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GOVERNMENT OF INDIA
TARIFF COMMISSION

REPORT

ON THE

Determination of Fair Ex-Works Price and Fair Selling Price of Acetate Yarn

PRODUCED BY

Sirsilk Limited

BOMBAY
1959

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1—1 T. C. Bom./59

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE & INDUSTRY

New Delhi, the 16th June, 1959.

RESOLUTION

(Prices of acetate rayon yarn)

No. 26(105)TEX (D)/57.—The Government of India, being of the opinion that an examination of the cost of production of acetate rayon yarn produced by the Sirsilk Mills Ltd., Sirpur-Kaghaz Nagar P.O., Andhra Pradesh, and the fair price payable to the producers was necessary, requested the Tariff Commission to conduct an inquiry. The Commission, on the conclusion of the inquiry, has now submitted its report. The main recommendations of the Commission are as follows :—

(a) Andhra Pradesh Government should be requested to consider sympathetically the representation of the Company (Sirsilk Mills Ltd., Sirpur) for reduction of the price of power alcohol and reconsider the policy regarding payment of gallonage fee on alcohol consumed by the Company; and

(b) the excise duty of Rs. 70 per gallon levied by the Andhra Pradesh Government on alcohol used by Sirsilk should be removed forthwith;

(c) Sirpur Paper Mills Ltd., should continue to supply electrical energy to Sirsilk at the same rate at which it has been made available till now;

(d) The fair selling prices of acetate yarn of 'A' grade f.o.r. Bombay (inclusive of excise duty) should be as follows :—

DENIERS	300	150	120
Yarn coned	Rs.	Rs.	Rs.
Bright yarn per lb.	4.64	4.91	5.16
Dull yarn per lb.	4.67	4.95	5.19
Yarn hanked			
Bright yarn per lb.	4.51	4.82	5.07
Dull yarn per lb.	4.54	4.86	5.10

These prices are inclusive of selling Commission. It is not necessary to add any extra element by way of selling commission on retail sales.

(e) The sum of Rs. 228·57 lakhs outstanding in respect of loan from Andhra Pradesh Government should be converted into ordinary share capital of Sirsilk;

(f) Accumulated interest on loan amounting to Rs. 88·25 lakhs should be treated as interest-free and payment of this amount should be deferred until arrears of depreciation and preference dividend are completely written off;

(g) Birla Brothers should arrange for the working capital required by the Company and should take steps to release the Andhra Pradesh Government from the guarantee given to the State Bank of Hyderabad in respect of loan accommodation up to Rs. 50 lakhs. After this is done, the Andhra Pradesh Government should release all movable assets of the Company held by them as security against the outstanding loan amount.

(h) The future earnings of the Company from yarn as well as fabrics should be utilised according to an order of priorities. The Company should, after setting aside the amount required for payment of interest on working capital, managing agents' commission and other miscellaneous expenditure, utilise the balance for writing off arrears of depreciation. The next charge should be towards payment of arrears of cumulative preference dividend.

(i) After the necessary reconstruction of the capital structure is carried out, a review of the case may be undertaken to ascertain what kind of further assistance is required to ensure the smooth working of the Company.

(j) The Company should be allowed to use acetate yarn from its own production for working 480 looms on 2 shift basis having regard to the reasonable pattern of production and the quantity of other types of yarn used by it.

2. The Government of India generally agree on the principles adopted by the Commission for determining the cost of production of acetate yarn and accept all the recommendations specified above.

ORDER

ORDERED that a copy of this Resolution be communicated to all concerned and that it be published in the Gazette of India.

S. RANGANATHAN,
Secretary to the Government of India.

CONTENTS

REPORT ON THE DETERMINATION OF FAIR EX-WORKS PRICE AND FAIR SELLING PRICE OF ACETATE YARN PRODUCED BY SIRSILK LTD.

Origin of the case

1.1. There is no statutory control over prices of acetate rayon yarn or fabric containing acetate yarn. However, in pursuance of the general understanding between Government and the industry to the effect that the industry should not take undue advantage of the scarcity created by import restrictions, Sirsilk Ltd. has agreed not to raise the price of its acetate rayon yarn without obtaining prior consent of Government. During the first quarter of 1958 the Senior Cost Accounts Officer in the Cost Accounts Branch of the Ministry of Finance and the Development Officer (Timber and Cellulose)., Ministry of Commerce and Industry carried out an investigation into the cost of production of acetate yarn produced by the Company and submitted their report to Government. After examination of the cost of production the Government of India informed the Company *vide* Ministry of Commerce and Industry letter No. 26(105)/Tex-D/57, dated 21st June, 1958 that there was no objection to the selling price of its bright acetate yarn being fixed as under :

Denier of Yarn	*Selling Price Rs. per lb.*
150	4·00
120	4·25
100	4·50

The Company, however, represented to Government that the above selling prices were uneconomical on the ground that the cost of production of acetate yarn was much higher than the approved selling price, and that as the fixation of prices at the levels mentioned above resulted in deterioration of its financial position it was not possible for the Company to pay interest on and/or repay the principal of the loans due to Andhra Pradesh Government.

1.2. The case was thereupon referred to us by the Government of India under Section 12(d) of the Tariff Commission Act, 1951, *vide* Ministry of Commerce and Industry letter No. 3(20)/58-Chem. II, dated 15th October, 1958 (Appendix I). We have been requested (1) to enquire into the fair ex-works price and fair selling price of acetate yarn manufactured by Sirsilk Ltd., and (2) to make recommendations regarding fair prices to be charged by wholesalers and retailers of acetate yarn after calculating suitable margins for commission in respect of sales and distribution.

Method of inquiry

2.1. In connection with the inquiry, questionnaires were issued to Sirsilk as well as to consumers of acetate yarn on 20th November and 4th December, 1958 respectively. The Development Wing was requested to furnish a memorandum incorporating, *inter alia,* information on the present position and future plans for expansion of the rayon yarn manufacturing industry. The Chief Secretary to the Government of Andhra Pradesh was requested to submit a memorandum on the history and present position of the Company. The Textile Commissioner was requested to furnish a memorandum with special reference to certain aspects of the industry. A list of those to whom questionnaires/letters were issued and from whom replies or memoranda were received is given in Appendix II.

2.2. Shri C. Ramasubban, Chairman, Shri R. S. Bhatt, Member and Dr. Rama Varma, Secretary visited the factory of Sirsilk on 5th January, 1959. They also held discussions with the Secretaries of Finance and Industries Departments of Andhra Pradesh Government on 6th January, 1959. Shri S. S. Mehta, Technical Director (Chemicals) visited Sirsilk from 16th to 18th December, 1958. Shri S. K. Basu, Senior Cost Accounts Officer visited the factory from 15th to 19th December, 1958 for examining the cost of production of acetate yarn.

2.3. Discussions with the representatives of Sirsilk took place on 12th February, 1959. The names of the representatives are given in Appendix III.

History and present position of the Company

3.1.1. Mir Laik Ali, a Director of Hyderabad Construction Co. Ltd. who was a member of the Indian Industrial Delegation that visited U. K. and U. S. A. in 1945-46, had carried out certain investigations in connection with the possibility of establishing rayon industry in Hyderabad State. At that time the bulk of the rayon yarn in the world was manufactured by viscose process for which a special type of sulphite wood pulp is generally employed. It was felt that for establishing rayon industry in India by this process, wood pulp would have to be imported from abroad. For the acetate process, however, a potential source of raw materials, namely, cotton linters, soft waste or short staple cotton was reported to have existed in Hyderabad and supply of absolute alcohol was assured from the Government Power Alcohol Factory at Shakarnagar. These were two of the considerations which led Mir Laik Ali to explore the possibility of manufacturing acetate yarn. To obtain the technical know-how, it was found necessary to seek collaboration with a foreign manufacturer of acetate yarn. With this object in view the Hyderabad Construction Co. Ltd. which promoted the new venture concluded an agreement with Lansil Ltd. of Lancaster, England, which manufactured acetate rayon yarn in the U.K. Hyderabad Construction Co. Ltd. which also held the managing agency of Sirpur Paper Mills Ltd. at Kaghaznagar decided to locate the factory on the site adjacent to Sirpur Paper because it offered certain locational advantages. Water and power were available from the paper mills at reasonable rates. The disposal of the effluent did not present any difficulty since the rayon factory could discharge its effluent in the disposal channels of the paper mills. Adequate supply of industrial alcohol was assured at a reasonable price from Government Power Alcohol Factory. Moreover, coal fields at Bellampally were at a distance of 25 miles and Kaghaznagar was on the main railway line running between Madras and Delhi.

3.1.2. Sirsilk Ltd. was incorporated in June 1946 as a public limited company under the Hyderabad Companies Act IV of 1320 Fasli. According to the original project its capacity was designed for the manufacture of 5 tons of acetate yarn which was to be converted into 50,000 yds. of fabrics per day. The factory was so designed that all the main chemicals and intermediates could be manufactured on site and rayon fabrics could be produced and processed for being made available to the consumer. The capital requirements of the new undertaking were assessed at Rs. 200 lakhs. Hyderabad Construction Co. submitted the scheme to Hyderabad Government and obtained a licence, under the agreement dated 15th June, 1948 between Sirsilk Ltd. and Hyderabad Government to establish a factory at Sirpur-Kaghaznagar for the manufacture of acetate rayon yarn and fabrics. The Hyderabad Government agreed to subscribe for 30,000 shares of the value of O. S. Rs. 30 lakhs. According to the original plans it was expected that the factory would go into production within a period of 2½ to 3 years from the date of sanction.

3.2.1. The Hyderabad Construction Co. which promoted this company was the first managing agent under an agreement dated 8th June, 1946. The agreement provided, *inter alia,* that the managing agents be allowed a remuneration of O. S. Rs. 2,500 per month plus a commission on the annual net profits of the Company at the rate of 10 per cent. The Managing Agents were appointed for a period of 30 years from the date of incorporation of the Company *viz.,* 8th June, 1946 or for such lesser period as was provided by law.

3.2.2. Sirsilk entered into an agreement with Lansil Ltd. for technical collaboration for the early establishment of an up-to-date and modern factory with plant and equipment for the manufacture of rayon and allied products or finished articles. This agreement was dated 11th August, 1946 and was to remain in force for a period of twenty years in the first instance, subject to renewal by mutual consent. Under this agreement Lansil Ltd. agreed to provide the necessary technical know-how, trained and experienced staff and all designs, layout and drawings as well as all information, advice, guidance and assistance necessary for commencement of production. For these services, Sirsilk earmarked and agreed to allot to Lansil fully paid-up shares of the equivalent value of £75,000. In addition, for subsequent extension of similar services, Lensil was to be allotted fully paid-up shares of the equivalent value of £25,000. Further, Lansil was appointed to act as consultant and purchasing agent for the Company and for these services was paid at the rate of 2 per cent. of the cost price of the actual plant, machinery and equipment purchased in Great Britain, America and Europe. If equipment was purchased or made in India, Lansils' remuneration was fixed at 1 per cent. of the cost price. Another agreement on similar lines was signed on 25th December, 1946 between the Managing Agents and Lansil for technical collaboration for a period of nineteen years subject to renewal for further period on mutual consent. The Managing Agents agreed to pay to Lansil one quarter of the ten per cent. commission received by them annually from the profits earned by the Company by virtue of their being Managing Agents.

During the period of management of Hyderabad Construction Co. orders were placed abroad for most of the equipment and the construction of buildings for factory and residential colony was started. There was considerable political turmoil in the State at that time which eventually resulted in Hyderabad State becoming a part of the Indian Union. During this period, there were many difficulties which impeded the execution of the scheme.

3.2.3. In the meantime, the original scheme was reviewed and the estimates for capital equipment prepared by Lansil were revised upwards as a result of changes in specifications, additions to plant and machinery and a sharp rise in prices between 1946 and 1948. Fresh estimates of capital cost (exclusive of residential buildings) were made in February 1949 and a figure of Rs. 457 lakhs arrived at as against the figure of O. S. Rs. 200 lakhs made in September 1946. It has been reported that while there was little difficulty in raising the required share capital in 1946, conditions had altered substantially when the cost of the project was revised in 1949. It was therefore decided to meet the increased requirements of funds by raising a short-term loan. In 1949 Hyderabad Construction Company obtained a loan of Rs. 126 lakhs from the Industrial Trust Fund, which was a department of Hyderabad Government, at the rate of 3½ per cent. per annum secured by a charge on all property and assets of the Company together with a guarantee given by the Managing Agents. At this time Mr. Hugh Griffiths, a Chemical Engineer, was asked to examine the scheme in collaboration with a representative of Lansil. Mr. Griffiths gave a very favourable report on the future prospects of the Company and the Government and the Board of Directors approved of a further upward revision of the estimated capital expenditure to about Rs. 613 lakhs. It is relevant to mention that the estimates of cost worked out earlier by Mr. Bohra and Mr. Merkel, the then General Manager and Assistant Works Manager of Sirsilk respectively had shown a very handsome margin of profit from the first year of its going into production and it was anticipated that the loan capital would be repaid within a short period of about 4 or 5 years after providing for normal depreciation and taxes and payment of 6 per cent. dividend on ordinary shares. Mr. Griffiths confirmed that on the basis of estimates of cost of production worked out by him and the prices of acetate fabrics prevailing then, Sirsilk was expected to earn a high margin of profit at least from the second or third year of its working. The Government of Hyderabad agreed to finance the capital expenditure till such time that further share capital could be issued. It was anticipated then that the factory would be able to start production in 1952. The managing agency was transferred to the Industrial Trust Fund on 4th September, 1949 for the unexpired term of the managing agency and the Board of Directors was reconstituted. The Hyderabad Government continued to extend its financial support to the Company but the work of construction of buildings and erection of plant and machinery was not completed till 1953. By this time the total amount of loans obtained from Hyderabad Government aggregated to O.S. Rs. 388·59 lakhs including interest. Further advances to the extent of O. S. Rs. 158·00 lakhs were required to complete the installation of the factory and to bring it into production. The Hyderabad Government then found it difficult to provide such large funds having regard to its commitments towards developmental schemes in the State under the First Five Year Plan. In March 1953, the managing agency was transferred from Industrial Trust Fund to Birla Brothers (Private) Ltd. for the unexpired term of the period of the managing agency. Pending the execution of the indenture of transfer of the managing agency, Industrial Trust Fund agreed to execute a Power of Attorney in favour of Birla Brothers on 3rd March, 1953. Under the tripartite agreement between the Government of Hyderabad, Sirsilk and Birla Brothers it was agreed that Sirsilk should pay on the date of execution of the Indenture of Transfer (a) a sum of O. S. Rs. 25 lakhs in part payment of the loan including interest due to the Government of Hyderabad up to 31st January, 1952, and (b) loans advanced to the Company by the Government of Hyderabad between the date of the Power of Attorney and the date of the transfer of the managing agency to Birla Brothers along with interest. Birla Brothers guaranteed the payment of all these obligations either by the Company or by themselves on the due date. In addition, Birla Brothers agreed that within one year of the execution of the indenture of transfer they would make available to the Company either by issue of capital or in any other manner such amount as might be required to repay the balance of all moneys advanced to the Company by the Government of Hyderabad between 1st February, 1952 and the date of the Power of Attorney together with interest. The other salient features of the Indenture of Transfer were as under:

(1) It was agreed that the balance of the amount after making the above payments, if so required by the Government of Hyderabad, should be secured by the Company by $4\frac{1}{2}$ per cent. debentures charged on all its immovable properties and fixed machinery redeemable at the rate of I. G. Rs. 19 lakhs per annum beginning from 31st December, 1955 or from a date one year after it went into production of acetate rayon fabric whichever date was earlier, with option to the Government of Hyderabad to have these debentures or any part thereof converted into ordinary shares within a period of 2 years from the date of execution of the Indenture of Transfer.

(2) Birla Brothers agreed to arrange for funds to complete the construction of the factory and to start production of acetate rayon yarn and fabric and also to provide working capital.

(3) The company should raise its issued capital by at least one crore of rupees within two years of the execution of the Indenture of Transfer. Birla Brothers or their associates should take over shares of the company of the face value of Rs. 75 lakhs.

(4) So long as the Government of Hyderabad held shares amounting to not less than Rs. 25 lakhs, they should be entitled to nominate two non-retiring Directors on the Board of Directors of the company.

(5) The Government of Hyderabad was entitled to hold at least 50 per cent. of the issued capital of the company provided this option

was exercised within two years from the date of execution of the Indenture of Transfer.

3.2.4. In terms of another agreement signed on 10th September, 1954 between Sirsilk and Birla Brothers the managing agency was transferred to the latter for the unexpired period of 30 years, *i.e.*, up to 31st March, 1971 with retrospective effect from 21st March, 1953. Under this Agreement, the remuneration of the new Managing Agents was fixed at the rate of 10 per cent. commission on the annual net profits of the company subject to a minimum of Rs. 12,000 per annum.

3.2.5. After their appointment as Managing Agents, Birla Brothers raised fresh share capital amounting to about Rs. 218 lakhs, Rs. 200 lakhs in the form of 6 per cent. tax-free redeemable preference shares and the balance in ordinary shares. It was stated by the company that in order to fulfil the obligations under the agreement dated 3rd March, 1953 it made repayments towards Hyderabad Government loans to the extent of about Rs. 122 lakhs, Rs. 62·50 lakhs being in the form of preference shares and the balance in cash. The erection of the plant and machinery was completed and production started in June 1954. However, several difficulties were encountered in the manufacturing process and regular production up to the installed capacity could not be achieved. At this stage, Sirsilk considered it desirable to terminate all its past agreements with Lansil and under an agreement signed on 10th July, 1954 all the contracts and obligations subsisting till then between the parties were cancelled and both parties relinquished all claims thereunder. It was agreed that the company should pay to Lansil in sterling the following sums in full and final settlement of all claims :

(a) a sum of £12,500 as soon as the company obtained the necessary sanction under Foreign Exchange Control Regulations;

(b) a like sum of £12,500 after one year from the date of the agreement; and

(c) a further sum of £25,000 after two years from that date provided that the company should have attained within this period a daily production of five tons of acetate yarn for any period of seven consecutive days and in case this was not possible, as soon as the plant should have achieved the said production.

It was only in 1956-57, nearly two years after the commencement of production that the factory was in a position to work up to its installed capacity both in its spinning and weaving departments.

3.3.1. Since the incorporation of Sirsilk, there have been frequent changes in its capital structure which are summarised in Appendix IV. The capital structure of the company as on 30th September, 1958 consisted of the authorised capital of Rs. 1,080 lakhs divided into 4,800,000 ordinary shares of Rs. 10 each and 600,000 preference shares of Rs. 100 each and the issued capital of Rs. 320 lakhs divided into Rs. 120 lakhs in 1,200,000 ordinary shares and Rs. 200 lakhs in 200,004 six per cent.

tax free cumulative preference shares. The subscribed and paid-up capital was about Rs. 302 lakhs consisting of 942,270 ordinary shares of Rs. 10 each and 200,004 preference shares of Rs. 100 each and about Rs. 7·77 lakhs being the paid-up amount on forfeited shares. The loans from Andhra Government amounted to Rs. 316·82 lakhs including interest of Rs. 88·25 lakhs. Secured loans from banks aggregated to Rs. 30·05 lakhs, while unsecured loans were outstanding to the order of about Rs. 50 lakhs obtained from State Bank of Hyderabad and guaranteed by Andhra Government. Andhra Government holds share capital of the value of Rs. 80·49 lakhs, Rs. 18 lakhs in ordinary shares and Rs. 62·49 lakhs in preference shares. The Central Bank of India holds, on behalf of a constituent, preference shares of the value of Rs. 137·14 lakhs. Among other large shareholders Hyderabad Construction Co. holds ordinary shares of the value of Rs. 13·90 lakhs and Birla Brothers hold ordinary shares of Rs. 3·92 lakhs constituting 4·72 per cent. and 1·33 per cent. respectively of the paid-up share capital.

3.3.2. The gross value of the fixed assets as on 30th September, 1958 was Rs. 570·23 lakhs. Owing to the prolonged period of construction and erection of the Sirsilk factory the Company had incurred various kinds of expenditure aggregating to Rs. 120·60 lakhs which was capitalised by two resolutions of the Board of Directors dated 6th April, 1954 and 7th May, 1955. This constitutes about 21·02 per cent. of the total value of the gross block. The largest items included in the capitalised expenses were interest on loans amounting to Rs. 46·97 lakhs, salaries and supervision charges of Rs. 42·95 lakhs and miscellaneous expenses of Rs. 14·21 lakhs. The expenses which were capitalised after the factory went into production included mainly the payment of £50,000 to Lansil in accordance with the revised agreement of 10th July, 1954. No depreciation on the fixed assets has been provided so far though the assets have been in use for the past four years. The total arrears of depreciation as on 30th September, 1958 on the gross value of the fixed assets amounted to Rs. 242·17 lakhs and the sum allocable to yarn was Rs. 202·78 lakhs. This is exclusive of the depreciation on capitalised expenditure.

3.3.3. The company suffered losses in the initial two years of its working, the aggregate loss on total business including sale of fabrics amounting to Rs. 23·83 lakhs as on 30th September, 1955. There were small gains in 1955-56 and 1956-57 without providing for depreciation. For the first time in 1957-58 the company earned a sizeable gross profit of Rs. 20 lakhs subject to depreciation most of which was obtained from sale of yarn. The net loss shown in the Balance Sheet on 30th September, 1958 was Rs. 3·11 lakhs and adding to it deferred expenses amouting to Rs. 3·37 lakhs which had not been written off, the total loss carried forward was Rs. 6·48 lakhs. The company has not paid dividend on cumulative preference shares, the contingent liability under which head amounts to Rs. 48·59 lakhs.

3.3.4. The analysis of balance sheet and profit and loss account of the company from 30-9-1953 to 30-9-1958 (provisional) is given in Appendix V. The outstanding features of the financial position as revealed by the latest available accounts of the company are: first, the heavy preponderance of loan capital with prior interest charges over equity capital and, secondly, the enormous burden of liabilities, current and accumulated, which the company has to discharge from its future earnings. Taking the accounts of the year 1957-58 the equity capital of the company amounted to only Rs. 94·27 lakhs against the loan capital of Rs. 317 lakhs and preference capital of Rs. 200 lakhs. The result of such capital structure is that every year the company has to provide for interest on and amortisation of loan which amounts to about Rs. 32 lakhs. In fact it has paid no interest since the beginning and was unable to pay the annual instalment of Rs. 19 lakhs in 1956-57 and 1957-58. In addition there is a contingent liability of Rs. 48·59 lakhs being the accumulated dividend on preference shares and every year Rs. 12 lakhs are added to that figure. The value of the block assets was Rs. 573·68 lakhs which included a sum of Rs. 120·60 lakhs being the pre-production expenses which the company has subsequently capitalised. Hitherto the company had made no provision for depreciation on fixed assets which has gone into arrears to the extent of Rs. 312·28 lakhs. Though the assets are shown at their gross value, they have suffered wear and tear during the period they have been in use and have proportionately declined in value. If, therefore, provision for depreciation according to income-tax rates had been made every year and debited to the profit and loss account, the balance sheet would have represented the correct position after showing fixed assets at their written down value and arrears of depreciation as loss. In addition, there is a carried forward loss of Rs. 6·48 lakhs. The company is thus faced with the problem of meeting these long-term liabilities which impose a heavy strain on its financial position. These issues, to which we refer later in the report, have a direct bearing on the determination of fair selling prices of acetate yarn.

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Process of manufacture

4. Sirsilk is the only concern in the country engaged in the production of rayon yarn based on acetate process. Its activities cover the manufacture of rayon yarn and fabrics containing acetate yarn. It also makes various chemicals required in the process of manufacture such as acetic acid, acetic anhydride, acetone and ethyl acetate. In the case of acetic acid it has surplus capacity over and above its requirements and has therefore placed a portion of its product for sale in the market. The company manufactures cellulose acetate by the chemical combination of pure bleached cotton and a mixture of acetic acid and acetic anhydride. All the three constituents are made in different sections of the plant. Bleached cotton is obtained by treating cotton linters with caustic soda followed by bleaching; acetic acid is produced by catalytic oxidation of ethyl alcohol obtained in the form of power alcohol or rectified spirit; and acetic anhydride is obtained from acetic acid by way of ketene. In the process of acetylation bleached cotton is made to react with a mixture of glacial acetic acid and acetic anhydride. The cellulose acetate so formed, undergoes several processes such as ripening, precipitation, stabilisation, drying and

blending before the material is ready for spinning. Only a small proportion of the acetic acid and acetic anhydride added in the process of acetylation is retained in cellulose acetate whereas the unreacted acid and anhydride are obtained in the form of dilute acetic acid. The dilute acid is converted into glacial acetic acid for reuse by solvent extraction with ethyl acetate and subsequent distillation. The next stage in the process consists of conversion of cellulose acetate into yarn. Cellulose acetate is dissolved in acetone to form dope which is filtered and extruded through spinnerets into closed spinning cabins against a current of warm air. Acetone is carried off with warm air and the extruded filaments of cellulose acetate would on bobbins. The acetone carried off with the warm air is recovered by absorption in activated carbon and subsequent steam distillation. The entire system contains a large amount of acetone and some inevitable losses occur continuously which have to be made up by the addition of fresh acetone. Acetone required for this purpose is made from ethyl alcohol by a catalytic process operating at a high temperature. The spun yarn is either sent to the company's own weaving section for conversion into fabrics or made into cones or hanks for sale in the market.

Raw materials

The principal raw materials used in the manufacture of acetate yarn are cotton linters and absolute alcohol.

5.1. *Cotton linters.*—The linters provide cellulose material rich in alpha cellulose required for conversion to cellulose acetate. Linters of high quality are obtained by controlled delinting of cotton seeds. Till recently there was practically little or no production of linters in India. With the establishment of cotton seed oil industry in the country and in view of the growing demand for linters, two firms have set up modern equipment for separating linters. Sirsilk has been obtaining its requirements partly from these two firms and partly from imports from Pakistan and U. S. A. In 1957-58 the proportion of indigenous linters was 50·78 per cent. of the total quantity consumed by the company. During the discussion with the company's representatives we were informed that the two firms will be in a position to supply a larger quantity of linters in future and in framing our estimates of future costs we have assumed that out of the total requirements of bleached cotton the company will obtain 60 per cent. from indigenous linters and the balance from imports.

5.2.1. *Alcohol.*—Ethyl alcohol is obtained from the fermentation of molasses which is a by-product of the sugar industry. It is used as a starting material for making acetic acid and acetone. Sirsilk obtains the bulk of its requirements of alcohol from the Government Power Alcohol Factory, Shakarnagar, as per its agreement dated 20th September, 1954 with the Industrial Trust Fund which owns the power alcohol factory. Under this agreement the Industrial Trust Fund is to supply absolute alcohol to Sirsilk for its requirements from the production of the Government Power Alcohol Factory after setting aside a maximum of 200,000 gallons for other industries. Sirsilk, on the other hand, has to lift a minimum quantity of 50,000 gallons per month. The capacity of the Government Power Alcohol Factory is rated to be 1 million gallons per annum and as per the agreement the factory has agreed to make available 800,000 gallons per annum. Actually in the years 1956, 1957 and up to 18th December, 1958 the quantities of alcohol supplied to Sirsilk were far in excess of this figure. The quantity of alcohol purchased during the year 1957-58 was 1·051 million gallons. This was due to the fact that the Government Power Alcohol Factory could not dispose of the reserved quantity of 200,000 gallons to other consumers and therefore the balance was made available to Sirsilk. We are informed by the Andhra Government that the Government Factory has plans to increase its output to about 1·6 million gallons per annum so that it will be in a position to supply 1·4 million gallons of alcohol to Sirsilk after reserving 200,000 gallons for other industries. We have, however, no precise information as to when this expansion will be achieved and we have, therefore, assumed that in future Sirsilk will get about 850,000 gallons from this source and the balance from other sources.

5.2.2. The rate stipulated in the agreement (20th September, 1954) for supply of absolute alcohol was Re. 0-14-0 nett f.o.r. Shakarnagar; but the Industrial Trust Fund had the right to revise the rate after three years from the date of the execution of the agreement and taking into consideration the economic condition of Sirsilk factory. The price of alcohol was raised to Rs. 1·25 per gallon with effect from 20th September, 1957. On a representation made by the company the price was reduced to Rs. 1·19 per gallon, the revised price having been given retrospective effect from the same date. This meant an increase of 32 nP. per gallon from 20th September, 1957. In addition the Andhra Government has served notice on the company to pay a gallonage fee of 22 nP. per gallon on all quantities of alcohol consumed by them with retrospective effect from the date the factory went into production. This gallonage fee is levied not only on power alcohol obtained from the Government Power Alcohol Factory at Shakarnagar but also on alcohol obtained from sources outside the State which account for about 16 per cent. of the alcohol used by the company. We are informed that the company is in correspondence with Andhra Government about this matter. If the company is compelled to pay a gallonage fee of 22 nP. per gallon of alcohol the price of alcohol will work out to Rs. 1·63 per gallon including transport and handling charges as well as salaries to excise staff maintained at the factory and elsewhere. The effect of the increase in price and the gallonage fee taken together will put up the cost of alcohol by 54 nP. per gallon which will result in an increase in cost of acetate yarn by 13·7 nP. per lb. The price at which power alcohol should be made available to industrial consumers in the country is a matter of national policy and this question was examined in detail by the Alcohol Committee appointed by the Government of India in 1955. The Committee recommended that the price of alcohol should not be higher than Re. 0-14-0 per gallon ex-distillery if its use as an industrial raw material was to be developed. The Government Power Alcohol Factory obtains its molasses from the Nizam Sugar Factory in which Andhra Government has substantial interest. The unit has a capacity of 1 million gallons and is located favourably in regard to supply of molasses. We, therefore, consider that the cost of production of alcohol in this factory should be in line with that estimated by the Committee and it should be possible to make a substantial reduction in the price. The original scheme of Sirsilk envisaged the supply of power alcohol at a favourable rate and we consider that this locational advantage should not be denied to the company at a time when the company's economic condition is far from satisfactory. We, therefore, suggest that the Andhra Government should consider sympathetically the representation of the company for reduction in the price of power alcohol as well as the reconsideration of the policy regarding the payment of gallonage fee on alcohol consumed by the company.

5.2.3. Sirsilk has an acetic acid plant with a capacity higher than its own requirements of the material. The Andhra Government has recently served the company with a notice that an excise duty of Rs. 70 per gallon will be levied on that portion of power alcohol which is used for manufacture of acetic acid for sale in the market. This impost is such as would result in increasing the price of acetic acid to a level at which it cannot be sold and the company has, therefore, discontinued its production for sale. We have estimated that the excess output when sold at market rates would result in a gross realisation of about Rs. 7·54 lakhs per annum. We consider that the company should be encouraged to utilise the capacity of every section of its plant to the maximum extent possible so that its overhead expenditure is distributed over a larger production and its financial position strengthened by any extra realisation that may accrue. We, therefore, recommend that the excise duty of Rs. 70 per gallon levied by Andhra Government on alcohol used by Sirsilk for the manufacture of acetic acid for sale should be removed forthwith. In anticipation of the withdrawal of this duty, we have assumed in our future estimates that Sirsilk will manufacture 1·8 tons per day of acetic acid for sale.

Demand

6. The company has stated that the present demand for all varieties of artificial silk yarn is about 75 million lbs. of which the demand for viscose yarn is 60 million lbs. and that for acetate yarn and all other varieties is 6 million lbs. and 9 million lbs. respectively. On the basis of the availability of acetate rayon yarn made up of indigenous production and imports, the Textile Commissioner has estimated the current domestic demand at 6·5 million lbs. The following figures show the extent of consumption of acetate yarn during the year 1956-57, 1957-58 and April to October 1958 :—

(In million lbs.)

	Imports	*Production*	*Total*
1956-57 (ending March)	2·8	3·4	6·2
1957-58 („)	1·8	3·6	5·4
April to October, 1958	0·9	2·4	3·3

With regard to future demand the Planning Commission has fixed the target of production of art silk and synthetic yarn to be achieved by the end of the Second Five Year Plan at 100 million lbs. per year. The Development Council for Art Silk industry has recommended that the requirements of various types of rayon and synthetic yarn by the end of the Second Plan should be estimated as under:

	(In million lbs. per annum.)
Viscose Yarn	75
Acetate Yarn	20
Cuprammonium	3
Nylon, Perlon, etc. . . .	2
	100

Capacity and production

7.1. *Capacity.*—Sirsilk has a capacity to spin 6 tons of yarn per day or about 4·8 million lbs. of yarn per annum. Its spinning capacity is larger than the capacity for producing cellulose acetate, the latter being 5 tons per day or about 4 million lbs. per annum. In order to utilise the capacity of its spinning section to the full extent the company has to supplement its own production of cellulose acetate with imported material. The company has obtained a licence under the Industries (Development and Regulation) Act, 1951 for expansion of its capacity to 10 tons per day. This scheme has however not been implemented in view of the financial difficulties encountered by the company.

7.2. *Production.*—The following figures furnished by the company show the quantity of yarn produced in each of the year (ending September):

	Production of acetate yarn (in million lbs.)
1953-54	0·4
1954-55	2·4
1955-56	2·9
1956-57	3·6
1957-58	3·9

Quality

8. The Silk and Art Silk Mills' Association, Bombay while pointing out certain defects in the yarn produced by Sirsilk as reported by its members stated that no attention was paid by the company to the complaints of the mills regarding the quality of yarn supplied. The company has, however, claimed that in most of the cases the complaints have been found to be exaggerated as there was

an element of prejudice against the indigenous product. The Textile Commissioner has stated that he had received certain complaints in the past regarding the quality of acetate yarn manufactured by Sirsilk. Of late, however, there were no complaints except that the yarn was unsuitable for use on high speed warping machines. The company has accepted this position and has added that efforts have been made to eliminate this defect, but they have met with only partial success as the company's plant has become somewhat obsolete and it has not been possible to carry out improvements in the spinning process owing to lack of financial resources.

Selling arrangements

9. The company has stated that its yarn reaches the consumer through its selling agents, Tulsidas Kanoria & Company which was originally a proprietory concern but has been reconstituted as a partnership firm as from 10th November, 1958. According to the agreement dated 26th September, 1958, between the company and Tulsidas Kanoria & Co. the latter has been appointed sole selling agents for yarn and fabrics manufactured by the former. The appointment is for a period of five years from 1st October, 1958. The sole selling agents are entitled to get $1\frac{1}{2}$ per cent. commission on the nett sales of yarn and fabrics except in the erstwhile State of Hyderabad. The prices and terms and conditions of sale are to be fixed by Sirsilk. The yarn is distributed through the sole selling agents to the consumers or dealers as per the direction of the Textile Commissioner. The company has stated that in the initial stages the yarn had to be sold to dealers on account of the consumers' reluctance to try out a new product. But from 1956 onwards, the major quantity has been sold directly to actual users. During the current year, more than 94 per cent. of the sales took place in this manner and only about 6 per cent. through dealers.

Our approach to the problem

10.1.1. From the year that Sirsilk went into production, it had to sell its yarn in competition with the imported yarn and indigenously produced viscose yarn. In 1954 the price of its acetate yarn was Rs. 4·19 per lb. of 150 denier. In 1955 the price went down to Rs. 3 per lb. In the third quarter of 1956 the price improved to Rs. 3·87. Due to restrictions on imports in the second half of 1957 there developed considerable shortage of artificial silk yarn and prices in the yarn market showed an upward trend. From January 1958 market prices advanced persistently and the price of acetate yarn reached Rs. 7·81 per lb. of 150 denier in June 1958. During this period the company's price was fixed at Rs. 4 per lb. Sirsilk has contended that the prices approved by Government are uneconomical as they do not permit sufficient margin of profit to provide even for current depreciation and reasonable amount of return on capital employed. Sirsilk is the only unit in the country producing rayon yarn by acetate process and its cost of production on account of various factors which we discuss later is undoubtedly high.

10.1.2. Arising from our examination of cost of production there are several items like the capitalised expenditure, the interest on and repayment of the loans from Andhra Government and arrears of depreciation which require consideration. We have carefully scrutinised the item of capitalised expenditure and have admitted such expenditure as would be normally admissible for construction and erection of the block assets. The company has put forward the plea that a special element may be provided in the fair selling price to take care of all the liabilities which the company has to discharge from its future earnings. We have considered this request but are unable to accept it. The fair selling price should, in our view, be based on the estimated cost of production with a reasonable return on employed capital. We do not think that the consumer, in whose interest formal or informal price control has been instituted, should be called upon to bear the burden of liabilities which are the direct result of miscalculations in the past. The aggregate liabilities of Sirsilk are huge and they will take a fairly long time to clear off. To deal with them, a different type of solution is required. We have given careful thought to this issue and are convinced that what is imperative at the present moment is the reorganisation of the financial affairs of the company. In this task positive measures should be taken immediately to reconstruct the capital structure of the company in a manner that would remove the crushing burden of interest charges and the obligation of amortisation of loans. Until this is done, whatever profit the company may make will be wholly absorbed in liquidating the borrowings. Secondly, along with reconstruction of the capital structure, everything possible should be done to reduce the cost of production in order to build up the competitive strength of the company and place it on a stable footing. Unless these measures are taken forthwith, this unit cannot become financially viable and its working is not likely to prove remunerative. Thirdly, it is important that the future profits of the company are disposed of according to certain priorities. It is a well-recognised principle that depreciation has a prior claim over all other claims and in the case of Sirsilk we think that a major portion of its future earnings should be utilised for some time to come for writing off arrears of depreciation and thereafter to pay off the accumulated dividend on preference shares. Our approach therefore is, in the first place, to fix a fair selling price for acetate yarn produced by Sirsilk; secondly, to recommend positive measures for reconstruction of the capital structure of the company; and thirdly, to suggest priorities for the utilisation of future earnings of the company so that arrears of depreciation may be written off within a measureable time.

Cost of Production

11.1. Our Senior Cost Accounts Officer has examined the data relating to costs for 1957-58 and has worked out the fair ex-works cost of acetate yarn produced by Sirsilk during 1957-58. The efficiencies in the consumption of materials and recovery of process chemicals which were examined by our Technical Director were generally found to be reasonable having regard to the design and equipment of the factory. The Report of our Senior Cost Accounts

Officer is forwarded as a confidential enclosure. The following statement contains the break-up of the fair ex-works cost of bright accetate yarn (Coned—150 denier) in the year 1957-58:

Raw Materials	Cost per lb. (nP.)
Alcohol	41·227
Linters	24·918
Cellulose acetate purchased or consumed from stock	12·742
Acetic Anhydride, Acetone, Ethyl Acetate etc., purchased or consumed from stock.	2·334
1. Total Raw Materials	81·221
2. Power and Fuel	49·149
3. Wages and Salaries	45·194
4. Repairs and maintenance and Stores	51·784
5. Depreciation	100·369
6. Overheads	62·577
7. Cost of Production	390·294
8. Packing cost	17·959
9. Fair ex-factory cost	408·253

A statement showing the fair cost of yarn denier-wise for the year ended 30th September, 1958 is given in Appendix VI.

11.2.1. *Future costs.*—The estimates for future costs have been worked out on the following assumptions:—

(a) Production is assumed to be 5·1 tons of cellulose acetate, 5·7 tons of acetate yarn and 1·8 tons of acetic acid for sale per day. Assuming production for 340 days the production of acetate yarn would be 43·41 lakh lbs.

(b) We have suggested in paragraph 5.2.2. that the Andhra Government should reconsider its policy regarding imposition of gallonage fee of 22 nP. per gallon. We have, however, adopted the rate charged for alcohol inclusive of the gallonage fee.

(c) It is estimated that in order to produce 5·7 tons of yarn per day about 6·02 tons of cellulose acetate would be required including wastage at the filter press. Of this, 5·1 tons will be produced by the company and the balance of 0·92 tons per day would be met from imported cellulose acetate for which the latest price *viz.*, Rs. 2·3 per lb. has been adopted.

(d) For particular items of stores such as coal, caustic soda, sulphuric acid, titanium dioxide etc. the latest rates for the respective items have been assumed for future. On other items of stores provision has been made for increase in prices at the rate of 5 per cent. per annum.

(e) During 1957-58 electrical energy was supplied by Sirpur Paper Mills at about 1·56 nP. per unit. The company informed us that owing to an expansion of activity in the paper mills the latter is no longer in a position to continue the supply of electrical energy at that rate because the paper mills will now require the entire generating capacity for their own use. Sirpur Paper has, therefore, informed Sirsilk to obtain its requirements of electrical energy from Andhra Government's grid supply at an average rate of about 5·5 nP. per unit. During the discussion with the representatives of the company we have impressed on them the need for keeping down costs as far as possible. Since one of the considerations in locating the factory of Sirsilk in the neighbourhood of Sirpur Paper was that electrical energy would be available at a cheap rate, we consider that this locational advantage should not be withdrawn at this juncture for it would raise the cost of electrical energy three-fold at a time when the company can hardly bear it. We have, therefore, estimated the power charges on the basis of the old rate at which the company used to get its supply of electric power.

(f) Salaries and wages have been estimated on the basis of regular increments allowed by the company including the extra amounts payable to the workers on the basis of the agreement between the management and Sirsilk Employees' Union entered into on 18th December, 1958.

(g) With regard to the pre-production expenses aggregating to Rs. 120·60 lakhs which the company has capitalised, we have scrutinised the items constituting this amount and have allowed a sum of Rs. 48·31 lakhs which we think is reasonable. In arriving at this figure we have decided that ordinarily it should have been possible to erect the plant and machinery and construct buildings required for a factory of this size within a period of about 2½ years. In view of the fact that the managing agents who were in charge during this period were mainly responsible for the inordinate delay in the erection of the factory, it was decided that their remuneration should not be admitted as an item of cost to be capitalised. We have also decided that the interest payable to Government for the loans advanced during this period should not form part of the cost of construction. We have made a separate recommendation for dealing with this item.

(h) The company has submitted a list of plant and machinery and buildings which they propose to erect in the course of the next three years in order to maintain efficient production at the level assumed by us. The details of this programme were scrutinised and a sum of Rs. 9·51 lakhs has been admitted as addition to block assets during the period of the next three years.

(i) Depreciation has been calculated on the written-down value of the assets at normal income tax rates together with second shift allowance.

(j) Out of the total yarn of 43·41 lakh lbs. to be produced by the company, it has been assumed that about 25·44 lakh lbs would be for sale and the coning and hanking expenses have been distributed over this production required for sale.

(k) Packing charges have been kept at the same figures as for the year 1957-58.

(l) The average net assets employed for yarn after making adjustments for the assets required for acetic acid for sale worked out to Rs. 130·83 lakhs. The working capital at 6 months' cost of production including packing but excluding selling expenses worked out to Rs. 64·88 lakhs. The capital employed thus amounted to Rs. 195·71 lakhs. A return of 10 per cent. on capital employed has been allowed.

(m) Freight to Bombay has been estimated at 7 nP. per lb., on the basis of latest freight rates as against 5·645 nP. during 1957-58.

(n) Selling commission and brokerage have been allowed at $1\frac{1}{2}$ per cent. on the price less excise duty payable.

(o) Excise duty has been included at the rate of 40 nP. per lb. of acetate yarn.

11.2.2. The following statement contains the break-up of the fair selling price of bright acetate yarn (coned—150 denier) for future :—

Raw Materials	Cost per lb. (nP.)
Alcohol	44·20
Linters	19·82
Cellulose Acetate	37·18
1. Total Raw Materials	101·20
2. Power and Fuel	46·69
3. Wages and Salaries	44·39
4. Repairs and Maintenance and Stores	53·75
5. Depreciation	63·96
6. Overheads	59·83
7. Cost of Production	369·82
8. Packing cost	17·96
9. Fair Ex-works cost	387·78
10. Excise Duty	40·00
11. Selling Expenses—	
(*a*) Commission	6·75
(*b*) Other expenses	3·29
12. Return on capital employed	45·00
13. Fair Ex-works selling price	482·82
14. Freight to Bombay	7·00
15. Fair F.O.R. Bombay Price	489·82

A statement showing our estimate of fair selling price of acetate yarn F. O. R. Bombay is given in Appendix VII.

11.2.3. The company represented that according to the customary practice it has to sell its yarn of 'B' and 'C' grades at prices below that of 'A' grade. The discount allowed is 1 anna per lb. and 4 annas per lb. respectively. On the basis of the actual production of 'B' grade and 'C' grade yarns in the year 1957-58 it has been assumed that production of 'A' grade yarn including the ungraded yarn to be transferred to the weaving section would be about 85 per cent of the entire production, the production of 'B' grade and 'C' grade yarns would be about 12 per cent. and 3 per cent. respectively. After adjusting the discount mentioned above, the price of 'A' grade yarn was worked out. We recommend that the fair selling prices of acetate yarn of 'A' grade F. O. R. Bombay inclusive of excise duty should be as follows :—

Deniers	300 Rs.	150 Rs.	120 Rs.
Yarn coned :			
Bright yarn per lb.	4·64	4·91	5·16
Bright yarn per kg.	10·23	10·83	11·38
Dull yarn per lb.	4·67	4·95	5·19
Dull yarn per kg.	10·30	10·90	11·45
Yarn hanked :			
Bright yarn per lb.	4·51	4·82	5·07
Bright yarn per kg.	9·94	10·64	11·18
Dull yarn per lb.	4·54	4·86	5·10
Dull yarn per kg.	10·01	10·71	11·25

The above prices are inclusive of selling commission. The yarn produced by Sirsilk is at present sold to consumers at a price inclusive of 1½ per cent. selling commission. We do not consider that any extra element is required to be added by way of selling commission on retail sales by dealers. The Company's selling agents should meet this element from their own commission.

11.3. We have examined the cost of production only of acetate rayon yarn produced by Sirsilk and have recommended fair selling prices of yarn denier-wise including the return on capital employed up to the yarn stage. Sirsilk, however, also has a weaving department consisting of 480 looms and necessary finishing equipment. For its weaving department, it obtains the bulk of its requirements from its own production of yarn and in 1957-58 it produced 4·72 million yards of acetate yarn fabrics. We have not examined the cost of production of fabrics and therefore do not know the margin of profit that the company may earn on sale of fabrics. The representatives of the company informed us that they intend to work all the 480 looms on two shift basis and are changing their pattern of production for an increasing output of heavier fabrics. We therefore anticipate that the company will be able to earn a sizeable profit from sale of fabrics in future. This will be in addition to the return on capital employed included in the fair-selling price of acetate yarn. We have not taken into account this profit because any additional profit that the company may make would go towards shortening the period during which appropriations may be made according to the priorities suggested by us in paragraph 13.

11.4. During our discussions with the representatives of the company, they requested that apart from fixing a fair selling price for its yarn, we should recommend a ceiling price (which should include an additional element earmarked for purposes of development) which the company may be permitted to charge as and when conditions in the yarn market allow. We have considered this request but are unable to accede to it. In the first place, it is no use fixing a price which is at present unrealistic and which can become operative only under fortuitous circumstances. The output of this company of acetate yarn fulfils only a part of the requirements of the country. It has to sell the yarn in competition, not only with imported yarn but also with other rayon yarns produced in the country. Consequently even if the company is allowed to sell its product at a high price it will not, in fact, find it possible to do so unless and until all the yarn which is indigenously produced and imported into the country is made available at the same level of prices. Secondly a two-tier price level is not feasible to operate because it would nullify any kind of control, formal or informal. We realise that the company was tempted to make this suggestion because in 1958 when the scarcity of artificial silk yarn became acute, the prices in the free market of yarn commanded a high premium over the prices approved by Government. In January 1958 the quotation of 150 denier acetate yarn firmed up to Rs. 5·61 per lb. and consistently advanced in the subsequent months touching the peak level of Rs. 7·74 in July 1958 which was Rs. 3·74 higher than the approved price of the same denier of acetate yarn. Thereafter prices declined persistently and dipped to Rs. 4·63 in December 1958. In February 1959 the premium shrank to between 37 and 50 nP. per lb. of 150 denier acetate yarn. It is pertinent to point out here that there is a ban on the import of 120 and 150 denier acetate yarn and the company's product enjoys a sheltered market, though some relaxation was made in the import of yarn of these deniers under export promotion scheme. The free market in yarn exists only to the extent that some weavers dispose of their yarn in the market at a premium instead of using it themselves for production of fabrics. Further, rayon yarn, viscose and acetate produced in the country is at present distributed directly to consumers as regulated by the Textile Commissioner. Various measures have been taken to restrain the prices of viscose and acetate yarn from rising unduly high. It would not be proper to allow one manufacturer of rayon yarn the liberty of taking advantage of conditions of scarcity whenever they arise and restrain others from doing so. It is only in such periods of scarcity that the need for price control becomes essential, and the operation of a ceiling price at such periods would defeat the purpose and efficacy of control measures. We have examined the course of international prices of viscose and acetate yarn for the past five years and have found that prices of both types of yarn rule more or less in parity, with only slight variations depending upon the volume of demand for either variety. There is nothing inherent in the acetate process to warrant a higher cost of production than that of viscose process. The cost of production of Sirsilk is high because its capacity is small and the cost of raw materials is higher than the prices at which they are available to its foreign counterparts. We are, therefore, of the view that the company should rather aim at a lower cost of production so as to evolve a competitive price than ask for a higher price which is neither feasible nor fair. Towards this end we have suggested that the Andhra Pradesh Government should use its good offices to make available alcohol at a reasonable price and have advised that Sirpur Paper should continue to supply electric power at the same rate at which it has been made available till now.

Financial reorganisation

12. We now turn to the question of the financial reorganisation of the company. As we have stated earlier, the company is faced with long-term liabilities on three counts (1) payment of interest at the rate of $4\frac{1}{2}$ per cent. per annum on loans outstanding *viz.*, Rs. 317 lakhs including the accumulated interest of Rs. 88 lakhs (2) amortisation of loans at the rate of Rs. 19 lakhs per annum as per the agreement of March 1953 and (3) provision for arrears of depreciation aggregating to Rs. 312·28 lakhs on fixed assets including capitalised expenditure. The amount required to pay interest and annual instalment for repayment of loan is estimated at about Rs. 32 lakhs. Since the company's plant has already been in commission for about 5 years and suffers heavy wear and tear, it is considered essential that the arrears of depreciation should be written off in a period of about 10 years. In order to achieve this, an annual provision of about Rs. 31 lakhs would become necessary. Further there are arrears of preference dividend amounting to Rs. 48·59 lakhs which have to be met in addition to Rs. 12 lakhs being the recurring annual dividend on preference shares. Taking into account only the liabilities for payment of interest on loan outstanding, amortisation of loan and arrears of depreciation which may be written off in 10 years and assuming that 80 per cent. of these liabilities are applicable to yarn roughly in the proportion of the gross block used for yarn, the total amount needed is estimated at about Rs. 46 lakhs. A provision of this order though diminishing in respect of interest charges from year to year as the loan amount is reduced by amortisation will have to be made annually by the company from its future earnings consistently for a period of 10 years and beyond. Sirsilk has pleaded that a special element may be provided in the fair selling price to enable it to earn this amount by way of profit. There are two alternatives before us : either (a) to accept the claims advanced by the company for inclusion of an extra amount of Rs. 46 lakhs in addition to the return of 10 per cent. allowed on capital employed so as to enable the company to meet its obligations or (b) to suggest ways and means whereby the burden of the long-term obligations may be reduced as far as possible. We have given careful thought to this mater and have come to the conclusion that while the company should be allowed to

charge a fair selling price for its acetate yarn there is no justification for including a special element in price for meeting its liabilities. We are opposed to this in principle for price fixation would lose its purpose if it were to be made an instrument of transferring the burden of accumulated liabilities from the owners of an undertaking to the consumers of its product. Other means have to be explored for reducing the financial burden of the company. In an industrial undertaking of this type where a new product is to be manufactured, it often happens that estimates undergo revision, the period of construction and erection of the factory is prolonged and the concern sustains losses in the initial period. If the sponsors of such an enterprise raise equity capital in adequate proportion, as is normally the case with new ventures, ordinary shareholders would wait for return on their investment till the concern acquires profit-earning capacity. If, however, the undertaking starts with a disproportionately large loan capital, interest charges have to be paid from its inception and amortisation obligations may arise even before the concern goes into production. That is what has happened in the case of Sirsilk. We are informed by the Andhra Government that it was the policy of the erstwhile Hyderabad Government to support the starting of industrial undertakings with nominal share capital and to finance them by providing loans from the Industrial Trust Fund. During the period in which the Industrial Trust Fund managed the company from September 1949 to March 1953 the State Government advanced O. S. Rs. 350 lakhs for financing the erection of the factory. From the evidence before us we have found that this type of financing was encouraged by the original highly optimistic estimates of profit on the composite working of the undertaking from which it was expected that these borrowings would be repaid within a short period. The estimated high margin of profit rested on several assumptions including local availability and cheapness of raw materials and highly remunerative prices of acetate fabrics in a practically sheltered market. These assumptions were not borne out by subsequent developments and there was inordinate delay before the factory went into production. Even if no delay had taken place in the construction of the factory and the commencement of manufacturing activity, it was obviously over-optimistic to assume that the profits accruing to the company would be sufficient to provide for depreciation payment of interest and amortisation of loan in a reasonable period of time. The company's difficult financial position as is seen today is therefore due primarily to miscalculations regarding its earning capacity. However, it is a fact that the Hyderabad Government blessed the original scheme, approved of the revised scheme involving much higher capital outlay than envisaged in the first estimates and extended financial and other support to this company from its beginning up to June 1954. During the period of management of the company by the Industrial Trust Fund it was practically run as a State enterprise. Although the State Government advanced funds in the form of loans, it was fully aware that the company was in no position to pay interest nor repay the principal amount for some time to come. When, the managing agency was transferred to Birla Brothers preference share capital of Rs. 200 lakhs was raised from which a sum of Rs. 122 lakhs was repaid to Andhra Pradesh Government partly in cash and partly in the form of preference shares. The financial interest of Andhra Government is still very substantial. As on 30th September, 1958, the amount due to the Andhra Government by Sirsilk was Rs. 316·82 lakhs of which Rs. 88·25 lakhs represented accrued interest. This does not, however, give the full picture of the Andhra Government's financial interest in the company which was of the order of Rs. 397·31 lakhs comprising :—

Loan outstanding	Rs.	228·57	lakhs
Interest outstanding . .	Rs.	88·25	lakhs
Ordinary shares . . .	Rs.	18·00	lakhs
Preference shares . . .	Rs.	62·49	lakhs
	Rs.	397·31	lakhs

In addition the Andhra Government has guaranteed advances obtained by Sirsilk from the State Bank of Hyderabad to the extent of Rs. 50 lakhs. From the above it will be seen that out a total amount of Rs. 698·86 lakhs which represented share capital and borrowings of Sirsilk as on 30th September, 1958, the Andhra Government's share in terms of money value aggregated Rs. 397·31 lakhs while its guarantee amounted to Rs. 50 lakhs. As stated above, the interest charges and amortisation of loans from Andhra Government amounting to Rs. 32 lakhs per annum constitute a liability which Sirsilk has been unable to meet from its earnings. Actually the company has been paying no interest on the loan outstanding and the two instalments of Rs. 19 lakhs for 1956-57 and 1957-58 have not been paid. The obvious step to be taken in the immediate future would therefore appear to be to release the company from the two-fold incubus of interest on loan and amortisation of the principal. The correct approach in our view is to bring the share capital in line with the value of the fixed assets of the company. This can be done in two ways. First, the Managing Agents should raise adequate amount of additional share capital, so that a substantial portion of the outstanding loan may be repaid and the balance may be converted into share capital. Under normal circumstances, this would be practical course but in the present financial situation of the company, it is doubtful if the Managing Agents will be able to attract the additional share capital from the investing public. Alternatively, the Andhra Pradesh Government should agree to (a) freeze the interest on loan amounting to Rs. 88·25 lakhs and defer the payment of this amount to a distant date in the future after arrears of depreciation and arrears of preference dividends have been completely accounted for and (b) convert the principal of the loan of Rs. 228·57 lakhs into ordinary share capital. The Andhra Pradesh Government being a major partner in this undertaking should reconcile itself to getting a return on the share capital along with the ordinary share-holders and wait for the day when profits earned by the company would enable it to declare a dividend. The wisdom of adopting either of the above two courses will be seen when it is realised that the company would not be able to continue to function smoothly under the load of the heavy interest charges and heavy amortisation requirements. When we discussed the suggestions stated above with the representatives of the Andhra Pradesh Government we asked them for an alternative solution, if they had one, for improving the position of Sirsilk. Their suggestion was that we should raise the price of acetate yarn to, say Rs. 6 per lb. to enable the company to earn large profits and discharge its obligations. We have already pointed out that this is impracticable. During our discussions with the representatives of Sirsilk, we asked them how they proposed to meet their obligations if no special element in price could be included. They expressed the view that they should honour the contractual obligations entered into with Andhra Government but that in the present circumstances they would request that Government to allow them further time so that they may arrange to make payments as and when they could. They also stated that they were considering a scheme for making Sirsilk a subsidiary company of Sirpur Paper Mills and forwarded to us a memorandum on the subject from which we found that the scheme was in a preliminary stage. It is not clear whether the scheme will eventually result in an amalgamation of the two companies or in making Sirsilk a subsidiary of Sirpur Paper. In either event, the scheme *prima facie* provides no answer to the issues that we have raised above. In these circumstances, we recommend that as part of the general reorganization of the financial position of Sirsilk :—

(1) the amount of Rs. 228·57 lakhs outstanding in respect of loan from Andhra Pradesh Government should be converted into ordinary share capital of Sirsilk;

(2) the amount of accumulated interest of Rs. 88·25 lakhs should be treated as interest free and payment of this amount should be deferred till the arrears of depreciation and preference dividend are completely written off;

(3) Birla Bros., the Managing Agents should arrange for the necessary working capital required by Sirsilk and should take steps to release the Andhra Pradesh Government from the guarantee given to the State Bank of Hyderabad in respect of loan accommodation upto Rs. 50 lakhs. When this is done, Andhra Pradesh Government should release all the movable assets of Sirsilk held by them as security against the outstanding loan amount.

Disposal of future earnings

13. In addition to the reconstruction of capital structure which we have recommended above, we consider that Sirsilk should conserve its resources and utilise its future profits according to an order of priorities. In any industrial undertaking where capital assets are subjected to heavy wear and tear and depreciation in value, it is most essential that from its income adequate amount should be provided by way of depreciation. If for any reason this provision cannot be made in any particular year, it should be made good from the income of subsequent years. There is a large back-log of depreciation on the gross value of the fixed

assets of Sirsilk including a part of capitalised expenditure which we have admitted. These arrears of depreciation should, in our view, be the first charge on the future profits of the company. From the return on capital employed in the manufacture of yarn *viz.*, about Rs. 19:57 lakhs, Sirsilk should, after deducting the amount needed for payment of interest on working capital, managing agents' commission and other miscellaneous expenditure, devote the balance to writing off arrears of depreciation. In addition, the company should, after deducting miscellaneous expenses, utilise the balance of the profit realised from the sale of its fabrics also for writing off arrears of depreciation. After the arrears of depreciation have been written off, the company should arrange to pay the arrears of cumulative preference dividend. We are convinced that unless the company conserves its resources in the years to come, it will find it impossible to keep its equipment in efficient working condition. In the course of the next five years it may be faced even with the problem of obsolescence of some of its equipment and may need a much larger outlay of resources to meet such a contingency. These and allied problems will require careful attention. But the foremost requirement at the present juncture is the reconstruction of the capital structure of the company. In our view, a much clearer picture of the results of its working will become available after its financial re-organisation is completed. If then it is found that the element of depreciation provided in the cost of production of acetate yarn is not adequate, the position may be reviewed. We, therefore, suggest that after Sirsilk carries out the necessary reconstruction of its capital structure, a review of the case may be undertaken to ascertain what kind of further assistance is required to ensure its smooth working having regard to the financial results and trends of prices of yarn and fabrics in the intervening period.

Other recommendations

14. Sirsilk has been working its 480 looms on two shifts from October 1957. We are informed that with effect from 7th April, 1958, the company was permitted, according to the directions of the Textile Commissioner, to consume 40 per cent. of its own yarn production or 148,396 lbs., whichever was lower for production of fabrics in its weaving department; from December, 1958, it has been allowed to consume only 148,396 lbs., irrespective of the quantum of production. The Textile Commissioner has stated that there was a control on the quantity of acetate rayon yarn which Sirsilk was allowed for manufacturing fabrics. During April/June and July/September, 1958, it was allowed to utilise acetate yarn to the extent of 40 per cent. of its total production or its consumption of the same during the month of January 1958, whichever was less. During October 1958/March 1959 period, it was allowed to utilise its own production of acetate yarn per month at the rate of its consumption in January 1958, *i.e.*, 148,396 lbs. when it was running all the 480 powerlooms on two-shift basis. We have inquired into this matter and have found that the quantity allowed by the Textile Commissioner actually formed the bulk but not the full quantity consumed by Sirsilk in January 1958, which has been selected as the basis of allocation of

yarn from its own production. If Sirsilk is not allowed to consume the quantity of yarn needed to work 480 looms on two shift basis from its own production it will have to buy yarn from outside. It may be recalled here that in its original scheme the company proposed that most of its yarn would be converted into fabrics in the factory and for that purpose 800 looms would be installed. Actually, however, only 480 looms have been installed out of which about 100 looms are reported to be idle for want of sufficient yarn. The company has expressed the view that it should be allowed to utilise its own yarn to the maximum extent. In its present condition the company should be assisted to maximise its production and have no idle capacity in any portion of its integrated plant, so that any additional profits accruing from such maximisation would help the company to strengthen its financial position. We are informed by the company that it proposes to change its pattern of production in which the output of heavier varieties of fabrics would be higher than at present. We, therefore, recommend that Sirsilk should be allowed to use acetate yarn from its own production for working 480 looms on two shift basis having regard to the reasonable pattern of production and the quantity of other types of rayon yarn used by it.

Summary of conclusions and recommendations.

15.1. Our conclusions and recommendations are summarised below :—

15.2. Andhra Pradesh Government should consider sympathetically the representation of the Company for reduction of the price of power alcohol and reconsider the policy regarding payment of gallonage fee on alcohol consumed by the Company.

(Paragraph 5.2.2.)

15.3. The excise duty of Rs. 70 per gallon levied by Andhra Pradesh Government on alcohol used by Sirsilk should be removed forthwith.

(Paragraph 5.2.3.)

15.4. Sirpur Paper Mills Ltd. should continue to supply electrical energy to Sirsilk at the same rate at which it has been made available till now.

[Paragraph 11.2.1(e)]

15.5. The fair selling prices of acetate yarn of 'A' grade f.o.r. Bombay (inclusive of excise duty) should be as follows :—

Deniers	300 Rs.	150 Rs.	120 Rs.
Yarn coned:			
Bright yarn per lb.	4·64	4·91	5·16
Dull yarn par lb.	4·67	4·95	5·19
Yarn hanked:			
Bright yarn per lb.	4·51	4·82	5·07
Dull yarn per lb.	54	4·86	5·10

These prices are inclusive of selling commission. It is not necessary to add any extra element by way of selling commission on retail sales.

(Paragraph 11.2.3.)

15.6. The sum of Rs. 228·57 lakhs outstanding in respect of loan from Andhra Pradesh Government should be converted into ordinary share capital of Sirsilk.

(Paragraph 12.)

15.7. Accumulated interest on loan amounting Rs. 88:25 lakhs should be treated as interest-free and payment of this amount should be deferred until arrears of depreciation and preference dividend are completely written off.

(Paragraph 12.)

15.8. Birla Brothers should arrange for the working capital required by the Company and should take steps to release the Andhra Pradesh Government from the guarantee given to the State Bank of Hyderabad in respect of loan accommodation up to Rs. 50 lakhs. After this is done, the Andhra Pradesh Government should release all movable assets of the Company held by them as security against the outstanding loan amount.

(Paragraph 12.)

15.9. The future earnings of the Company from yarn as well as fabrics should be utilised according to an order of priorities. The Company should, after setting aside the amount required for payment of interest on working capital, Managing Agents' Commission and other miscellaneous expenditure, utilise the balance for writing off arrears of depreciation. The next charge should be towards payment of arrears of cumulative preference dividend.

(Paragraph 13.)

15.10. After the necessary reconstruction of the capital structure is carried out, a review of the case may be undertaken to ascertain what kind of further assistance is required to ensure the smooth working of the company.

(Paragraph 13.)

15.11. The company should be allowed to use acetate yarn from its own production for working 480 looms on two shift basis having regard to the reasonable pattern of production and the quantity of other types of yarn used by it.

(Paragraph 14.)

Acknowledgements

16. We wish to convey our thanks to the representatives of Sirsilk Ltd. who furnished us with detailed information required to conduct this inquiry. Our thanks are also due to the officials of the Andhra Pradesh Government for their co-operation.

C. RAMASUBBAN,
Chairman.

S. K. MURANJAN,
Member.

J. N. DUTTA,
Member.

R. S. BHATT,
Member.

RAMA VARMA,
Secretary.

BOMBAY,
Dated 6th April, 1959.

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APPENDIX I

(*Vide* Paragraph 1.2)

CONFIDENTIAL

No. 3 (20) 58. Chem. II

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE AND INDUSTRY.

New Delhi, the 15th October, 1958.

FROM

Shri B. B. Saksena, M. A., LL.B.,
Joint Secretary to the Government of India.

To .

The Secretary, Tariff Commission, Bombay.

SUBJECT:—*Evaluation of fair price of Acetate Yarn produced by Sirsilk Limited, Kagaz Nagar, Andhra Pradesh.*

SIR,

I am directed to say that the Government of India in their letter No. 26(105)/Textile/(D)/57, dated the 21st June, 1958 (copy enclosed) and informed the Chief Commercial Manager, Sirsilk Limited, Sirpur (Andhra Pradesh), that there was no objection to the sale price of their bright acetate yarn being fixed as under:

Denier of yarn	Sale price
150	Rs. 4·00 per lb.
120	Rs. 4·25 per lb.
100	Rs. 4·50 per lb.

This was done after the cost of production had been examined by the Chief Cost Accounts Officer and the Development Officer (C & T).

2. It has now been represented to the Government that the above sale price is uneconomical. A copy of note received from the Company in this connection is sent herewith. Broadly, they have based their representation on the following grounds:

(i) The actual price which is being paid by the consumer at present is about Rs. 8 per lb. for 150 denier, whereas the company has to sell it at Rs. 4 per lb. and the intermediate profit accrues to the middle-man rather than to the consumer.

(ii) The cost of production is much higher than the prices fixed by the Government.

(iii) The Andhra Pradesh Government have recently increased the price of Alcohol.

(iv) The production of acetate yarn is very difficult and complicated and the imposition of even an informal price control on this variety of yarn is unsuitable.

The fixation of above mentioned prices is reported to have resulted in deterioration of the financial position of the undertaking which is evident from the fact that there is only a nominal balance of Rs. 49,292 shown in the balance sheet for the year ended 30th September, 1957 without providing for depreciation and interest to be paid on preference shares. Further, the bank drawing limits have been fully utilised and there are no cash resources with the company. It has also not been possible for the company to repay any of the loans which they owe to the Andhra Pradesh Government. No provision has been made even for depreciation nor has it been possible to pay any dividend on preference or ordinary capital. Though the company have been issued a licence under the Industries (Development and Regulation) Act 1951, for expansion of the factory from 5 to 10 tons per day, it has not been possible for them to undertake this expansion due to the non-availability of funds. It has also been reported that the company have done their utmost to reduce the cost of production of acetate yarn by working full shifts but, in spite of that, their financial position is far from satisfactory.

3. In the circumstances explained above, I am to request the Tariff Commission, under Section 12 (d) of the Tariff Commission Act, 1951, to enquire into the fair ex-works price and fair selling price of acetate yarn manufactured by M/s. Sirsilk Ltd. and furnish its recommendations to Government as early as possible. The Commission is also requested to make recommendations regarding fair prices which could be charged by the wholesalers and retailers of acetate yarn after calculating suitable margins for commission in respect of sales and distribution.

Yours faithfully,

(Sd.) B. B. SAXENA,

Joint Secretary to the Government of India.

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APPENDIX II

(*Vide* Paragraph 2.1)

List of those to whom questionnaires/letters were issued and from whom replies or memoranda were received

*Indicates those who replied.

PRODUCER :

*The Sirsilk Ltd., P. O. Sirpur-Kaghaznagar, Andhra Pradesh.

CONSUMERS :

*1. Silk and Art Silk Mills' Association Ltd., Resham Bhavan 78, Veer Nariman Road, Bombay-1.

2. The Bengal Silk and Art Silk Millowners' Association, 4, Ganesh Chandra Avenue Calcutta, 13.

*3. The Surat Weaving Association, Mahatma Gandhi Road, Surat.

4. The Textile Manufacturers' Association, Queen's Road, Amritsar.

5. Silk and Art Silk Manufacturer's Association, Bhiwandi (Dist. Thana), Bombay.

*6. The Surat Weaver's Co-operative Producers' Society Ltd., 22-23, Reshamwala Building, Buranpuri Bhagol, Surat.

7. The Surat Art Silk Cloth Manufacturers'A ssociation Ltd., 1/3462-63, Annie Besant Road, Surat.

*8. The Surat Vankar Sahakari Sangh Ltd., Kinkhabwala's Wadi, Begumpura, Surat.

GOVERNMENT DEPARTMENTS :

*1. The Senior Industrial Adviser, Development Wing, Udyog Bhavan, King Edward Road, New Delhi.

*2. The Chief Secretary, Government of Andhra Pradesh, Hyderabad.

*3. The Textile Commissioner, Wittet Road, Ballard Estate, Bombay-1.

*4. The Director General of Commercial Intelligence and Statistics, 1, Council House Street, Calcutta.

5. The Collector of Customs, Calcutta.

*6. The Collector of Customs, Bombay.

*7. The Collector of Customs, Madras.

*8. The Collector of Customs, Cochin.

OTHERS :

*The Bombay Yarn Merchants' Association and Exchange Ltd., 111, Chawala Building, Tambakanta, Bombay-3.

APPENDIX III

(*Vide* Paragraph 2.3)

List of persons who attended the discussions on 12th February, 1959

1. Shri G. P. Birla . . .	Representing	Sirsilk Ltd., P.O. Sirpur Kaghaz-nagar, Andhra Pradesh.
2. Shri C. C. Desai . . .		
3. Shri P. K. Ghuwalewala . . .		
4. Shri B. N. Bhuwania . . .		

APPENDIX IV

(*Vide* Paragraph 3.3.1)

Changes in the capital structure of Sirsilk since its inception

At the time of incorporation Sirsilk had an authorised capital of O.S. Rs. 500 lakhs divided into 500, 000 ordinary shares of O. S. Rs. 100 each and issued and subscribed capital of Rs. 200 lakhs divided into 200,000 ordinary shares of Rs. 100 each. Of these 184,445 ordinary shares were allotted to applicants against payment of cash at the rate of O. S. Rs.10 per share payable with application and shares numbering 15,555 were earmarked and reserved for allotment free as fully paid-up otherwise than in cash to Lansil for technical collaboration as per the agreement dated 11th August 1946. Hyderabad Government subscribed to 30,000 shares of the face value of Rs. 30 lakhs. As on 30th September 1947 additional capital of Rs. 30 per share was called up on 184,445 ordinary shares making paid-up capital of Rs. 73·77 lakhs but calls remained in arrears to the extent of Rs. 14·10 lakhs. Before the managing agency was transferred to Industrial Trust Fund, the paid-up capital amounted to Rs. 101·44 lakhs divided into 184,445 shares of Rs. 55 each less calls in arrears aggregating to Rs. 18·34 lakhs. At this juncture the company decided to raise a short-term loan of O. S. Rs. 126 lakhs from Hyderabad Government. In 1950-51 the company made a further call of O. S. Rs. 15 making the paid-up value of O. S. Rs. 70 per share but calls fell in further arrears and some shares had to be forfeited. Industrial Trust Fund which was then the managing agent of the company was not in a position to raise further share capital; but as large amounts of funds were needed to finance the construction and erection of factory, it continued to borrow moneys from Hyderabad Government. In May 1954 the authorised capital of the company which was Rs. 5 crores was divided into 250,000 ordinary shares of O. S. Rs. 100 each and 250,000 preference shares of O. S. Rs. 100 each. As per the special resolution of the company 233,333 6 per cent. tax-free cumulative preference shares of O. S. Rs.100 each were issued. The shares allotted to Lansil were cancelled in terms of the new agreement dated 10th July, 1954. In December 1954 the authorised capital of the company was raised to Rs. 15 crores by the creation of 10 lakhs unclassified shares of O. S. Rs. 100 each. In June 1956 the authorised capital was altered to I. G. Rs. 12·85 lakhs divided into 800,000 ordinary shares of I. G. Rs. 85-11-5 1/7 and 700,000 preference shares of I. G. Rs. 85-11-5 1/7. As share values of O. S. currency as expressed in I. G. currency were in odd figures the company by a special resolution of 30th June, 1956 and as per the order of the High Court dated 22nd February, 1957 reduced the authorised ordinary share capital from I.G. Rs. 685·71 lakhs divided into 800, 000 ordinary shares of I. G. Rs. 85-11-1 5/7 each to Rs. 480 lakhs divided into 800,000 ordinary shares of Rs. 60 each and such reduction was effected by reducing the nominal amount of ordinary shares from I. G. Rs. 85-11-5 1/7 to I. G. Rs. 60 per share. Further 800,000 ordinary shares of I. G. Rs. 60 each (including shares already issued) were sub-divided into 4,800,000 ordinary shares of Rs. 10 each. By the same resolution 700,000 preference shares of I. G. Rs. 85-11-5 1/7 each (including preference shares paid-up in full) were consolidated in such manner that every seven of the existing shares constituted 6 per cent. preference shares of Rs. 100 each.

[*Vide* **Paragraph**

Analysis of Balance

As on	30-9-1953	30-9-1954	30-9-1955	30-9-1956	30-9-1957	30-9-1958 (Prov.)
Capital & Liabilities	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)
1. *Share Capital*						
Ordinary . .	83·95	93·78	93·86	94·20	94·23	94·27
6% tax free redeemable preference shares . .	..	147·16	200·00	200·00	200·00	200·00
Forfeited shares .	0·35	8·06	7·99	7·79	7·77	7·73
	84·30	249·00	301·85	301·99	302·00	302·00
2. *Secured Loans*						
From Hyderabad Govt.(Andhra Govt.)	324·86	262·37	266·57	247·57	228·57	228·57
From State Bank of Hyderabad against bills discounted .	..	..	8·21	11·26	10·87	9·33
Other Banks against Bills discounted .	..	..	..	5·44	24·29	20·72
Accrued Interest on Government Loan	37·22	48·21	56·08	67·45	77·97	88·25
3. *Unsecured Loan*						
Cash credit from State Bank of Hyderabad—guaranteed by the Andhra Government	..	44·32	50·54	49·57	49·99	49·99
From Hyderabad (Andhra) Govt. @ 4½%	25·71	25·71	..	..	..	..
Interest accrued .	0·80	1·96	..	..	..	..
4. *Other liabilities* .	11·48	9·52	15·33	38·09	54·85	21·45
	484·37	641·09	698·58	721·37	748·54	720·31

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DIX V

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Sheets of Sirsilk Ltd.

	30-9-1953	30-9-1954	30-9-1955	30-9-1956	30-9-1957	30-9-1958 (Prov.)
Assets	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)
Fixed Assets						
Cost of gross block .	370·75	384·99	392·51	410·34	437·37	453·08
Pre-production and other expenses capitalised . .	98·08	113·58	116·93	117·32	118·94	120·60
	468·83	498·57	509·44	527·66	556·31	573·68
Investments . .	..	..	..	7·48	..	0·21
Fictitious assets (Deferred expenses) .	0·63	0·88	3·33	3·37	3·37	3·37
Other Asstets . .	13·95	38·77	73·20	124·59	162·92	127 02
Cash and Bank balances	0·96	86·65	88·78	34·67	2·83	13·30
	484·37	624·87	674·75	697·77	725·43	717·58
Accumulated Losses .	..	16·22	23·83	23·60	23·11	2·73
	484·37	641·09	698·58	721·37	748·54	720·31

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APPENDIX VI

(*Vide* Paragraph 11.1)

Statement showing Average Fair Ex-factory Cost for the year ended 30-9-1958

	CONED			HANKED		
Deniers	300	150	120	300	150	120
Particulars	Cost per lb.	Cost per lb.	Cost per lb.	Cost per lb.	Cost per lb.	Cost per lb.
	nP.	nP.	nP.	nP.	nP.	nP.
Bright Yarn :						
Alcohol . . .	41·227	41·227	41·227	41·227	41·227	41·227
Linters . . .	24·918	24·918	24·918	24·198	24·918	24·918
Cellulose Acetate purchased or consumed from stock	12·742	12·742	12·742	12·742	12·742	12·742
Acetic Anhydride, Acetone, Ethyle Acetate, etc. purchased or consumed from stock . .	2·334	2·334	2·334	2·334	2·334	2·334
1. Total Raw Materials	81·221	81·221	81·221	81·221	81·221	81·221
2. Power and Fuel .	46·162	49·149	51·399	46·162	49·149	51·399
3. Wages & Salaries .	35·987	45·194	52·114	35·987	45·194	52·114
4. Repairs & Mtnce. and Stores . .	49·894	51·784	54·509	49·894	51·784	54·509
5. Depreciation . .	89·957	100·369	108·080	89·957	100·369	108·080
6. Overheads . .	51·404	62·577	70·831	51·404	62·577	70·831
7. Cost of Production	354·625	390·294	418·154	354·625	390·294	418·154
8. Packing cost . .	21·745	17·959	17·959	9·139	9·139	9·139
9. Fair Ex-factory Cost	376·370	408·253	436·113	363·764	399·433	427·293
Dull Yarn :						
10. For Dull Yarn add	3·165	3·165	3·165	3·165	3·165	3·165
11. Fair Ex-factory Cost of Dull yarn	379·535	411·418	439·278	366·929	402·598	430·458
12. Fair Ex-factory Cost of Bright Yarn:						
Rs. per lb. . .	3·76	4·08	4·36	3·64	3·99	4·27
Rs. per kg. .	8·30	9·00	9·61	8·02	8·81	9·42
13. Fair Ex-factory Cost of Dull Yarn :						
Rs. per lb. . .	3·80	4·11	4·39	3·67	4·03	4·30
Rs. per kg. .	8·37	9·07	9·68	8·09	8·88	9·49

APPENDIX VII

(*Vide* Paragraph 11.2.2)

Statement showing Commission's Estimate of Fair Selling Price of Yarn F.O.R. Bombay for Future

	CONED			HANKED		
Deniers	300	150	120	300	150	120
Particulars	Cost per lb.	Cost per lb.	Cost per lb.	Cost per lb.	Cost per lb.	Cost per lb.
	nP.	nP.	nP.	nP.	nP.	nP.
Bright Yarn :						
Alcohol . . .	44·20	44·20	44·20	44·20	44·20	44·20
Linters . . .	19·82	19·82	19·82	19·82	19·82	19·82
Cellulose Acetate—purchased . .	37·18	37·18	37·18	37·18	37·18	37·18
1. Total Raw Materials	101·20	101·20	101·20	101·20	101·20	101·20
2. Power and Fuel .	43·68	46·69	48·98	43·68	46·69	48·98
3. Wages and Salaries	35·46	44·39	51·16	35·46	44.39	51.16
4. Repairs and Maintenance and Stores	51·99	53·75	56·39	51·99	53·75	56·39
5. Depreciation .	57·48	63·96	68·70	57·48	63·96	68·70
6. Overheads . .	49·14	59·83	67·77	49·14	59·83	67·77
7. Cost of production	338·95	369·82	394·20	338·95	369·82	394·20
8. Packing Cost .	21·75	17·96	17·96	9·14	9·14	9·14
9. Fair Ex-works cost	360·70	387·78	412·16	348·09	378·96	403·34
10. Excise duty . .	40·00	40·00	40·00	40·00	40·00	40·00
11. Selling Expenses :						
(a) Commission .	6·33	6·75	7·12	6·14	6·61	6·98
(b) Other expenses .	3·29	3·29	3·29	3·29	3·29	3.29
12. Return on capital employed . .	45·00	45·00	45·00	45·00	45·00	45·00
13. Fair Ex-works Selling Price . .	455·32	482·82	507·57	442·52	473·86	498·61
14. Freight to Bombay	7·00	7·00	7·00	7·00	7·00	7·00
15. Fair F.O.R.Bombay price . . .	462·32	489·82	514·57	449·52	480·86	505·61
Dull Yarn :						
16. For dull yarn add .	3·17	3·17	3·17	3·17	3·17	3·17
17. Fair F. O. R. Bombay price for dull yarn . . .	465·49	492·99	517·74	452·69	484·03	508·78
18. Fair F. O. R. Bombay price of Bright Yarn :						
Rs. per lb. . .	4·62	4·90	5·15	4·50	4·81	5·06
Rs. per kg. .	10·19	10·80	11·34	9·91	10·60	11·15
19. Fair F. O. R. Bombay price of Dull Yarn:						
Rs. per lb. .	4·65	4·93	5·18	4·53	4·84	5·09
Rs. per kg. .	10·26	10·87	11·41	9·98	10·67	11·22

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सत्यमेव जयते