Private Financing Firms in Kerala

A Study

B A Prakash

Since the beginning of the 1980s there has been a phenomenal growth in private financing institutions in Kerala. This study, based on a survey of these firms in Trichur town, seeks to examine the factors which contributed to the emergence of these institutions, the method of their functioning and their importance as a parallel banking system, Trichur has over 1,500 such firms attracting deposits totalling around Rs 100 crore.

SINCE the beginning of the 1980s there has been a phenomenal growth in private financing institutions *viz,* partnership firms, companies and unregistered individual financiers in Kerala. According to the Kerala Small Financiers Association, the number of such institutions in the state is about 12,000. Of the total, Trichur district alone accounts for nearly 50 per cent, according to a rough estimate made by the author.[1]

Except for a report appearing in a magazine,[2] no systematic attempt has been made to study the working of these institutions, which assume the role of a parallel banking system in Kerala. In this study our objectives are to examine the factors which contributed to the emergence of these institutions, the method of their functioning and the importance of these institutions as a parallel banking system. The study is based on a survey of 24 private partnership firms in Trichur town, as this category of institutions account for nearly 90 per cent of the private financing institutions in the town. We have selected Trichur town for our study because more than 1,500 partnership firms are doing money business in the town. It is a leading commercial town in central Kerala, having a population of 77,913 in 1981.

The study is presented in three sections *viz,* (I) an examination of factors which contributed to the growth of the institutions, (II) a survey of 24 partnership firms and (III) an assessment of the institutions as a parallel banking system.

I

Growth of the Institutions

The spurt in the growth of private financing institutions in Trichur town may be attributed to factors such as the historical background of Trichur town as a centre of private financial and banking institutions, the decline of the private kuri business, the fast expansion of business activities of the town since the mid 1970s, credit restrictions by commercial banks on business purposes and accumulation of surplus money with certain sections of the community.'

Trichur town had a long history of private financial and banking institutions. The earliest form of private financial institution that existed in and around Trichur town was kuries or chitties[3] run by the churches. Available evidence suggests that by the beginning of the 19th century, several churches had started kuries in the villages around Trichur town.[4] It was the popularity as well as the experience with church-managed kuries known as *pallikuries* that subsequently inspired independent ventures in Trichur. Later these chitties assumed new institutional forms like joint stock banks.

By the early 1950s the town ranked second with respect to the number of registered banks (19) in India, the first being Calcutta (21). During 1960s the banks were amalgamated and at present the head offices of three scheduled 'banks *viz,* South Indian Bank Ltd, Catholic Syrian Bank Ltd and Dhanalakshmi Bank Ltd, are located within the town. Twenty-three commercial banks including all 14 nationalised banks are maintaining their branches numbering 38 in the town. Besides this the head office of the Kerala State Financial Enterprises Ltd, a state government enterprise running a chitty business and having 62 branches with a yearly business of Rs 32 crore, is also located in the town. Thus the above historical background of the town is one of the major contributory factors which led to the emergence of the private financing institutions there.

The private chitty business was a flourishing business in Trichur town till the implementation of The Kerala Chitties Act, which came into force from August 25, 1975. Though the Act was implemented with the objective of regulating the activities of chitty institutions and guaranteeing the safety of the subscribers' money, many of the provisions of the Act were against the interest of the foreman.

Immediately after the implementation of the Act almost all private kuri institutions were reluctant to start new kuries. During 1976, for instance, except for the kuries set up by the Kerala State Financial Enterprises Ltd, and a few co-operatives, not a single private kuri institution registered a new kuri in the Trichur sub-registrar's office.[5] At present only two kuri companies are running in the town as per the Kerala Chitty Act while some others opened branches at Bangalore in order to escape from the provisions of the Kerala Chitty Act.

A large number of kuri companies and individually run kuries were forced to close down their business due to the implementation of the Kerala Chitty Act. Two categories of people were affected by these developments. A large number of persons who were doing kuri business and had expertise in money deals were forced to seek a new form of money business in the town. Given their moneylending background they immediately switched over to the new private financing business. Another category of people who were affected were the businessmen of Trichur town who depended on the kuri institutions for short term easy credit. They too were interested in the emergence of a new form of institution which will meet their needs. These two factors additionally contributed to the sudden spurt in the growth of private financing firms in Trichur since the beginning of the 1980s.

Yet another factor which led to the rapid emergence *of* the financing firms is the fast expanding credit requirement of the business community in the town. The expansion in credit needs arose for two reasons. The expansion that has been taking place in Trichur town due to the starting of the Kerala Agricultural University in a suburb *of* the town, a Medical College and other government institutions have led to the inflow of a salaried class of people to the town demanding more goods. Then there is the impact of foreign remittances. Trichur district accounted for 20 per cent of the total number of persons who went to Gulf countries from Kerala.[6] There has been a steady increase in the foreign remittances coming into Kerala. It is estimated to have arisen from Rs 116 crore in 1976-77 to Rs 565 crore in 1980-81.[7] Out of the foreign remittances received in Trichur district a sizeable amount is spent in Trichur town for purchasing consumer items, luxury

TABLE 1: YEARE *of* INCEPTION of THE FIRMS

Year of Inception	No of Firms	No of Firms (Per Cent)
1976	1	4.2
1980	2	8.3
1981	7	29.2
1982	9	37.5
1983	5	20.8
Total	24	100.0

TABLE 2: NUMBER OF PARTNERS PER FIRM

No of Partners	No of Firms	Firms Per Cent to Total
5- 7	5	20.8
8.10	8	33.3
11-13	4	16.7
14-16	3	12.5
17 and above	4	16.7
Total	24	100.0

items, gold ornaments and construction materials.[8] The impact of foreign remittances also led to a phenomenal increase in the business activities of Trichur town, thus demanding more credit for business purposes.

The restrictions of credit for business purposes imposed on the scheduled banks three yean back was another important factor which contributed to the sudden growth of the private financing firms. The credit gap in the state is estimated at around 58 per cent. In Trichur district out of the total bank advances, the percentage of loans given to retail traders, small businessmen and exporters fell from 10.8 per cent in 1980 to nine per cent in 1981.[9] The credit restrictions on the one side and the fast expanding credit demand on the other, created favourable conditions for the growth of the financing firms.

The generation of surplus funds mainly arising out of the impact of foreign remittances is another factor which contributed to the flow of deposits to the firms. The inflow of foreign remittances since mid 1970s has led to a spurt in land prices, prices of construction materials, prices of consumer goods etc and also resulted in enhancement of wages of all category of casual workers. This escalation in prices have expanded speculative activities, especially in land transactions and business activities. And people connected with these activities got a windfall profit as a result of this. An abnormal spurt in gold prices also led to the generation of a good deal of black money in Trichur town, which had long been a centre of gold merchants. Such surplus money and the savings of the salaried class, thus began to flow to the financing firms which offered very attractive interest rates.

TABLE 3: PER CAPITA PAID UP SHARE

Per Capita Share (Rs)	No of Firms	No of Firms (Per Cent)
2000	4	16.4
2500	1	4.2
3000	7	29.2
5000	6	25.0
7000	1	4.2
8000	1	4.2
10,000	2	8.3
11,000	1	4.2
15,000	1	4.2
Total	24	100.0

TABLE 4: CLASSIFICATION OF PARTNERS ON THE BASIS OF THEIR PROFESSION

Profession	No of Partners	No of Partners (Per Cent)
Business	144	53.3
Housewives	35	13.0
Retired people	24	8.8
Bank employees	17	6.3
School and college teachers	9	3.3
Govt employees	8	3.0
Private sector employees	8	3.0
Students	8	3.0
Small industrialists	4	1.5
Unemployed	4	1.5
Others	9	3.3
Total	270	100.0

TABLE 5: TOTAL PAID UP SHARE CAPITAL (FEB 1984)

Total Paid Up Share Capital (Rs)	No of Firms	No of Firms (Per Cent)
Up to Rs 25,000	5	20.8
25,001-50,000	10	41.7
50,001-75,000	4	16.7
75,001-1,00,000	3	12.5
Above Rs 1,00,000	2	8.3
Total	24	100.0

II

A Survey of 24 Partnership Firms

In order to study the method of functioning of partnership firms engaged in money business, we conducted a survey of 24 partnership firms in irichur town,[10] in February 1984. All the firms we covered are partnership firms registered under the Registrar of Firms as per the Indian Partpership Act. These firms also obtained a moneylending licence from the Sales Tax Office, Trichur. A significant similarity of the firms is that all of them have their own independent office with a full-time paid manager and functioning between regular banking hours.

A majority of the firms we surveyed are located in new multi-storied buildings specially constructed for housing them. These firms are mainly engaged in two types of money business *viz,* money borrowing and moneylending.

An enquiry about the year of inception of the firms reveals that except one firm, all were started between 1980 and 1983. Among the four year period the peak year in which the largest number of firms were started was 1982, (Table 1). Information gathered from official sources also confirmed this fact.

The firms are formed with partners ranging from *five* to 20 in number. The survey reveals that a majority of the firms have partners numbering five to 10, (Table 2). Some of the firms have fixed a larger number of partners mainly to mobilise a larger amount as share capital. Among the firms covered by the survey 50 per cent of them have a per capita share ranging from Rs 2,000 to Rs 3,000 (Table 3).

An enquiry about the professional background of the partners of the 24 firms reveals that businessmen, housewives, retired people, bank employees, school and college teachers, government and public sector employees, students, small industrialists and unemployed people are partners of the firms. We have found that 53 per cent of the partners are bdsiness people (Table 4). The credit facility of the firuts are mainly used by the business people and it is natural that they take the initiative to form the firms. Another 13 per cent of the partners are housewives. This can be attributed to the fact that many employed in government service, banks, etc prefer to put their unemployed wives' name in the records of the firm though they are actually playing the role of partners. Retired people constitute another important category of partners. Though bank employees, school and college teachers and government employees are partners, very few industrialists are associated with the firms as partners. Besides the share of the firms, the partners are entitled to get a sitting fee, for attending meetings, ranging from Rs 15 to Rs 200 per meeting depending on the size of the firm.

Like banks, these firms have well furnished offices. All the firms we surveyed have a full time manager. A few have employed a clerk and a bill collector besides the manager. A majority of the firms have two full time staff *viz,* one manager and a bill collector. While the manager is paid a salary ranging from Rs 300 to Rs 1,500 per month the bill collector's salary varies from Rs 150 to Rs 250 per month. The bill collectors are employed for collecting repayments from debtors.

The share contribution of the partners and the deposits obtained from the public are the two sources of funds for the firms. It is found that the total paid up share capital of the firms vary between Rs 14,000 and Rs 15 lakh. Of the 24 firms 10 have a paid up share capital ranging between Rs 25,000 and Rs 50,000. In the case of five firms the share capital exceeds above Rs 75,000 (Table 5).

The firms are able to attract large amounts as deposits mainly because of two reasons. Firstly, the firms are giving a much higher rate of interest to depositors than that of commercial banks, monthly payment of interest amounts and the facility to withdraw the deposits at a short notice. Secondly, the depositors get legally valid documents, promissory notes, for their deposits. They also receive a guarantee from the partners about getting their money back, if the firms face any crisis.

The survey reveals that the 24 firms had total deposits of Rs 150 lakh during the year 1983. Of this amount, 52 per cent is deposited by salaried people and 38 per cent by business people (Table 6). As the fir.ms cannot legally receive deposits from the public, they consider the deposit as "borrowed' money from the public on the basis of the promissory notes. Though the firm s were not willing to accept this openly; our enquiries reveal that deposits earn a standard 24 per cent interest rate from the firms in Trichur town. But in actual practice the depositor is issued a promissory note bearing an interest of nine per cent, the maximum rate allowed by the Kerala Money Lenders Act. The interest amount above nine per cent is paid to the depositors as unaccounted money. Thus the excess amount paid to the depositors, and which does not come into the records of the firms, is an indication of the amount of unaccounted or black money created by the firms.

Another factor which contributes to the growing deposits in the firms is the comparatively lesser element of risk. The people deposit the money mainly because of their confidence in the partners of the firm. Generally persons having a good business or financial background become partners of the firms, since the personal reputation and background of the partners is important. Partners normally assure the depositors of a refund from their own pocket if there is any failure or collapse of the firm. In most of the cases the depositors may be either relatives, close friends, colleagues or neighbours.

TABLE 6: TOTAL DEPOSITS IN 24 FIRMS:

Category of Depositors	Amount Deposited (Rs in lakhs)	Amount Deposited (Per Cent)
Business people	57.50	38.3
Retired people	14.80	9.9
Salaried people	77.75	51.8
Total	150.5	100.0

TABLE 7: MINIMUM PERIOD INSISTED BY FIRMS

Period	No of Firms	No of firms (Per Cent)
One month	6	25.0
Two months	1	4.2
Three months	5	20.8
Six months	1	4.2
One year	2	8.3
Not available	9	37.5
Total	24	100.0

TABLE 8: CLASSIFICATION OF 24 FIRMS ON THE BASIS OF DEPOSITS

Total Deposits (Rs in lakh)	No of Firms	No of Firms (Per Cent)
Up to 3.0	7	29.2
Above 3.0-5.0	7	29.2
Above 5.0-7.0	2	8.3
Above 7.0-9.0	2	8.3
Above 9.0-11.0	5	20.8
Above 11.0	1	4.2
Total	24	100.0

TABLE 9: TOTAL AMOUNT OF LOAN ADVANCED BY 24 FIRMS IN 1984

Category of Loan	Period of of Loan	Total Amount (Rs in Lakh)	Total Amount Per Cent	Rate of Interest (Per Cent)
Block loan	90 days	67.50	44.42	39.56
Daily repayment loan	100 days	81.95	53.94	42.00
Gold loan	90 days	2.50	1.64	39.56
Total	—	151.95	100.00	—

As the partners have a personal obligation to the depositors they are always vigilant about all the activities of the firm- The unlimited liability of the partnership firm is another factor which compels the partners to keep a close watch on all activities of the firm. It is reported that firms consult all partners before sanctioning every loan. For sanctioning a loan the recommendation or guarantee of at least one partner of the firm is essential. Thus the close personal relationship and personal confidence between the partners and depositors are the foundation stone on which this entire money business stands.

The amount of deposits varies from Rs 1,000 to Rs 10,000 in these firms. Our study reveals that a majority of the deposits range between Rs 3,000 to Rs 3,000. As the maximum limit of the deposits is Rs 10,000 in the firms, many depositors are depositing their amount in different names. Unlike commercial banks, the firms do not insist for fixed deposits over a long period. Our study shows that a majority of the firms are insisting only on one to three months as the minimum period for the deposits (Table 7). We came across only two firms which insist on one year as the minimum period of deposits. But still the depositors have the freedom to withdraw the amount at any time.

The study shows that the total deposits of the firms ranged from Rs 20,000 to Rs 25 lakh. Out of the 24 firms covered, it is found that 10 firms have deposits above Rs five lakh (Table 8),

We have also made a rough estimate of the total deposits in all the partnership firms in Trichur town on the basis of the survey. According to our estimate the total deposits with 1,500 and odd partnership firms in Trichur town is around Rs 100 crore.[11]

LENDING OPERATIONS

We now examine the lending process of the firms. The firms usually lend money to the business people, mainly traders for short term loans generally for three months or 100 days. Two categories of loans are issued by the firms *viz,* block loans and daily repayment loans. The block ban is given to the party after deducting the interest 6f the loan in advance. In the case of the daily repayment loan, the loan is issued after taking the interest amount in advance and the repayment is made in 100 daily instalments.

The survey reveals that the total amount of loan issued by the firms during 1983 was Rs 151.95 lakh. Of this 54 *per* cent were daily repayment loans and 44 per cent block loans (Table 9). Loans advanced on the basis of the gold as security account for only 1.6 per cent of the total loan issued. The survey shows that there has been a shift in the lending policy of the firms in favour of daily repayment loans in 1983 compared to earlier years.

The firms are charging an interest rate ranging from 39.5 to 42 per cent; though the promissory note obtained from the borrower bears an interest rate of 12 per cent, the maximum limit allowable as per the Money Lenders Act. Our enquiries reveal that the generally accepted rate of interest on block loans in the town is 36 per cent. But since the interest is deducted from the loan amount at the time of the issue itself, the actual amount works out at 39.5 per cent. Here too the amount of interest paid above 12 per cent is the unaccounted money which does not come in to the records of the firm.

The loans are issued only to business people especially traders. All categories of businessmen from small retailers to the wholesaler can obtain the loans from the firms for business purposes Our survey shows that except for a few loans issued for constructing lodges and private hospitals, the rest of the loans are issued only to traders. We found that no industralist has availed of the credit facility from the *firms.*

Personal confidence is the basis on which loans are issued. Loans are issued after examining a borrowers past history, his business standing and his credit worthiness. Usually loans are given only to local businessmen. Strangers or outsiders may find it very difficult to obtain loan from the firms. The guarantee or recommendation of a partner is considered as a criterion for the issue of the loan. This reduces the risk element in the repayment of the loan.

A loan is usually issued on the strength of a promissory note with two sureties known to the firm. Bigger firms issuing big amounts obtain property security, equitable mortgage deed and other collateral securities. A few firms even collect post dated cheques at the time of issuing the loan to ensure timely repayment of the loans. Usually there is no problem with regard to repayment of loans. If they cannot repay the loan in time, they may renew the loan. The personal obligation of the businessmen to the partner who recommended his' loan also compel him to repay the loan in time. Our survey reveals that only in the case of four loans, the firms faced some difficulty in repayment.

The firms issue loans ranging from Rs 3,000 to Rs one lakh and above. Of the firms covered by our survey, 25 per cent of the firms advance an amount upto one lakh and above to a single borrower. Another 25 per cent advance a maximum amount ranging from Rs 25,000 to Rs 65,000 (Table 10). The number of loans issued by the firms varied between seven to 100. A majority of the firms issued about 30 to 40 loans (Table 11). Six firms reported that compared to 1982 their business had expanded during 1983.

The steady demand for loans from the business community is due to many reasons. Easy availability, immediate release of the loan, personal sureties, simple procedures and instalment repayment facilities are some of the advantages of these loans compared to loans of commercial banks. Businessmen in many situations require a bulk amount of money for short periods in order to purchase goods in large quantities, take delivery of goods sent through rail or roads or paying certain dues. The financing firms are the most suitable and easily accessible type of financial institutions which can meet their short term credit requirements instantly. These factors have largely contributed to the growing demand for loans from these firms apart from the other factors discussed earlier.

TABLE 10: MAXIMUM LIMIT OF A LOAN

Maximum Amount Advanced to a Single Borrower (Rs)	No of Firms	No of Firms (Per Cent)
1 lakh and above	6	25.0
65,000	1	4.2
50,000	1	4.2
30,000	1	4.2
25,000	3	12.5
10,000	2	8.3
5,000	2	8.3
3,000	2	8.3
Not available	6	25.0
Total	24	100.0

TABLE 11: CLASSIFICATION OF FIRMS ON THE BASIS OF NUMBER OF LOANS ISSUED

Number of Loans Issued	No of Firms	No of Firms (Per Cent)
Up to 10	2	8.3
11-20	1	4.2
21-30	3	12.5
31-40	4	16.7
41-50	4	16.7
51-60	1	4.2
Above 60	4	16.7
Not available	5	20.8
Total	24	100.0

III

An Assessment

We may also examine the impotence of the firms as a parallel banking system. With respect to mobilisation of deposits and advancing loans, the firms are competing with commercial banks. As noted earlier the higher rate of interest paid to the depositors, monthly payment of interest, issue of promissory notes to the money deposited, personal guarantee given to the depositors by the partners of the firm, and the sound functioning of the firms led to the inflow of large amount as deposits to the firms. Due to this the 1,500 odd firms in the town are able to mobilise a very huge amount (about Rs 100 crore) as deposits from the public.

These firms advance loans to credit-worthy businessmen quickly and without many formalities. As a majority of the loans are daily repayment loans, the firm can very well assess the financial position of the debtor to whom the loan is advanced. Thus the firms function as a very powerful parallel banking system compared to the activities of the 38 bank branches in the town.

A serious defect of the parallel banking system is that it advances loans only to business and other speculative type of activities which yield immediate windfall profits and can pay the high interest rates. Thus the available savings in the community is diverted only for trading and other such speculative type of activities. Our survey has revealed that not a single industrialist has availed of the loan facility of the firms.

It is pointed out that people may prefer to deposit their money in the firms rather than invest in industries, since even without any risk one gets a 24 per cent rate of return. As it is in Kerala, industrial investment is considered risky, difficult and unattractive due to many reasons. The parallel banking system adds to this by discouraging industrial and other productive activities and encouraging investments in speculation.

Another undesirable outcome of the firms is that they generate and distribute unaccounted or black money. The firms accept deposits from the public by issuing promissory notes and advance loans again on the basis of promissory notes obtained from the debtors. But with respect to the interest they pay to the depositors and the interest they receive from the debtors, they keep a dual account—one to satisfy the authorities and the other being the real account. While the promissory note issued by the firm to the depositor bears an interest of nine per cent, the actual rate of interest paid to the depositor is 24 per cent. Likewise the debtor pays an interest rate ranging from 29.5 to 42 per cent, but the rate shown in the promissory note is 12 per cent. The difference in the rate of interest shown in the promissory note and the actual amount paid or received constitute the unaccounted or black money generated by the firms. Thus during normal working the firms create and distribute black money. As the total amount of deposits is about Rs 100 crore the black money generated by the firms is a very huge amount.

At present the firms are functioning somewhat smoothly. Failure of this type in Trichur town is rare. Though a few firms have wound up their business immediately after their starting, nobody has reported a collapse of a firm, But a business recession or business crisis may lead to a serious situation for the firms,

CONCIUSION

Since the beginning of the 1980 there has been a spurt in the growth of private financing firms in Trichur town and at present more than 1,500 firms are engaged in this business. This growth may be attributed to factors such as the historical background of Trichur town as a centre of private financial and banking institutions, the decline of the private kuri business, the fast expansion of business activities of the town since the mid 1970s, credit restrictions by commercial banks, and accumulation of surplus money with certain sections of the community. The firms are registerd units having independent offices with full time paid staff and function like a regular bank branch. The firms are organised by people like businessmen, house wives, retired people, bank employees, shcool and college teachers, government and public sector employees, students, small industrialists and unemployed people.

The share contribution of partners and the deposits obtained from the public are the two sources of funds for the firms. Due to the higher rate of interest paid to the depositors, issue of promissory notes for the money deposited, personal guarantee given to the depositors by the partner and efficient management, the firms are able to mobilise a huge amount of about Rs 100 crore as deposits from the public.

The firms advance two categories of loans *viz,* (i) block loans, and (ii) daily repayment loans. For the loans the firms charge a rate of interest ranging from 39.5 to 42 per cent. There has been a steady increase in the demand for the loans due to easy availability, immediate release of the loan amount, personal sureties, simple procedures, instalments repayment facilities etc.

The firms have emerged as a very powerful parallel banking system in the town posing a threat to the normal banking activities. The firms are able to mobilise a very huge amount as deposits from the public compared to the bank branches in the town. The firms advance loans only to business and other speculative type of activities and thus in an indirect manner discourage industrial and productive investments. Another undesirable outcome of the functioning of these firms is that they generate and distribute unaccounted or black money.

though the firms are not facing an immediate crisis, a business recession or crisis in the town could lead to a collapse of a large number of the firms.

In view of the above reasons there is a need to regulate the activities of the firms through appropriate regulatory measures. But before imposing any regulatory measure, steps should be taken to remove the existing credit restrictions and also to expand credit facilities for business purposes.

Notes

1 The estimate is based on the information gathered by the author from official as well as unofficial sources.

2 Aravindakshan, There's More Money in Money; *The Week, vol 2,* No 12 March 11-17.

3 The chitty or kuri can be defined as a transaction by which one or a group of persons enter into an agreement with a number of other persons so that every one of the contracting parties shall subscribe an amount of money by periodical instalments for a certain definite period, and that each in his turn, as determined by lot or auction or such other manner as is provided for in the bye-law shall be entitled to the prize amount. For details see: Somanathan Nair, C P, "Chit Finance—An Exploratory study on the working of Chit Funds" (Bombay: Vora and Co, 1973), Chap I.

4 Ooramen M A, 'Rise and Growth of Banking in Kerala' *Social Scientist,* Vol 5(3) Qct 1976, p 40.

5 Mohandas, M 'The Kerala Chittes Act 1975: An Analytical Study*, Working Paper (Mimeo), Dr John Mathai Centre, Trichur, 1977.

6 According to a Survey conducted-tn 1980 the total number of persons who went abroad from Trichur district was 40,224. The survey also revealed 20 per cent of the total working in the Gulf countries from Kerala were from Trichur district. of Directorate of Economics and Statistics, "Survey of Housing and Employment" (Trivandrum: D E S, 1981) (in Malayalam), pp 21-22.

7 Leela Gulati, 'Male Migration to Middle East and the Impact on the Family—Some Evidence from Kerala' *Economic and Political Weekly,* Vol 18,'Nos 52 and 53, Dec 24-31, 1983, p 2223.

8 See Prakash B A, 'Impact of Foreign Remittances: A Case Study of Chavakkad Village in Kerala', *Economic and Political Weekly,* Vol 13, No 27, July 8, 1978.

9 Canara Bank, Third Round Credit Plan and Annual Action Plan 1983—Trichur District Vol I (Trichur: The author 1983), p 18.

10 Many of the firms to whom we approach* ed are not prepared to supply information regarding their working. But we managed to get information from persons connected with 24 partnership firms coming under the small, medium and big category. Care was taken to collect information from the three categories of the firms so as to get a representative sample. However we feel that the information supplied by these firms does not fully reflect the actual state of affairs of the firms as they all under reported their activities.

11 The survey reveals that the average deposit per firm in 1983 was Rs 6.25 lakh. On the basis of this, the total amount deposited for 1.500 firms is Rs 93.75 crore The information supplied by the firms regarding their deposits are probably far below the actual amounts. And if we make a provision for {hat, we can place the total deposits around Rs 100 crore.

Lohia Machines

LOHIA MACHINES has decided to convert non-convertible portion of its 2,82,500 135 per cent secured convertible debentures (first series) of face value of Rs 130 each into fully paid-up equity shares of Rs 10 each in the ratio of five new equity shares for each debenture, by extinguishment in full of debt represented by such debentures. The face value of debentures which will be converted is Rs 367.25 lakh.

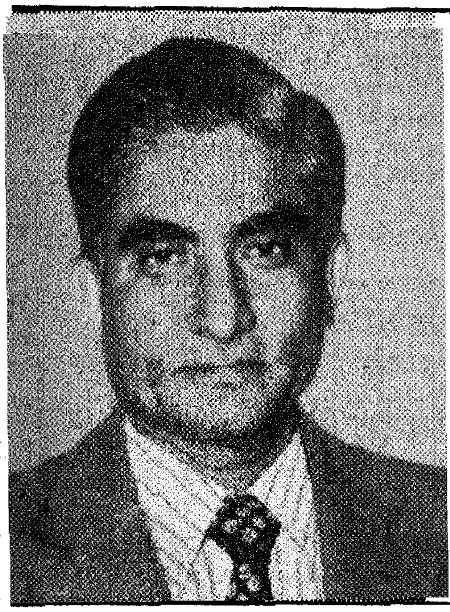
Company has also decided to issue another 8 lakh 13.5 per cent convertible debentures of Rs 125 each on 'right' basis to shareholders after conversion of first series of non-convertible portion of debentures. According to the company's proposal, Rs 10 each of face value of new debentures (third series) will be converted into one equity share of Rs 10 each after six months from date of allotment. After conversion, face value of non-convertible portion of third series of debentures will be Rs 115 each. The proceeds of the issue will be utilised by company for increase in its capacity for manufacture of Vespa XE scooters from 50,000 to 70,000 numbers per annum.

Wellcome

BURROUGHS WELLCOME (INDIA) LIMITED

Registered Office: 16 NGN Vaidya Marg, (Bank Street), Bombay-400 023.

Speech of the Chairman, Mr. S. Datta delivered at the 36th Annual General Meeting of the Company held on Friday, 14th December, 1984.



"In an industry which is committed to price control, improved efficiency through economies of scale and adoption of modern technology is necessary to absorb cost escalations. No compromise in the adherence to strict quality control should be permitted when the health of the nation depends upon the quality of products produced by the industry."

Mr. S. Datta, Chairman

Ladies & Gentlemen,

I recall in great sorrow one of the darkest hours in our history—the assassination of our beloved Prime Minister Mrs. Indira Gandhi. It is a meagre consolation that our loss is felt and our grief is shared by the whole world. It is a tribute to the statesmanship and foresight of Mrs. Gandhi that the India she built could face the crisis with courage and determination and demonstrate to the world its commitment to the democratic way of life. The smooth succession to the leadership has amazed international observers.

Turning to the business in hand, ladies and gentlemen, today is an important milestone in the history of your company. It is the first meeting of the shareholders after we became a public company. On this occasion I would like to share some of my thoughts with you on the origin and growth of this company, the environments in which we operate and what the future may hold for us.

Origin and Growth

We had a humble beginning way back in 1912 as a branch office of Burroughs Wellcome & Co. In 1948 the branch was converted into a wholly owned subsidiary and registered as Burroughs Wellcome & Co. (India) Pvt. Ltd. We manufactured only one or two products *viz.* HAZELINE Snow and Digoxin (LANOXIN) at rented factory premises at Worli in Bombay. The sale of imported goods predominated our operations. This position substantially changed in 1960 when another pharmaceutical factory was established at Haines Road, Bombay and our chemical plant was commissioned at Mulund, Bombay. In 1980, we shifted our Pharmaceutical Division from Worli to Mulund, in close proximity to our Chemical Division. This up-to-date sophisticated factory has many unique features and uses the chemicals produced by our chemical plant for the manufacture of drugs and formulations. We have drugs for treatment of malaria, filaria, dysentery and leprosy—diseases which are widely prevalent in India.

Public Issue

There has been an overwhelming response to the public issue by the company and the offer for sale of equity shares by the overseas shareholders which resulted in the increase in Indian participation in the equity of the company from nil to 60%. The Board of Directors express their gratitude to the investing public for the confidence reposed in them. The issue was over-subscribed by more than 16 times but the allotment was completed in a record period of 3 weeks. The allotment was done on 25th August, 1984 *viz.* 6 days before our year ending on 31st August, 1984. Further, the Board of Directors have been pleased to recommend a final dividend of Rs. 1.25 per share irrespecitve of the amount paid up per equity share and for the period for which the amount has been paid up for the year ended 31st August, 1984.

Environments

The pharmaceutical industry in India operates in a system of rigid price control, production control and profit control. These controls have been imposed with a view to ensuring an adequate and balanced production of essential drugs and formulations and make them available to the teeming millions at reasonable prices. Technological self sufficiency is also one of the major objectives of the Drug Policy announced in 1978.

Drugs (Prices Control) Order, 1979 was one of the principal measures designed to ensure supply of essential drugs and formulations at reasonable prices. It linked prices of formulations with the cost of production. The system of price control which is administered by the Bureau of Industrial Costs and Prices suffered from a drawback of absence of any inbuilt mechanism for revision of prices with every escalation in the cost of production. Faced with inflationary conditions which pushed up the cost of every input sharply, price control which sometimes disallowed even legitimate costs proved not only stringent but also illogical and unrealistic. The production of basic drugs became unremunerative. The country faced frequent shortages in essential drugs and formulations. The fact that the measures designed to achieve the objectives of the Drug Policy failed miserably is now general knowledge. The Government of India, therefore, formed the National Drugs & Pharmaceutical Development Council (NDPDC) to review the Drug Policy which appointed in May 1983 three working Groups to study and report on

(1) Pricing Policy & Procedures
(2) Industrial Approvals
(3) Planning & Development.

The working Groups submitted their reports in February 1984. In March 1984, NDPDC considered these reports and constituted a small group of its members along with some invitees as a Steering Committee to evolve an overall approach and make recommendation for a New Drug Policy. The Steering Committee has submitted their report to the Government, but the Government is yet to announce the New Drug Policy.

The industry fervently hopes that the Government would consider certain basic requisites such as the adoption of modern technology for cost control, economies of scale and rigid adherence to quality control and Good Manufacturing Practices as the minimum essential elements of the New Drug Policy. This alone will ensure a rapid growth of the industry along sound lines. In an industry which is committed to price control, improved efficiency through economies of scale and adoption of modern technology is necessary to absorb cost escalations. No compromise in the adherence to strict quality control should be permitted when the health of the nation depends upon the quality of products produced by the industry. The Government should insist on adoption of Good Manufacturing Practices of international standards in order to promote confidence to our overseas buyers in the quality of our products and boost our exports. These are the minimum essentials of a drug policy if the pharmaceutical industry were to prosper and become competitive in terms of cost and quality in international markets.

Performance

The turnover for the year under review at Rs. 38.31 crores records a growth of about 19% over the previous year. The value of turnover, however, is not an accurate reflection of increase in sales in physical terms which was at a much higher rate, because the prices of several products were revised and reduced under Drugs (Prices Control) Order, 1979. Earnings were also adversely affected due to these price reductions and increase in costs.

We have undertaken several measures for cost control. We have plans to widen the range of medical products to include several para medicals and OTC formulations. We are also exploring the possibility of manufacturing consumer goods which may now be permissible owing to the changed status of the Company. Negotiations are in progress for collaboration in the areas of pharmaceuticals and consumer products.

Acknowledgement

Our thanks are due to the Managers to the issue, the Registrar to the issue, the brokers and underwriters, the Bankers and the advertising agents for their unstinting efforts to make the issue and the offer for sale of equity shares a success.

We are also grateful to the Economic Development Corporation and Industrial Development Corporation of Goa, Daman & Diu for their active co-operation and encouragement in respect of the activities in Goa.

On behalf of the Board of Directors, I wish to express my sincere gratitude to our shareholders for their wholehearted support.

I also wish to record on behalf of the Board of Directors our appreciation of the dedication and efforts of all sections of the employees of the company throughout the year.

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