported and

(ii) Indigenous.

For purpose of conversion costs and fabrication semi-finished material has to be treated as raw material for the reason that it has to be further processed by the unit, and the cost of processing semi-finished material is approximately the same as that for raw material. Even the so called raw material, such as steel, flat products and sections are also semi-finished material.

C. **Raw material**

(i) Imported

(ii) Indigenous

Indirect material which is used up in the process of manufacture has been included in overheads. In the case of imported material finished as well as semi-finished and raw material, the landed costs are in excess of the ex-factory price in the country of origin. Though there has been very considerable reduction in the import of finished parts, it has been to a large extent counter-balanced by the substitution of imported raw material. The incidence of the cost of imported material in the total material cost of the vehicle can be seen in table 12. For these vehicles the incidence of the

freight, insurance and forwarding charges as also the duty paid on certain finished and semi-finished components were as follows for the actual period.

Vehicle manufacturer	Value of imported components with boxing	Freight, port charges, insurance and other charges	Duty	Total cost	% of col. 3 to 5	% of col. 4 to 5	% of col. 2 to 5
1	2	3	4	5	6	7	8
	Rs.	Rs.	Rs.	Rs.			
Standard Motor Products.	1,533	199	1,211	2,943	7	41	52
Premier Automobiles.	613	37	458	1,108	3	41	56
Hindustan Motors.	32	5	19	56	9	34	57

5.2.2. It would be observed that the landed cost of imported material ranges from 175 per cent to 192 per cent of the initial overseas ex-factory cost of the products. The main element responsible for the inflation of the cost is that of customs duty. We have already recommended in paragraph 29.15 of our Report on the Continuance of Protection to the Automobiles Industry that items which are not likely to be produced in the country in the near future should be entitled to concessional rates of duty. The presence of a substantial element of customs duty in the cost of a product gives a distorted picture of the cost of production. It becomes more out of focus in the background of ruling international prices, and presents problems when the export angle is explored. It may be possible to offset the effect of customs duty by allowing a rate of drawback on export, but such relief is not always adequate or fully satisfactory. We are, therefore, of the view that a substantial reduction should be made in the rates of import duty on items of raw materials which are not likely to be produced in the near future and for which no indigenous substitutes are available and that these rates may be periodically revised to ensure that items for which production capacity has been set up do not continue to enjoy the concessional rate.

5.2.3. The reasonableness or otherwise of the price of imported items of finished and semi-finished products could not be scrutinised since comparable data were not available. Besides, the supply of the components in the C.K.D. pack is made in terms of collaboration agreements which neither leave any option nor allow the possibility of bargain by the manufacturer. We endeavoured to compare the prices of finished components purchased from sources other than the supplier of the C.K.D. pack but did not succeed owing to the absence of the relevant data. In some cases the items which have been imported are also being produced indigenously for example in the case of Standard Herald about 627 components were imported during the actual period of costing at a cost of Rs. 1858 consisting mostly of fasteners, spacers, deflectors, circlips, lock washers etc. many of which could have been obtained from indigenous sources. A stricter control over import of deleted C.K.D. packs is necessary.

5.2.4. It may be possible to arrange for indigenisation of the items at present being imported and this matter needs to be gone into in detail. We suggest that in the case of all items which can be produced in the country imports should not be encouraged. In some cases this may lead to higher costs, but such a step would still be desirable since it will be conducive to saving on foreign exchange, besides reducing our dependence on foreign sources. The vehicles are in different stages of deletions in the matter of import content and items indigenously developed are being progressively deleted. As regards bought out components, the Ambassador has in view of the attainment of maximum deletion, more or less an import content of only about Rs. 295 per vehicle and the balance is purchased through indigenous sources. For Fiat car the corresponding figure for imported finished components is Rs. 224 and for the Standard Herald, it is Rs. 1858. in the case of imported items, economy in costs cannot normally be viewed as within the control of the vehicle producer. In our view it would not be fair that higher prices are paid for certain components of a vehicle with a lower capacity or power and the requirements of design and function rule out the necessity for such disparity. We have, therefore, carried out certain adjustments to the costs of certain specific purchased components. As the material cost forms the bulk of the total cost of the vehicle it would be of importance to regulate the prices of materials obtained indigenously by entering into transactions with a view to economy, which we regret to observe, does not appear to have been the rule. While some adjustments in the costs of specific items under the materials group may be possible it needs to be emphasised that it is not

possible to cover all the items in view of the complexities involved. These are : the variations as between the specifications of components manufacturing time and its own-methods of production, and the nature of machines on which production operations are carried out. One manufacturer may fabricate the components from basic material while another may start from semi-finished material. For these reasons we have made certain adjustments, where we were convinced that the unit was making purchases at a rate substantially higher than was warranted by the ruling prices at which the other units were making purchases of similar or even larger components.

5.2.5. By far the most substantial portion of the cost relates to alloy steel and iron. The technical cell of the Development Council has made a classification of 28 items of alloy steel bars, billets and sections which ought to prove adequate for the needs of the automobile industry. We tried to ascertain the extent to which this classification or the earlier classifications made in 1961 of 74 items had been adhered to but did not succeed owing to lack of data.

5.2.6. **Standards.**—We endeavoured to ascertain the incidence of the material used for specific purposes in relation to specification and size of the components, by the different units but were faced with similar problems of lack of data.

5.3.1. **Material Costs.**—In estimating the material costs, the post-devaluation rates for imported components and semi-finished items have been taken after allowing for the fresh deletions achieved after the costed period. Imported raw material is mainly steel bars, billets, sections and flat products of various specifications and sizes. The number, sizes and specifications involved is very large though the consumption in many cases is comparatively small. As the duties levied included a proportion based on the weight and the consumption is recorded in many cases in lengths or areas, it was found impracticable to convert the pre-devaluation rates to the post-devaluation ones in the case of each individual item or raw materials. Moreover, sometimes there is a shift in the source of supply in response to the availability of licences for purchases from a particular country resulting in upward or downward movement in the rates. The post-devaluation rates had, therefore, to be largely estimated on the basis of known cases on an overall basis. The indigenous finished components, semi-finished items and raw materials have been valued at the latest available rates. No estimation of the material to be used can be made unless the incidence of wastages at the different stages of processing are known so that the size or weight of the

final product may be correlated to that of the initial issue of raw material. We found that the practice of recording such wastages for the actual period or estimating these for the future was far from uniform. Our Cost Accounts Officers had been guided by the wastages obtained during the actual periods and these have been adopted for developing estimated cost for future for the different units after carrying out certain adjustments.

5.3.2. It was found that in the case of Standard Herald the material costs for the engine, transmission, frame and suspension, brakes and drums and wheels were particularly high, that the purchase price paid for the starter and dynamo was considerably in excess of the amount paid for the Ambassador car and so was the case for propeller shaft. In the case of frame chassis and body, the cost shown was excessive having no relationship whatsoever to the size of the vehicle. Suitable adjustments were, therefore, made in the material cost. Disparities were noticed in the case of a number of units as between the actual expenditure booked and the amount that was allocable based on actual standards. In the case of Ashok-Leyland when the reconciliation of the figures based on the standards with those allocated to the production department for the actual period was made it was found that in the case of direct wages there was only an increase of Rs. 0·26 per vehicle and the factory and administrative overheads decreased by Rs. 15.62 and Rs. 13·24 respectively. In a total cost of about Rs. 37,000 there was only a variation of about Rs. 29 which shows that the standards have been worked out on scientific principles. On the other hand, in the case of Standard Motor Products of India Ltd. it was found that the total number of standard hours recovered were only 65·7 per cent of the standard hours available in the machine shops. There was thus an initial loss of 34·3 per cent of the standard hours for the machine shop. In this case standards were apparently fixed higher than warranted by efficiency of performance. In the case of Hindustan Motors the consumption of bars and billets was found lower than the standards given to our Cost Accounts Officer.

5.3.3. Regular annual increases for wage and salary earners have been provided according to scale wherever regular scales are operative. Rates of dearness allowance when linked with the cost of living index have been brought up-to-date. In the case of Hindustan Motors the unit failed to furnish details of salaries paid to the top management personnel numbering 27 and claimed considerable increase for the group as a whole. It was found that the average salary in this group was about Rs. 4000 per month though details were not furnished. Owing to lack

of data it was not possible for us to find the correctness or desirability of allowing for increments in the emoluments of this category of management personnel. We have, therefore, allowed for increments only to the extent of details made available to us. The maximum individual salary for which increment was allowed was Rs. 2750. In general in framing our estimates we have considered the expenses under each individual head of accounts on its own merits for each of the units.

5.3.4. The conversion costs are the sum total of expenditure incurred on labour, indirect material, supervision and the proportion of costs taken over from other service departments. It has not been possible to pinpoint in any specific detail the items where adjustments should be made; but it is quite obvious that the conversion costs of different makes of cars should in relation to the cost of material not be disproportionately disparate. While, there is a wide range of variation between the conversion cost of one component and another, when the vehicle as a whole is considered such disparities are likely to even out and the conversion costs of one vehicle become comparable to that of another in proportion to differentials derived from power, capacity, weight, size, etc. The conversion charges when taken as a whole are also expected to present more or less a uniform pattern except for certain variations where sophisticated instruments on automatic machines are extensively used. There has been no uniformity in the system of booking expenses under labour and overheads, in determining costs. The labour cost in the case of Premiers is inclusive of incentives which is the factor for reducing the percentage of overheads. As such the overall conversion charges including direct labour may be considered as a fair guide for cost comparison and this has been adopted in our estimates. The cost of conversion for major assemblies is disproportionately higher in the case of Fiat than for the other cars.

5.4. **Depreciation.**—Depreciation has been taken at the normal income-tax rates on written down values with shift allowances as admissible.

5.5. **Additions to employed capital.**—All the units furnished their plans for future additions to plant and machinery and other fixed assets to our Cost Accounts Officers. Where the work is already in progress or firm commitments have been made either for replacement of worn-out machinery or for expansion of capacity which has been considered for the estimates of production or any economy therein, the corresponding additions have been allowed. The balance sheets of any industrial unit generally show some addition to fixed assets each year, even

though there has not been any addition to its capacity in that year. These normal additions are ordinarily for replacement of worn-out machinery or for providing certain facilities without increasing the volume of production. Most of the units claimed additions only for replacing machinery which is already worn-out or would be rendered unserviceable within the next few years. If in practice the worn-out tools and machinery are regularly replaced, as and when these need to be renewed the cost of such replacement in any single year would roughly correspond to the proportion of depreciation allowance. However, some of the units pleaded that owing to inadequacy of profits and funds in the preceding years, it had not been possible for them to replace the machines when due or to enter into any firm commitment for their replacement. If such arrears of replacements are allowed for the period for which costs are being estimated, the resulting burden of depreciation would be disproportionately high. After carefully considering the total net fixed assets existing as on balance sheet dates over a number of years, the fresh additions in those years and other issues involved we have allowed only such additions to fixed assets as we considered to be reasonable. In estimating the costs generally, the existing levels of efficiency in the matter of time required for any operation and wastages involved have been adopted, except for modification in isolated cases where the addition to assets already allowed was justified.

5.6. **Foreign loans.**—Some of the units had purchased and installed machinery financed by foreign loans. On the devaluation of the rupee the liability of these units increased and the income-tax authorities allowed the corresponding adjustments in the fixed assets. We have taken into account such additions. This has, however, affected the units unequally, for not all units had taken recourse to such loans.

5.7. **Jigs and Tools depreciation.**—In the matter of writing off the cost of special tooling, dies and jigs, the practice among the different units varies. In the case of most, the expenses on such items are included in the costs of machinery and amortisation is effected through depreciation. TELCO writes off all additions to dies and jigs in the year in which these are purchased. Before accepting the costs of this unit, the expenses on this account over the past several years were examined and it was found that expenses incurred in all these years were more or less uniform. Mahindra and Mahindra and Hindustan Motors want to get the cost of jigs and dies recovered over an appropriately estimated number of items manufactured from these. Depreciation including amortization of dies is the lowest in respect of

Standard Herald. Hindustan Motors has expensive manufacturing shops where automatic and semi-automatic machines are installed. The factory is manufacturing a wide variety of items from raw materials. The quantum of depreciation which includes also the cost of dies and jigs appears to be adequate for the estimated production of passenger cars. The unit however claimed depreciation on the anticipated outlay of four crores of rupees, for new dies for body panels. It is relavant to state in this context that the body panels for the car which is now manufactured would not need replacement for the current and the next two years. This unit installed a die sinking machine as early as 1957 and has no doubt been producing some dies required for body panels. The Cost Accounts Officer, however, could not find in the books of account any capitalisation on account of dies, jigs and tools being made. Such expenses appear to have been included under indirect labour and materials and written off during the year in which these were incurred without showing them in the capital assets. It would doubtless be at variance with the practices of the industry the world over to replace dies for the same model at such a heavy cost. Since we have costed the Ambassador car and not a possibly new model projected for the future we have not included this estimate of future outlay in our cost under the item for depreciation. If new dies were to be obtained, this would be for a new model and not for the current one which has already been in the market for more than ten years. We have, therefore, excluded the amount claimed for new dies and deducted the amount of depreciation at an average of the written down value for the current and next two years adding thereto the cost of amortisation on account of jigs etc.

5.8. In the case of Premiers also depreciation is very high compared to the volume of work undertaken.

5.9. **Administrative over-heads.**—The quantum of administrative overheads in respect of different cars varies mainly due to the variation in the volume of production in the estimates and also on account of certain changes in the practice of booking the expenditure under appropriate heads under factory and administration.

5.10. **Assembly Costs.**—Assembly costs constitute a comparatively small percentage of the total ex-factory cost of the car. These costs have been estimated only in respect of the assembly section of the unit. Here again we found that the assembly costs for the Ambassador car were the lowest. Standard's costs were higher than those for the Ambassador and those for the Fiat the

highest. The high assembly charges in the case of the Standard was deemed to be due to the low volume of production. The volume of production of the Fiat car is substantially higher than that of the Standard Herald but lower than that of the Ambassador. The Assembly charges for the Fiat car ought to have been lower than those for the Standard Herald, though not necessarily as low as those for the Ambassador.

5.11. **Sales and Selling Expenditure.**—We found that the selling expenses for the Ambassador Car were 0·6 per cent of the total ex-factory cost and 0·1 per cent for Standard Herald. In the case of Fiat we found that these were excessive at 1·4 per cent.

5.12. **Remuneration to Collaborators.**

5.12.1. Remuneration payable to collaborators takes many forms. While in the case of Mahindra and Mahindra it is a stated sum per vehicle depending on the successive slabs of production, in other cases it is a fixed percentage of cost of manufacture or price obtained subject to certain adjustments. In the case of Hindustan Motors there is no collaborator and therefore no royalty has to be paid. Remuneration to the collaborator where there is one takes the shape of a percentage on net profits. Where the remuneration to the collaborator is based on the price or the net profit, provision therefore cannot be estimated before the normal return is added to the cost, nor would it be desirable to treat this profit sharing as an item of cost. The amount of royalty has therefore been calculated at the stipulated rate in proportion to the estimated future cost of production. A statement showing the percentages of royalty paid on the different vehicles is given below :—

TABLE 8

Percentage of Royalty to our estimate of ex-works costs of different vehicles

Sl. No.	Vehicle	Percentage of Royalty to Total ex-works cost
1	2	3
I. Passenger Cars and Jeep:		
1	Ambassador	Nil.
2	Fiat	0.85
3	Herald	2.64
4	Jeep	2.66

1	2	3
II. Commercial Vehicles :		
1.	*Standard Motors*	
	(a) One-ton truck	2.05
2.	*Mahindra and Mahindra*	
	(a) FC 150 One-ton Truck	1.97
3.	*Premier Automobiles:*	
	(a) Dodge Kew Truck—P 6V Engine	1.72
	(b) Dodge Kew Truck—P 6/354 V Engine . .	1.61
	(c) Dodge Kew Truck—PA Engine	1.87
	(d) Dodge Kew Bus—P6V Engine	1.69
	(e) Dodge Kew Bus P6/354V Engine	1.58
	(f) Short Wheel Base	0.42
4.	*Telco:*	
	(a) TMB Truck (L 1210/42)	0.40
	(b) TMB Bus (L 1210/42)	0.40
	(c) TMB.Truck (L 312/42)	0.43
	(d) TMB Truck (LA 312/42)	0.38
5.	*Ashok Leyland:*	
	(a) ALCOP 3/1 210" W.B.	1.54
	(b) LACOP 3/2 176" W.B.	1.54
	(c) ALCOP 3/3 163" W.B.	1.55
	(d) ALCO 3/1 176" W.B.	1.55
	(e) ALCO 3/2 163" W.B.	1.55
	(f) ALCO 3/3 118" W.B. Tipper	1.53
	(g) ALCO 3/3 118" W.B. Tractor	1.54
	(h) Beaver Haulage ALB 1/1	0.56
	(i) Beaver Tipper ALB 1/3	0.57
	(j) Beaver Tractor ALB 1/4	0.56
	(k) Hippo Haulage ALH 1/1	0.51
	(l) Hippo Tipper ALH 1/3	0.52
	(m) Hippo Tractor ALH 1/4	0.53
	(n) Tiger ALPS 1/1	0.53

1	2	3
II. 6.	*Bajaj Tempo :*	
	(4 wheelers)	
	(a) Bare Chassis	1.84
	(b) Chasis with Cab	1.69
	(c) Pick-up Van	1.60
	(d) Delivery Van	1.50
	(e) Station Wagon	1.37
	(f) Mini Bus	1.35
	(g) Ambulance	1.27
7.	*Simpson's Engines*—P6/354 :	
	(a) Compressor—Dodge Bus	2.52
	(b) Comprssor Dodge Truck	2.52
	(c) Compressor and Alternator—Dodge Bus . . .	2.48
	(d) Compressor and alternator—Dodge Truck . .	2.48

5.12.2. As the amounts are paid according to the respective agreements with the collaborators, no adjustments are necessary. As regards Ambassador car, Hindustan Motors do not incur any expenditure on this item. However, it may be mentioned that the company has on its roll several highly paid foreign technicians and this expenditure in the conversion charges may be deemed to offset the economy in royalty.

5.13. **Warranty Claims.**—In evolving costs we have not considered the allowances for any replacement covered by guarantees. The estimates have already taken into account suitable margins for wastage/rejections etc., and the wage levels and other rates of expenditure ruling at present. No adjustment has been carried out for the effect of the devaluation of the pound sterling on those items which have been indigensouly procured in semi-finished or finished condition. Sufficient information is not available to enable us to work out the foreign exchange content of bought out items. Again, warranty claims are essentially spill over of the defects which remain undetected in the process of manufacture. We expect, that as a result of better quality control the incidence of such claims in future would be lower

and that this will easily be absorbed within the percentages of wastages that have already been allowed for the process of manufacture. There appears therefore to be no justification for any separate allowance to cover warranty claims.

5.14. **Impact of Sterling Devaluation.**—We had already, reached some estimates of cost after discussions with the various units in the industry prior to the devaluation of the Pound Sterling on 18th November 1967. Devaluation will naturally affect the prices of those components and raw materials which are obtained from U.K. In view of the shift of the source of the raw materials and components from one country to another depending upon licences granted for imports, and in the absence of adequate data sources were not separately recorded during our cost studies, outside collaborators' countries. It is thus not possible now to undertake any meticulous revision of the estimates. We have however, calculated in the case of all vehicles the possible reduction in the cost of materials on the basis of the price of components imported from U.K. on the assumption that the quantum and rates will not undergo further alteration in the future. As already stated, in the case of the devaluation of the rupee the cost of fixed assets was allowed by the income-tax authorities to be enhanced for outstanding foreign loans to the extent of the increased liability in terms of the rupee. If the loan was in sterling, the liability would no doubt decrease, but for such a recalculation one would have also to ascertain to what extent the loan has been repaid in the meantime and the balances on the date of the sterling devaluation. The quantity of the raw materials and the semi-finished components is likely to vary for the different vehicles and also the source from time to time and it is difficult to indicate exactly what will be the pattern of reduction on this account in future. Taking into account only the trend of purchases as adopted in our estimates with particular reference to the raw materials and imported components, ignoring such of those raw materials which are used by ancillary manufacturers the impact of which cannot easily be assessed, the effect of the reduction was calculated to be Rs. 150 for the Ambassador car and Rs. 297 for the Standard Herald, and suitable adjustments on this account have been made in respect of these vehicles. In the case of the Fiat since no imports are effected from the sterling area there was no case for any reduction.

6. Estimates of future costs for passenger cars

6.1. Taking into consideration all the issues discussed above and making suitable adjustments the total ex-factory costs of the three passenger cars have been worked out and are detailed below in Table 9.

TABLE 9

Break-up of estimate of costs for passenger cars

(In rupees)

Vehicles—Items	Ambassador				Fiat				Standard Herald			
	Finished components	Semi-finished components	Raw materials	Total	Finished components	Semi-finished components	Raw materials	Total	Finished components	Semi-finished components	Raw materials	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
A. *Materials*												
1. Engine	270	41	460	771	468	163	127	758	345	597	51	994
2. Clutch	91	..	21	112	81	..	4	85	54	..	..	54
3. Transmission (including gear box)	178	10	183	371	181	131	70	382	136	234	28	398
4. Radiator and cooling	26	..	155	181	228	12	6	246	167	23	4	194
5. Fuel Tank, Carburettor & Pump	140	..	48	188	171	..	5	176	145	..	10	155
6. Starter & dynamo	242	1	3	246	324	..	..	324	240	1	..	241
7. Horn & trafficator assembly	113	..	..	113	23	..	..	23	27	..	..	27
8. Distributor, wiring harness and light fuse box, cutout switch and voltage regulator	369	..	2	371	324	..	..	324	258	2	..	260

9. Battery	144	..	..	144	125	..	..	125	127	..	..	127
10. Other electrical parts	119	..	..	119	35	5	..	40	147	..	..	147
11. Exhaust	40	..	..	40	65	..	..	65	40	..	..	40
12. Propeller shaft	132	..	..	132	19	3	31	53	137	..	..	137
13. Front suspension	183	14	173	370	256	23	149	428	315	71	..	386
14. Rear axle (including suspension)	290	139	127	556	127	50	83	260	131	161	18	310
15. Steering	123	..	66	189	341	..	..	341	53	..	..	53
16. Brakes with brakes drums	283	..	42	325	289	1	31	321	313	39	..	352
17. Wheels	152	..	..	152	187	..	..	187	190	..	..	190
18. Tyres & tubes	636	..	..	636	541	..	..	541	526	..	..	526
19. Frame, chassis, body (including upholstery & plate)	1197	..	2347	3344	1731	..	1023	2774	3158	..	1100	4258
20. Instrumentations	160	..	..	160	190	..	..	190	108	..	..	108
21. Paints	..	..	285	285	..	..	379	379	..	..	225	225
22. Tools	38	..	2	40	51	..	..	51	72	..	..	72
TOTAL	4926	205	3914	9045	5757	388	1908	8053	6690	1128	1436	9254
Line loss	..	..	..	42	..	..	..	24	..	..	..	..
TOTAL	4926	205	3914	9087	5757	388	1908	8077	6690	1128	1436	9254

TABLE 9—*Contd.*

1	2	3	4	5	6	7	8	9	10	11	12	13
B. *Conversion charges*												
(a) Manufacturing, labour & overheads				1764				2631				1105
(b) Depreciation (including dies)				1216				1153				398
(c) Assembly charges (excluding depreciation)				598				974				696
(d) Administration				224				668				97
(e) Selling expenses				78				192				16
(f) Royalty				..				117				308
TOTAL COST (A+B)				12967				13812				11874
Credit for devaluation				—150				..				—297
Net cost				12817				13812				11577
Present price				13857				12679				12598
Loss/Profit				1040				—1133				1021
Cost differential as related to Ambassador				100%				107.8%				90.3%

6.2. In Table 7 we have already given the figures of the successive increases in the prices of the three motor cars manufactured in the country. It was frequently represented by the Automobile Industry that owing to the price freeze and niggardly increases allowed from time to time against compelling escalation in cost the industry had lagged behind the rest of the manufacturing activity in the country in so far as the coverage of cost and profitability is concerned. Since we have conducted cost analysis for a specified period only, it is possible to judge and reach conclusions on the costs so determined in relation to the market conditions obtaining in the same period only. We have nevertheless made an analysis of the balance sheets of the different passenger car producing units.

6·3. In the year 1966 India produced only 0.14 percent of the total number of passenger cars produced in the world. Since such a sophisticated and highly complex means of transport was invented in the West and is produced in bulk in Europe and the U.S.A. it would be desirable to ascertain the extent to which the prices of indigenous passenger cars compare with similar vehicles produced abroad. We tried to collect data with regard to the ex-factory cost of vehicles of the same capacity and horse power abroad, but our efforts in this regard did not meet with much success. We were, however, able to obtain through our Trade Mission in the U.K. particulars of ex-factory prices, without purchase tax, of a number of vehicles of comparable horse power, size and capacity. Adopting seven factors for each of these vehicles as the bases for comparison we tried to analyse which of the vehicles produced abroad are comparable to those produced indigenously. The bases for comparison were brake horse power, kerb weight, engine capacity (incubic centimetres), length, width, wheel base and rear track. We adopted vehicles with a margin of plus or minus 10 per cent of the specifications given for these values for vehicles of indigenous manufacture and found that the position was as shown in Table 10.

TABLE 10

Particulars of comparable passenger cars produced in other countries

Sl. No.	Car	B.H.P.	Kerb weight in lbs.	Engine capacity	Engine Length	Width	Wheel base	Track-Rear	Ex-factory price converted in Rs.
1	2	3	4	5	6	7	8	9	10
	Indigenous Passanger Cars								
1	Ambassador . . .	50	2563	1489	14′ 3″	5′ 5″	8′ 1″	N.A.	
2	Fiat	44	1940	1089	12′ 11″	4′ 9½″	7′ 8″	3′ 11¼″	
3	Standard . . .	33	1680	948	12′ 9″	5′ 0″	7′ 7½″	4′ 0″	
	Comparable cars manufactured abroad								
1	Austin A 60 . . .	61	2470	1622	14′ 6½″	5′ 3″	8′ 4½″	4′ 3½″	11232
2	Morris Oxford . .	61	2483	1622	14′ 6½″	5′ 3½″	8′ 4½″	4′ 3½″	11376
3	Hillman Minx . . .	60	2053	1496	14′ 0″	5′ 3½″	8′ 2½″	4′ 4″	10980
4	Singer Gazella . .	60	2047	1496	14′ 0″	5′ 3½″	8′ 2½″	4′ 4″	11754
5	Fiat 124	60	1893	1197	13′ 2½″	5′ 0″	7′ 11½″	4′ 3½″	11322
6	Ford GB Cortino 1300 2 door de-luxe.	58	1890	1297	14′ 0″	5′ 5″	8′ 2″	4′ 3″	10602
7	Wolseley 1100 . . .	55	1830	1098	12′ 2½″	5′ 0½″	7′ 9½″	4′ 3″	11700
	Moskvich 408 de-luxe/ Estate	55	2185	1360	13′ 5″	5′ 1″	7′ 10½″	4′ 0½″	9450

9	Opel Kadett Notchback 2 door.	54	1653	1078	13′	8½″	5′	2″	7′	11½″	4′	2½″	10350
10	Simca 1100 LS 2 door .	53	1918	1118	12′	11½″	5′	2½″	8′	3½″	4′	3½″	11106
11	Simca 1000 LS . .	50	1568	944	12′	5½″	4′	10½″	7′	3½″	4′	0½″	8630
12	Skoda 1000 M.B. Standard	50	1775	988	13′	8″	5′	4″	7′	10½″	4′	1½″	8550
13	Triumph Herald 1200 .	48	1848	1147	12′	9″	5′	0″	7′	7½″	4′	0″	9162
14	N. S. U. 1000c . .	48	1411	996	12′	5″	4′	10½″	7′	4½″	4′	0½″	10224
15	Morris 1100 2 door de-luxe	48	1834	1098	12′	2½″	5′	0½″	7′	9½″	4′	3″	9450
16	Fiat 1100 R. . . .	48	1881	1089	13′	0″	4′	11½″	7′	9½″	3′	11½″	9972
17	Vauxhall Viya . .	47	1690	1159	13′	5″	5′	3″	7′	11½″	4′	3″	8856
18	Skoda Octavia Comb .	47	2127	1221	13′	4″	5′	3″	7′	10½″	4′	1″	9198
19	Renault—8 . . .	46	1687	1108	13′	1″	4′	10½″	7′	5½″	4′	0″	9918
20	Renault 1100 . . .	46	1709	1108	13′	9½″	4′	10½″	7′	5½″	4′	0″	10512
21	Wartburg Knight . .	45	1976	991	13′	11″	4′	4½″	8′	0½″	4′	3½″	9342
22	Wolkswagen 1500 de-luxe .	44	1808	1493	13′	4½″	5′	1″	7′	10½″	4′	5″	11070
23	Saab 96	42	1800	841	13′	8″	5′	2″	8′	2″	4′	0″	11322
24	Volkswagen 1300 de-luxe .	40	1808	1285	13′	4½″	5′	1″	7′	10½″	4′	5″	10494
25	Ford (G.B.) Anglia . .	39	1679	997	12′	9½″	4′	9½″	7′	6½″	3′	9½″	8154

TABLE 10—*Contd.*

1	2	3	4	5	6	7	8	9	10
26	Hillman Imp. II de-luxe .	39	1523	875	11′ 7″	5′ 0½″	6′ 8″	4′ 0½″	8280
27	Singer Chamois Mk. II. .	39	1593	875	11′ 7″	5′ 0½″	6′ 10″	4′ 0″	9036
28	Riley Elf Mk. III . .	38	1456	998	10′ 10½″	4′ 7½″	6′ 8½″	3′ 10″	9450
29	Renault Gordini Dauphine	36	1433	845	12′ 11″	5′ 0″	7′ 5½″	4′ 0″	8312
30	Bedford Beagle Estate .	35	1680	1159	12′ 6½″	4′ 11½″	7′ 7½″	4′ 0½″	9504
31	D.A.F. 44 . . .	34	1595	844	12′ 6″	5′ 0″	7′ 3½′	4′ 0½″	11160
32	Fiat 850 S . . .	34	1477	843	11′ 8½″	4′ 8″	6′ 7½″	3′ 11½″	8172
33	Austin Mini . . .	34	1398	848	10′ 0½″	4′ 7½″	6′ 8″	3′ 9½″	7434
34	Morris Mini . . .	34	1398	848	10′ 0½″	4′ 7½″	6′ 8″	3′ 9½″	7434
35	D.A.F. 33 . . .	32	1454	746	11′ 10½″	4′ 9″	6′ 8″	3′ 10½″	9864
36	Reliant Rebel 700 . .	31	1211	700	11′ 6″	4′ 10″	7′ 5″	3′ 10½″	8316
37	N.S.U. Prinz 4 . .	30	1232	598	11′ 6″	4′ 10″	6′ 8½″	3′ 11½″	8460
38	Renault 4 . . .	28	1323	845	12′ 0″	4′ 10½″	8′ 0½″	3′ 11½″	8154

6.4. In the case of Ambassador the present successor of which in England is the current model of Morris Oxford, the brake horse power is 50 as against 61 for Morris Oxford. The kerb weight of Morris Oxford is about 80 lbs. lower than that of Ambassador owing to a growing preference in the West for lighter but more powerful and commodious vehicles. In all other particulars there is a very close resemblance between this car and the Indian Ambassador. The sale price is likely to contain the element of profit and dealers' commission also and if bare costs are to be abstracted a further reduction of about 20 percent in the ex-factory price would be justifiable. These prices are those which obtain for internal sale and it cannot be said that these are affected by subsidies or cuts with a view to promote exports. The retail price for Morris Oxford is Rs. 11376 in terms of Indian currency but it is definitely a better and more powerful car than the Ambassador. The price range for other vehicles comparable to the Ambassador is between Rs. 9000 and Rs. 11,400. For the sake of broad comparison a middle price of about Rs. 10,200 may be adopted and making a deduction of 20 per cent from this notional price the net ex-factory cost is likely to be of the order of about Rs. 8,160. As against this, the ex-factory cost of the Ambassador as worked out by us comes to Rs. 12,817 which is Rs. 4,657 or 57 per cent higher than the likely ex-factory cost of a similar vehicle manufactured abroad. If we adopt the assumed ex-factory cost of the Morris Oxford the Ambassador cost is 41 per cent higher.

6.5 In the case of the Fiat its comparable new model is Fiat 11,00R, which has a higher h.p., the same engine capacity, lower kerb weight, slightly longer length and width and wheel base but the same rear track. It is priced at Rs. 9,972 ex-factory without purchase tax and after the deduction of 20 per cent from his price the ex-factory cost comes to Rs. 7,978 as against the Indian factory cost of Rs. 13,812/- for Fiat 1100D.

6.6. In the case of other vehicles also having a near equivalent horse power the price range is from about Rs. 8,000 to about Rs. 10,000 which gives the mean figure of about Rs. 9,000. Adopting the approximate ex-factory cost at Rs. 7,200 the indigenous Fiat is 92 per cent higher. On the other hand, if we adopt Fiat 1100R for comparison as against the price of about Rs. 7,978 for this vehicle which obviously includes the freight charges from Italy to U.K., also the present ex-factory price of the indigenous vehicle is 73 per cent higher.

6.7. Coming to the Standard Herald we find that no comparable vehdicle is roduced abroad though in so far as length, width,

wheel base and rear track are concerned, Triumph Herald has the same specifications. In the case of the Triumph, however, the B. H. P. is about 45 per cent higher, the kerb weight is much higher and the engine capacity is also very much higher. This car cannot therefore be compared to Standard. The other car with somewhat higher engine capacity but nearer the Standard in other ways is the Ford Anglia which car again is more powerful than the Standard Herald. In the case of the Ford Anglia the ex-factory price is Rs. 8,154 and on the same basis of calculation its ex-factory cost should be about Rs. 6,523. The cost of the indigenous Standard Herald is Rs. 11,577 or 77 percent higher. On the other hand, if we compare the high powered Triumph the price of Standard works out to about 58 per cent higher. The range of increase above the costs in U. K. for successor models of the Indian cars as well as for the average cost of similar vehicles is as follows:

	For successor models	For cost of comparable size
	(As percentages)	
1	2	3
Ambassador	41	57
Fiat	73	92 (present ex-factory price)
Standard Herald	58	77

6.8. The analysis of the cost that we have made as well as the comparison made above shows that the cost of manufacture of indigeouns cars is decidedly very high. We wish to compare the cost of manufacture of the components with their price in the c. k. d. pack, but owing to lack of data regarding the latter it was not possible to do so.

6.9. The high cost of production of automobiles in India is attributed mainly to two factors, namely, (i) low volume of production and (ii) high cost of imported raw material. As regards volume, we have already discussed the matter in chapter II of our Report on the protection of automobiles. We find nevertheless that certain cars such as are given in Table 11 are manufactured in comparatively low volumes but have competitive prices in the European market.

TABLE 11

Low volume production of passenger cars in other countries

Make	country	Production				BHP	Length	Width	Wheel Base	Sale price in U.K.*
		1963	1964	1965	1966					
1	2	3	4	5	6	7	8	9	10	11
Volvo										
(i) 1800 S	Sweden					103	14′5½″	5′7″	8′0½″	£ 1,500
(ii) 131						75	14′7½″	5′3½″	8′6½″	£ 885
(iii) 144 S		1,46,572	1,61,957	18,17,755	1,73,499	100	15′3″	5′8″	8′6½″	£ 1150
Saab										
(i) Model 96	Sweden					42	13′8″	5′2″	8′2″	£ 629
(ii) Model V4 de-luxe						65	13′8″	5′2″	8′2″	£ 730
DAF										
(i) Model 33		N.A.	29,748	29,875	32,748	32	11′10½″	4′9″	6′8″	£ 548
(ii) Model 44						34	12′6″	5′0″	7′3½″	£ 620

*Excluding purchase tax.

6.10. In Sweden five models share the production of about 1,75,000 and the average comes to about 32748 per vehicle. In the case of DAF the average is about 16,000 annually. It may be argued that countries like Sweden and Netherlands have a highly developed technological base and the existence of a most advanced engineering industry is a great help towards maintenance of low costs. But these countries too and particularly Netherlands have to rely upon imports for the supply of their raw materials. The industrial base available in India today cannot be considered to be inadequate for the support of a low volume automobile industry if there is adequate co-ordination and planning. The figures for the value of finished components purchased locally and the incidence of their price on the total vehicle as well as other relevant data are analysed as follows in table 12.

TABLE 12

Analysis of the estimate of costs of passenger cars

	Ambassador	Fiat	Herald
1	2	3	4
	Rs.	Rs.	Rs.
(A) MATERIALS:			
1. Imported Finished Components .	295	224	1,858
2. Imported Semi-Finished . . .	54	..	138
3. Imported Raw Materials . . .	2,509	1,414	1,044
4. Total Imported Materials . . .	2,858	1,638	3,040
5. Indigenous Finished Components .	4,631	5,533	4,832
6. Indigenous Semi-Finished Components	151	388	990
7. Indigenous Raw Materials . .	1,405	494	392
8. Total Indigenous Materials . .	6,187	6,415	6,214
9. Finished Components (1 +5) . .	4,926	5,757	6,690

1	2	3	4
	Rs.	Rs.	Rs.
10. Semi-finished Components (2+6) .	205	388	1,128
11. Raw Materials (3+7) . . .	3,914	1,908	1,436
12. Total Semi-finished and Raw Materials (10+11)	4,119	2,296	2,564
13. Total Finished Components (9) .	4,926	5,757	6,690
14. *Add* Line Loss	42	24	..
15. Total Materials (12 to 14) . .	9,087	8,077	9,254
(B) CONVERSION COSTS :			
16. Labour and Factory Overheads .	1,764	2,631	1,105
17. Depreciation	1,216	1,153	398
18. Royalty	..	117	308
19. Total Conversion Costs (16 to 18) .	2,980	3,901	1,811
	(72% on 12)	(170% on 12)	(71% on 12)
20. Total Factory Costs of Self-manufactured items (12+19). . . .	7,099	6,197	4,375
21. Total Cost of Components (15 + 19)	12,067	11,978	11,065
22. Assembly Costs	598	974	696
23. Administration Charges . . .	224	668	97
24. Selling Expenses	78	192	16
25. Total (21 to 24)	12,967	13,812	11,874
26. *Less* Impact of Sterling devaluation .	150	—	297
27. Net Ex-factory Cost	12,817	13,812	11,577

1	2	3	4
(a) Imported RM & SFD (2 & 3) as related to self-mfd. items (20) .	36%	23%	27%
(b) Indigenous RM & SFD (6 & 7) as related to self-mfd. item (20) .	22%	14%	32%
(c) Imported finished components (1) as related to total cost of components (21)	2%	2%	17%
(d) Indigenous finished components (5) as related to total cost of components (21)	38%	46%	44%
(e) Self-manufactured items (20) as related to total cost of components (21)	59%	52%	40%
(f) Imported materials (4) as related to total cost of components (21) .	24%	14%	27%
(g) Imported materials excluding finished components (4—1) as related to total cost of components (21) .	21%	12%	11%
(h) *Total materials as related to ex-factory Cost* (27)			
(i) Imported materials (4) . .	22%	12%	26%
(ii) Imported materials (excluding finished (4—1) . . .	20%	10%	10%
(iii) Indigenous materials (8) . .	48%	46%	54%
(iv) Indigenous materials (excluding finished (8—5) . . .	32%	6%	12%

RM=Raw materials.

SFD=Semi finished.

6.11 The incidence of the value of imported material is about 22 per cent, 14 per cent and 32 per cent of the total ex-factory cost of the respective vehicles. The price of the raw materials is likely to be the same for the internal market too if not higher. The disadvantage to the indigenous manufacturers is that of incidentals in the form of freight, insurance handling charges and duty, the incidence of which is from 100 to 110 per cent of the cost of the raw material. The total disadvantage to the Indian car manufacturer is therefore of the order of from 12·5 to 13 per cent as against 30 to 77 per cent on the cost. For the residual disparity we have to seek reasons elsewhere than in respect to import expenses and duty. These are in all probability the same as apply to other industries in India and are not occasioned by the obligation to import raw materials or from lack of volume in production. Systematic efforts should be made by the producers to introduce the necessary economies in production with a view to reducing the remaining disparity and reaching parity with foreign manufacturers.

7. Fiat Car—ex-works cost and selling price

7.1 We are faced with certain difficulties when we come to the determination of the fair selling price of the Fiat car and as a matter of fact for all the automobile products of Premier Automobiles since there are very significant disparities in the proportions of the elements of costs of this unit when compared to those of other units. In the case of Fiat car it was discovered that the actual cost of production in the year 1965-66 was 116.5 per cent of the net dealer prices. Similar percentages for the Ambassador were 98 per cent and 96 per cent for Standard Herald when the cost of production during the costed period is related to the price during the same period. There is no indication that in this year prices had suddenly come down or that the cost of production had gone up. This was a period before devaluation of the rupee and no significant variations in the costs are likely to have taken place. There was also no substantial fall in the price of Fiat in that year. On the other hand an increase of Rs. 1,329 was allowed in the net dealer price over the previous year. It is therefore most likely that the disparity between the cost of production and the net dealer price fixed by Government was even greater in the previous years, and that it has continued in the subsequent years also. The cost of production of the vehicle being far in excess of the selling price is therefore not an isolated or unique incident but a feature which appears to have existed for a long time before 1965-66 and it is likely to have continued since then.

7.2 The cost of the three passenger cars during the actual period, the average ex-factory price during the same period, the

estimated future prices according to the estimates framed by our Cost Accounts Officers and the difference between the actual and the future prices and the ex-factory prices as on the 1st of January 1968 are as follows:

(In Rupees)

	Ambassador	Fiat	Standard Herald
1. Period adopted . . .	1966-67 (April to March)	1965-66	1965
2. Cost during the actual period .	13,569	12,687	10,671
3. Average ex-factory price during the cost period . . .	13,857	10,887	10,191
4. Difference between 3 and 2 .	(+)288	(—)1,800	(—)480
5. Future estimated cost . .	12,817	13,812	11,577
6. Escalation over the actual costs	(—)752	(+)1,125	(+)906
7. Price as on 1-1-68 . . .	13,857	12,679	12,598
8. Increase in ex-factory price (7—3)	Nil	(+)1,792	(+)2,407
9. Margin as between estimated cost and price in 7 . . .	(+)1,040	(—)1,133	(+)1,021
10. Increases allowed in 1965, 1966 and 1967.	2,678	2,884	1,708

In the case of the Ambassador the period of costing is 1966-67 which is post-devaluation while in the case of the other two vehicles it was pre-devaluation. The average ex-factory price of the Ambassador car during the period of cost was about Rs. 300 higher than the cost of production. There has been very little increase between the ex-factory price during the period of costing and now. On the other hand in the case of both Fiat and Standard increases to the extent of Rs. 1,792 and Rs. 2,407 respectively have been allowed. If we were to adopt the same period for Ambassador also as for Fiat and Standard the amount of increase in the case of the former would be much greater than shown above.

7.3 While in the case of Ambassador the price fixed by Government under informal price control was about Rs. 300 higher than the cost of production, in the case of Standard it was about Rs. 500 lower than the cost of production. The disparity in case of the Fiat car is enormous and showed that the price was Rs. 1,800 less than the cost of production.

7.4 Comparing the future estimated cost with the price as on the 1st of January 1968 the Ambassador had a plus margin of Rs. 1,040, the Standard Herald of Rs. 1,021 and the Fiat showed the minus figure of Rs. 1,133. During the period 1965 to 1967 increases of Rs. 2,678, Rs. 2,884 and Rs. 1,708 respectively for the three cars were allowed. Even then the Fiat continued to remain in the red and as against the difference of Rs. 1,800 as between the selling price fixed by Government and the actual cost of production it came down to Rs. 1,133. An addition of more than Rs. 2,200 would be needed to place this vehicle on a footing equivalent to that of Ambassador and Standard Herald.

7.5 It is necessary therefore to ascertain the reason for this very significant disparity. This can be either due to (i) unfair fixation of the net dealer prices or (ii) high cost of production. Since it is not possible to arrive at any conclusions on this issue in isolation, this has to be viewed from two points of view namely, the price of Fiat in relation to the prices of other passenger cars sold in the country and the price of this car as compared to the price of similar cars manufactured abroad.

7.6 The differentials as between Ambassador and Fiat from the year 1956 to 1968 were as follows:

Year	Ambassador		Fiat	
January				
1957	9,090	100	8,868	96
1958	10,146	100	8,868	87
1959	10,146	100	8,868	87
1960	10,506	100	8,896	85
1961	10,506	100	8,937	85
1962	10,619	100	8,815	83
1963	11,083	100	8,880	80
1964	11,147	100	9,502	85
1965	11,507	100	9,558	83
1966	12,422	100	10,887	88
1967	13,857	100	12,664	91
1968	13,857	100	12,679	91

In comparison to the Ambassador, Fiat's price differential was the lowest in 1963, but picked up later and in 1967 and 1968, the differentials were the most favourable of any year.

Proportionately greater price increases were given to Fiat in 1966, 1967 and 1968 than to the Ambassador car as the differentials show. On the other hand the differentials as between the Standard car and the Fiat during the same period were as follows:

Year	Fiat	Standard	
		Rs.	
January			
1957	100	8,043	91
1958	100	8,591	97
1959	100	8,591	97
1960	100	8,621	97
1961	100	9,129	102
1962	100	9,381	106
1963	100	9,444	106
1964	100	10,182	107
1965	100	10,191	107
1966	100	11,102	102
1967	100	12,154	96
1968	100	12,598	99

The Standard car was nine points lower than Fiat in 1957 but started going up in price until 1965. There was a fall and near parity in 1966 and a lower price in 1967 and 1968. The Standard was given more liberal increases than the other two cars. Over most of the years the Fiat car was the lowest priced car though it is more powerful and more commodious than the Standard. From 1961 to 1966 the Standard had a higher price ranging from 2 to 7 per cent. Were the comparison to be made with Standard alone, one could almost immediately reach the conclusion that the Fiat car was unfairly priced. As there is one more car in the field and it is bigger and more powerful than either of the two, other factors also have to be taken into consideration.

7.7 Over the course of years the price increases allowed in the case of the three passenger cars were of the following order as may be seen in table 13 on page 60. Analysed in terms of annual accumulated increases the figures are as follows:

	Ambassador	Fiat	Standard Herald
1957 to 1960	1,416	106	1,286
1961	1,529	106	1,366
1962	1,546	186	1,401
1963	2,089	651	1,939
1964	2,089	912	2,882
1965	3,420	2,615	2,882
1966	4,767	3,796	4,146
1967	4,767	3,811	4,590

These figures show that while Ambassador was allowed an escalation of 52 per cent over its price over the course of years and Herald of 57 per cent, Fiat was allowed only 43 per cent. The significant increase allowed to Ambassador which was not matched by that allowed to Fiat was that of Rs. 1,386 in 1960 on account of indigenisation. In the course of years Fiat has achieved a deletion percentage of 93.2 and Ambassador that of 98.4 but the increases allowed are Rs. 1 458 to Ambassador as against Rs. 412 to Fiat. On the other hand Standard was allowed Rs. 1,410 toward increase in price of imported components while only Rs. 243 was allowed to Fiat. The result is that both Ambassador and Standard secured escalation in prices to the extent of Rs. 956 and Rs. 779 respectively or in terms of percentages over their base of 9 and 14 more than Fiat. This has accentuated the disparity between the cost of production as estimated by our Cost Accounts Officer and the net dealer price of Fiat. Had the dispensation of escalations to Fiat been equivalent to that of Ambassador, Fiat prices would have been about eight to nine hundred rupees more than they are, and this amount should have placed it on the same footing as the other cars. But the situation has been complicated by the fact that in addition to not receiving similar deal in price rises it has not only not been able to remove or reduce the disadvantage by effecting economies, it has built up a cost structure much more expensive than that of other units. The disparity has therefore become very

TABLE 13

Increases effected in Car Prices since 1957

(In Rupees)

Year	Customs & Excise Duties			Increase in cost of CKD pack			State Taxes			Increase as a result of devaluation of Rupee		
	A	F	H	A	F	H	A	F	H	A	F	H
Price in 1957 .	..	..	..	..	..	..	..	..	..	..	..	..
1957 to 1960 .	..	31	8	..	34	1278	..	..	..	..	..	..
1961 .	113	..	52	..	..	28	..	..	..	..	..	..
1962 . .	..	80	35	17	..	..	..	..	..	..	..	..
1963 . .	495	436	527	..	17	..	..	..	..	..	..	..
1964 . .	..	44	792	..	192	104	..	..	..	..	..	..
1965 . .	1146	1203	..	96	..	..	..	..	..	..	..	..
1966 . .	17	16	..	163	..	..	..	72	..	1121	1093	1277
1967 . .	..	..	..	..	..	..	..	..	..	..	15	235
Total . .	1771	1810	1414	276	243	1410	..	72	..	1121	1108	1462
Price in 1968 .	..	..	..	..	..	..	..	..	..	..	..	..

TABLE 13—*Contd.*

Increases effected in Car Prices since 1957

(In Rupees)

Years	Increase in price of Tyres & Tubes			Increase owing to indigenisation			Others			Total			Remarks
	A	F	H	A	F	H	A	F	H	A	F	H	
Price in 1957 .	..	..	..	..	..	..	..	..	..	9090	8863	8043	A=Ambassador F=Fiat H=Standard Herald
1957 to 1960 .	..	41	..	1386	..	..	30	..	..	1416	106	1286	
1961 . .	..	..	..	..	..	..	..	..	..	113	..	80	
1962 . .	..	..	..	..	..	..	..	..	..	17	80	35	
1963 . .	48	12	11	..	..	..	..	..	..	543	465	538	Standard Herald from 1-6-61.
1964 . .	..	25	47	..	..	..	..	..	..	..	261	943	
1965 . .	54	88	..	72	412	..	(—)37	..	..	1331	1703	..	
1966 . .	46	..	87	..	..	..	..	..	..	1347	1181	1264	
1967 . .	..	..	..	..	..	209	..	..	..	..	15	444	
Total . .	148	166	95	1458	412	209	(—)7	..	..	4767	3811	4590	
Price in 1968 .	..	..	..	..	..	..	..	..	..	13857	12679	12598*	

*There is a difference of Rs. 35/- between the total increases allowed and the price as on 1-1-68 which could not be accounted for.

pronounced. Thus significant difference has existed all the way from 1960 when Ambassador's escalation was Rs. 1,310 more and Standard's Rs. 1,180 more than that of Fiat. It has lessened as compared to Ambassador but increased in comparison to Standard Herald over the course of eight years. But this accounts for only about a half of the disparity between the prices today and what would make the manufacture and sale of the Fiat car remunerative.

7.8 The disparities in the increases have however, now become a historical feature in the development of the car industry and no retrospective modification is now possible. Even if it is assumed for a moment that Premier Automobiles was not given a fair deal in so far as Fiat car is concerned it is not possible to compensate it both for the lower escalation allowed in the previous years as well as for its high cost by allowing an inordinately high escalation at this stage which may throw up its price and render it out of all proportion to those of the other two passenger cars. It would not be fair to the consumer or even to the manufacturers of the other two vehicles to do so and not even to this high cost unit since any incentive to effect economies would be lost. The price structure has to conform to the differentials, if any, as between the two other passenger cars and also to consumer expectation in relation to the historical growth of the prices. Any increase or decrease in the price of a particular vehicle has therefore to correspond with similar increase or decrease in the case of other vehicles. A price structure which does not take into consideration the relative proportions of increase in the case of other vehicles in the market would be unrealistic and also not fair.

7.9 Having come to the conclusion that the cost of the Fiat car in relation to the cost of other vehicles is high also owing to the built in high factors of cost it would be desirable to ascertain the areas where such high costs exist and also reasons for the same. These are discussed below:

(i) For the future period as estimated by the Cost Accounts Officer, the price of starter motors, dynamo and exhaust bought by this unit was Rs. 193, Rs. 132 and Rs. 65 respectively, while the same items were purchased by Hindustan Motors for the Ambassador Car at Rs. 127, Rs. 114 and Rs. 40 respectively.

(ii) In the case of certain items it was discovered that Premier Automobiles is manufacturing at a cost much higher

than at which an item is either available from an ancillary manufacturer or manufactured by another unit as may be seen from the following :

Component/assembly	Cost to unit	Lowest price at which available	
	Rs.	Rs.	
Propeller shaft	203	122	(Ambassador)
Crank shaft	139	199	(,,)
Shock absorber	152	76	(,,)

(iii) The conversion costs of Premier Automobiles was the highest as may be seen from the comparative data given below :

Items	Ambassador	Fiat	Standard Herald
	Rs.	Rs.	Rs.
(a) Semi-finished components . .	205	388	1,128
(b) Raw materials	3,956	1,932	1,436
(c) Total	4,161	2,320	2,564
(d) Conversion costs (excluding depreciation of semi-finished and of raw materials)	1,764	2,631	1,105
(e) Rate of conversion cost to materials	42%	113%	43%

Classified by the different departments this works out as follows:

Department	Ambassador		Fiat		Standard Herald	
	Amt.	%age	Amt.	%age	Amt.	%age
1	2	3	4	5	6	7
	Rs.		Rs.		Rs.	
(a) Machine Shop .	1,401	59	701	26	806	73
(b) Press Shop .	370	21	771	30	299	27
(c) Forge Shop .	141	8	929	35	..	..
(d) Foundry .	141	8	Included in above	..	..	..
(e) Other departments	71	4	230	9	..	..
TOTAL . .	1,764	100	2,631	100	1,105	100

There are fewer operations of components purchased for Standard Herald and therefore the conversion charges are lower in this unit compared to those of the Ambassador. Most of the work is done in the machine shop which forms about 73 per cent and the balance 27 per cent is in the press shop. The charges for Fiat as compared to those of the Ambassador show a higher cost of Rs. 867 per vehicle or about 49·1 per cent higher despite lesser number of components processed for Fiat. The conversion charges are again split up below by main sub-assemblies so as to judge cost variation between the various vehicles:

(in Rupees)

Item	Ambassador	Fiat	Standard Herald
(a) Engine	666	677	322
(b) Rear axle	161	322	134
(c) Front Suspension	149	318	..
(d) Gear box transmission . . .	277	381	256
(e) Press shop items	353	649	247
(f) Other components	158	284	145
TOTAL .	1,764	2,631	1.104

(iv) Even on the administrative overheads, those incurred by Premier Automobiles are the highest—it is Rs. 668 for Fiat while for Ambassador and Standard Herald the figures are Rs. 224 and Rs. 97 respectively.

(v) The element of depreciation in the case of Premier for Fiat car is very high compared to the volume of work undertaken. Depreciation is particularly high in the press shop recently set up in Kalyan. The element of depreciation in the press shop is about Rs. 729 as against Rs. 176 in the case of Ambassador. In view of the fact that the nature of the work is almost indentical the depreciation element of Premier in this respect appears to be very high. For instance Kalyan shop has conversion charges of Rs. 37.5 lakhs besides a depreciation of Rs. 71.8 lakhs.

(vi) The Assembly cost of Ambassador is Rs. 598, for the Herald it is Rs. 696 and for Fiat it is Rs. 974.

(vii) So also the selling expenses of Fiat car at 1.4 per cent of the factory cost are excessive in comparision to other vehicles, which stand at 0.6 per cent and 0.1 per cent of the total cost respectively for Ambassador and Standard Herald.

(viii) The Ambassador has a deletion of 98.4 per cent and the Fiat is stated to have achieved 93.2 percent. The deleted components are partly bought out items and partly self-manufactured. When a large proportion of items is bought out the manufacturing activity of the unit will be correspondingly less. Conversely, where the bought out items are fewer the manufacturing activity would be greater. This would be reflected in the conversion costs. Bought out items for the Ambassador are proportionately less than for the Fiat car. Since manufactured items are comparable it stands to reason that the conversion charges for components for Ambassador, manufactured in the unit itself should be greater than those for the Fiat car. But an analysis by sub-assemblies together with the estimated future cost of raw materials shows a different picture as given below :

	Ambas-sador	Fiat	Standard Herald
1	2	3	4
	Rs.	Rs.	Rs.
(A) *Engine:*			
Semi-finished	41	163	623
Raw materials	460	127	65
(a) Total	501	290	688
(b) Conversion charges . . .	666	677	322
(c) Rate of conversion (b/a%) . .	133%	233%	47%
(B) *Rear axle, front suspension, Gear Box/Transmission and other components:*			
Semi-finished	164	225	505
Raw materials	865	642	112
(a) Total	1,029	867	617
(b) Conversion charges . . .	745	1,305	535
(c) Rate of conversion (b/a%) . .	72%	151%	87%

7.10 Now it needs to be ascertained whether (a)the Fiat is an intrinsically high cost vehicle in relation to its size and power and the company had embarked upon its manufacture notwithstanding that this venture was likely to prove unremunerative or (b) the cost of production of this car is unreasonably high. As to the first hypothesis, there is almost a ready answer. The Fiat is a popular car and is in the low-price range in all its sizes all over the world. The Indian Fiat today is a replica of the Fiat 1100 model 1100D-103H of Italy, and it cannot be supposed to be a high cost car for any specialised purpose. Indeed the price of this car is quite competitive with other similar cars as the particulars in Table 10 would show.

7.11 Going further afield and comparing the prices of the passenger cars with their counterparts or similar vehicles abroad we arrive at the following figures:

Indian car with estimated ex-works cost for future	Comparable foreign car	Price	Deducting 20% retail price	Cost of Indian vehicle as % of foreign cars related to col. 4.
1	2	3	4	5
		Rs.	Rs.	
Ambassador . .	Morris Oxford .	11,376	9,100	141
12817 . . .	Average of other cars.	10,200	8,160	157
Fiat . . .	Fiat 1100 R . .	9,972	7,980	173
13812 . . .	Average of other .	9,000	7,200	192
Standard Herald .	Herald Triumph .	9,162	7,330	158
11577 . . .	Ford Anglia . .	8,154	6,523	177

We have already discussed in paragraphs 6.4 to 6.8 the points of difference between the indigenous cars and their counterparts abroad. Invariably in each case the foreign car though a successor of its Indian counterpart is more powerful with many improved features and cannot be adopted for comparison. The Indian vehicles stand better comparison with others with whose features, dimensions and power they are nearer and the above figures

show the wide variation in the case of Fiat, which again leads to the conclusion that the cost claimed by this unit is excessive. If we were to adopt 40 to 50 per cent as the range of escalation to which indigenous cars are entitled over the figures in col. 4 above the cost of the three indigenous cars would fall within the following range

(In Rupees)

	Counterpart vehicle	Other comparable vehicles
1	2	3
Ambassador	12,740—13,650	11,480—12,300
Fiat	11,200—12,000	10,080—10,800
Standard Herald . . .	10,220—10,950	9,100— 9,750

The only car which is within these ranges is the Ambassador; the rest are wide off the mark. Price control has existed for more than ten years and the prices have gradually gone up in the case of each one of the passenger cars as also for other vehicles. In the absence of any evidence to prove that the high cost in the case of the Fiat car was a unique situation which developed in the year 1965-66 the base year adopted for costing, the conclusion would be that the high cost has been a feature of this unit for a number of years and that this unit had over these years reconciled itself to the situation that it was selling the passenger car at a price substantially lower than its cost of production. The balance sheet analysis for the Premier Automobiles for the year 1965-66, shows that losses and profits were as follows:

	Cost of sales	Recoveries	Gain	Loss
1	2	3	4	5
Fiat	699.31	600.00	..	99.31
Commercial vehicles. . .	1,698.71	1,723.52	24.81	..
Sale of spare parts . . .	221.23	321.57	100.34	..
Other actuals	118.87	205.87	87.0(	..
TOTAL . . .	2,738.12	2,850.96	212.15 +112.84	99.31

This situation cannot be remedied by raising the price to the level of the cost of production and allowing an additional amount of return. If that were to be done even for the actual period of costing, the price which would be remunerative to the unit would have to be 31 per cent higher than the price at which it was selling its car. This cannot for obvious reasons be done.

7.12 We have refrained from mentioning specifically the items under which cost reduction are possible since these are matters on which no outside guidance can specifically or categorically be given. The broadlines of our investigation have been indicated in paragraph 4 above and it is now for the unit to reduce its costs in such a way that these conform to the existing norms of the industry and come into line with those of other manufacturers.

7.13 For the future cost the unit had claimed at the time of cost examination by our Cost Accounts Officer an escalation of Rs. 1,125 over and above the cost as judged for the year 1965-66. If this amount is added to the cost as calculated by our Cost Accounts Officer the total ex-factory future cost would be 9 per cent higher than the net dealer price of 1967 owing to the increased allowance in that year. If in addition to this a return on capital employed at a reasonable rate is given the difference in the present price of this car and the price so arrived at would be of the order of 22 per cent. Such a cost analysis would be patently theoretical and cannot serve the purpose of the fixation of fair prices.

7.14 It is now unmistakably established that this car has been manufactured at a high intrinsic cost over a large number of years and the remedy lies not so much in increasing the price as in reducing the cost. The consumer cannot be burdened by high cost because of the inability of the unit to conform to certain norms or standards and to exercise the necessary degree of caution in keeping its cost within reasonable limits. The fair prices of the car cannot therefore be related to the cost structure. An alternative has therefore to be found for the fixation of the price of this car by the adoption of some other principles.

Fair ex-works prices of passenger cars

8. We have already discussed the differentials as based on the functional properties of the three vehicles and the Fiat car comes between the Ambassador and Standard Herald. It would, therefore, be desirable to fix the price of this car at a figure mid-way between the price suggested for the Ambassador and the Standard cars. The conclusions which we have reached are that large scale economies need to be made

in the cost of production of the Fiat car and that in case of the other car too economies are possible in order to bring down the cost of production and the consequent selling price. Increase in the volume of production would doubtless be conducive to reduction in cost. After this has been tried for a few years, a thorough cost examination may be undertaken in order to discover areas where further economies can be effected. Adding the amount of return to works cost, the net dealer prices of each of these vehicles work out as follows:

	Rs.	Index
Ambassador	14,120	100.0
Fiat	13,300	94.2
Standard Herald (Two Door model) . . .	12,485	88.4

9. Fair ex-works price of Jeeps

9.1 Our Cost Accounts Officer has examined the costs of vehicles produced by Mahindra & Mahindra Ltd., namely, Universal Jeep CJ-3B and Truck Type FC 150 for the half year ended 30th April, 1966. As regards the truck, this has been classified under commercial vehicles and discussed along with other commercial vehicles produced by the different automobile units in the country. The Universl Jeep is a general purpose vehicle and does not fall under the category of passenger cars. Therefore, this is being dealt with separately in this paragraph.

9.2 On the basis of the actual costs, we have projected the estimates for the future on a production level of 8,000 Jeeps a year. The relevant data on actual costs are given in table 14.

TABLE-14

Actual Costs of Jeeps

Details	Cost	Composition
	Rs.	(as percentage)
I. *Materials :*		
(i) Finished components	7,060	52.7
(ii) Semi-finished components	1,251	9.3
(iii) Raw Materials	938	7.0
TOTAL	9,249	69.0

Details	Cost Rs.	Composition (as percentage
I. *Manufacturing Costs :*		
(a) Labour	199	1.5
(b) Expenses & Overheads	1,676	12.5
(c) Depreciation	346	2.6
(d) Assembly	850	6.3
III. *Total (I plus II)*	12,320	91.9
IV. *Other Items*		
(a) Administration	591	4.4
(b) Selling	136	1.0
(c) Royalty	357	2.7
Ex-works Cost	13,404	100.00

The figures reveal that out of the total ex-works cost of Rs. 13,404, materials constitute about 69 per cent of which 52·7 per cent relates to finished components going into the assembly. The work, therefore, is mainly in respect of the semi-finished components and raw materials on which major processing is done in the several shops of the company, besides assembly.

9.3 Labour and manufacturing overheads form about 14 per cent and depreciation 2.6 per cent of the total cost. If the raw materials and semi-finished components are taken into account, the conversion charges thereon (excluding depreciation) would work out to 86 per cent compared to 42 per cent in the case of Ambassador and Standard Herald. Jeep CJ-3B has a 4-wheel drive and has several components in addition to those on other cars. The object of comparing the conversion charges with the cost of semi-finished components and raw materials is on account of the generally accepted fact that in the automobile idustry, the components which go into a car are more or less similar in nature and the manufacturing operations are broadly identical. The conversion charges, therefore, are also expected to present a uniform pattern except of course for certain small variations to cover changes in the manufacturing operations where more sophisticated or automatic machines might be extensively used. By and large, in view of the special feature of the jeep which has a 4-wheel drive and which requires additional operations involving larger volume of work, it is not comparable with other cars but the conversion costs appear to be high.

Depreciation.—This forms only 2.6 per cent of the total cost and appears to be the lowest as compared to passenger cars.

Assembly.—This works out to about 6.3 per cent of the total cost.

Administration.—The administration charges are about 4.4 per cent as compared to Ambassador which is about 1.7 per cent. In the case of Hindustan Motors the total volume of production of vehicles is about 3.5 times compared to Mahindra & Mahindra's but the incidence of cost is about 2.6 times compared to Ambassador. It would thus show that administration charges are high in the case of Mahindra & Mahindra. The total factory costs are almost comparable between Ambassador and Jeep and the factory conversion charges (labour, overheads, depreciation and assembly) are about 28 per cent for Ambassador and 23 per cent for Jeep.

Royalty.—This is an amount payable under the collaboration agreement and has been allowed in the costs.

9.4 Taking into accont the several factors discussed above, a reasonable ex-works price of Jeep including Return may be determined as under:

	Rs./each
(i) Cost as estimated	13,404
(ii) *Add* Return at 12 per cent	843
Ex-works Price	14,247

10. Simpsons Vehicular engines

10.1 Till the end of May 1966, Simpson & Co. was producing P6 (V) Engine with 83B. H. P. at 2400 R. P. M. as practically the only type of vehicular diesel engine. During year ended May 1967, though the bulk of the production was still represented by the same type of engine, 1230 engines of a different model namely, P6/354(V) of 120 B.H.P. at 2,800 R. P. M. were also produced. The representatives of Simpson & Co. envisage that its future production would mainly consist of P6/354 Engines and that P6/V engines would be discontinued later. Accordingly, we have estimated the costs of P6/354 engine only for future fitments in the majority of Premier Automobiles' commercial vehicles.

10.2 This engine is fitted with suitable adaptations for being used on different vehicles. The following table 15 shows the estimated costs, royalty and return at 12 per cent on capital employed for the four modifications of P6/354 engine to be produced in future. (The details of cost are given in the Commission's estimate sent as confidential enclosure to this Report).

TABLE—15

Estimated costs of four modifications of P6/354 engines

Type	P6/354 Engine			
List No.	1055	1068	1078	1077
1	2	3	4	5
	Rs.	Rs.	Rs.	Rs.
(A) MATERIALS:				
(i) *Imported* :				
Finished	3,691	3,691	3,691	3,691
Semi-finished	384	384	384	384
Raw materials	71	71	71	71
	4,146	4,146	4,146	4,146
(ii) *Indigenous:*				
Finished	2,853	2,855	2,860	2,862
Semi-finished	631	631	627	627
Raw materials	44	40	45	41
	3,528	3,526	3,532	3,530
Testing oil & Misc.	61	61	61	61
Total Materials (A)	7,735	7,733	7,739	7,737
(B) Conversion Charges (excluding Depreciation)	1,270	1,262	1,272	1,266
(C) Depreciation	165	165	165	165
(D) TOTAL (excluding Royalty)	9,170	9,160	9,176	9,168
(E) Royalty	242	242	238	237
(F) Total Factory cost	9,412	9,402	9,414	9,405

1	2	3	4	5
(G) Selling expenses . .	71	71	71	71
(H) Packing Charges . .	104	104	104	104
(I) Total Cost . . .	9,587	9,577	9,589	9,580
(J) *Less* Sterling Devaluation	584	584	584	584
(K) Net Cost (H-I) . .	9,003	8,993	9,005	8,996
(L) Return @ 12% . .	525	524	525	524
Ex-works' Price . .	9,528	9,518	9,530	9,520

10.3 To judge whether the estimated cost of production is reasonable or not, we had to fall back upon the estimated costs diesel engines of comparable horsepower of the main automobile manufacturers. We appreciate that engines are essentially quality products and the specifications of the various components are not identical but as in the case of passenger cars, we consider that the BHP should be a reliable basis for comparison. Simpson's Engine is of 120 HP at 2800 RPM. Both TELCO and Ashok Leyland manufacture their own engines—the BHP of the former is 110 at 3,000 R.P.M. and that of the latter 110 at 2,400 R.P.M. The follwoing table exhibits a comparative statment of the estimated costs for the three types of engines :—

TABLE—16

Comparative estimated costs of Simpson's, TELCO's and Askok Leyland's engines

(In Rs.)

Details	120 HP at 2800 RPM Simpson's List No. 1055	110 HP at 3000 RPM TELCO	110 HP at 2400 RPM Ashok Leyland
1	2	3	4
(A) Materials :			
(i) *Imported :*			
Finished	3,691	803	2,222
Semi-finished	384	127	27
Raw materials	71	651	102
	4,146	1,581	2,351

1	2	3	4
(ii) *Indigenous :*			
Finished	2,853	2,503	3,804
Semi-finished	631	120	2,066
Raw Materials	44	213	65
	3,528	2,836	5,935
Miscellaneous	61	..	..
TOTAL MATERIALS (A) . . .	7,735	4,417	8,286
(B) Conversion charges excluding Depreciation.	1,270	2,509	1,403
(C) Depreciation	165	602	330
TOTAL FACTORY COST (EXCLUDING ROYALTY)	9,170	7,528	10,009

The comparison has been made up to cost of production excluding Royalty, as the other charges such as selling expenses, Royalty, etc. cannot be separately determined for the engines of the other two units.

10.4 TELCO casts its own cylinder blocks and other items forges and machines its own crank-shaft, whereas the other units purchase these items either indigenously or from abroad. Further, as already mentioned in paragraph 10.3 perhaps these engines are essentially dissimilar. For example, both Ashok Leyland and Simpson & Co. are importing crank-shaft as a finished component, but the landed cost for Simpson & Co. is only Rs. 978 as against Ashok Leyland's Rs. 1,476. The cost of production of crankshaft by TELCO is Rs. 505. Again, such important ancillaries of the engine as Starter Motor, Dynamo, Compressor, Fuel Injection pump etc. which are purchased from the same suppliers, are invariably much more costly for Ashok Leyland than those purchased by Simpson & Co. The cost of the Fuel Injection Pump and Dynamo as purchased by Ashok Leyland is even higher than that of those purchased by TELCO. Taking into account the extra costs of purchased components of Ashok Leyland and also the fact that this unit is much more advanced than Simpson & Co. (which is importing even the fully machined cylinder block) in its deletions, the conversion charges of this unit do not appear to be unreasonable. TELCO's conversion charges are considerably higher than Ashok Leyland's but besides being even further advanced in its deletions than Ashok Leyland's the conversion charges include those incurred in casting and forging shops which are absent in the case of the latter.

10.5 We have got the F.O.B. prices of the built up engines of Simpson & Co.'s P6/354(V) diesel engine and that of Bedford Diesel Engine 330 cu. in capacity. The rating given for the latter by Hindustan is 107 BHP at 2800 R.P.M. The cost of this engine includes that of the clutch system. Adjusting the costs of the clutch, it is estimated that the landed cost including customs duty of Bedford Engine without clutch would be about Rs. 10,662. Similarly, it has been estimated that the landed cost including duty of a built-up P6/354(V) engine would be about Rs. 10,867. The cost plus return at 12 per cent on capital employed estimated for the P6/354(V) engines under progressive manufacture by Simpson & Co. shows some savings on these figures. We are, therefore, inclined to recommend that, subject to the condition stated in paragraph 10.6, the following prices may be considered as fair for Simpson & Co.'s P6/354(V) engines for future subject to adjustments for devaluation of sterling in November, 1967.

	Rs.
List No. 1055	10,112
List No 1068	10,102
List No. 1078	10,114
List No. 1077	10,104

10.6 It will be seen from the break-up shown in para 10.2 that there is a large element representing imported components from U.K. The estimated reduction due to the recent devaluation of sterling in November 1967, in this item would be about Rs. 584. If the reduction is taken into account, the prices would be as under :—

	Rs.
P6/354(V)—List No. 1055	9,528
List No. 1068	9,518
List No. 1078	9,530
List No. 1077	9,520

10.7 We consider that the prices for these Engines should not be under control as the Vehicles in which they are used are not under price control.

11.1 Commercial vehicles produced in this country can be broadly classified into four categories as under :

(i) Light vehicles upto 3 tonnes;

(ii) Medium vehicles between 3 and 5 tonnes;

(iii) Medium heavy vehicles from 5 to 9 tonnes; and,

(iv) Heavy duty vehicles over 9 tonnes.

11. Fair ex-works prices for commercial vehicles

Almost all the vehicle manufacturers produce a large range of vehicles with different wheel bases bus incorporating other common features such as common engine, transmission and chassis structure. The variations are therefore only marginal as between vehicles with different wheel bases by incorporating essentially the same engine, gear box and track. In the light class there are a total of 20 vehicles; in the medium class 12, medium heavy class 16, heavy over 9 tonnes 7, making a total of 55 items for which cost analysis has been undertaken. On a closer scrutiny however, it would be found that the position is as follows :

Light vehicles.—There are basically five types—two produced by Bajaj-Tempo and one each by Mahindra & Mahindra, Standard Motors and Premier Automobiles.

Medium vehicles.—Premier Automobiles has broadly speaking three models, and Hindustan Motors also has three.

Medium Heavy class.—There are essentially only four models; two being manufactured by Hindustan Motors one of which is common to medium vehicle and one each by TELCO and Ashok-Leyland.

Heavy Vehicles.—In the heavy class there is only one with variations.

This classification of the total number of vehicles is based primarily on the engine, and transmission used.

11.2 Our Cost Accounts Officers have however compiled the cost of production of 55 vehicles covering the total range of vehicles proposed to be produced in the country during the next three years. The detailed reports of costs prepared by our Cost Accounts Officers on actuals as well as Commission's estimates for the next three years for the individual producers are being sent separately as confidential enclosures to this Report.

11.3 The following tables (Nos. 17,18,19 and 20) give particulars in respect of each of the vehicles as follows :—

Table 17.—This table gives particulars of the manufacturer, vehicle type, gross vehicular weight, track, wheel base, weight of chassis, fuel used, brake horse power and revolutions per minute, engine capacity, source of manufacture of engine and purpose of the vehicle.

Table 18.—This table gives particulars of self manufactured items comprising material and conversion costs (excluding Assembly, charges and selling expenses) for different vehicles.

Table 19.—This table gives particulars of total material cost including conversion cost together with assembly charges, administration charges for assembly only and selling expenses and total ex-factory cost of vehicles.

Table 20.—This table gives particulars of the total ex-factory cost of the vehicle, percentage of conversion cost to total material cost, the percentage of finished imported components to total material cost, percentage of assembly charges to the total cost of the vehicle, percentage of administration charges to the total cost of vehicle and percentage of the selling expenses to the total cost of vehicle.

TABLE 17

General particulas of commercial vehicles

Sl. No.	Manufacturer	Vehicle Type	G.V.W.	Track Rear	Wheel Base	Weight of Chassis only	Fuel	B.H.P. / R.P.M.		Engine capacity	Engine locally made or local purchase or imported with particulars	Purpose of vehicle
1	2	3	4	5	6	7	8	9		10	11	12
			Tonnes	Inches	Inches	Tonnes		RPH	RPM	C.C.		
(A) *Light Vehicles upto 3 Tonnes :*												
1	Mahindra & Mahindra	FC. 150 (4 wheel drive)	2·27	57	81	0·75	Petrol	72	4000		Jeep Hurricane 4 cyl. 'F' head	Truck
2	Standard Motors Private Ltd.	Standard-20	2·52	54	89	1·00	Do.	68	4200		Own	Do.
3	Premier Automobiles Ltd.	D-300	3·96	64·9	133	1·66	Do.	110	3600		,,	Do.
4	Bajaj-Tempo Ltd.	Viking-4 Wheeler	..	55	95	..	Do.	30	4500	..	,,	Bare Chassis
5	Ditto.	Do.	..	55	95	..	Do.	30	4500	..	,,	Chassis with cab
6	Ditto.	Viking 4-Wheeler	..	55	95	..	Do.	30	4500	..	,,	Pick up Van
7	Ditto.	Do.	..	55	95	..	Do.	30	4500	..	,,	Delivery Van
8	Ditto.	Do.	..	55	95	..	Do.	30	4500	..	,,	Station Wagon
9	Ditto.	Do.	..	55	95	..	Do.	30	4500	..	,,	Mini Bus
10	Ditto.	Do.	..	55	95	..	Do.	30	4500	..	,,	Ambulance
11	Ditto.	Hanseat 3 Wheeler	..	54	113	..	Do.	15	1500	..	,,	Pick up Van

12	Bajaj-Tempo Ltd.	Hanseat 3 wheeler	..	54	113	..	Do.	15	1500	..	Own	Delivery Van
13	Ditto.	Do.	..	54	113	..	Do.	15	1500	..	,,	Auto Rickshaw.
14	Ditto.	Do.	..	54	113	..	Do.	15	1500	..	,,	Refuse Truck
15	Ditto.	Do.	..	54	113	..	Do.	15	1500	..	,,	Oil/Water Tanker
16	Ditto.	Do.	..	54	113	..	Do.	15	1500	..	,,	Night Soil Truck
17	Ditto.	Do.	..	54	113	..	Do.	15	1500	..	,,	Station Wagon
18	Ditto.	Do.	..	54	113	..	Do.	15	1500	..	,,	Ambulance
19	Ditto.	Do.	..	54	113	..	Do.	15	1500	..	,,	Bare Chassis
20	Ditto.	Do.	..	54	113	..	Do.	15	1500	..	,,	Chassis with cab.
(B) *Medium Vehicle—3 to 5 Tonnes :*												
1	Premier Automobiles Ltd.	109 PA 6	8·85	67·5	165	2·62	Petrol	110	3600	250·6	Own	Truck
2	Ditto.	89 T	8·85	67·5	206	3·26	Diesel	120	2800	354·0	P.6-354-Perkins Simpsons, Madras.	Bus
3	Ditto.	89 T 6	8·85	67·5	190	3·06	Do.	88	2400	288·6	P6V-Perkins-Simpsons, Madras.	Bus
4	Ditto.	109 T	8·85	67·5	165	3·09	Do.	120	2800	354	P.6/354-Perkins-Simpsons, Madras.	Trucks
5	Ditto.	99 T	8·85	67·5	165	3·12	Do.	120	2800	354	Do.	Do.
6	Ditto.	109 P. 6	8·85	67·5	165	2·92	Do.	83	2400	288·6	P.6-V-Perkins-Simpsons, Madras.	Do.
7	Hindustan Motors Ltd.	Bedford J.4 Model	8·85	..	216	..	Diesel	..	..	..	Bedford Engine—Imported	Bus
8	Ditto.	Do.	8·85	77·2	120	2·45	Do.	83	2400	288·6	P.6V-Perkins-Simpsons, Madras.	Truck

1	2	3	4	5	6	7	8	9		10	11	12
9	Hidustan Motors Ltd.	Bedford J.4 Model	8·85	67·2	167	2·61	Diesel	83	2400	..	P.6V-Perkins-Simpsons, Madras.	Truck
10	Ditto.	Do.	8·85	67·2	179	2·65	Do.	83	2400	..	Do.	Do.
11	Ditto.	Do.	8·85	77·2	120	2·42	Petrol	125	4000	..	Bedford Engine—Imported.	Do.
12	Ditto.	Do.	8·85	67·1	167	2·57	Do.	133	3400	..	Bedford Engine—Imported.	Do.
(C) *Medium Heavy—5 to 9 Tonnes :*												
1	TELCO . . .	LA/312/42 (4 Wheel Drive)	8·62	67	165	3·39	Diesel	110	3000	..	Own	Truck
2	Ditto.	L/312/42	8·62	67	165	2·95	Do.	110	3000	..	„	Do.
3	Ditto.	LP/1210/52	10·00	69	205	3·00	Do.	110	3000	..	„	Bus
4	Ditto.	L/1210/42	10·00	69	166	2·99	Do.	110	3000	..	„	Truck
5	Hindustan Motors Ltd.	Bedford J.6 Model	11·00	..	120	..	Do.	..	..	..	Bedford Engine—Imported.	Do.
6	Ditto.	Do.	11·00	67·2	167	2·98	Do.	107	2800	..	Do.	Do.
7	Ditto.	Do.	11·00	67·2	179	3·00	Do.	107	2800	..	Do.	Do.
8	Ditto.	Do.	11·00	..	120	..	Petrol	..	..	..	Do.	Do.
9	Ditto.	Do.	11·00	67·2	167	2·96	Do.	133	3400	..	Do.	Do.
10	Ashok Leyland Ltd. .	ALCOP 3/1	10·78	68	210	3·56	Diesel	110	2400	..	Own	Bus
11	Ditto.	ALCOP 3/2	10·78	68	176	3·52	Do.	110	2400	..	Do.	Do.
12	Ditto.	ALCOP 3/3	10·78	68	168	3·39	Do.	110	2400	..	Do.	Do.
13	Ditto.	ALCOP 3/1	12·19	68	176	3·75	Do.	110	2400		Do.	Goods

14	Ashok Leyland Ltd.	ALCO 3/2	12·19	68	163	3·68	Diesel	110	2400	..	Own	Goods
15	Ditto.	ALCO 3/3	12·19	68	118	3·50	Do.	110	2400	..	,,	Tipper
16	Ditto.	ALCO 3/4	12·19	68	118	3·50	Do.	110	2400	..	,,	Tractor
(D) *Heavy—Over 9 Tonnes t*												
1	Ashok Leyland Ltd.	ALB 1/1	16·26	71	189	4·98	Diesel	185	2000	..	Imported—Leyland U.K.	Goods
2	Ditto.	ALB 1/3	16·26	71	132	4·81	Do.	185	2000	..	Do	Tipper
3	Ditto.	ALB 1/4	16·26	71	132	4·81	Do.	185	2000	..	Do.	Tractor
4	Ditto.	HIPPO ALH 1/1	25·40	71	204	7·19	Do.	185	2000	..	Do.	Goods.
5	Ditto.	Hippo ALH 1/3	25·40	71	150	7·02	Do.	185	2000	..	Do.	Tipper
6	Ditto.	Hippo ALH 1/4	25·40	71	160	7·02	Do.	185	2000	..	Do.	Tractor
7	Ditto.	TIGER ALPS 1/1	..	..	228	..	Do.	..	..	..	Do.	Bus

TABLE—18

Analysis of costs of own manufactured items from semi-finished items and materials for commercial vehicles

Sl. No.	Manufacturer	MATERIALS					
		IMPORTED			INDIGENOUS		
		Finished	Semi-Finished	Raw materials	Finished	Semi-finished	Raw materials
1	2	3	4	5	6	7	8
(A)	*Light Vehicles—Upto* 3 *Tonnes*						
1	Mahindra & Mahindra	3432	464	792	6655	842	195
2	Standard Motors	3294	254	1001	5273	1329	85
3	Premier Automobiles	8238	..	1066	3953	734	356
	Bajaj-Tempo- 3 *Wheelers:*						
4	Bare Chassis	854	148	509	3116	676	123
5	Chassis with Cab	854	148	622	3416	676	164
6	Auto Rickshaw	854	148	761	3622	676	225
7	Pick-up Van	854	148	836	3472	676	274
8	Refuse Truck	854	148	944	3447	676	262
9	Night Soil Truck	854	148	974	3447	676	251
10	Oil/Water Tanker	854	148	974	3386	676	251
11	Delivery Van	854	148	1112	3617	676	208
12	Ambulance	854	148	1076	3750	676	244
13	Station Wagon	854	148	1079	3838	676	242
	Bajaj-Tempo-4 Wheelers :						
14	Bare Chassis	4892	95	724	3846	1220	66
15	Chassis with Cab	5012	95	988	4349	1232	87
16	Pick-up Van	5015	95	1332	4448	1232	198
17	Delivery Van	5274	95	1220	4824	1248	132
18	Station Wagon	5274	95	1233	5884	1248	132
19	Mini-Bus	5274	95	1233	6024	1248	132
20	Ambulance	5274	95	1236	6951	1248	132

(NOTE.—In the case of Bajaj-Tempo, assembly charges are included in the conversion costs, as this cannot be separated.)

(Rs. Per Vehicle)

Line Loss	Finished Materials (3+6)	Semi-finished and Raw Materials (4,5,7, 8, 9)	Conversion Charges—Manufacturing (excluding Assembly & Selling)						Total Cost of Self Manufactured items (11+16)
			Labour & Overheads	Depreciation and percentage on total factory cost Cols. 11 of table 19		Royalty	Administration	Total Conversion charge (12 to 15)	
9	10	11	12	13	13A	14	15	16	17
					%				
170	10987	2463	2252	539	3.1	347	521	3659	1622
..	8567	2669	882	287	2.1	279	45	1493	4162
39	12191	2195	4251	913	4.2	92	869	6125	8320
97	9970	1553	958	130	1.9	..	90	1178	2731
105	4270	1715	1079	146	2.0	..	102	1327	3042
117	4476	1925	1329	181	2.2	..	127	1637	3562
123	4326	2057	1249	169	2.1	..	119	1537	3594
130	4301	2160	1383	188	2.3	..	132	1703	3863
131	4301	2180	1383	188	2.3	..	132	1703	3883
131	4240	2180	1384	188	2.3	..	132	1704	3884
135	4471	2279	1390	189	2.2	..	133	1712	3991
135	4604	2279	1535	209	2.4	..	147	1891	4170
135	4692	2280	1536	209	2.3	..	147	1892	4172
145	8738	2250	1191	626	4.7	245	107	2169	4419
167	9361	2564	1317	693	4.8	245	118	2373	4937
187	9463	3044	1496	796	5.2	245	136	2673	5717
180	10098	2875	1811	977	6.0	245	167	3200	6075
184	11158	2892	2077	1127	6.8	245	192	3641	6533
184	11298	2892	2154	1172	6.5	245	200	3771	6663
187	12225	2898	2329	1267	6.5	245	216	4057	6955

(NOTE.—In the case of Bajaj-Tempo, assembly charges are included in the conversion costs, as this cannot be separated.)

TABLE 18—*contd.*

1	2	3	4	5	6	7	8
(B) *Medium—3 to 5 Tonnes :*							
1	Premier Automobile . . .	2645	..	2119	9978	1174	733
2	Ditto.	1119	..	2537	19340	1089	538
3	Ditto.	1103	..	2252	17831	1063	594
4	Ditto.	1071	..	2074	19501	1086	618
5	Ditto.	1083	..	2011	19310	1079	615
6	Ditto.	1047	..	2008	18116	1065	630
7	Hindustan Motor. . . .	18295	1010	1086	9674	151	607
8	Ditto.	10382	1818	1974	10702	126	630
9	Ditto.	10382	1818	2077	10720	126	630
10	Ditto.	10495	1818	2026	10736	134	630
11	Ditto.	11342	1818	1931	7173	126	630
12	Ditto.	11342	1818	2036	7192	126	630
(C) *Medium Heavy—5 to 9 Tonnes :*							
1	TELCO	12025	1427	4546	9804	714	1513
2	Ditto.	3738	1693	4304	9532	897	1456
3	Ditto.	3496	3036	4743	10674	901	1211
4	Ditto.	3648	2885	4476	10411	855	1405
5	Hindustan Motor. . . .	10463	2026	1975	12079	126	630
6	Ditto.	10463	2026	2078	12097	126	630
7	Ditto.	10576	2026	2026	12115	135	630
8	Ditto.	11423	2026	1930	8511	126	630
9	Ditto.	11423	2026	2036	8529	126	630
10	Ashok Leyland . . .	4390	3104	681	17020	6008	1298
11	Ditto.	4389	2852	679	16871	6001	1293
12	Ditto.	4389	2815	676	16859	5989	1307
13	Ditto.	4389	2852	709	17282	5975	1282
14	Ditto.	4389	2815	706	1727	5975	1283
15	Ditto.	4387	2948	747	16793	5926	1155
16	Ditto.	4389	2938	770	17284	5933	1195
(D) *Heavy—Over 9 Tonnes :*							
1	Ashok Leyland . . .	58461	929	694	13976	644	631
2	Ditto.	56933	929	672	14029	644	628
3	Ditto.	56933	929	679	13580	647	628
4	Ditto.	86195	929	732	18524	710	632
5	Ditto.	84158	929	718	18543	710	632
6	Ditto.	84158	929	723	18884	710	636
7	Ditto.	60908	929	707	12899	642	632

9	10	11	12	13	13(a)	14	15	16	17
90	12623	4116	4345	1357	5.5	465	854	7021	11137
64	20459	4028	4100	792	2.3	505	792	6120	10148
62	18934	3971	3764	699	2.3	505	732	5700	9671
83	20572	3861	3348	1179	3.7	509	700	5736	9597
63	20393	3768	3931	690	2.2	505	761	5887	9655
82	19163	3785	3029	1140	3.9	509	644	5322	9107
33	27969	2887	467	463	1.4	..	61	991	3878
33	21084	4581	1111	812	2.9	..	113	2036	6617
33	21102	4684	1116	813	2.8	..	113	2042	6726
33	21231	4641	1097	807	2.8	..	112	2016	6657
33	18515	4538	1061	813	3.2	..	106	1980	6518
33	18534	4643	1067	813	3.1	..	106	1986	6629
..	21829	8200	7031	2208	5.4	161	740	10140	18340
..	13270	8350	6660	2114	6.6	136	810	9720	18070
..	14170	9891	6612	1965	5.8	137	828	9542	19433
..	14059	9621	6321	1874	5.6	132	754	9081	18702
33	22542	4790	1106	813	2.7	..	113	2032	6822
33	22560	4893	1113	813	2.7	..	113	2039	6932
33	22690	4850	1094	807	2.7	..	112	2013	6863
33	19934	4745	1058	813	3.0	..	106	1977	6722
33	19952	4851	1063	813	3.0	..	106	1982	6833
687	21410	11778	3915	1046	2.6	614	393	5968	17746
676	21260	11501	3891	1040	2.6	609	390	5930	17431
675	21248	11462	3879	1037	2.6	609	389	5914	17376
680	21671	11498	3894	1041	2.6	617	391	5943	17441
679	21660	11458	3891	1040	2.6	616	390	5937	17395
673	21180	11449	3833	1024	2.6	602	384	5843	17292
680	21673	11516	3908	1046	2.6	615	392	5961	17477
214	72437	3112	2086	401	0.5	452	281	3120	6232
214	70962	3087	2057	406	0.5	451	179	3093	6180
208	70513	3091	2095	417	0.5	444	183	3139	6230
278	104719	3281	2294	423	0.4	586	197	3500	6781
278	102701	3267	2294	423	0.4	584	197	3498	6765
283	103042	3281	2328	431	0.4	592	200	3551	6832
198	73807	3098	2042	389	0.5	433	176	3040	6138

TABLE 19

Break-up of factory cost of commercial vehicles

(Rs./Per Vehicle)

Sl. No.	Manufacturer	Description			Material costs (Col. 10 & 17 of Table 18)	Assembly charges (incl. Depreciation)	Administration Assembly	Selling Expenses (7 to 9)	Total Expenses	Total Factory cost of Vehicle (6 to 10)
		Type	Wheel base	Fuel						
1	2	3	4	5	6	7	8	9	10	11
			Inches							
A. *Light Vehicles—upto 3 Tonnes*										
1	Mahindra & Mahindra .	FC 150 (4 wheel drive)	—	Petrol	16,209	1,021	191	168	1,380	17,589
2	Standard Motors . .	Standard 20	89	,,	12,729	759	35	87	881	13,610
3	Premier Automobiles .	D-300	133	,,	20,511	655	106	307	1,068	21,579
	Bajaj Tempo—3 Wheelers :									
4	Bare Chassis . . .	Hanseat 3 Wheeler.	2870 mm.	,,	6,701	Separate figures Not Available.		82	82	6,783
5	Chassis with Cab . .	,,	,,	,,	7,312	(These expenses are merged in Manufacturing charges in Table 18).		82	82	7,394

6	Auto Rickshaw . .	,,	,,	,,	8,038	,,	,,	82	82	8,120
7	Pick-up Van . . .	,,	,,	,,	7,920	,,	,,	82	82	8,002
8	Refuse Truck . . .	,,	,,	,,	8,164	,,	,,	82	82	8,246
9	Night Soil Truck . .	,,	,,	,,	8,184	,,	,,	82	82	8,266
10	Oil/Water Tanker . .	,,	,,	,,	8,124	,,	,,	82	82	8,206
11	Delivery Van . . .	,,	,,	,,	8,462	,,	,,	82	82	8,544
12	Ambulance . . .	,,	,,	,,	8,774	,,	,,	82	82	8,856
13	Station Wagon . .	,,	,,	,,	8,864	,,	,,	82	82	8,946
	Bajaj-Tempo—4 Wheelers :									
14	Bare Chassis . . .	Viking 4 Wheeler.	2400 m.m.	,,	13,157	,,	,,	182	182	13,339
15	Chassis with Cab . .	,,	,,	,,	14,298	,,	,,	182	182	14,480
16	Pick-up Van . . .	,,	,,	,,	15,180	,,	,,	182	182	15,362
17	Delivery Van . . .	,,	,,	,,	16,173	,,	,,	182	182	16,355
18	Station Wagon . .	,,	,,	,,	17,691	,,	,,	182	182	17,873
19	Mini-Bus . . .	,,	,,	,,	17,961	,,	,,	182	182	18,143
20	Ambulance . . .	,,	,,	,,	19,180	,,	,,	182	182	19,362
B.	*Medium—3 to 5 Tonnes*									
1	Premier Automobiles .	109 PA6	165	,,	23,760	607	98	383	1,088	24,848
2	Premier Automobiles .	89 T	206	Diesel	30,607	736	121	513	1,370	31,977

1	2	3	4	5	6	7	8	9	10	11
3	Premier Automobiles .	89 P.6	190	Diesel	28,605	713	117	478	1,308	29,913
4	Premier Automobiles .	109 T	165	,,	30,169	770	126	513	1,409	31,578
5	Premier Automobiles .	99 T	165	,,	30,048	736	121	507	1,364	31,412
6	Premier Automobiles .	109 P.6	165	,,	28,270	747	123	463	1,333	29,603
7	Hindustan Motors . .	Bedford J. 4	216	Diesel	31,847	532	52	189	773	32,620
8	Hindustan Motors . .	,,	120	,,	27,701	532	52	162	746	28,447
9	Hindustan Motors . .	,,	167	,,	27,888	532	52	163	747	28,575
10	Hindustan Motors . .	,,	179	,,	27,888	532	52	163	747	28,635
11	Hindustan Motors . .	,,	120	Petrol	25,033	532	52	147	731	25,764
12	Hindustan Motors . .	,,	167	,,	25,163	532	52	147	731	25,894
C. *Medium Heavy—5 to 9 Tonnes*										
1	TELCO . . .	L/312/42 (4 wheel drive).	165	Diesel	40,169	352	36	359	747	40,916
2	TELCO . . .	L/312/42	165	,,	31,340	159	23	281	463	31,803
3	TELCO . . .	LP/1210/52	205	,,	33,603	182	24	301	507	34,110
4	TELCO . . .	LP/1210/42	166	,,	32,761	160	22	293	475	33,236
5	Hindustan Motors . .	Bedford J. 6	120	,,	29,364	532	52	172	756	30,120
9	Hindustan Motors . .	,,	167	,,	29,492	532	52	173	757	30,249

TABLE—20

Break-up of various elements expressed as percentages on factory cost of commercial vehicles

Sl. No.	Manufacturer	Description			Total Exfactory cost (Col. 11 of Table 19)	% of cost of conversion to total material cost Col. 16/Table 18 / Col. 11/Table 18	% of cost of finished imported to total material cost (i.e. Mfg. cost of components Col. 3/18 / Col. 6/19	% of assembly charges to total cost of vehicle Col. 7/19 / Col. 11/19	% of Administration charges to total cost of vehicle Col. 8/19 / Col. 11/19	% of selling expenses to total cost of vehicle Col. 9/19 / Col. 11/19
		Type	Wheel	Fuel						
1	2	3	4	5	6	7	8	9	10	11
					Rs.	%	%	%	%	%
	A. LIGHT VEHICLES —UPTO 3 TONNES									
1	Mahindra & Mahindra	F.C. 150 (4 Wheel Drive)		Petrol	17,589	148.6	21.2	5.8	1.1	1.0
2	Standard Motors .	Standard	89	,,	13,610	55.9	25.9	5.6	0.3	0.6
3	Premier Automobiles .	D-300	133	,,	21,579	279.0	40.2	3.0	0.5	1.4
	Bajaj-Tempo Ltd.									
4	Bare Chassis .	Hanseat 3 Wheelers	2870 m.m.	,,	6,783	75.9	12.7	..	..	1.2

7	Hindustan Motors	. .	,,	179	,,	29,553	532	52	173	757	30,310
8	Hindustan Motors	. .	,,	120	Petrol	26,656	532	52	155	739	27,395
9	Hindustan Motors	. .	,,	167	,,	26,785	534	52	166	740	27,525
10	Ashok Leyland	. .	ALCOP/ 3/1	210	Diesel	39,156	484	38	264	786	39,942
11	Ashok Leyland	. .	,, 3/2	176	,,	38,691	484	38	264	786	39,477
12	Ashok Leyland	. .	,, 3/3	163	,,	38,624	484	38	264	786	39,410
13	Ashok Leyland	. .	ALCO 3/1	176	,,	39,112	484	38	264	786	39,898
14	Ashok Leyland	. .	,, 3/2	163	,,	39,055	484	38	264	786	39,841
15	Ashok Leyland	. .	,, 3/3	118	,,	38,472	484	38	264	786	39,258
16	Ashok Leyland	. .	,, 3/4	118	,,	39,150	484	38	264	786	39,936
D. *Heavy—Over 9 Tonnes*											
1	Ashok Leyland	. .	ALB 1/1	180	,,	78,669	1,582	125	516	2,223	80,892
2	Ashok Leyland	. .	ALB 1/3	132	,,	77,142	1,582	125	516	2,223	79,365
3	Ashok Leyland	. .	ALB 1/4	132	,,	76,743	1,582	125	516	2,223	78,966
4	Ashok Leyland	. .	HIPPO ALH 1/1	204	,,	1,11,500	1,978	157	727	2,862	1,14,362
5	Ashok Leyland	. .	HIPPO ALH 1/3	150	,,	1,09,466	1,978	157	727	2,862	1,12,328
6	Ashok Layland	. .	HIPPO ALH 1/4	150	,,	1,09,874	1,978	157	727	2,862	1,12,736
7	Ashok Leyland	. .	TIGER ALPS 1/1	228	,,	79,945	1,582	125	516	2,223	82,168

5	Chassis with Cab	,,	,,	,,	7,394	77.4	11.7	..	..	1.1
6	Auto Rickshaw	,,	,,	,,	8,120	85.0	10.6	..	..	1.0
7	Pick-up Van	,,	,,	,,	8,002	74.7	10.8	..	..	1.0
8	Refuse Truck	,,	,,	,,	8,246	87.8	10.5	..	..	1.0
9	Night Soil Truck	,,	,,	,,	8,266	78.1	10.4	..	..	1.0
10	Oil/Water Tanker	,,	,,	,,	8,206	78.1	10.5	..	..	1.0
11	Delivery Van	,,	,,	,,	8,544	75.1	10.1	..	..	1.0
12	Ambulance	,,	,,	,,	8,856	83.0	9.7	..	..	0.9
13	Station Wagon	,,	,,	,,	8,946	83.0	9.6	..	..	0.9
14	Bare Chassis	Viking 4 Wheelers	2400m.m.	,,	13,339	96.4	37.2	..	..	1.4
15	Chassis with Cab	,,	,,	,,	14,480	92.5	35.1	..	..	1.3
16	Pick-up Van	,,	,,	,,	15,362	87.8	33.0	..	..	1.2
17	Delivery Van	,,	,,	,,	16,355	113.0	32.6	..	..	1.1
18	Station Wagon	,,	,,	,,	17,873	125.9	29.8	..	..	1.0
19	Mini-Bus	,,	,,	,,	18,143	130.4	29.4	..	..	1.0
20	Ambulance	,,	,,	,,	19,362	141.0	27.5	..	..	0.9

NOTE :—Assembly charges and Administration (Assembly) charges are not separately available.

1	2	3	4	5	6	7	8	9	10	11
	B. MEDIUM 3 to 5 Tonnes									
1	Premier Automobiles .	109. PA 6		Petrol	24,848	170.6	11.1	2.4	0.4	1.4
2	Premier Automobiles	89. T		Deisel	31,977	151.9	3.7	2.3	0.4	1.6
3	Premier Automobiles .	89. P.6		,,	29,913	143.5	3.9	2.4	0.4	1.6
4	Premier Automobiles .	109. T		,,	31,578	148.6	3.6	2.4	0.4	1.6
5	Premier Automobiles	99. T		,,	31,412	156.2	3.6	2.3	0.4	1.6
6	Premier Automobiles .	109. P. 6		,,	29,603	140.6	3.7	2.5	0.4	1.6
7	Hindustan Motors .	Bedford J.4	216	Diesel	32,620	34.3	57.3	1.6	0.2	0.6
8	Hindustan Motors .	,,	120	,,	28,447	44.4	37.4	1.9	0.2	0.6
9	Hindustan Motors .	,,	167	,,	28,575	43.6	37.2	1.9	0.2	0.6
10	Hindustan Motors .	,,	179	,,	28,635	43.4	37.5	1.9	0.2	0.6
11	Hindustan Motors .	,,	120	Petrol	25,764	43.6	45.2	2.1	0.2	0.6
12	Hindustan Motors .	,,	167	,,	25,894	42.8	44.9	2.1	0.2	0.6
	C. MEDIUM HEAVY 5 to 9 TONNES									
1	TELCO .	LA/312/42(4 Wheel Drive)	165	Diesel	40,916	123.7	29.9	0.9	0.1	0.9
2	TELCO . . .	L/312/42	165	,,	31,803	116.4	11.9	0.5	0.1	0.9
3	TELCO . . .	LP/1210/52	205	,,	34,110	96.5	10.4	0.5	0.1	0.9
4	TELCO . . .	L/1210/42	166	,,	33,236	94.4	11.1	0.5	0.1	0.9
5	Hindustan Motors .	Bedford J.6	120	,,	30,120	43.4	35.5	1.8	0.2	0.6

6	Hindustan Motors .	,,		167	Diesel	30,249	41.7	35.4	1.8	0.2	0.6
7	Hindustan Motors .	,,		179	,,	30,310	41.5	35.7	1.8	0.2	0.6
8	Hindustan Motors .	,,		120	Petrol	27,395	41.7	42.7	1.9	0.2	0.6
9	Hindustan Motors .	,,		167	,,	27,525	40.9	22.5	1.9	0.2	0.6
10	Ashok Leyland . .	ALCOP	3/1	210	Diesel	39,942	50.7	11.2	1.2	0.1	0.7
11	Ashok Leyland . .	,,	3/2	176	,,	39,477	51.6	11.3	1.2	0.1	0.7
12	Ashok Leyland . .	,,	3/3	163	,,	39,410	51.6	11.4	1.2	0.1	0.7
13	Ashok Leyland . .	ALCO	3/1	176	,,	39,698	51.7	11.2	1.2	0.1	0.7
14	Ashok Leyland . .	,,	3/2	163	,,	39,841	51.8	11.2	1.2	0.1	0.7
15	Ashok Leyland .	,,	3/3	118	,,	39,758	51.0	11.4	1.2	0.1	0.7
16	Ashok Leyland . .	,,	3/4	118	,,	39,936	51.8	11.2	1.2	0.1	0.7
	D. HEAVY-OVER 9 Tonnes										
1	Ashok Leyland . .	ALB.	1/1	180	Diesel	80,892	100.3	74.3	2.0	0.2	0.6
2	Ashok Leyland . .	,,	1/3	132	,,	79,365	100.2	73.8	1.9	0.2	0.6
3	Ashok Leyland . .	,,	1/4	132	,,	78,966	101.6	74.2	2.0	0.1	0.7
4	Ashok Leyland . .	HIPPO ALH	1/1	204	,,	1,14,362	106.7	77.3	1.7	0.1	0.6
5	Ashok Leyland . .	,,	1/3	150	,,	1,12,328	107.1	76.9	1.8	0.1	0.6
6	Ashok Leyland . .	,,	1/4	150	,,	1,12,736	108.2	76.6	1.8	0.1	0.6
7	Ashok Leyland . .	TIGER/ALPS	1/1	228	,,	82,168	98.1	76.2	1.9	0.2	0.5

11.4.1. The relevant items of cost are analysed below :—

11.4.2. **Material cost.**—The import content of raw materials, semi-finished and finished components varies considerably as between vehicles; the extent of usage of indigenously produced components also varies; the sources of supply and the prices of raw materials are different indicating variations in prices. Besides customs/excise duties go into the material costs in varying quantities depending on the extent of usage of either raw materials or semi-finished components or finished components purchased indigenoulsy which also tend to cause fluctuations in the costs. The extent of own manufacture from raw materials also varies considerably between the producers of vehicles.

11.4.2.1. **Light vehicles** (upto 3 tonnes)

FC 150-4 wheel drive truck by Mahindra & Mahindra—Of the total meterial costs of Rs. 16,209 (Table 19) finished materials of the value of Rs. 10,087 (Table 18) are purchased and the remaining represents the cost of semifinished material and raw material together with the conversion costs. The cost of finished material purchased from outside is 62.2 per cent of the total cost of finished material that goes into the vehicle, which shows that this vehicle is composed largely of material purchased from outside.

Standard—More than two thirds of the total cost (67.3 per cent) of the finished material is represented by purchases from outside.

Premier.—The total cost of finished material is Rs. 20511 out of which the finished material of the value of Rs. 12191 is purchased from outside. The proportion of imported finished material is comparatively high being Rs. 8238.

Bajaj-Tempo.—In the case of Bajaj-Tempo the range of the total material cost for the three wheelers, excluding bare chassis and chassis with cab is between Rs. 7920 and Rs. 8864 out of which the imported finished material is only about 10 per cent while the value of the total finished material purchased from outside ranges from Rs. 4240 to Rs. 4692 representing roughly a little over 50% of the total material cost.

11.4.2.2. **Medium.**—(3 to 5 tonnes)

The total material cost for the vehicles produced by Premier Automobiles range from Rs. 28270 to Rs. 30607 for the diesel

type vehicles out of which the cost of the finished material purchased from outside ranges from Rs. 18,934 to Rs. 20,572 constituting roughly about 67 per cent of the total material cost. The imported finished material constitutes only about 4 per cent of the total material cost. In the case of Hindustan Motors however the position is very different. The range of the total material cost is from Rs. 27,779 to Rs. 31,898 for diesel vehicles while the range of the imported finished material is Rs. 10,382 to Rs. 18,295 representing roughly from 37 to 57 per cent of the total material cost. There is heavy dependence upon imported finished material and efforts need to be made to substitute imported material by indigenously available components and assemblies. particularly since other units manage with indigenous supplies. The incidence of the total value of material purchased from outside is also heavy, as would appear from the figures in tables 18 and 19. In the case of Bedford J4, of the total material cost of Rs. 3,198 material of the value of Rs. 27,969 was purchased from outside which represents roughly 88 per cent of the total material cost.

11.4.2.3. **Medium Heavy.**—An analysis of the proportion of bought out imported components as well as the total bought out components in the case of these vehicles is as follows :—

Manufacturer	Vehicle particulars	Percentage of finished imported components to total material cost	Percentage of finished indigenous components to total material cost	Percentage of total bought out components to total material cost
1	2	3	4	5
		Rs.	Rs.	Rs.
TELCO . . .	LA312/42 .	29.9	24.4	54.3
	312/42 .	11.9	30.4	42.3
	LP/1210/52 .	10.4	31.8	42.2
	L/1210/42 .	11.1	31.8	42.9

1	2	3	4	5
Hindustan . . .	Bedford J. 6	35.5	41.0	76.6
	„ „	35.4	40.9	76.3
	„ „	35.7	40.9	76.6
	„ „	42.7	31.8	74.5
	„ „	42.5	31.7	74.2
Ashok Layland .	ACOP 3/1	11.2	43.5	54.7
	„ 3/2	11.3	43.6	54.9
	„ 3/2	11.4	43.6	55.0
	ALCO 3/1	11.2	44.2	55.4
	„ 3/2	11.2	44.2	55.4
	„ 3/3	11.4	43.6	55.0
	„ 3/4	11.2	44.1	55.3

The material cost in the case of comparable vehicles manufactured by Hindustan Motors is comparatively low and higher in the case of TELCO and Ashok-Leyland. These figures reflect also the total factory cost of the vehicles.

11.4.2.4. **Heavy.**—In this class of vehicle there is excessive dependence on imported components which works out to from 73.8 to 77.3 per cent. It appears that owing to the specialised nature of the vehicles produced as well as the small volume in indigenous availability of the finished components and sub-assemblies has not yet been established.

11.4.3. **Conversion charges**

11.4.3.1. There is a very wide range of variations in the relationship of the conversion charges to the cost of raw materials and semi-finished components. In the case of Hindustan Motors the proportion of conversion charges to the cost of raw material and semi-finished item is from 34.3 per cent to 44.4 per cent both for vehicles in the medium as well as medium heavy classes. On the other hand, in the case of Premier Automobiles the conversion charges range from 140.6 to 279 per cent. In between come the other manufacturers. Ashok-Leyland shows a ratio of about 1 : 2 in the case of medium heavy and 1 : 1 in the case of heavy vehicles, but Telco's conversion costs range from 94.4 per cent to 123.7 per cent. These ratios are therefore characteristic not of the composition of the vehicles manufactured in relationship to the number of components used as against the number of components manufactured in the unit but constitute characteristics of the particular unit itself. More specific comments in respect of these are given in the following paragraphs.

11.4.3.2 **Light Commercial vehicles**

Particulars of the Proportion of the self-manufactured to bought-out items are given below

Manufacturer	Vehicle	Value of BO item	Value of self mfd. items	Total	% of Cols. 3 to 5	% Cols. 4 to 5
1	2	3	4	5	6	7
		Rs.	Rs.	Rs.		
Mahindra & Mahindra.	F. C. 150	10,087	6,122	16,209	62.2	37.8
Standard Motor Products	Standard 20	8,567	4,162	12,729	67.3	32.7
Premier Automobile.	Dodge	12,191	8,320	20,511	59.4	40.6
Bajaj-Tempo Ltd. (3-wheelers)	Bare Chassis	3,970	2,731	6,701	59.3	40.7
	Chassis with Cab	4,270	3,042	7,312	58.4	41.6
	Auto-rickshaw .	4,476	3,502	8,038	55.7	44.3
	Pick-up Van .	4,326	3,594	7,920	54.6	45.4
	Refuse truck .	4,301	3,863	8,164	52.7	47.3
	Night Soil truck	4,301	3,883	8,184	52.6	47.4
	Oil/water tanker	4,240	3,884	8,124	52.2	47.8
	Delivery Van	4,471	3,991	8,462	52.8	47.2
	Ambulance	4,604	4,170	8,774	52.5	47.5
	Station Wagon	4,692	4,172	8,864	52.9	47.1
Bajaj-Tempo-Ltd. (4-wheelers)	Bare chassis	8,738	4,419	13,157	66.4	33.6
	Chassis with Cab	9,361	4,937	14,298	65.5	34.5
	Pick-up Van .	9,463	5,717	15,180	62.3	37.7
	Delivery Van	10,098	6,075	16,173	62.4	37.6
	Station Wagon	11,158	6,533	17,691	63.1	36.9
	Mini-bus .	11,298	6,663	17,961	62.9	37.1
	Ambulance	12,225	6,955	19,180	63.7	36.3
		Range—52.2 to 67.3				

In the case of Mahindra's FC 150-4 wheel drive the total ex-factory cost comes to Rs. 17,589 while the cost of Standard comes to Rs. 13,610. The engine of Mahindra's FC. 150 has the BHP of 72 but a shorter wheel base than that of Standard 20. It is however equipped with 4 wheel drive which is possibly the reason for the disproportionately higher total cost. It is however significant that in the case of Standard 20 the percentage of conversion cost to the total raw material and semi-finished item is only 55.9 while in the case of Mahindra & Mahindra's jeep it is 148.6. Whereas in both cases the proportion of components manufactured within the unit are comparable. In fact the proportion of components manufactured in the case of Mahindra's jeep within the unit are higher than that of Standard. As against these two vehicles the total cost of Premier is higher by about Rs. 4,000 over and above that of Mahindra & Mahindra and about Rs. 8,000 over and above that of Standard. The conversion costs in relation to the total material cost are exorbitant as the percentage of 279 would indicate.

11.4.3.3. **Bajaj Tempo.**—The percentage of the value of components manufactured within the unit to the total material cost varies from 40.7 to 47.8 per cent in the case of the three wheeler and the conversion cost as a proportion of the material cost varies from 74.7 to 85 per cent which is high in comparison to the proportion for Standard, Hindustan and Ashok-Leyland but cannot be considered to be excessive. This is because of the fact that Bajaj could not furnish details for conversion in the assembly line separately and this element is merged in the manufacturing costs. These percentages should show lower figures if assembly had been separated. On the other hand, in the case of 4-wheeler the proportion of the value of finished components manufactured within the unit is from 33.6 to 37.7 only and thus lower than that for the 3-wheeler. The conversion costs show an excessively high upward trend and vary from as much as 87.8 per cent in the case of the pick up van to 141 per cent in the case of the ambulance. It would be appropriate to point out here that Bajaj produces complete built up vehicles unlike other commercial trucks and more labour and expenses are incurred for body building and assembly. The truck expenses cover only for bare chassis. The costs at this unit are therefore not comparable with other units. For reasons which have been mentioned elsewhere we have not gone into the high cost of conversion for individual items but consider that there is scope for substantial reduction. Normally conversion cost should be between 50 and 75 per cent and any incidence higher than this may be considered as excessive and calls for measures for reduction.

11.4.3.4 **Medium Commercial Vehicles**

The following figures show the proportion of boughtout to self-manufactured

Manufacturer	Vehicle	Value of bought-out items	Value of self-mfrd. items	Total (Rs.)	% 3 to 5	% 4 to 5
1	2	3	4	5	6	7
		Rs.	Rs.	Rs.		
Premier Automobile	Dodge/Fargo 109PA6	12,623	11,137	23,760	53.1	46.9
	,, 89T	20,459	10,148	30,607	66.8	33.2
	,, 89P6	18,934	9,671	28,605	66.2	33.8
	,, 109T	20,572	9,597	30,169	68.2	31.8
	,, 99T	20,393	9,655	30,048	67.9	32.1
	,, 109P6	19,163	9,107	28,270	67.8	32.2
Hindustan Motors	Bedford J4	27,969	3,878	32847	87.8	12.2
	,, J4	21,084	6,617	27,701	76.1	23.9
	,, J4	21,102	6,726	27,828	75.8	24.2
	,, J4	21,231	6,657	27,888	76.1	23.9
	,, J4	18,515	6,518	25,033	74.0	26.0
	,, J4	18,534	6,629	25,163	73.7	26.3

There are 12 items in this class with wheel bases varying from 120" to 216" gross vehicular weight being uniformly 8.85. The Brake Horse Power of the engine is 83 in 5 cases, 110 in one case, 120 in three cases and one each with 125 and 133. Though the gross vehicular weight of the vehicles are similar but the variation in the total ex-factory cost is considerable. Excluding petrol driven vehicles it ranges from Rs. 28447 to Rs. 31977 showing the variation of 12.4 per cent over the minimum price. As between the two manufacturers the cost of vehicles manufactured by Premiers is invariably higher. The proportion of self-manufactured components is generally very low in both cases. The total cost of bought-out items is more or less similar but there is considerable variation in the case of the self manufactured items, the cost being invariably higher in the case of Premiers and accounting for the higher total costs of the latter.

11.4.3.5. **Medium Heavy.**—There are three manufacturers in this range namely TELCO, Hindustan and Ashok Leyland. The gross vehicular weights of the vehicles vary from 8.62 to 12.19. Engine horse power and the gross vehicular weight could be considered as common factors between the vehicles of different makes. The vehicles could in this way be classified into three categories namely, (1) vehicles with the gross vehicular weight of 8.62, (2) vehicles of the gross vehicular weight between 10 and 11 and (3) vehicles with gross vehicular weight of 12.19. TELCO is the only manufacturer in the first category and vehicles in the second category are manufactured by TELCO, Hindustan and Ashok-Leyland. Those in the third category are manufactured exclusively by Ashok-Leyland. Two of the vehicles are run on petrol and the rest on diesel. The two vehicles in the first category have the total cost of Rs. 40916 and Rs. 31803 respectively. The higher cost of vehicle No. LA/312/42 is mainly because of the 4 wheel drive. Vehicles in the second category vary in cost from Rs. 30120 to Rs. 39942. In this category vehicles manufactured by Ashok-Leyland have the highest price, those manufactured by TELCO come next and lowest prices are those of Hindustan. Particulars of the value of bought-out as well as self-manufactured items together with their percentages are given below.

Name of the Manufacturers	Vehicle	Value of bought-out item	Value of self-mfd. item	Total	Percentage of bought out to total	Percentage of self mfd. to total
1	2	3	4	5	6	7
		Rs.	Rs.	Rs.		
TELCO	LA/312/42	21,829	18,340	40,169	54.3	45.7
	L/312/42	13,270	18,070	31,340	42.3	57.7
	LP/1210/42	14,170	19,433	33,603	42.2	57.8
	L/1210/42	14,059	18,702	32,761	42.9	57.1
Hindustan Motors	Bedford J6	22,542	6,822	29,364	76.8	23.2
	,,	22,560	6,932	29,492	76.5	23.5
	,,	22.690	6,863	29,553	76.8	23.2
	,,	19,934	6,722	26,656	74.8	25.2
	,,	19,952	6,833	26,785	74.5	25.5
Ashok Leyland .	ALCOP 3/1	21,410	17,746	39,156	54.7	45.3
	,, 3/2	21,260	17,431	38,691	53.6	46.4
	,, 3/3	21,248	17,376	38 624	55.0	45.0
	ALCO 3/1	21 671	17,441	39,112	55.4	44.6
	,, 3/2	21,660	17,395	39,055	55.5	44.5
	,, 3/3	21,180	17,292	38,472	55.1	44.9
	,, 3/4	21,673	17,477	39,150	55.4	44.6
	Range 42.2 to 76.6					

In the case of TELCO except for the 4 wheel drive vehicle the value of the finished material manufactured in the unit is invariably higher than that of the material purchased from outside and ranges from 57.1 per cent to 57.8 per cent. In the case of Hindustan in every case the value of the finished material purchased from otuside is almost three times the value of the material manufactured in the unit the range for the both being from 23.2% to 25.5%. In the case of Ashok-Leyland the value of the material purchased from outside is more or less like TELCO and constitutes from 53.6% to 55.5% of the total material cost.

11.4.3.6. **Heavy.**—Over 9 tonnes :

The only manufacturer in the field is Ashok-Leyland. There is very little manufacturing activity in so far as this unit is concerned as would appear from the follwoing figures :—

Name of the manufactu er	Particulars of the vehicle mfd.	Cost of bought-out finished com-ponents Rs.	Cost of self-mfd. com-ponents Rs.	Total cost Rs.	% of Cols. 5 to 3	% of Cols. 5 to 4
1	2	3	4	5	6	7
Ashok-Leyland	ALB 1	72,437	6,232	78,669	92.1	7.9
	ALB 3	70,692	6,180	77,142	92.0	8.
	ALB 4	70,513	6,230	76,743	91.9	8.1
	Hippo 1	1,04,719	6,781	1,11,500	93.9	6.1
	,, 3	1,02,701	6,765	1,09,466	93.8	6.2
	,, 4	1,03,042	6,832	1,09,874	93.8	6.2
	Tiger 1	73,807	6,138	79,945	92.3	7.7

It would be observed that from 92 to 94 per cent of the material cost is comprised of bought-out items and only about 6 to 8 per cent is manufactured in the unit itself. Again of the bought-out items the items which are imported constitute from

73.8 to 77.3 per cent of the total cost of the bought out items as the following figures would show :—

Total cost of components (Rs.)	Imported finished components (Rs.)	Percentage of Cols. 2 to 1
1	2	3
78,669	58,461	74.3
77,142	56,933	73.8
76,743	56,933	74.2
1,11,500	86,195	77.3
1,09,466	84,158	76.9
1,09,874	84,158	76.6
79,945	60,908	76.2

There appears to be a large scope for the reduction of imported items and for their substitution by items manufactured within the country itself.

11.4.4. **Depreciation.**—This element is based on the written down values at income tax-rates. As amongst the units manufacturing commercial vehicles the incidence works out to the follwoing :—

	As percentage of the total cost
TELCO	5.4 to 6.6
Permier	2.2 to 5.5
Ashok Leyland	0.4 to 2.6
Hindustan	1.4 to 3.2
Standard	2.1
Mahindra & Mahindra	3.1
Bajaj Tempo 3 wheelers	1.9 to 2.4
Bajaj Tempo 4 wheelers	4.7 to 6.5

The rate of depreciation is particularly high in the case of TELCO, Premier Automobile and Bajaj Tempo (four wheelers).

11.4.5. **Administration.**—The same remarks as in the case of conversion/assembly charges hold good here also. Hindustan Motors and Ashok-Leyland have normal charges whilst Premier Automobiles and TELCO have higher expenditure under this head.

11.4.6. **Selling Expenses.**—In the case of Hindustan Motors and Ashok-Leyland the selling expenses are about 0.6 per cent of the total factory costs. We do not see any justification for a higher rate than this for other manufacturers as sales expenses are of promotional nature and should have a direct relationship to the total costs.

11.4..7 **Royalty.**—This depends on the nature of collaboration and royalty agreements existing between the producers of the vehicles in India and their respective collaborators and we have allowed the sums to stand. In the case of TELCO, the collaborators get their remuneration for their services as a percentage of the net profits after certain adjustments. In other words, it can be assumed that if the company does not earn any profits, then there shall not exist any remuneration for the collaborators. To this extent a difference exists between Telco and other manufacturers who pay a fixed sum under Royalty. The sums paid by TELCO based on latest pariod has been shown under the head Royalty though it is a remuneration based on net profits. The Hindustan, however, does not pay any royalty. The royalty/remuneration formed about 0.4 per cent for TELCO, 0.5 to 1.6 per cent for Ashok-Leyland, about 0.4 to 1.9 per cent for Premier, 2.1 per cent for Standard, 2.0 per cent for Mahindra and 1.3 to 1.8 per cent for Bajaj Tempo for 4 wheelers.

11.4.8. **Return on Capital.**—The margin of return has been calculated at 12 per cent on Capital employed comprising the average written down values of fixed assets for the period for which estimate has been evolved and working capital equivalent to 4½ months' cost of production excluding depreciation.

11.4.9. **Devaluation of Pound Sterling.**—The devaluation of the sterling took place on 18th November 1967. By that time the costs had generally been worked out but in the case of units making most of their purchases of imported components and raw material this is bound to have significant effect. An analysis on the basis of the data available of the impact of devaluation on the total costs worked out and also on the working capital and royalty based on sterling values has been made and it has now been incorporated as a lump item in respect of such of the vehicles which comprise substantial quota of components purchased from the sterling area and these have been shown in Table 21, which gives particulars of the final fair exworks prices as estimated including return on capital employed.

TABLE 21

Final ex-works fair prices for Commercial Vehicles

(Rs. per vehicle)

Sl. No.	Manufacturer	Vehicle Type	Works cost	Return @12% on capital employed	Estimated ex-works price	Reduction owing to sterling devaluation on 18-11-1967	Final ex-works price (5—6)	Current selling price	Surplus or deficit margin (7—8)	Surplus or deficit as related to current selling price
1	2	3	4	5	6	7	8	9	10	11
A. *Light below 3 tonnes*										%
1	Mahindra & Mahindra .	FC 150 (4 wheel drive)	17,589	1,074	18,663	..	18,663	18,282	381	2.1
2	Standard Motors . .	Standard 20	13,610	887	14,497	501	13,996	15,520	(—) 1,524	(—) 9.8
3	Premier Automobiles .	D—300	21,579	1,609	23,188	..	23,188	20,000	3,188	15.9
	Bajaj Tempo's	3 Wheelers								
4	Bare Chassis . . .	„	6,783	463	7,246	..	7,246	7,695	(—) 449	(—) 5.8
5	Chassis with Cab . .	„	7,394	510	7,903	..	7,903	8,523	(—) 620	(—) 7.3
6	Auto-rickshaw . .	„	8,120	585	8,705	..	8,705	8,793	(—) 88	(—) 1.0

7	Pick-up Van . .	3.Wheelsers	8,002	566	8,568	..	8,568	8,991	(—) 423	(—)	4.7
8	Refuse trucks . .	„	8,247	600	8,847	..	8,847	9,009	(—) 162	(—)	1.8
9	Night soil truck . .	„	8,266	601	8,867	..	8,867	9,117	(—) 250	(—)	2.7
10	Oil/water tanker . .	„	8,207	598	8,805	..	8,805	9,279	(—) 474	(—)	5.1
11	Delivery Van . .	„	8,544	614	9,159	..	9,159	9,351	(—) 192	(—)	2.1
12	Ambulance . .	„	8,857	653	9,510	..	9,510	9,657	(—) 147	(—)	1.1
13	Station wagon . .	„	8,947	657	9,604	..	9,604	9,783	(—) 179	(—)	1.8
14	Bare Chassis . .	4-Wheelers	13,339	1,105	14,444	..	14,444	14,994	(—) 550	(—)	3.7
15	Chasis with Cab . .	„	14,480	1,212	15,692	..	15,692	15,858	(—) 166	(—)	1.0
16	Pick-up Van . .	„	15,362	1,336	1,698	..	16,698	16,578	120		0.7
17	Delivery Van . .	„	16,355	1,531	17,886	..	17,886	18,000	(—) 114	(—)	0.6
18	Station Wagon . .	„	17,873	1,723	19,596	..	19,596	19,980	(—) 384	(—)	1.9
19	Mini-bus . . .	„	18,143	1,772	19,915	..	19,915	20,250	(—) 335	(—)	1.7
20	Ambulance . .	„	19,362	1,905	21,267	..	21,267	20,700	567		2.7
B. *Mediun* —8 *to* 12.5 *Tonnes*											
1	Premier Automobiles .	109 PA/6	24.848	2,047	26,895	..	26,895	24,297	2,598		10.7
2	Premier Automobiles .	89 T	31,977	1,946	33,923	..	33,923	32,916	1,007		3.1
3	Premier Automobiles .	89 P6	29,913	1,836	31,749	..	31,749	30,420	1,329		4.4
4	Premier Automobiles .	109 T	31,578	2,228	33,806	..	33,806	32,814	992		3.0

1	2	3	4	5	6	7	8	9	10	11
										%
5	Premier Automobiles .	99 T	31,412	1,898	33,310	..	33,310	32,503	807	2.5
6	Premier Automobiles .	109 P6	29,603	2,112	31,715	..	31,715	29,605	2,110	7.1
7	Hindustan Motors .	J4-216" W.B. Diesel.	32,620	1,657	34,277	2,841	31,436	31,810	(—) 374	(—) 1.2
8	Hindustan Motor	J4-120" W.B. Diesel	28,447	1,715	30,162	1,871	28,291	29,161	(—) 870	(—) 3.0
9	Hindustan Motors .	J4-167" W.B. Diesel	28,575	1,720	30,295	1,884	28,411	29,559	(—) 1,148	(—) 3.0
10	Hindustan Motors .	J4-179" W.B. Diesel.	28,635	1,719	30,354	1,894	28,460	30,031	(—) 1,571	(—) 5.2
11	Hindustan Motors .	J4-120" W.B. Petrol	25,764	1,587	27,351	2,010	25,341	23,394	1,947	8.3
12	Hindustan Motors .	J4-167" W.B.	25,800	1,593	27,487	2,023	25,464	24,212	1,252	5.2
13	TELCO . . .	LA/312/42	40,916	3,076	43,992	..	43,992	N.A.	..	..
14	TELCO . . .	L/312/42	31,803	2,598	34,401	..	34,401	33,380	1,021	3.1
15	TELCO . . .	LA/1210/52	34,110	2,610	36,720	..	36,720	35,716	1,004	2.8
16	TELCO . . .	L/1210/42	33,236	2,522	35,758		35,758	34,813	945	2.7
17	Ashok-Leyland . .	ALCOP 3/1	39,942	2,586	42,528	1,149	41,379	42,952	(—) 1,573	(—) 3.7
18	Ashok-Leyland . .	ALCOP 3/2	39,477	2,563	42,040	1,144	40,926	42,607	(—) 1,681	(—) 3.9

19	Ashok-Leyland . .	ALCOP 3/3	39,410	2,558	41,968	1,108	40,860	42,458	(—) 1,598		3.8
20	Hindustan Motors .	J6- 120" W.B./ Diesel	30,120	1,788	31,908	1,911	29,997	N.A.	..		
21	Hindustan Motors .	J6-167" W.B./ Diesel.	30,249	1,794	32,043	1,924	30,119	32,061	(—) 1,942	(—)	6.1
22	Hindustan Motors .	J6- 179" W.B./ Diesel.	30,310	1,792	32,102	1,934	30,168	32,311	(—) 2,143	(—)	6.6
23	Hindustan Motors .	J6-120" W.B./ Petrol	27,395	1,659	29,054	2,050	27,004	N. A.	..		..
24	Hindustan Motors .	J6-167" W.B./ Petrol.	27,525	1,665	29,190	2,063	27,127	N.A.	..		..
25	Ashok-Leyland . .	ALCO 3/1	39,898	2,582	42,480	1,118	41,362	42,896	(—) 1,534	(—)	3.6
26	Ashok-Leyland . .	ALCO 3/2	39,841	2,579	42,420	1,113	41,307	42,787	(—) 1,480	(—)	3.5
27	Ashok-Leyland .	ALCO 3/3	39,258	2,540	41,798	1,137	40,661	42,488	(—) 1,827	(—)	4.3
28	Ashok-Leyland . .	ALCO 3/4	39,936	2,587	42,523	1,139	41,384	43,112	(—) 1,728	(—)	4.0
Heavy over 15 *tonnes*											
1	Ashok-Leyland . .	ALB 1/1	80,892	3,648	84,540	8,514	76,026	84,730	(—) 8,704	(—)	10.3
2	Ashok-Leyland . .	ALB 1/3	79,365	3,586	82,951	8,295	74,656	84,430	(—) 9,774	(—)	11.6
3	Ashok-Leyland . .	ALB 1/4	78,966	3,576	82,542	8,295	74,247	84,430	(—) 10,183	(—)	12.1
4	Ashok-Leyland . .	Hippo ALH 1/1	1,14,362	5,019	1,19,381	12,454	1,06,927	1,18,681	(—) 11,754	(—)	9.9
5	Ashok-Leyland . .	Hipo ALH 1/3	1,12,328	4,941	1,17,269	12,164	1,05,105	1,16,472	(—) 11,367	(—)	9.8
6	Ashok-Leyland . .	Hippo ALH 1/4	1,12,736	4,966	1,17,702	12,164	1,05,538	1,16,472	(—) 10,934	(—)	9.4
7	Ashok-Leyland . .	Tigers ALPS	82,168	3,682	85,650	8,864	76,986	85,675	(—) 8,698	(—)	10.1

11.5. Government have lifted the control on the prices of all the commercial vehicles. There is fairly intense competition between the different manufacturers of trucks. This will ensure that prices will automatically be adjusted according to the performance of the respective models and particularly so in view of the present slackness in demand. We have, therefore, refrained from dealing specifically with the question of fixation of fair price as such in the case of commercial vehicles. The vehicles manufactured generally by TELCO and Ashok-Leyland are in large demand. Commercial vehicles produced by other manufacturers can be purchased almost off the show room floor. The future production of automoblile in the country shows an increasing trend. With the prospect of future increase, TECLO as well as Ashok-Leyland are also likely to improve with the result that there is very little likelihood of any backlog of pending orders.

11.6. With the production and supply position increasing all-round in the coming years and also the improvements recently noticed in the general economy, the Commission are not in favour of introducing either statutory or informal price control.

11.7. The costs indicated in this Report are therefore not intended to be the basis for any statutory or informal price control. Our analysis shows there are many areas in which economies could be achieved. We are also of the opinion that only a healthy competition will bring down the price and where such of these units who are in the field too could economise their cost by increasing their volume of production and stand well in such competition. We do not think that there is any need for price control but at the same time we think that a proper study should be made of the industry's requirement of foreign exchange which should be kept to the minimum so as to encourage development of indigenous components instead of depending on items for which facilities already exist in the ancillary sector which is also well equipped.

12. Dealar's Margin

12.1 We have briefly quoted in paragraph 1—1(ii) of this Report the circumstances under which the Government have requested us to go specially into the question of dealer's margin and forward our recommendations. In our Report on the continuance of protection to the Automobile Industry, we have dwelt on the dealer set-up, its activities and the role it plays between the manufacturer and the consumer. In this paragraph, therefore, we are confining our observations strictly to the question of profit

margin admissible to the dealers, in compliance with our terms of reference, based on the written evidence received by us as well as the evidence tendered to us both at the group discussion with dealers held on 5th October 1967 and at the public inquiry held on 6th and 7th October 1967.

12.2. Prior to 1955, the dealers were getting a profit—'mark-up' as it was called-ranging from 20 to 25 per cent of the ex-factory price of vehicles. This was, however, reduced to a maximum of 17½ per cent of the ex-factory prices since April 1955 in accordance with an understanding reached by the manufacturers at a joint meeting convened by the then Ministry of Commerce and Industry on 10th January 1955. At the time of the Commission's last Report, investigation revealed that except in the case of jeeps for which a fixed commission of Rs. 1,569 per vehicle was fixed, in all cases of vehicles, the 'mark-up' was ranging between 15 per cent and 17½ per cent. A suggestion put to the manufacturers in 1956 by the then Ministry of Commerce and Industry for adoption for a fixed amount for each type of vehicle depending upon its size, instead of a 'mark-up' on a percentage basis, did not find favour with them.

12.3. The Commission in its last Report observed that there was no justification for maintaining the commission to the dealers at the rate of 17½ per cent and felt that there was a good case for reducing it in respect of both passenger cars and commercial vehicles, considering the role of the dealers in relation to the sales and service. Accordingly, it recommended that the maximum 'mark-up'on the ex-factory price to cover the dealer's commission should be Rs. 1,000 per vehicle or 10 per cent of the exfactory price, whichever was less for passenger cars and jeeps, and Rs. 1,000 per vehicle or 7½ per cent of the ex-factory price, whichever was less, for trucks, buses and other commercial vehicles. The Ministry of Heavy Industries in paragraph (4) of its Resolution No. 21(4)/TB/56, dated 23-1-1957, on the Report, however, stated that after consideration of representations received from the dealers urging that there should be no reduction in their margin and emphasising the importance of the service facilities which the dealers have to maintain, it had come to the conclusion that the dealer's commission should be fixed at 10 per cent of the ex-factory price for passenger cars and jeeps and 7½ per cent of the ex-factory price for trucks, buses and other commercial vehicles, as recommended by the Commission, but without the monetary ceiling of Rs. 1,000 per vehicle. On this basis, the Government fixed the dealer's

commission in respect of each type of vehicle and for this purpose the ex-factory prices of vehicles as they prevailed in 1956 were adopted. Thus it came about that a fixed amount of dealer's commission was specified in respect of each type of vehicle—one idea which the manufacturers did not support in June 1956. The dealer's margin has thus remained unchanged irrespective of the subsequent increases in the approved prices of vehicles. Table 22 shows the dealer's commission as at present in respect of different vehicles, as approved by Government.

12.4. The Jha Committee in its report (1960) had stated that it had considered the two aspects of the question of dealers' margin—on one side it was argued that the margin was too high considering the actual service to the consumer which was at a low ebb; on the other hand, it was pleaded that considering the cost of services, the remuneration to the dealer was inadequate. On the whole, the Jha Committee felt that the assessment made by the Commission in 1956 in this respect was fair and held the view that the price of vehicle fixed should be the final consumer price with only such additions as taxes etc. and should also include the margin to be allowed to the dealer.

TABLE—22

Dealer's commission in respect of different vehicles as approved by Government

(In rupees)

Vehicle	Dealer's commission
1	2
CARS	
Hindustan Ambassador	1,044
Fiat 1100	891
Standard Herald	659
JEEPS	980
COMMERCIAL VEHICLES	
TMB-Truck chassis :	
L312/36- -142" W.B.	1,815
L312/42 -165" W.B.	1,840

1	2
LA312/36—142" W.B.	2,299
LA312/42—165" W.B.	2,299
L1210/36—143" W.B.	1,815
L1210/42—106" W.B.	1,840
TMB-Bus chassis :	
LP 312/36-142" W.B.	1,885
LP 312/42-165" W.B.	1,910
LP 312/48-190" W.B.	1,965
LP 1210/42-166" W.B.	1,910
LP 1210/52 205" W.B.	1,965
Leyland 'Comet' Truck Chassis :	
ALCO 2/1—176" W.B.	2,435
ALCO 2/2—163" W.B.	2,400
ALCO 2/3—118" W.B. (Tipper)	2,385
ALCO 2/4—118" W.B. (Tractor)	2,319
Leyland 'Comet' Bus chassis :	
ALCOP 2/1—203" W.B.	2,490
ALCOP 2/2—176" W.B.	2,460
ALCOP 2/3—163" W.B.	2,389
Dodge Kew Truck Chassis :	
Fitted with Perkins Engines :	
109 P6—165" W.B.	1,613
109 P6—119" W.B. (Tipper)	1,613
109 P6—119" W.B. (Tractor)	1,613
Fitted with Meadows Engines :	
109 M4—165" W.B.	1,613
109 M4—119" W.B. (Tipper)	1,613
109 M4—119" W.B. (Tractor)	1,613
Fitted with Petrol Engines :	
109PA—165" W.B.	1,314
109PA—119" W.B. (Tipper)	1,314
109PA—119" W.B. (Tractor)	1,314

1	2
Dodge Kew Bus Chassis :	
Fitted with Perkins Engines :	
89P6—206" W.B.	1,699
89P6—109" W.B.	1,699
89P6—165" W.B.	1,699
89P6—142" W.B.	1,699
89P6—165" W.B.	1,613
Fitted with Meadows Engine :	
89 M4—206" W.B.	1,699
89 M4—190" W.B.	1,699
89 M4—142" W.B.	1,699
89 M4—165" W.B.	1,699
99 M4—165" W.B.	1,699
Short Wheel base chassis :	
D—300/133" W.B.	1,023
D—300/123" W.B.	1,023
Bedford Truck Chassis :	
120" W.B. Diesel	1,680
120" W.B. Petrol	1,243
167" W.B. Diesel	1,662
167" W.B. Petrol	1,225
179" W.B. Diesel	1,715
Bedford Bus Chassis :	
206: W.B. Diesel	1,866
Standard 1—tonne truck	1,056
Tempo Hanseat 3 Wheeler :	
Chassis without cab	467
Chassis with cab	532

12.5. We have received representations from the Federation of Automobile Dealers' Associations (FADA) and the individual dealers and associations pleading for the revision of the dealer's margin with a view to ensuring—

(i) a fair return on their investments;

(ii) a fair proportion of the price increases for vehicles allowed from time to time, as against the original level of 1956.

It was represented to us that the margin in foreign countries where the turnover is many times more than what it is in India is 25 per cent to 35 per cent on ex-factory price of the same service as rendered by Indian dealers. For under-standable reason the dealer's cost of operation has increased since 1956 owing mainly to higher wages, salaries and other contributions to staff welfare expenses, higher out-lay in equipment, higher cost of training technical personnel, increases in rentals, power and water rates, bank charges and taxes. It was argued that after the Distribution Control Orders were promulgated the dealer's amount got tied up from two to three months during which the purchasers availed of the full facility of the period under the Control Orders on vehicles.

12.6. In its memorandum the FADA, also brought to our notice instances of a few dealers of different types of vehicles showing a decline in their profit margin. It stated that in the past losses in workshop operations were covered by profits on new car sales. But the profit on vehicle sales has in recent times deteriorated progressively, leading to an overall loss in the automobile sales and workshop activities for most of the dealers and causing additional strain on their resources. It further stated that such a situation had forced a number of dealers to take up additional franchise, such as refrigerators, air-conditioning equipment, electrical appliances and tractors. Some have diversified into other activities such as hire purchase operations, body building, distribution of indigenously manufactured parts and accessories. But all dealers have not been able to do so. It was also claimed that even those who have diversified have not been able to make up the deficit. Our attention was specially brought to the fact that some of the old established dealers like Simpson and Co., Addision Co. and Rane (Madras) Ltd., had closed their dealership business and entered the industry where the return on investment was more attractive, as a

consequence of the deterioration of the profitability of the automobile dealership. It was further contended that while old established dealers were somehow keeping on to the business, to the new comers the situation had become difficult.

12.7. As regards the rate of commission required by the dealers, the FADA and a few dealers suggested a mark-up of 15 per cent on cars and jeeps and 10 per cent on commercial vehicles of their respective ex-factory prices. A large number of dealers, however, requested the restoration of the rates recommended by the Commission in 1956 and accepted by the Government, namely, 10 per cent on cars and jeeps and 7½ per cent on commercial vehicles, but with the modification that the rates should be on the total current price paid by the dealer to the manufacturer including excise duty as against the current rate of commission which is pegged to the 1956 prices.

12.8. The dealers pressed their case for an upward revision of profit margin at the group discussions held on 5th October 1967. Here again they stated that as against an investment of Rs. 8,000 which was just enough for a car in 1956 for which a dealer's margin depending upon the circumstances prevailing at that time was fixed they have now to invest Rs. 17,000 in the case of passenger cars while the return on investment has remained the same. Similar was the case in respect of a TMB truck for which the investment in 1956 was Rs. 21,000 as against Rs. 40,000 prevailing to-day. Further, expenditure on overheads has also been going up. To a specific question whether there has been any increase in the duties and responsibilities of dealers during the last decade calling for enhancement of the dealer's margin, we were informed that financial responsibilities of the dealers have considerably increased because of the increase in the vehicle population. At the public inquiry the manufacturers also informed us that they had no objection to the margin of profit being raised to the dealers provided it was paid by the consumers. Having considered this whole question, we feel that there is some force in the dealers' contention that their costs have gone up and that the current rates of commission given to them are inadequate. At the same time it is true that their expenditure in regard to sales promotion till recently was not very significant in view of the seller's market and Distribution Control Order. We made an attempt to analyse the balance sheets and profit and loss accounts of a few dealers with a view to find out the results of their trading on automobiles particularly in respect of the income from dealer's commission and expenditure resulting from their obligations as dealers. But it was found difficult to segregate their accounts

relating to automobile trading as their trading accounts covered all their activities. As already observed earlier, a number of dealers are dealers of spare parts also and in addition have taken up other activities.

12.9. When it submitted its recommendations to the Government on this issue in 1956 it was not the Commission's intention that the dealers' commission should be kept pegged to the ex-factory prices of 1956. By pegging this margin to the level of 1956 prices, Government have virtually frozen an amount for each type of vehicles as set out in Table 22. Between 1956 and the present day the vehicle population in the country has increased considerably necessitating an increased quantum of investment by the dealers. The FADA also brought to our notice a number of onerous clauses in their agreements with the vehicle manufacturers. At the public inquiry when it was suggested that these agreements were contracts entered into between the dealers and the manufacturers and therefore could best be left to them, both the dealers and the automobile manufacturers agreed. The dealership agreements being a matter left purely to the contracting parties, we wonder how far it is relevant to fix the consequence of the contract, namely, the dealer's margin. We are also inclined to attribute the fall in standards of servicing and the inadequate development of servicing facilities in the country to the freezing of the dealer's margin. Under the existing set up, with the freezing of the dealer's margin a dealer equipped with a number of facilities and another not so equipped are both gaining the same quantum of profit, resulting in the latter gaining an advantage over the former, who in fact is entitled to a better return. In these circumstances we recommend that the rates of dealers' commission applicable to each type of vehicle be left to mutual settlement between the dealer and the manufacturer. In the case of passenger cars the rate of 7½ per cent of the ex-factory price would, in our view, be adequate.

Summary of conclusions and recommendations

13. Our conclusions and recommendations are summarised below :

(1) Comparative study of the estimates of demand for passenger cars and their anticipated production during the next three years indicate that there would be large gap between supply and demand and the abandonment of the procedures now obtaining for the registration of the vehicles and obtaining them by order would not only create enormous amount of confusion but also open the door for discriminating sale and malpractices. The same holds

good of price control which exists now. Until the availability is equivalent to the demand no effective competition as between different makes of vehicles can be generated.

(Paragraph 2.11)

(2) The I. S. I. or some other expert body may draw up a detailed list of components of which an automobile is composed and prescribe the ranges of specifications for the materials needed for them. It is also desirable to include in the same standard the input weight as related to the output of each item.

(Paragraph 4.4.2)

(3) Along with the steps to be taken for evolving standards for materials both in relation to specifications and quality, standards may also be laid down for the uniformity of nomenclature of components and the aggregation of the components into sub-assemblies and assemblies for passenger cars and commercial vehicles.

(Paragraph 4.4.4)

(4) Since prices of commercial vehicles are decontrolled and there is no possibility of re-imposition of controls in the near future, cost examination of the commercial vehicles is more or less of academic interest. If and when market conditions require re-control, the present estimates would have already been rendered out of date and a fresh cost examination will become necessary. It would then be more desirable to proceed from the very outset with the objectives enunciated in the analysis of costs in this Report, in order that more scientific results are arrived at.

(Paragraph 4.8.1)

(5) As the vehicles in which Simpson's diesel engines are used are no longer under price control, it is anomalous to seek to maintain this control only on one item of bought-out finished assembly.

(Paragraphs 4. 8.1 & 10.7)

(6) A substantial reduction should be made in the rates of import duty on items of raw materials which are not likely to be produced in the near future and for which no indigenous substitutes are available. These rates may periodically be revised to ensure that items for which production capacity has been set up do not continue to enjoy the concessional rate.

(Paragraph 5.2.2)

(7) A stricter control over the import of deleted CKD packs is necessary.

(Paragraph 5.2.3)

(8) In the case of all items which can be produced in the country, imports should not be encouraged. In some cases this may lead to higher costs, but such a step would still be desirable since it will be conducive to saving on foreign exchange besides reducing our dependence on foreign sources.

(Paragraph 5.2.4)

(9) A comparative study of the cost of passenger cars manufactured in India with their successor models in foreign countries shows that the cost of manufacture of indigenous cars is decidedly very high.

(Paragraph 6.8)

(10) The industrial base available in India today cannot be considered inadequate for the support of a low volume of automobile industry, if there is adequate coordination and planning.

(Paragraph 6.10)

(11) Systematic efforts should be made by the producers of passenger cars to introduce the necessary economies in production with a view to reducing the remaining disparity and reaching parity with foreign manufacturers.

(Paragraph 6.11)

(12) The fair price of Fiat car cannot be related to the cost structure but judging from differentials based on the functional properties of the three cars, it would be desirable to fix the price of this car at a figure midway between Ambassador and Standard. The net dealers' prices of Ambassador, Fiat and Standard Herald (2 door model) should be Rs. 14,120, Rs. 13,300 and Rs. 12,485 respectively.

(Paragraph 7.14&8)

(13) A reasonable ex-works price of jeep including return is determined at Rs. 14,247.

(Paragraph 9.4)

(14) The fair ex-works prices of Simpson's engines are indicated in paragraph 10·5 and those of different types of commercial vehicles in Table 21.

(Paragraphs 10.5 & 11.4.9)

(15) In the context of lifting of control on the prices of all commercial vehicles there is fairly intense competition between different manufacturers of trucks and this will ensure that prices will automatically be adjusted according to the performance of the respective models. The question of fixing fair selling prices of commercial vehicles as such, has not therefore, been specifically dealt with by us.

(Paragraph 11.5)

(16) With the production and supply position increasing all round in the coming years and also the improvements recently noticed in the general economy, the introduction of either statutory or informal price control on commercial vehicles is not favoured.

(Paragraph 11.6)

(17) The costs indicated in this Report in respect of commercial vehicles are not intended to be the basis for any statutory or informal price control. The study into costs, however, has revealed many areas in which economies could be achieved.

(Paragraph 11.7)

(18) Although no price control has been recommended for commercial vehicles, a proper study into the industry's requirements of foreign exchange which should be kept to the minimum is recomended. This will encourage development of indigenous components instead of depending on items for which facilities already exist in the ancillary sector.

(Paragraph 11.7)

(19) The rate of dealer's margin applicable to each type of vehicle may be left to mutual settlement between the dealer and

the manufacturer. In the case of passenger car, a margin of 7½ per cent of the ex-factory price is considered adequate.

M. ZAHEER,
CHAIRMAN.

*K. T. MERCHANT,
Member.

S. SUBRAMANIAN,
Member.

P. V. GUNISHASTRI,
Secretary.

BOMBAY,
Dated 8th August, 1968.

*I have signed this report subject to my note of dissent appended.

NOTE OF DISSENT BY SHRI K. T. MERCHANT

The terms of reference require us to determine the fair selling prices of automobiles. I am of the view that it is necessary to examine the price policy followed so far in order to make any recommendation in this behalf; for it is only in the light of the experience of the price policy in the past that a proper course of action for future can be suggested. My colleagues, however, do not share this view. I am, therefore, appending this note of dissent. I may add that this note should be read with the note of dissent appended to our Report on Continuance of Protection to Automobile Industry already submitted, as the two notes are parts of an integrated approach.

1. In order to evolve a proper price policy for future it is desirable to make an assessment of the price policy followed so far. Even though the price control was informal, it had become rather rigid; and the question is whether social and economic objectives behind the policy of control have been realised. It will be better to examine this question with reference to vehicles in different categories separately. Vehicles should be considered from two points of view as production good and consumption good. This distinction is vital for an under-developed country like ours. The investment in commercial vehicles is production capital and that for passenger cars is consumption expenditure from the point of view of the economy as a whole. It is obvious that if prices are to be controlled at all, there is a greater need to control the prices of the first category of vehicles rather than those of the second category in the larger interests of the community. For the prices of commercial vehicles, if very high, would affect the movement of men and materials and result in inflating the costs of transport. Yet Commercial Vehicles (Distribution and Sales) Control Order was issued in May 1963 only after the emergency created by the Chinese aggression to meet the increasing demand for defence. It may be noted, however, that except for TELCO and Ashok Leyland, there have not been any pending orders at all as the other units were able to execute all orders for commercial vehicles within 45 days and needed no registration. So far as passenger cars are concerned, the very fact that they were officially not given priority at all and that their consumption was confined only to a small group of persons belonging to the well-to-do classes proves that there was no valid reason for helping this class of consumers. Still, the Motor Car (Distribution & Sales) Control Order was issued as early as May 1959

due to demand for cars being higher than their supply. It is undeniable that but for price control the prices of passenger cars would have gone up but this would have affected only the persons in the upper-brackets of income.

2. Absence of price control on a commodity, when demand for it is higher than its supply, would lead to an increase in its price. Price control by its very nature, however, leads to abuse especially in a sellers' market. But it has the compensating advantage of rationing the limited supplies in the larger interest of the community where the supply affects a large number. In the case of cars the benefit of price control has accrued to a small section only. It is well known that due to demand being higher than supply the resale value of the old as well as new car was very high which is the inevitable result of controls in a sellers' market. Comparatively a small number of consumers have benefitted—legislator, important persons and lucky officers getting the car allotment on a priority basis from the fixed quotas for Government and semi-Government bodies, those obliged by the automobile manufacturers from their own quotas and those getting the car in order of registration. One of the chief beneficiaries of this price control has been the various companies which in recent years have been the major purchasers of passenger cars. When it was suggested at the public inquiry that companies were one of the main buyers, this was not contradicted by anyone. (We had requested the automobile manufacturers to send us the break-ups of their sales to Government, semi-Government bodies, companies and individuals but the complete break-ups have not been furnished to us by all the producers). This has had an adverse effect on cost and quality. As a rule the manufacturers are apt to be less cost and quality conscious in a sheltered sellers' market. This is an unfortunate fact. The companies would not mind paying higher prices for cars and their frequent replacement as they can put it down as an item of capital assets, the depreciaton on which attracts relief from income tax. Thus the price control on passenger cars has been mainly in the interest of a group of persons some of whom have reaped high profits by resale. Some others like doctors and lawyers who could get the car in order of registration have also benefitted through this price control but these persons also belong to the higher income group. Thus, a small group of persons has been able to enjoy a large consumers' surplus which ought to have been mopped up by an increase in the excise duty in a socially-oriented economy. If there were no price control and prices allowed to fluctuate according to supply and demand conditions, there would have been an element of internal competition on account of consumers' preference and this would have resulted in greater attention to reduction in cost and

improvement of quality. Price control seems to have created a belief on the part of manufacturers that there is no scope for reduction in cost. Moreover, price control in a sheltered market has been responsible for the neglect of design and research. Again, under price control the manufacturers have absolved themselves of their responsibility to the consumers and the society; an example of this is the recent tendency to deprive the consumers of some facilities by their deletion by manufacturers which amounts to attempts at maintaining profits by saving in cost at the expense of the consumers. The more serious effect of price control not permitting higher profits to the automobile manufacturers has been the development of associate ancillary units which appear to be one of the factors of high cost by adding to the existing fragmentation of ancillary production. Due to price control passenger car industry has been prevented from developing on healthy lines.

3. So far as commercial vehicles are concerned, but for a short period there has not been much of imbalance between demand and supply except for the emergency defence demand which led to imposition of Commercial Vehicles (Distribution & Sales) Control Order. The price control on commercial vehicles has enabled inefficient units to continue to exist as consumer preference was not allowed to operate through price variations and the technically competent units were deprived of their due reward. Data regarding demand for different categories of vehicles clearly show that if there had been no price control, certain inefficient units would have definitely gone out of production and this would have been certainly beneficial to the industry as a whole by enabling the efficient units to expand and obtain economies of scale leading to reduction in costs. As a matter of fact the two units, Hindustan Motors and Premier Automobiles, have never had any pressure of civilian demand for their trucks. Recently decontrol of prices of commercial vehicles has clearly shown that TELCO alone had pending orders of over 10,000 vehicles while the other producers except Ashok Leyland have been compelled to reduce their production. We were informed at the public inquiry that there has been all along preference for TELCO and Ashok Leyland heavy duty vehicles.

4. Again, price control has prevented the industry from securing additional funds through higher prices which could have been ploughed back for the expansion of the industry. The recent expansion of the automobile industry has been mostly on the basis of borrowings which is not in the long-run interest of the country as major portion of the gross profits is eaten up by interest payments, leaving very little for ploughing back. The table on the next page

showing the apportionment of gross profits towards interest payments and retained profits bears this out. It is interesting to note, however, that by and large the automobile industry has not fared badly despite the comparatively low volume of its production on account of a sheltered sellers' market.

Appropriation of gross Profits towards Interest Payments and Retained Profits in percentage

Sl. No.	Units	1956-57		1957-58		1958-59		1959-60		1960-61	
		Interest payments	Retained profits	Interest payments	Retained profits	Interest payments	Retained profits	Interest payments	Retained profits	Interest payments	Retained profits
1	2	3	4	5	6	7	8	9	10	11	12
1	TELCO	24	26	31	36	30	35	17	7	14	17
2	Hindustan Motors Ltd. .	48	9	48	12	3	8	1	15	1	27
3	Premier Automobiles Ltd. .	28.9	28.9	59.3	10.6	21.6	15.8	21.2	24.4	15.5	24.7
4	Ashok Leyland . . .	31	10	10	28	6	22	11	21	12	17
5	Mahindra & Mahindra Ltd. .	57	12	43	8	36	10	40	2	30	12
6	Standard Motor Products of India Ltd. . . .	21	36	22	47	35	10	22	19	7	18

Appropriation of gross Profits towards Interest Payments and Retained Profits in percentage—contd.

Sl. No.	Units	1961-62		1962-63		1963-64		1964-65		1965-66	
		Interest payments	Retained profits	Interest payments	Retained profits	Interest payments	Retained profits	Interest payments	Retained profits	Interest payments	Retained profits
1	2	13	14	15	16	17	18	19	20	21	22
1	TELCO	16	14	20	4	21	11	27	16	33	13
2	Hindustan Motors Ltd. . .	Nil	18	Nil	9	2	17	9	43	11	43
3	Premier Automobiles Ltd. .	22.0	6.4	41.9	38.0	45.2	16.9	43.7	37.8	61.7	10.2
4	Ashok Leyland . . .	15	24	19	17	8	27	9	26	17	8
5	Mahindra & Mahindra Ltd. .	28	13	25	18	20	25	28	11	45	2
6	Standard Motor Products of India Ltd. . . .	17	9	22	26	27	21	23	11	31	7

5. This price control policy in a sheltered market appears to have prevented the healthy growth of the automobile industry. The recent decision to remove price control on comercial vehicles and jeeps is a step in the right direction; this should help the expansion of production of these vehicles in accordance with market conditions. I am of the opinion that the price control on passenger cars has not served any useful purpose (it has only benefitted a small section of the well-to-do classes at the cost of the community at large). I, therefore, recommend that price control on passenger cars should also be removed and market forces allowed to determine their prices. For, if the price is fixed on the usual cost plus basis, it is apt to go up. It would be better than the increase, if any, in the price of passenger cars is as a result of consumer preference. The Government may enter into rate contract to obtain their own special requirements leaving the other consumers free to exercise their preference. At the same time it is necessary to provide some special incentive to encourage efficient units—efficient in respect of costs and quality. For in the present market conditions, where the demand for passenger cars exceeds their supply,even the inefficient unit would be able to sell its cars though highly priced. I, thereiore, recommend that an increased amount of foreign exchange for raw material should be allowed to efficient units and that allotted to inefficient units curtailed.

6. With reference to para 2.11 in the Report in connection with control on price of passenger cars, I have to observe that it would be incorrect to lump taxis and private cars in one category. Taxis would come under social consumption, whereas private cars for use by Government officials, business organisations (for the executives mainly) and affluent members of the society would come under individud consumption. Even in the case of taxis, they are public transport in a limited sense unlike buses; for taxis are restricted to urban areas and their users are normally members of the high income group. The main benefits of price control would really accrue to the owners of taxis who are mostly investors. Thus, the benefit of the large consumer surplus resulting from price control will go to a small group of investors in taxis who can well afford the rise, if any, in prices as a result of decontrol. As far as Government officials, business executives and others who consider a car no longer a luxury but a necessary, they are certainly in a position to pay higher prices, as they belong to the higher income groups. It may be pointed out that the increase in the number of taxis during 1955-56 to 1965-66 is from 15,318 to 33,400, whereas the number of the private cars has shot up from 1,87,866 to 4,22,000 (*vide* table No. 6 in para 28 of my note of dissent on Continuance of Protection to Automobile Industry). This demonstrates clearly

that the major beneficiaries will be not the taxi-owners but those who are so fortunately placed as both to regard the car a necessary and to afford to pay for it. So far as Government are concerned, I have already suggested that the Government may enter into rate contract to obtain their own special requirements.

7. Social consumption through public transport rather than individual consumption of automobiles has to be encouraged by developing countries like India for political and social stability for some years to come, till an economic break-through takes place and passenger cars need no longer be regarded as a luxury. At the present stage of our economic development, when only a fortunate small minority belonging to the higher income groups can consider cars a necessary, it would be inconsistent with the social and economic objectives, to which we as a nation are committed, to recommend the continuation of price control on passenger cars. The economic and social implications of this have already been discussed.

8. In the light of our discussion on dealer's margin (paras 12.8 and 12.9) and my recommendation of decontrol of prices on passenger cars, I cannot agree with the view that 7½% of the ex-factory price as commission on passenger cars would be adequate. This must also be left to be decided by the parties concerned.

9. As regards the cost paras in the Report, I would like to observe that in my opinion the costs of cars or trucks are not comparable as an automobile is not a standardised product. No two cars or trucks have uniformity in sizes, specifications, types of materials used for the different components, performance efficiency, composition of sub-assembly with specified number of components, extent of own manufacture vis-a-vis imported components as well as indigenous ancillaries, and prices of materials received from different sources. The extent of self manufacture also differs from unit to unit as also the conversion costs depending on the number of shops in which these are processed and the nature and number of components processed. Hence, the cost comparison by a detailed cost analysis of assemblies and sub-assemblies of different vehicles is not valid for the simple reason that there are so many different factors. As regards the standards, though they are essential for measuring technical efficiency from time to time for control purposes in usages, etc., they serve merely as an additional facility and need not be viewed as a must for costing purposes.

10. As regards para 4.4.2, I would like to observe that each company has its own standards and that too in relation to its foreign collaborators. These need to be suitably modified to include all indigenous materials and fabrication facilities. It is also necessary that each automobile manufacturing unit should set up a Company's Standards Department to guide and regulate the internal standards activities. It is also essential that the autumobile manufacturers should collaborate with the I.S.I. for evolving standard specifications for raw materials and as many components as possible to ensure inter-unit inter-changeability and economy in cost of production of ancillaries.

11. With reference to para 4.4.4, I am of the opinion that in view of the fact that automobile is not a standardised product, it is not feasible to have uniform constituents for assemblies and sub-assemblies and that standards for uniformity of nomenclature need not be viewed as essential.

12. In view of my recommendation for decontrol of prices on passenger cars, I do not deem it necessary to offer any remarks on para 7—Fiat Car—ex-works cost and selling price-except that the increases in prices of different passenger cars granted by the Government from time to time must have been based on the facts available to them.

13. The comparison of prices of indigenous cars with those of foreign cars is also not valid as they differ in many respects and the conditions, methods and technique of production in India and abroad are dissimilar.

Dated *8th August*, 1968

K.T. MERCHANT

ANNEXURE

Correspondence between the Ministry of Industrial Development, Internal Trade and Company Affairs, New Delhi and the Tariff Commission, Bombay after the presentation of the Report to Government.

D. O. No. 1(58)/68-AEI(I)

GOVERNMENT OF INDIA

JOINT SECRETARY, INDUSTRIAL DEVELOPMENT
NEW DELHI

May 12, 1969

Dear Shri Banerji,

SUBJECT: *Tariff Commission's Report* (1968) *on the fixation of fair selling prices of automobiles.*

Kindly refer to the correspondence resting with your D.O. Letter No. C/89/69 dated the 26th March, 1969 to Shri S. Venkatesan of the Ministry of Foreign Trade and Supply and the subsequent discussions held in Bombay on the 25th and 26th April, 1969 and in New Delhi on the 6th May, 1969 on the subject mentioned above.

2. It was explained during the discussions that, in approving price increases from time to time for the three makes of cars after the prices were refixed by the manufacturers in accordance with the recommendations made in the Tariff Commission's Report of 1956, Government have always been following a uniform policy. Following the Government Resolution dated 23rd January, 1957 on the Tariff Commission's Report of 1956, the Car Manufacturers were left free to revise their prices from time to time, subject *inter alia* to the condition that the Net Dealer Price should not exceed the ex-works cost by more than 10%. It was then decided to adopt the cost as worked out by the Tariff Commission as the basis for the initial price fixation. As a result Government accorded their approval to the fixation of revised Net Dealer prices for the three makes of cars. For the determination of the quantum of

cumulative increases allowed, the following figures would, therefore, be more relevant:

(In rupees)

Net Dealer price based on Tariff Commission's Report	Hindustan Landmaster	Fiat 1100	Standard Super Ten
Ex-Works cost determined by the Tariff Commission	9,213	7,731	7,643
10% Addition as Return	921	773	764
TOTAL .	10,134	8,504	8,407

The Actual price increases made with the approval of the Government were, however, as follows:

(In rupees)

	Hindustan Landmaster	Fiat 1100	Standard Super Ten
Net Dealer price as on 23-1-57 . .	8,380	8,043	8,043
Increases allowed on	710 (7-2-57)	502 (23-3-57)	548 (Aug. 57)
Increase allowed on	1,056 (20-5-59)	323 (22-8-57)	
TOTAL	10,146	8,868	8,591

There are some variations between the actual prices as were made effective subsequent to the adoption of the new policy for price fixation and those worked out on the basis of Government's decision referred to above. These resulted from certain minor adjustments in the price increases asked for and approved by Government. Irrespective, therefore, of whichever figures are adopted as the starting point for the determination of the quantum of increases allowed in respect of the three makes of passenger cars, there would be no room for doubt with regard to the equitable treatment of the manufacturers concerned.

3. On the question of the pattern of production of cars and commercial vehicles by the three manufacturers it was observed during the discussions that, taking into account the developments that have taken place subsequent to the public enquiry held by the Tariff Commission in 1966, especially the steep fall in demand for commercial vehicles following the general recession in the engineering industry and the gradually rising trend in the production of passenger cars, it would be desirable to assume a slightly revised pattern of production for the purposes of working out the fair selling prices of the three makes of cars during the three years from 1969 to 1971. It was suggested that the following average annual production could be reasonably adopted.

	Cars	Commercial Vehicle
Hindustan Motors Ltd.	24,000	12,000
Premier Automobiles Ltd	12,000	5,000
Standard Motors	3,500	1,500

It is requested that revised ex-works costs of the Ambassador and Fiat Cars may be worked out on the basis of the above pattern of production.

4. As regards the Standard car, the two-door model has since been replaced by the four-door model. It is accordingly requested that the costing of the four-door model may now be taken up afresh and the Commission's recommendations on the fair ex-works cost and net dealer price for the four-door model may be made available to the Government as soon as possible.

Yours sincerely,

Sd/

(R. V. SUBRAHMANIAN)

SHRI B. N. BANERJI,
CHAIRMAN,
Tariff Commission,
BOMBAY.

D. O. No. 1(58)/68-AEI(I)

GOVERNMENT OF INDIA

JOINT SECRETARY, INDUSTRIAL DEVELOPMENT
NEW DELHI

May 12, 1969.

Dear Shri Banerji,

SUBJECT.—*Tariff Commission Report* (1968) *on the fixation of fair selling prices of automobiles.*

This is with reference to the discussions in the room of Shri N. Subramanyam, Secretary, Heavy Industries on the 6th May, 1969 on the Tariff Commission's Report (1968) for the fixation of fair selling prices of passenger cars. The Commission have found that the manufacturing cost of the Fiat was very high and the remedy lay not so much in increasing the price as in reducing the cost. The Commission felt that the fair selling price of the car can not be related to the cost structure and an alternative had to be found for fixing the price of this car by the adoption of some other principles. They found on examination of the functional properties of the three cars that the Fiat car came between the Ambassador and the Standard Herald. They, therefore, came to the conclusion that it would be desirable to fix the price of the Fiat car at a figure midway between the prices recommended by them for the Ambassador and the Standard Herald cars. During the discussions on 6th May, 1969 it was felt that an alternative approach to this problem would be to fix the price of the Fiat car on the basis of the relation between its price and the price of the Ambassador car over the last 10 years or so. The table given in paragraph 7.6 on page 78 of the Tariff Commission's Report gives the differentials as between the prices of the Ambassador and Fiat cars from 1956 to 1968. It will be seen that the price of the Fiat car varied between 80% to 91% of the price of the Ambassador car during those years. If the weighted average of this ratio is worked out and applied to the recommended selling price of the Ambassador car for the next three years, that would give a reasonable selling price for the Fiat car which would be consistent with the relationship that has existed between the prices of the two cars for the last 12 years. I shall be grateful if you could have this weighted average worked out so that Government could have the benefit of considering this alternative also. To enable the Commission to work out the weighted average,

I enclose a statement showing the production of Ambassador and Fiat cars during each of the years from 1957 to 1968 and the net dealer price effective during the first month of each year.

Yours sincerely,

Sd/-

(R. V. SUBRAHMANIAN)

SHRI B. N. BANERJI
CHAIRMAN,
Tariff Commission,
BOMBAY.

	Hindustan		Fiat	
	Production Nos.	January N.D.P. Rs.	Production Nos.	January N.D.P. Rs.
1957	4,788	8,380	3,977	8,043
1958	3,833	10,146	1,226	8,868
1959	5,595	10,506	4,380	8,909
1960	9,217	10,506	6,516	8,937
1961	11,056	10,506	7,165	8,816
1962	13,458	10,545	6,233	8,815
1963	8,621	10,636	3,750	8,929
1964	15,351	11,251	3,867	9,502
1965	15,558	11,251	5,673	9,558
1966	19,469	12,481	7,030	11,219
1967	20,515	13,851	10,055	12,664
1968	22,687	13,851	12,276	12,679

NOTE.— The price increase of Rs. 500 which was not allowed for the Fiat car for certain valid reasons may be taken into account in calculating the weighted average price of the car with effect from the year 1964.

TARIFF COMMISSION
GOVERNMENT OF INDIA

DR. P. V. GUNISHASTRI,
Secretary

C. G. O. Building,
Karve Road, Bombay-20,

D. O. No. TC/ID/E. 88

May 24, 1969.

Dear Shri Subrahmanian,

Please refer to your d. o. letter No. 1. (58)/68-AEI(I) dated, the 12th May, 1969 addressed to the Chairman.

2. As you are aware, the Commission had in the absence of any information to the contrary, adopted the prices prevailing on the date of the Government of India Resolution viz., 23rd January 1957 as the base over which price escalations were given from time to time. Now that the position has been clarified in paragraph 2 of the letter under reply, the Commission agrees that all the units were treated fairly in the matter.

3. If the pattern of production suggested in paragraph 3 of your letter were to be adopted, it would result in the following changes in the net ex-factory prices:

(In Rupees)

	Ambassador	Fiat
Net Dealer Price as recommended by the Commission	14,120	13,300
Modification resulting from adoption of modified figures of production	114	578
Net ex-factory price	14,006	12,722

A statement showing the detailed working of the revised costs is enclosed.

4. As regards the Standard Herald Mark III Saloon (4 door model), steps have been initiated to recost the vehicle. As soon as these fresh estimates have been worked out, they would be forwarded to Government.

Yours sincerely,

Encl.: One

Sd/-
(P. V. GUNISHASTRI

SHRI R. V. SUBRAHMANIAN,
Joint Secretary to the Government of India.
MINISTRY OF INDUSTRIAL DEVELOPMENT, INTERNAL TRADE AND COMPANY AFFAIRS,
NEW DELHI.

AUTOMOBILE INDUSTRY

Revised prices of automobiles based on the pattern of production indicated by Government and compared with the Commission's Estimate (1968)

Production No.	Ambassador Car Mk-II		Fiat Car	
	Commissions' Estimate (1968)	Revised Pattern	Commission's Estimate (1968)	Revised Pattern
	Cars 22,000 Trucks 13,600 Spares 10%	Cars 24,000 Trucks 12,000 Spares 10%	Cars 9000 Trucks/ Buses 5,700 Spares 10%	Cars 12,000 Trucks/ Buses 5,000 Spares 10%
	Cost per unit Rs.	Revised cost per unit Rs.	Cost per unit Rs.	Revised cost per unit Rs.
(1)	(2)	(3)	(4)	(5)
1. (a) Materials	9045	9045	8054	8054
(b) Loss in Assembly Line	43	43	24	24
(c) Net cost of materials	9088	9088	8078	8078
(d) Adjustment for Sterling Devaluation	(—)150	(—)150	—	—
Net Cost	8938	8938	8078	8078

(1)	(2)	(3)	(4)	(5)
2. *Conversion cost*				
(a) Direct Labour	464	464	1082	1082
(b) Works overhead	1897	1857	2512	2299
(c) Administrative Overhead	2224	218	668	607
(d) Depreciation	1216	1178	1153	987
3. Total Conversion Cost	3801	3717	5415	4975
4. Cost of production	12739	12655	13493	13053
5. Selling & Distribution expenses	78	76	202	194
6. Royalty	..		117	117
7. Total cost	12817	12731	13812	13364
8. Return	1304	1276	1392	1262
9. Fair Selling Price	14121	14007	15204	14626
(A) Reduction over Commission's Estimate for changed production pattern.	..	114	..	573
(B) Reduction over Commission's Estimate for changed production pattern as a rate.	..	0.8%	..	3.8%

TARIFF COMMISSION
GOVERNMENT OF INDIA

Dr. P. V. GUNISHASTRI,
Secretary
C. G. O. Building,
Karve Road, Bombay,

D. O. No. TC/ID/E. 88

May 27, 1969.

Dear Shri Subrahmanian,

Please refer to your D. O. letter No. 1(58)/68-AEI(I) dated May 12, 1969 to the Chairman.

2. As desired by you the parity factor on the weighted average for the past 12 years as between Ambassador and Fiat Cars has been calculated and as would appear from enclosure I, it works out to the ratio of 100.00: 89.65. Adopting the Net Dealer Price for Ambassador based on the revised estimates of production this ratio gives the figure of Rs. 12,556 for Fiat against that of Rs. 12,722 arrived at on the basis of the revised production estimates. This would result in a reduction of Rs. 104 in the current N.D.P. of the Fiat.

3. I am enclosing a statement giving the relevant particulars (enclosure II) I might add in this connection, that the estimates as initially framed by the Cost Accounts Officers for Ambassador and Standard were also suitably trimmed by the Commission as would be observed from enclosure II. While in these two cases it was possible for the Commission to make cuts in the different individual elements of cost it was not possible to do so in the case of the Fiat for the reasons already mentioned in the Commission's Report and subsequent correspondence.

Yours sincerely,

Sd/-

(P. V. GUNISHASTRI)

Encls : Two

SHRI R. V. SUBRAHMANIAN,
Joint Secretary to the Govt. of India
MINISTRY OF INDUSTRIAL DEVELOPMENT, INTERNAL TRADE AND COMPANY AFFAIRS,
NEW DELHI.

ENCLOSURE I

Automobile Industry

Statement showing weighted average prices

Year	Ambassador			Fiat			
	Nos.	Rs./each	Total Rs./Lakhs	Nos.	Rs./each	Total Rs./Lakhs	
1957	4788	8380	401.234	3977	8043	319.871	
1958	3833	10146	388.896	1226	8868	108.722	
1959	5595	10506	587.811	4380	8909	390.214	
1960	9217	10506	968.338	6516	8937	582.335	
1961	11056	10506	1161.543	7165	8815	639.439	631.595
1962	13458	10545	1419.146	6233	8815	549.439	
1963	8621	10636	916.930	3750	8929	334.838	
1964	15351	11251	1727.141	3867	9502	367.442	+500
1965	15558	11251	1750.431	5673	9558	542.225	+500
1966	19469	12481	2429.926	7030	11219	788.696	+500
1967	20515	13851	2841.533	10055	12664	1273.365	+500
1968	22687	13851	3142.376	12276	12679	1556.474	+500
	150148	11812	17735.305	72148	10319	7445.216	+194.505
						7639.721	

Weighted Average 1957/68 (12 years) . Rs. 11,812 AMBASSADOR

Rs. 10319
270 plus Rs. 500 from 1964

Rs. 10589 (FIAT)

100% (89.65%)

ENCLOSURE II

Automobile Industry

Comparative estimates and prices

(In Rupees)

	Ambas-dor	Fiat	Standard
1. Estimated ex-factory costs as initially worked out	14,134	13,826	13,206
Estimates finally adopted . . .	12,816	11,908	11,577
3. Return	1,304	1,392	908
4. Total as recommended by Commission .	14,120	13,300	12,485
5. Percent	100	94.2	88.4
6 Reduction worked out on the basis of figures of revised future production .	114	578	Not estimated.
7. Revised NDP Weighted average .	14,006	12,722	Not estimated
8. Differential of N.D.P. for the last 12 years.	100	89.65	Not estimated
9. Fair ex-works price (or N.D.P.) based on the weighted average . . .	14.006	12,556	Not estimated
10. N.D.P. at the time of Tariff Commission's Report	13,857	12,679	12,598
11. N.D.P. as now (25-4-69) . . .	13,848	12,660	14,003
12. Difference between items 7 and 11 .	+158	+ 62	Not estimated
13. Difference as between items 9 and 11 .	+158	—104	Not estimated

GIPN—S6—5 T. C. Bom./69—30-10-69—600.


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