REPORT
OF THE
WORKING GROUP ON FINANCE FOR THE COAL INDUSTRY

RESERVE BANK OF INDIA

1972

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Chapter I

INTRODUCTION

1.1 In January 1972, the representatives of the coal industry met the Deputy Governor of the Reserve Bank of India (Dr. R. K. Hazari) when they explained the difficulties faced by the industry arising out of such reasons as wagon shortage, delay both in the realisation of sale proceeds as well as payment of subsidies by the Coal Board and pleaded for a liberalisation of institutional finance including bank credit in the context of the changed circumstances. It was then suggested that a working group might be constituted to study the various aspects of the financial problems faced by the industry. In pursuance of the above suggestion, the Reserve Bank of India set up, in February 1972, the present Working Group.

1.2 The terms of reference of the Working Group are :

(*i*) To study the immediate financial problems of the coal industry and

(*ii*) To review the existing institutional arrangements including bank credit for financing the coal industry, especially, in the eastern region, *viz.*, Bihar and West Bengal.

1.3 The composition of the Working Group is as under :

1)	Shri P. C. D. Nambiar, Secretary & Treasurer, State Bank of India, Local Head Office, Calcutta.	*Chairman*
2)	Shri S. J. Utamsing, General Manager, United Commercial Bank, Calcutta.	*Member*
3)	Shri R. Lall, Chairman, Indian Mining Association, Calcutta.	*Member*

4) Shri H. N. Mookherjee, *Member*
Chairman,
Indian Mining Federation,
Calcutta.

5) Shri G. D. Ghatak, *Member*
Deputy Coal Controller (Production),
Office of the Coal Controller,
Calcutta.

6) Shri R. P. Pal, *Member*
Financial Adviser & Chief
Accounts Officer,
Coal Board,
Calcutta.

7) Shri V. Subramanian, *Member-Secretary*
Deputy Chief Officer,
Department of Banking Operations
& Development,
Reserve Bank of India,
Calcutta.

8) Shri V. M. Sundar Raj, *Member-Secretary*
Director,
Research Section,
Reserve Bank of India,
Calcutta.

1.4 Dr. S. R. K. Rao, Director, Research Section, Reserve Bank of India, Calcutta, who initially acted as a Member-Secretary of the Working Group later left on another assignment. The Secretariat for the Working Group was provided by the Department of Banking Operations and Development, Reserve Bank of India, Calcutta.

1.5 With a view to eliciting information in regard to the credit requirements of the industry relating to working capital and term finance and the extent to which financial accommodation is available at present, the Working Group issued two questionnaires (vide Appendices I and II), one to the various mining associations and the other to the commercial banks. Information on the subject was also collected from the specialised financial institutions such as the Industrial Development Bank of India and the Industrial Finance Corporation of India. Besides, the Working Group visited a few collieries situated in the Jharia and Raniganj coalfields and held discussions with the representatives of the industry, the Chairman, Coal Board and Coal Controller and the Railway Board.

Acknowledgements

1.6 The Working Group is grateful to Shri P. K. Ghosh, Chairman, Coal Board and Coal Controller, Shri G. S. A. Saldanha, Director, Traffic (Transportation), Railway Board (at present General Manager, South Eastern Railway) and the representatives of the coal industry who tendered evidence and furnished valuable information. The Group would also like to express its thanks to Shri V. N. Nadkarni of the State Bank of India for attending all the meetings of the Group and helping it in its deliberations. The Group records its deep appreciation of the assistance rendered by Shri S. P. Saigal of Bengal Coal Co. Ltd. and Shri A. K. Ganguly of the Coal Board. The Working Group received excellent assistance from Shri N. Venkateswaran, Banking Officer, Reserve Bank of India and Shri D. P. Roy of the State Bank of India in the secretarial work of the Group.

CHAPTER II

COAL INDUSTRY — GENERAL

2.1 Coal industry is the oldest of the large industrial enterprises in India. Its beginnings can be traced back to 1774 in the Raniganj area, although systematic efforts at coal raising came much later by about the middle of the 19th century. At about that time, an extensive deposit of good quality coal was discovered in the Jharia coalfields in Bihar. Subsequently, coal was also discovered in Madhya Pradesh in 1862, Rewa State in 1884, Singareni fields in Andhra Pradesh in 1872 and in other areas of the country. More than 60 per cent of the country's proved reserves of coal today are, however, situated in the Gangetic valley of the eastern region.

2.2 The importance of coal for the industrial development of the country not only as a preponderant and primary source of direct energy available indigenously but also as a source of secondary energy—capable of generating electric power—needs no emphasis. In fact, a predominant role is contemplated for coal in regard to the country's requirements of energy during the Fifth Five Year Plan period. The industry provides employment to around four lakh workers.

2.3 The total output of coal in the country showed a gradual rise from 38.2 million tonnes at the end of the First Five Year Plan to 75.7 million tonnes in 1969-70. In the Second Five Year Plan, as against a target of 60 million tonnes, the industry achieved a production of 55.7 million tonnes. In the Third Plan period, production rose further to 67.7 million tonnes as against the original target of 96.3 million tonnes which was subsequently revised to 76.5 million tonnes. Since 1969-70 there has been a downward trend in production and in 1971-72 it is estimated at 70.8 million tonnes as against the Fourth Plan target of 93.5 million tonnes.

2.4 The State-wise trends in production of coal (including lignite) are indicated in the table below :

(Million Tonnes)

Name of State	Production of coal						
	1953	1956	1961	1966	1967-68	1968-69	1969-70
1. Bihar	19.3	20.4	27.1	31.4	30.4	32.3	35.4
2. West Bengal	10.4	11.5	17.3	19.8	20.0	20.0	20.3
3. Madhya Pradesh ..	4.3	4.9	6.2	9.8	11.0	11.7	12.5
4. Maharashtra	0.3	0.4	0.9	1.2	1.4	1.6	1.7
5. Orissa	0.5	0.6	1.0	1.2	1.2	1.4	1.5
6. Andhra Pradesh ..	1.3	1.6	2.8	4.1	4.1	3.9	3.7
7. Assam	0.5	0.6	0.7	0.5	0.5	0.5	0.6
8. Others	—	—	0.1	2.5	3.4	4.0	4.3
TOTAL	36.6	40.0	56.1	70.5	72.0	75.4	80.0

Between 1953 and 1969-70, while the output of West Bengal coalfields rose by 9.9 million tonnes and that of Bihar by 16.1 million tonnes, the production of the outlying coalfields rose by 13.1 million tonnes. The rate of growth in the output of the Bengal-Bihar collieries has been much smaller over the period than that of the outlying fields although the bulk of the coal reserves is situated in these two States. Nevertheless, the Bengal-Bihar coalfields still account for about 70 per cent of the total annual output of coal.

2.5 Coal is broadly classified into coking coal* and non-coking coal; in addition lignite† is included under coal. Figures relating to the quantity of coking and non-coking coal and lignite produced during the four years 1968-69 to 1971-72 are given below:

(Million tonnes)

	1968-69	1969-70	1970-71	1971-72**
Coking coal	17.2	18.1	17.8	16.4
Non-coking coal	54.2	57.6	55.1	54.4
Lignite	4.0	4.3	3.4	3.8
Total	75.4	80.0	76.3	74.6

** Provisional.

2.6 An important development which took place towards the end of 1971 was the promulgation of the Coking Coal Mines (Emergency Provisions) Ordinance (which was replaced by the Coking Coal Mines (Emergency Provisions) Act), in terms of which the management of 214 coking coal mines (of which 211 are in Bihar and 3 in West Bengal) was taken over by the Government of India with effect from the 17th October 1971. Later, in January 1972, the Central Government formed the Bharat Coking Coal Ltd. under the Companies Act, 1956 and the management of all the coking coal mines taken over by the Government was vested in that company. With the enactment of the Coking Coal Mines (Nationalisation) Act, 1972, the process of nationalisation of coking coal mines has been completed.

2.7 The Bharat Coking Coal Ltd. does not, at present, have any major problem with regard to working capital requirements. There is a ready demand for coking coal from the steel mills and other metallurgical

* Coal capable of forming hard coke suitable for metallurgical industries when heated under certain conditions; coke is the residue obtained after removal of various volatile constituents of coal.

† Brown coal, a stage in the conversion of vegetable matter into coal.

consumers who are accorded priority treatment in the matter of wagon supplies. Long-term plans for the reorganisation, mechanisation and scientific development of the coal mines under that company are yet to be evolved. Moreover, the problems of the company in regard to its credit requirements are those of a single large unit and could be conveniently solved by its bankers. The Working Group has not, therefore, considered it necessary to go into the financial requirements of the coking coal mines.

2.8 Lignite is produced in the public sector by the Neyveli Lignite Corporation Ltd. in Tamil Nadu and the Working Group has not deemed it necessary to go into the problems of lignite mines. The study has, therefore, been confined to the non-coking coal industry and particularly to Bengal-Bihar coalfields which at present account for about two-thirds of the total non-coking coal production. It may be mentioned that even in the field of non-coking coal, the public sector accounts for about one-fourth of the total production.

Salient features of the industry

2.9 Before going into the financial problems of the coal industry and the existing institutional arrangements to meet its credit requirements, it would be useful to indicate briefly some noteworthy features of the industry which have a bearing on the subject under consideration.

2.10 A feature of the coal industry is the existence of a large number of small units, *i.e.*, those producing 10,000 tonnes and below per month. The table below indicates the frequency-wise distribution of collieries (both coking and non-coking) according to output during the month of July 1970.

Output in tonnes	No. of collieries	% of collieries to total	% of output to total
Upto 1,000 ..	273	34	1
1,001— 5,000 ..	195	24	9
5,001—10,000	124	16	12
Above 10,000 ..	205	26	78
	797	100	100

It may be observed from the above table that the small units while constituting 74 per cent of the total number of collieries account for 22 per cent of the total output. Over 90 per cent of the total number of such small units accounting for 88 per cent of their total production is situated in West Bengal-Bihar coalfields. The small colliereis are mostly proprietary and partnership concerns which, in common with such small units in other industries, have special problems in raising financial resources from banks and other financial institutions.

2.11 The Working Group intended to make a brief study of the balance sheets of collieries representing a cross-section of the industry with a view to finding out their special features and problems. This was not, however, possible as the balance sheets of proprietary and partnership concerns and private limited companies were not available to the Group despite efforts made. The Working Group had, therefore, to rely on the Reserve Bank's study of the balance sheets of 1501 selected medium and large non-financial, non-Government public limited companies published in the April 1972 issue of the RBI Bulletin. The 41 coal companies included in the Reserve Bank study accounted for about 74 per cent of the paid-up capital of the non-Government public limited companies in the coal industry. It is observed from the data furnished in this study that unlike in most other industries where the variable costs such as cost of raw materials and stores constituted a major component of the cost of production, fixed costs, *viz.*, salaries, wages, etc., depreciation and repairs to machinery accounted for as much as 66 per cent in the case of the coal industry. In order to enable the industry to absorb the fixed costs, the utilization of capacity has to be maintained at a comparatively high level. Consequently, the impact of any fall in production would be more pronounced in the case of the coal industry than in most other industries. The balance sheet data also disclosed that the profitability of the industry expressed in terms of gross profits both to sales and capital employed, was lower than in the case of all the 1501 companies taken together.

2.12 Apart from the high proportion of fixed costs, another distinctive feature of the industry is that even for maintaining the production at the existing level, continuous investment of funds is necessary. Thus, as and when a coal seam gets exhausted or becomes uneconomic to work, lower seams, where available, have to be developed (by deepening the existing pits or by driving cross measure drifts*) or contiguous areas exploited, where possible. Also, once a seam is opened up, it has to be worked until it gets exhausted as stoppage of production for any length of time might result in a deterioration of the quality of exposed coal and affect the stability of the workings thereby endangering the safety of the entire mine. Further, in the case of several collieries coal has to be won by resorting to sand stowing** operations and/or by working

* Coal seams at times occur underground with short partings between them. Cross measure drifts are passages driven underground from the top seam to the lower seam through the intermediary strata.

** The operation of filling with sand the spaces left underground in a coal mine by the extraction of coal. It is undertaken mainly with a view to ensuring safety of the mine and the surface structure as well as conserving coal reserves.

under adverse mining conditions. Although the extra cost involved is subsidised to a large extent by the Coal Board certain difficulties in this regard are still experienced by the industry which are discussed in Chapter V.

2.13 The market for coal is dominated by bulk consumers like steel plants, railways, power-houses and the cement industry. The entire coking coal is absorbed by the metallurgical industry while in the case of non-coking coal, railways, power-plants and cement companies consume about two-thirds of the total output. While the supplies to railways are made directly through tenders, in the case of others they are supplied largely through middlemen. It is understood that with the growth in production and expanding demand from small consumers in recent years, the collieries have come to rely increasingly on middlemen for marketing their output. Originally the role of the middlemen was confined to underwriting purchases made by small consumers. But, at present, even the larger consumers find it convenient to place their orders through middlemen. Further, some of the power-houses specify that it shall be the responsibility of the successful tenderers to unload the coal at the power-house siding and as the collieries do not have the necessary machinery to undertake and supervise such operations they engage the services of middlemen to carry out the job. In the case of small collieries, middlemen perform a useful role in that the small producers cannot cater directly to the requirements of a number of small consumers spread over a wide area. Further, the output of each small producer is so small that he cannot bid for the tenders called for by the bulk consumers. In some cases middlemen also extend financial assistance to the collieries. While middlemen thus perform some useful functions there are certain obvious drawbacks in the system of marketing through such intermediaries. For instance, it is reported that they often delay payment to the producers after realising the sale proceeds from the consumers. Also, to the extent that the profit margin retained by the middlemen is borne by the producers, their realisations are reduced. The Working Group is, therefore, of the view that while it may be necessary for the small producers and consumers to utilise the services of middlemen, there is no reason why the bulk consumers cannot undertake their purchases without recourse to middlemen.

2.14 The predominance of large public sector consumers such as steel mills, railways and power-houses has had its impact on the price structure of coal. Until July 1967, pricing, movement and distribution of coal were under Government control and increases in prices were allowed from time to time to compensate the industry for increases in the cost of production mostly as a result of wage increases and labour welfare measures. Even after decontrol, the prices of coal are virtually controlled in that they tend to be determined by the prices paid by the large consumers like the railways. The industry has represented to the Working Group that the increase in the prices has not kept pace with the rise in the cost of production and consequently its capacity to generate adequate internal resources for further development has been impaired. The Working Group has not, however, gone into this question as it falls beyond its terms of reference.

2.15 Apart from the inadequate price increase mentioned by the industry, fear of nationalisation in the industrial circles arising from the take over of the coking coal mines and the resolution passed by the West Bengal Legislative Assembly recommending nationalisation of coal mining industry, is reported to be inhibiting the working and growth of the industry. Because of the uncertainty, some colliery owners are stated to be unwilling to commit further resources for the development of mines. Further, the non-institutional agencies which used to provide some financial assistance to the collieries, it is stated, are now reluctant to extend any credit.

2.16 Another and by far the most important aspect having a bearing on the working of the coal industry is the availability of adequate rail transport for moving coal from pitheads to consuming points in a systematic and regular cycle. If coal raised from the mines is not moved continuously subsequent production would be adversely affected. The impact would be more pronounced in the case of mines fitted with mechanical loading arrangements. There are physical limitations to the extent of stocks that can be held at pitheads since coal is a bulky commodity and open space adjacent to loading lines is obviously limited. There are also limitations to the height to which coal heaps can be built up as well as the size of the individual heaps and their proximity to each other because of the dangers of spontaneous combustion. Consequently, no colliery can accumulate stocks beyond a certain level after which it would be forced to cut down production. Furthermore, accumulation of excessive stocks of coal at pitheads represents a substantial financial burden on the collieries owing to locking up of funds which could otherwise have been used for further production ; besides, it leads to a deterioration in the quality reducing the saleable value of coal and an avoidable increase in handling charges since coal dumped on the ground away from the siding has to be handled more than once for loading into wagons. The industry has represented that there has been an acute shortage of wagons since the middle of 1970 which has had serious repercussions on its working. This problem has been dealt with in the next chapter.

Chapter III

WAGON SHORTAGE

3.1 The immediate problem facing the industry is the financial difficulties arising out of accumulation of large stocks of coal at pitheads which, it is claimed, is due to wagon shortage leading to cut-backs in production. So long as the wagon supply for despatches of coal was adequate and regular, the collieries, particularly the medium and large-sized ones, did not have serious financial difficulties. When, however, wagon supplies fell short and coal stocks accumulated at pitheads, most of the collieries experienced financial difficulties since, on the one hand working funds got locked up and banks were generally not liberal in advancing against coal stocks and on the other hand profitability was impaired owing to the curtailment in production.

3.2 The production of coal which had reached a peak level of 75.7 million tonnes in 1969-70, fell to 72.9 million tonnes in 1970-71 and further to an estimated 70.8 million tonnes in 1971-72. The fall was accounted for entirely by the Bengal-Bihar collieries whose production came down from 55.7 million tonnes in 1969-70 to 48.6 million tonnes (provisional) in 1971-72. The decline in production, according to the industry, was due to the inadequate supply of railway wagons which resulted in a large accumulation of stocks at pitheads. Thus, pithead stocks of coal, which averaged around 6 million tonnes in the preceding years rose to 7.1 million tonnes in 1969-70 and further to 9.6 million tonnes in 1970-71 ; in 1971-72 the pithead stocks had declined somewhat to 8.2 million tonnes. In the case of Bengal-Bihar coalfields, the pithead stocks, which used to be around 4 million tonnes, rose to 5.2 million tonnes in 1969-70 and further to 7.6 million tonnes in 1970-71 ; in 1971-72 pithead stocks are placed lower at 6.8 million tonnes. The increase in the pithead stocks was thus accounted for entirely by the Bengal-Bihar coalfields.

3.3 In the case of outlying coalfields, wagon supply was, in general, not a problem in these years, the average daily wagon loadings rising from 1934 in 1969-70 to 2015 in 1970-71 and further to 2181 in 1971-72. There has, however, been a decline in wagon supply to the Bengal-Bihar coalfields since the latter half of 1970. According to the data furnished by the railways, wagon loadings in the Bengal-Bihar coal fields declined from a daily average of 6242 in 1969-70 to 5542 in 1970-71 but improved to 5646 in 1971-72. When wagon supplies are short, the only alternative is to use road transport the cost of which varies roughly from four to ten times that of rail transport depending on the distance from the collieries to the consuming centres. For instance, the high cost of transporting coal by road, it is stated, has completely offset the locational advantages of some industries around Calcutta. The impact of the wagon shortage has been more severe on certain categories of consumers like soft coke consumers and brick kilns which are accorded only a low priority for wagon allotments.

3.4 The railways, while conceding that the wagon supply to the Bengal-Bihar coalfields was adversely affected in 1970-71, have pointed out that this was due to various factors beyond their control. The main reason was the serious dislocation of traffic caused by thefts of overhead equipment, communication wires, wagon fittings, etc., labour unrest and a general deterioration in the law and order situation in the eastern region. The bumper food crop in Punjab and Haryana also had an adverse impact on the wagon supply position in the country. In the latter half of 1971, wagon supply was also affected by the emergency movements in the eastern region before and after the Indo-Pakistan conflict. The railways state that the position has improved since then and that it is expected to improve further. They have, however, pointed out that the fall in coal production cannot be attributed entirely to wagon shortage ; labour unrest in collieries and, of late, frequent power cuts have also contributed to the decline in coal production.

3.5 If the railways could, as anticipated by them, expedite the movement of coal from pitheads, the problem of accumulated pithead stocks confronting the industry could be resolved in a few months. The liquidation of accumulated stocks, however, would not by itself bring about an immediate solution to the financial difficulties of the industry as it would take some time for restoring normal production and making up the losses suffered on account of cut-backs in production caused by wagon shortage.

3.6. In view of the difficulties experienced by the industry and in order to provide some measure of immediate financial relief, the Reserve Bank of India advised the scheduled commercial banks in January 1972 to consider taking the following measures :

"(*a*) Wherever banks have fixed sub-limits within the overall credit limit for advances against the various items of inventories, book debts, etc., there could be scope for reshuffling of the sub-limits to permit sufficient flexibility in the utilisation of credit facilities.

(*b*) Banks may consider extending, under suitable circumstances, additional temporary credit limits up to a maximum of 15%

of existing credit limits up to the end of June 1972.* The raising of limits up to a maximum of 15% of the existing authorised limits would not require our prior approval under the Credit Authorisation Scheme ; such additional limits sanctioned should, however, be reported to us.

(*c*) Wherever banks are satisfied that owing to unavoidable circumstances the collieries are in need of extension of credit facilities against book debts/bills for periods beyond 90 days, banks may consider requests in this behalf sympathetically.

(*d*) In regard to claims of the collieries for reimbursement by the Coal Board of certain specified expenses incurred by them, banks may consider giving advances for suitable periods against claims approved/certified by or under the authority of the Coal Board."

The Working Group is of the view that these relaxations should be continued till the situation eases. While the above relaxations have been permitted with a view to meeting the immediate problem faced by the industry, the Working Group considers that the present arrangements for financing the industry are inadequate and call for a revision. This question is dealt with in the succeeding chapters.

* Since extended up to the end of December 1972.

CHAPTER IV

FINANCE FOR WORKING CAPITAL

4.1 Against the background of the special features and financial problems of the coal industry discussed earlier, the Working Group has examined in this chapter the representation made by the industry that the financial facilities for working capital requirements available to it are inadequate and call for liberalisation.

4.2 The working capital requirements vary from colliery to colliery and are dependent upon several factors such as geological conditions, the size of the colliery, the stage of development and the degree of mechanisation. The collieries are not homogeneous in character and the cost of production of different sections in the same seam is not uniform. Often the productivity and profitability of even adjoining collieries may widely differ.

4.3 The bulk of the working capital requirements of the coal industry is on account of salaries and wages which account for about 60% of the total cost of production as the industry does not require raw materials. The other items are on account of purchase of stores (such as explosives, timber and iron and steel materials), payment of royalty, cess and surface rents and maintenance and repairs of plant and machinery. Further, while the industry is obliged to make payments to most of its suppliers on a cash basis and even make advance payments/deposits for certain items like explosives, cement, conveyor belts, timber and iron and steel materials, it has to allow credit on its sales.

4.4 The finance at present provided by the banks for meeting the working capital requirements is mainly for marketing and to some extent for production. The marketing finance is provided by way of advances against the security of book debts and supply bills and, to a small extent, by way of purchase/discount of demand/usance bills of exchange. In the case of production finance, the advances are secured by the hypothecation of stocks of coal at pitheads and the stores and spares in stock. The working capital required by a colliery will comprise the production cost of the stocks carried at pitheads (including the expenses incurred for stowing and working under adverse mining conditions), the cost of stores and spares held in stock as also the funds locked up in book debts. There appears to be some justification in the representation made by the industry that finance provided by banks for meeting the production requirements is inadequate and the Working Group, therefore, feels that a realistic assessment of the working capital requirements of the collieries is called for. While no uniform norms can be laid down for ascertaining the cost of production or the quantity of coal that may be carried at pitheads as they will depend upon several factors, the Working Group is of the view that the working capital requirements of individual collieries have to be assessed by taking into account, *inter alia*, the output, normal inventories of coal, stores and spares they have to carry, the amount ordinarily locked up in receivables and the resources available by way of sundry creditors for purchases (although they are usually small) and other liabilities. Although the present practice followed by individual banks for fixing sub-limits against each type of security may continue, there should be a reasonable degree of flexibility in prescribing margins as well as sub-limits in order that adequate finance could be made available to the industry to meet exigencies arising out of circumstances beyond its control such as accumulation of pithead stocks.

4.5 As stated earlier, unlike other industries, the coal industry requires continuous fresh investments even to maintain the existing level of production. The cost of some of the items essential for maintaining production and for which 100 per cent depreciation is allowed for the purposes of income-tax (*viz.*, tubs, winding ropes, haulage ropes and safety lamps) should, in the opinion of the Working Group, be included under working capital. Besides, the extra expenditure incurred by collieries in sand stowing operations and for working under adverse mining conditions should be taken into account for assessing the working capital requirements.

4.6 The difficulties generally experienced by the industry in obtaining various types of short term credit facilities are discussed in the succeeding paragraphs.

Production Finance

4.7 Collieries usually carry a certain quantity of stocks of coal at pitheads and the extent of such stocks expressed in terms of daily raisings varies from colliery to colliery depending on various factors such as the type of loading arrangements, railway siding facilities, stacking space at colliery depots, bunker capacity and the category of consumers. For the industry as a whole, however, such stocks represent, under normal circumstances, about 2 to 4 weeks' raisings.

4.8 The industry has represented that large amounts of working capital funds are locked up in coal stocks at pitheads, that banks are generally hesitant to grant advances against stocks of coal and that whatever facilities have so far been extended have largely been confined to limited companies of repu'

Advances against stocks of coal

4.9 The data available with the Working Group has revealed that banks have been granting advances to limited companies against hypothecation of stocks of coal at pitheads, the margin varying from 25% to 50%. While limited companies, particularly the larger ones, have not experienced much difficulty in obtaining their normal working capital requirements for inventory financing except during the period of abnormal accumulation of pithead stocks since the middle of 1970, the contention of the industry is that smaller concerns, especially those belonging to the non-corporate sector have not been able to secure the required facility from their bankers. At the same time, the reasons for the hesitation on the part of the banks in extending such finance are not far to seek. According to banks, as coal at pitheads is stored in the open, it does not permit of proper check and control by the lending bank, particularly as collieries are generally situated in interior areas far away from the offices of banks. Moreover, banks regard coal stored in the open as susceptible to spontaneous combustion. For the same reason, insurance companies also have generally been reluctant to insure coal stocks against the risk of fire and the few who are agreeable to do so have been quoting high tariff rates.* It is not cost alone that stands in the way of obtaining insurance cover ; the conditions and warranties regarding storing and stacking are also such that they are difficult to comply with in many cases owing to lack of proper storage space, particularly in the case of smaller producers. Further, banks do not possess the requisite expertise to undertake an appraisal of the quality and quantity of the different grades of coal ; nor are there any commercial agencies which could be entrusted with the work of carrying out the verification. Lastly, many of the smaller collieries are owned by partnership or proprietary concerns and in their case unlike limited companies where the charge over hypothecated stocks can be registered under section 125 of the Companies Act, 1956, it is not possible for banks to have an effective legal charge over the stocks.

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* Tariff advised by the Calcutta Regional Committee of the Insurance Association of India is as under :

Rate for fire cover (including spontaneous combustion)

Coal (other than at pitheads).

(*a*) With a warranty that no heap shall contain more than 1,000 tonnes or exceed 3 metres (10 feet) in height and that a clear space of not less than 3 metres (10 feet) shall be maintained around each heap Rs. 8.10%o.

(*b*) Without warranty .. .. Rs. 15.00%o.

For coal at pitheads 50% higher than the above rates must be charged.

2. No tariff rates have been provided and risks are rated by insurance companies at their discretion in regard to flood cover, pilferage and fire cover during transit.

4.10 Whatever might have been the justification in the past for the banks' hesitation in granting advances freely against coal stocks, the Working Group is of the view that there is now a need for a liberalisation of their lending policy in respect of advances against pithead stocks. The difficulty at present encountered by banks in regard to verification of stocks is not insurmountable. The collieries are required to stack the coal gradewise, maintain up-to-date stock registers and also submit monthly statutory returns to the Coal Controller indicating therein, *inter alia*, the opening and closing stocks gradewise as also the quantity of coal raisings and despatches. The financing banks should arrange to obtain a copy of the return from the borrowing colliery. With the help of the above records the banks' staff with some experience should be in a position to arrive at a reasonably accurate estimate of the quantity and value of stocks. While it is true that a precise assessment of the quantity and value of coal stocks is not always possible, this problem is not one peculiar to the coal industry alone and is equally applicable to many other industries to which advances are granted by banks. The risk, if any, is a fair banking risk which will be worth taking in the larger national interests and, in any case, could be minimised by giving due consideration to other factors such as the past performance of the colliery, its standing and credit.

4.11 The Working Group has also considered the feasibility of the Coal Controller assisting the banks in regard to the assessment of the quantity and quality of coal stocks. In fact, during the last World War when collieries were granted advances against coal stocks by the Government of India, the Coal Controller's Organisation was entrusted with the work of verifying such stocks. Even now, the field staff of the above Organisation periodically inspect and collect data regarding stocks of coal at the collieries by visual inspection and, in cases where their estimates differ from the figures shown in the registers maintained for the purpose or in cases of doubt, the stocks are measured by their qualified surveyor. In the circumstances if an arrangement could be worked out between the financing banks and the Coal Controller for a verification, whenever required, of coal stocks by the field staff attached to the Coal Controller's Organisation and the issue of a certificate as to the correctness of the particulars of stocks furnished in the monthly statutory returns referred to earlier, it would further assist the banks in making a correct appraisal of the value of stocks. In consideration of such services rendered by the Coal Controller's Organisation banks may pay them such fees as may be mutually agreed upon and the fees so paid may, if necessary, be recovered from the borrowers. In order to give effect to this arrangement, it may be necessary for the Coal Controller to augment his staff suitably. The Working Group, therefore, recommends that the Government of India should issue suitable instructions to the Coal Controller in regard to the verification of coal stocks and furnishing of certificates whenever required by banks.

4.12 As regards the difficulty experienced by collieries in insuring coal stocks against fire risk, it has been explained to the Working Group that not all types of coal are susceptible to spontaneous combustion and that only the high volatile and high moisture coals are liable to such hazards and that too only during certain months of the year. It has also been mentioned that the technical staff of the Coal Controller's Organisation could identify the stocks of coal which are easily prone to spontaneous combustion. Further, the experience of banks which have granted advances to collieries against stocks of coal without obtaining insurance cover has not been unsatisfactory ; the damage and loss caused to coal stocks hypothecated to banks on account of fire are reported to be negligible. The Working Group has been given to understand that this may perhaps be attributed partly to the fact that in the absence of insurance cover collieries might have been taking proper precautions against fire and that insistence on insurance cover might result in less care being taken and even lead to malpractices on the part of some collieries. The Working Group is, therefore, of the view that while insurance of stocks need not be insisted upon, the collieries should be required to take adequate precautions against fire risk such as installation of fire-fighting equipments, proper stacking, etc., as an essential condition for making advances.

4.13 As regards the difficulty experienced by banks in exercising supervision over pithead stocks hypothecated to them because of the distance from banks' offices, this is a problem faced in the case of other industries as well. Further, it is expected that with the spread of banking to the interior, under the branch expansion programme, this difficulty would be reduced in course of time.

Advances against colliery stores and spares

4.14 It has been customary for banks to grant credit limits against the security of colliery stores (excluding highly combustible items such as explosives and lubricants) and spares, with suitable sub-limits in cases where they form part of a composite security with margins ranging between 25% and 50%. The industry has represented that the ceilings for credit limits/sub-limits which are now fixed by banks for drawings are generally inadequate and should, therefore, be raised. It is estimated that the consumption of these items forms about 15% of the cost of production and that a major part thereof has to be acquired against cash payments and some even against payments in advance. Further, certain items, such as iron and steel materials and cement have to be purchased in bulk. While no uniform procedure is followed by banks for fixing credit limits/sub-limits against such items of unused stores and spares* the Working Group is of the opinion that banks should fix drawing limits on the basis of six months' consumption requirements.

4.15 The collieries are also required statutorily to hold in stock as stand-by for safety purposes, certain items of stores such as winding ropes, guide ropes, safety hooks and electric motors, both flame proof and non-flame proof, for mine ventilators. Banks may also grant suitable sub-limits against such items of these stocks to the extent they are statutorily required to be maintained provided the collieries certify that they have not been put into use.

Marketing Finance

4.16 A major portion of the non-coking coal produced in the country is consumed by the railways and thermal power stations and the balance mainly by the cement, cotton, brick-kiln and other industries. Nearly 70% to 80% of the coal sales is conducted on credit basis. The period of credit generally ranges between 30 and 90 days and, in some cases, it extends even up to 180 days. Collieries, therefore, require finance against credit given by them to their purchasers which is represented by book debts, supply bills and bills of exchange.

Advances against book debts

4.17 Not all banks grant advances against the security of book debts but those which do, grant the facility by way of cash credit or overdraft with a margin ranging from 30% to 50%. The drawing power is generally allowed against debts which are not more than 90 days old and is calculated on the basis of periodical statements submitted by the borrower. Banks are reluctant to advance against book debts except in the case of borrowers of undoubted integrity because of the scope for double financing and their inability to keep an effective control and watch over the receipt and proper accounting of payments. Thus, payments received by borrowers in respect of supplies made by them might not be placed to the credit of the buyers promptly but instead retained under 'Sundry Creditors' or 'Suspense' accounts with the result that the amount of book debts would continue to be shown at an inflated figure. Here again banks generally prefer to extend financial accommodation only to limited companies in which case a charge over the book debts could be registered with the Registrar of Companies. The industry has further represented that payments by private consumers in respect of coal sales tend to get delayed and that banks should allow advances against book debts even when they are more than three months old. Having regard to all relevant factors, the Working Group feels that banks should freely grant advances against book debts for the

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* *e.g.*, iron and steel materials including rails, cement, timber, bearings, haulage ropes, cane baskets and general stores.

customary period of 90 days and, if necessary, extend the period up to 180 days in deserving cases. It may, however, be necessary for them to ensure that finance has been made available only in respect of genuine sales and that any request for allowing extension of the period is reasonable. Borrowers may also be persuaded to issue instructions to their buyers to make payments direct to the financing banks. In some cases, banks have granted advances against subsidies receivable from the Coal Board, such claims being included under book debts ; this question has been dealt with in the next chapter.

Advances against supply bills

4.18 Supply bills are drawn in respect of coal sales to railways, other Government departments and State Electricity Boards. According to the prevailing practice, these supply bills are tendered to the banks once a fortnight and are accompanied by invoices in original, forwarding notes (commonly known as D-Notes) issued by the railway authorities evidencing despatch of coal (indicating the quantity and quality) and fortnightly statement of wagon disposals furnished by the borrower summarising the despatches made during the fortnight. Banks make advances against the security of such bills, either by way of separate cash credit/overdraft limit or a sub-limit within the stock cash credit limit for periods up to 90/120 days with a margin ranging from 10% to 25%. Specific powers of attorney executed in favour of the banks are registered with the buyers and payments for the bills are received by the banks directly. The payments in respect of these supply bills are normally received without much delay and the industry is generally satisfied with the existing facilities extended by banks.

4.19. Banks also finance sales made to consumers other than Government and semi-Government institutions, such as those in the cement, paper, cotton textiles and brick manufacturing industry by way of negotiation of, or overdrafts against coal bills supported by documents evidencing supplies of coal. It has been brought to the notice of the Working Group that credit facilities provided by banks in this regard are not adequate as banks generally advance against such bills only when they are drawn on 'approved parties'. The difficulty is more pronounced in the case of small producers who do not enjoy any negotiation or overdraft facility from banks. In order to mitigate the hardship faced by collieries in obtaining bank finance against sales to consumers other than Government and semi-Government institutions, the Working Group is of the opinion that banks should grant advances to colliery owners by way of negotiation of coal bills evidencing despatches of coal or overdrafts against the security of such bills in respect of sales to all categories of consumers on the basis of the credit rating of the collieries and the extent of credit sales.

Purchase and discount of bills of exchange

4.20 It is not the general practice in the industry to settle payments arising out of coal sales through the medium of usance bills of exchange. The main reason for this seems to be that the rules and regulations governing the working of the Government and semi-Government departments who are the major purchasers, do not provide for the acceptance of bills of exchange drawn on them. Even other buyers do not favour bills of exchange as they are not inclined to commit themselves to make payments on specific dates. Another reason which stands in the way of creation of bills of exchange is the practice of forwarding the railway/lorry receipts direct to the purchaser instead of routing them through the financing bank. For these reasons, the volume of usance bills of exchange discounted by banks is small. Where, however, such facilities are extended, the financing banks sanction bill limits subject to the stipulation that bills of exchange should be drawn on approved parties only and for periods not exceeding 90 days. The margin requirements vary according to the credit rating of the colliery constituent, no margin being stipulated in the case of first class collieries. The industry has pleaded for a relaxation in regard to the period of advances as also an increase in the quantum of limits in view of the delay experienced now-a-days in the realisation of bills and the necessity to afford a longer period of credit to dispose of accumulated stocks. The Working Group is of the opinion that there is some force in the contention of the industry and banks may discount bills with a maturity exceeding 90 days where necessary and enhance the bill limits suitably.

Small producers

4.21 The paucity of finance is more pronounced in the case of small producers—largely proprietary and partnership concerns producing 10,000 tonnes and below per month. On their behalf it has been stated that they do not get credit facilities by way of cash credit or overdraft against stocks and spares, book debts and Coal Board subsidy.

4.22 The small producers, unlike larger units, do not generally enjoy the direct patronage of the Government departments or other bulk purchasers. Their sales are predominantly to private industries such as the cement, paper, cotton and brick manufacturing industries and soft coke consumers. They have neither holding power nor a proper and adequate sales organisation. Consequently, they market their products through a large number of middlemen. The identity of the ultimate consumer or the price paid by him is often not known to the producers and payments are realised after a relatively long period. Banks do not have reliable credit information on the small producers and much less on their buyers. They are, therefore, rather reluctant to finance their sales operations.

4.23 The attention of the Working Goup has also been drawn to the fact that small producers find it difficult to get bank finance because of the absence of acceptable security. Stocks of coal and book debts are not accepted for the reasons stated earlier. The small collieries are mostly operated manually and do not have much to offer by way of collateral in the form of plant and machinery. They are, therefore, forced to borrow from private agencies at exorbitant rates of interest. Because of the fear of nationalisation, it has been stated that even these agencies are reluctant to give financial help. It has also been pointed out that the small collieries are not in a position to generate adequate internal resources which could be ploughed back. All these have resulted in defaults by the small collieries in regard to royalty and provident fund payments and other dues to Government and to the suppliers. They have also been unable to implement in full the Wage Board Award.

4.24 In view of the fact that the small producers are mostly proprietary and partnership concerns and suffer from certain legal disabilities in the matter of creation of an effective hypothecation charge over their current assets, credit institutions have been unduly cautious in extending finance to these collieries. Since the small collieries account for about one-fourth of the production and the difficulties experienced by them are genuine, there is a need for liberalising the flow of finance to this sector. It may be mentioned here that from the middle of 1970 the Reserve Bank of India have made the mining industry eligible for cover under the Credit Guarantee Scheme for Small Scale Industries. Under this Scheme, in respect of credit facilities granted to the collieries which fall under the small-scale sector, *viz.*, those whose original investment in plant and machinery does not exceed Rs. 7.5 lakhs, credit institutions would be able to obtain guarantee cover to the extent of 75 per cent of the amount in default subject to a ceiling, on the amount recoverable from the Guarantee Organisation, of Rs. 7.5 lakhs for working capital advances and Rs. 2.5 lakhs for term loans per borrowing unit. The inclusion of the mining industry under the Scheme does not, however, appear to have changed the approach of the credit institutions towards financing small collieries. The Working Group is of the opinion that in view of the risk cover available under the Scheme, credit institutions should have no hesitation in extending credit facilities to small collieries. In fact, credit institutions could consider offering to the small units special concessions in respect of margin, interest rate and service charges in deserving cases. One complaint often voiced by banks financing small units generally is that they are unwilling to furnish financial and other data required for appraisal and follow up. The small collieries should, therefore, ensure that they furnish the credit institutions with audited balance sheets and other financial data required by them.

CHAPTER V

COAL BOARD SUBSIDY

5.1 One of the representations made before the Working Group has been that financial assistance from banks would be necessary to provide relief to the industry in respect of working funds locked up as a result of delay in payment of subsidy by the Coal Board towards reimbursement of the expenses incurred in undertaking sand stowing operations and in working under adverse mining conditions.

5.2 The subsidy was originally introduced for encouraging sand stowing operations in order to secure safety in the mines. It was also realised that there was a close connection between safety and conservation of resources of good quality coal. Since 1939 collieries which are compelled to recover coal by stowing or which voluntarily undertake stowing after securing the approval of the Coal Board are subsidised by the latter in respect of the extra costs they have to incur. The question of subsidy for sand stowing has been considered in great detail by the various committees constituted by the Government from time to time. From the beginning the subsidy was intended to cover the entire cost of stowing subject to a ceiling set solely for the purpose of preventing wasteful and extravagant expenditure. Out of a total production of 80 million tonnes of coal in the year 1969-70, 9.4 million tonnes were won by stowing, 18.6 million tonnes by opencast mining and 52 million tonnes by depillaring* without stowing and development. Further, out of the total number of 759 mines working in the country in 1969-70, only 129 mines had undertaken stowing operations.

5.3 The subsidy for adverse mining conditions is given by the Coal Board both for underground and opencast mines which are handicapped by one or more adverse factors such as gassiness, depth of working, inclination and/or thinness of the seam, pumping cost and high transportation cost from pithead to railhead.

5.4 In the case of the collieries which depend on stowing operations and/or are working under adverse mining conditions, costs would be higher and production uneconomical but for the grant of subsidy. Al-

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* In the initial stages, development of a coal seam is normally done by tunnelling galleries, *i.e.*, passages, through the seam both along the inclination and in directions at right angles thereby forming pillars. Depillaring is the final extraction of coal when the pillars formed during development of a coal seam are taken out. Depillaring may be done with or without sand stowing.

though the Working Group has not received replies to the questionnaire from all parties, according to the data available, the cost of production without resort to sand stowing and in the absence of adverse mining conditions would be around Rs. 27 per tonne and as much as Rs. 41/- per tonne where the mines have to resort to sand stowing and also work under adverse mining conditions.

5.5 The industry has represented that the subsidy does not fully cover the additional cost and that the payment of subsidy is inordinately delayed which adversely affects the resources position of the collieries concerned. It has been explained that while the delay in the payment of subsidy for sand stowing operations is about 4 to 6 months from the date of submission of the monthly return of claims to the Coal Board, in the case of adverse mining conditions it ranges between 1½ years and 2 years depending upon the type of adverse factor in respect of which the subsidy is claimed.

5.6 The process of claiming stowing subsidy is as follows. The applications for undertaking stowing operations are submitted by the collieries to the Coal Board on an yearly basis (*i.e.* for the financial year ending the 31st March) about six months in advance together with off-set survey plans. These applications are considered by the Advisory Committee on Stowing and, on the basis of the recommendations made by the Committee, the Coal Board issues sanctions on an annual basis indicating, *inter alia*, the anticipated ratio of the volume of coal to be extracted to each cubic metre of sand to be stowed. On receipt of sanctions, collieries are required to submit to the Coal Board returns of claims for stowing done by them during each month within two months following the close of the month to which the claim relates. On receipt of such claims, the inspecting officers of the Coal Board make physical inspections of stowing done by the collieries and submit reports on the claims certifying the quantity of sand stowed during the month, the distance from which sand was transported, etc. Besides, the survey staff of the Coal Board periodically visit all collieries to which sanctions for stowing have been issued and take measurements of the quantity of sand stowed and send measurement certificates duly countersigned by the representatives of the collieries, to the Survey Superintendent of the Coal Board. The relative books (known as 'field books') maintained at the collieries are also countersigned by the Coal Board surveyors. The measurement certificates sent by the inspecting officers are scrutinised by the Coal Board to ensure that the stowing operations have been carried out in conformity with the sanctions and, to the extent the claims are admitted, billing instructions are sent to the collieries indicating the quantity stowed, rate of assistance and amount payable. Thereafter, the collieries submit their bills along with stamped receipts which are passed for payment.

5.7 Thus, the entire process of payment of the claim ordinarily takes about four months from the close of the month to which the claim relates but some further delay occurs when the Coal Board runs short of funds and, therefore, postpones the issue of billing instructions. Procedural delays in the scrutiny of applications occur when sand has been stowed in areas not sanctioned by the Coal Board or in excess of sanctions or where the collieries have not maintained proper records of stowing operations in the manner prescribed by the Coal Board. Moreover, claims for the months of September to February and the final payment for the year ending March are subject to the Coal Board satisfying itself that the coal/sand ratios laid down in its sanctions have been complied with. The total claims received by the Coal Board for sand stowing operations for the year 1969-70 amounted to Rs. 9.78 crores of which as on the 30th April 1972, those verified and admitted aggregated Rs. 6.75 crores. The actual payments relating to the year 1969-70 as on the above date stood at Rs. 4.97 crores. The Coal Board also makes 80% 'on account' payment of claims received on the basis of certificates of measurement of stowing done in the sanctioned area subject to the collieries furnishing a bond indemnifying the Board against any overpayments made.

5.8 As mentioned earlier, the delay in the settlement of claims for subsidy by the Coal Board is partly due to the inadequacy of funds. The Coal Board gets the funds for providing the subsidies from the cess on coal levied by the Central Government. The cess collections are credited to the Consolidated Fund of India and are released by the Central Government to the Coal Board in instalments. The cess collections are shared between the Government of India and the Coal Board in the ratio of 10 : 11. The receipts of the Coal Board from the cess have been inadequate to meet its expenditure on account of payment of subsidies, administrative expenses, etc. While the receipts during the three years ending 1970-71 were Rs. 709.05 lakhs, Rs. 696.82 lakhs and Rs. 753.17 lakhs, the expenditure for these years was Rs. 958.27 lakhs, Rs. 1051.75 lakhs and Rs. 1213.28 lakhs, respectively. These deficits were to some extent met by the Central Government by diversion of surplus funds available out of the cess collections for rail-cum-sea route subsidy which is disbursed by the Coal Controller.

5.9 In view of the long time-lag between the submission of claims for subsidy to the Coal Board for sand stowing and the payment by the Board, the Working Group recommends that banks should extend financial assistance to collieries undertaking stowing operations against the amount of stowing subsidy receivable by them. Such advances may be granted on the basis of the monthly returns of claims submitted to the Coal Board. To enable banks to consider proposals for advances it would, however, be necessary for them to have authentic documentary evidence of the quantities of sand stowed. For this purpose, it is suggested that a duplicate page of the 'field book' wherein quantities of sand stowed are recorded, may be made out and the signatures of the Coal Board surveyors obtained thereon. The duplicate page may be furnished to banks along with a certified copy of the return of claim. The Chairman, Coal Board, may issue suitable instructions in this regard to his staff. The procedure for making advances against stowing subsidy may be as follows :

(1) The borrowing colliery should furnish to the bank a certified copy of the monthly return of claim together with the particulars of measurements recorded in the duplicate page of the 'field book' duly authenticated by the Coal Board officials. It would also be necessary to submit to the banks for their record a copy each of the colliery's application for stowing assistance, the relative sanction of the Coal Board and the permission of the Director General of Mines Safety for extraction of coal in conjunction with stowing operations. Collieries should also certify that stowing operations have been undertaken in accordance with the terms and conditions of sanction; any deviation from the original terms and conditions as well as any revision thereof should be promptly advised to the bank.

(2) The credit limit/sub-limit may be fixed on the basis of the maximum amount of claims likely to be outstanding at any time.

(3) The advances against stowing subsidy may be allowed by banks in a separate cash credit or a sub-limit within the overall cash credit/overdraft account. A fresh account should be opened in respect of stowing operations relating to each financial year (*i.e.* from the 1st April to the 31st March next) and the outstanding balance in the account should be adjusted on receipt of the final payment for the year.

(4) The colliery should submit to the bank a monthly statement showing the amount of claims pending with the Coal Board as at the close of the month to which it relates, and the particulars of claim settled during the month as in the proforma given in Appendix III.

(5) Banks may retain a margin up to 25 per cent. The drawing power in the account may be regulated on the basis of the amount of claims receivable from the Coal Board, as furnished by the borrowing collieries in the monthly statement referred to above.

(6) The colliery should execute a specific and irrevocable power of attorney in favour of the financing bank to receive and collect directly all payments relating to the claims for subsidy lodged with the Coal Board. The power of attorney should be registered with the Coal Board which should make all payments of subsidy claims directly to the financing bank.

(7) As and when the colliery submits its bill to the Coal Board it should simultaneously furnish a copy thereof to the bank together with a copy of the billing instructions received by it.

5.10 The subsidy for adverse mining conditions is computed on a quarterly basis. The applications for subsidy are made to the Coal Board quarterly in the prescribed forms within two months from the end of each quarter. On receipt of the applications, the Board's Inspectorate inspects the mines for verification of the particulars. The applications are scrutinised by the Coal Board on the basis of the recommendations of the Inspecting staff and the various provisions of the Coal Board manual stipulating eligibility criteria and the rates for payment of subsidy. Thereafter billing instructions are issued to the collieries which then submit their bills for payment. In view of the prescribed procedure a colliery can ordinarily expect payment of subsidy only after 8 to 12 months from the quarter to which the claim relates. The payment is, however, delayed further for the reason explained below.

5.11 The payment of assistance by the Coal Board on account of adverse mining factors during a financial year cannot exceed the proceeds of the special cess levied for this purpose. The proceeds of the cess are, however, inadequate for meeting all eligible claims for subsidy during a financial year at the rates at present prescribed for different adverse factors. The claims as admitted are, therefore, met only to the extent funds are available and the balance is carried forward to the next year. Thus, in 1970-71 as against the total claims received amounting to Rs. 2.08 crores, actual payments amounted only to Rs. 1.65 crores. In view of the inordinate delay in the settlement of the claims by the Coal Board and the uncertainty regarding the extent to which claims would be accepted, the Working Group is of the opinion that financial assistance by banks against subsidy receivable from the Coal Board in respect of adverse mining conditions could be extended to the collieries only after the receipt of billing instructions from the Coal Board.

5.12 It has been further represented by the industry that wherever sand stowing is an essential operation, the collieries are required to store stocks of sand especially prior to the onset of the monsoon. Besides, where sand is transported by the ropeways of the Coal Board, the collieries may have to keep in reserve stocks of sand to provide for any contingency of breakdown of the ropeways. It has been contended that the expenditure involved in the transport of sand is considerable and a substantial portion of the working funds in the above circumstances tends to get locked up. The industry has pleaded that financial assistance should, therefore, be extended to them against the security of sand. While the Working Group is of the view that it would not be desirable for banks to grant advances specifically against the security of sand itself, the resources of the collieries tied up in storing sand may be taken into consideration while fixing the working capital requirements.

Chapter VI

TERM FINANCE

6.1 Term finance is required by collieries for expansion, mechanisation of operations, modernisation and replacement of machinery and equipment. Further, as indicated earlier, the industry requires continuous fresh investment even for maintaining the existing level of production. There are at present a number of institutions providing term finance to industry, including the coal industry, *viz.*, the Industrial Finance Corporation of India, the Industrial Credit and Investment Corporation of India Ltd., the Industrial Development Bank of India and the State Financial Corporations. Commercial banks also provide term loans to a limited extent.

6.2 The terms and conditions on which financial assistance is extended to the coal industry by the specialised institutions are broadly similar to those stipulated for other industries. The practice of these institutions is generally to accept only a first charge on the fixed assets of the company. If there is more than one financial institution a *pari passu* charge is obtained. In addition, these institutions insist that the loanee concerns must assign their leasehold interest in their mines in favour of the lending institutions with the previous consent of the concerned State Government as required under the Mineral Concession Rules.

6.3 The total loans sanctioned to the coal industry by the IFC, the ICICI and the SFCs up to December 1971 were only about Rs. 2.5 crores. The ICICI has, in addition, underwritten debenture issues to the extent of Rs. 30 lakhs. The IDBI had not, up to December 1971, sanctioned any direct assistance to collieries but had provided indirect assistance amounting to Rs. 84 lakhs (Rs. 75 lakhs by way of refinance and Rs. 9 lakhs under the Bills Rediscounting Scheme).

6.4 Commercial banks grant term loans to collieries for financing the purchase of capital equipment and their installation at the colliery sites and also issue guarantees for the purchase of machinery and equipment on deferred payment terms. The advances/guarantees are secured by hypothecation of plant and machinery, mortgage of fixed assets, personal guarantees, equitable mortgage over surface land, etc. The margins stipulated range from 35 per cent to 50 per cent. The quantum of term loans granted by commercial banks is, however, small at present in relation to the requirements of the industry.

6.5 Whatever amount of term finance has been made available by the various credit institutions including commercial banks has, by and large, been confined to public and private limited companies while proprietary and partnership concerns have had to rely mainly on loans from partners and other non-institutional sources. In fact, the assistance provided by the IFC is statutorily confined to public limited companies and co-operative societies. Even in the case of limited companies the volume of institutional finance granted has been negligible. In this context, it may be stated that the low level of demand for coal from the various consuming sectors, which has persisted since the latter half of the Third Plan period, had acted as a damper on the long-term investment activities of the coal industry. It has been explained to the Working Group that during the Third Plan period when the industry in the private sector was granted rupee loans to enable it to utilise the foreign exchange made available to the Government of India under the World Bank Loan Scheme, it had geared itself to meet the increased demand for coal as set out in the original Plan target of 96.3 million tonnes. As, however, the level of demand did not come up to expectations, the target had to be lowered to 76.5 million tonnes with the result that the industry was left with some unutilised capacity on hand. During this period, it is understood that the Government of India had turned down requests for increase in production capacity of the private sector collieries on the ground that there was a glut of coal in the market. Further, the Government had advised the public sector undertakings also to curtail the production of non-coking coal during the Third Plan period. For these reasons, the demand from the industry for term finance has been limited in recent years and even this restricted demand has been met from the institutional sources only to a small extent.

6.6 The tentative projections of the Fuel Policy Committee, which envisage a substantial increase in coal demand during the Fifth Plan period, would, however, call for a corresponding increase in production which would in turn entail a large financial outlay on the part of the industry. Thus, the projected demand for coal by the end of 1978-79 is estimated at 165 million tonnes of which the share of blendable and non-coking coal would have to be of the order of 125 million tonnes as against the peak production of 58 million tonnes achieved in 1969-70 and the estimated production of 54 million tonnes in 1971-72. The industry would, thus, have to more than double its output.

6.7 In order to increase the production to the projected level of 165 million tonnes, the total investment required (including additional investments in washeries) is estimated by the Fuel Policy Committee at Rs. 695 crores of which the investment in the private sector is placed at about Rs. 144 crores. These estimates are based on the assumption that in the outlying fields except Singareni mostly opencast mining would be adopted and that the ratio of opencast to underground mining would continue as at present in the Bengal-Bihar coalfields. Many of the collieries would also require funds for replacement of machinery and equipment. Considering the substantial increase in production envisaged as also the recent lean period through which the industry has passed which has resulted in an erosion of most of its financial reserves, it is obvious that the internal resources of the industry can contribute little to the investment effort required. Further, with the fear of nationalisation looming large, it is very unlikely that the industry would be able to raise any resources through market issues or from non-institutional sources. Viewed in this light, it would appear that a much higher volume of institutional finance than has been provided hitherto would have to be made available to the coal industry.

6.8 The Working Group, therefore, considers it necessary that the present impediments standing in the way of a free flow of term finance from institutional agencies should be removed to the extent possible. The major impediment relates to the assignment of mining leases in favour of the lending institution. The Working Group understands that even in cases where there was a demand from the industry for term loans, the financial institutions had to refuse requests in many cases as the approval of the State Governments was not available for assigning the leasehold mining rights in favour of the institutions. The State Governments do not usually allow the collieries to create a charge in favour of the lending institutions when the collieries are in arrears in respect of their royalty payments* or other dues to the Government.

6.9 The planned development of any mine not merely involves acquisition and installation of plant and machinery but also such operations as sinking of new pits, deepening/widening of existing pits and driving inclines† and drifts which are connected with the structure of the mine itself. In view of the very nature of the project, it will be necessary for the financial institutions and banks financing the projects to have an effective charge over the mine by assignment of the mining leases and

* The enactment of land legislation in the States of Bihar and West Bengal in terms of which the mining rights in the sub-soil were vested in the State Governments has given rise to litigation in regard to payments of royalty relating to the period prior to 1966. While the Government of Bihar has preferred an appeal to the Supreme Court in regard to its claim for payment of royalty at an enhanced rate of 5 per cent of the f.o.r. price with retrospective effect from the date of vesting, in West Bengal the suits challenging the acquisition by the State Government of the rights of the lessees and sub-lessees of the mines are pending in the Calcutta High Court. In West Bengal, pending settlement of the disputes, the coal industry, representing the working lessees, has not paid the dues except to the extent paid under the settlement reached in the year 1966 which has later been repudiated by the State Government on the ground that, as in the case of the Bihar Government, it is also entitled to royalty payment at an enhanced rate of 5 per cent of the f.o.r. price with retrospective effect from the date of vesting. The industry, however, considers the claims of the State Governments to be not sustainable in law. Besides questioning the very basis of the enactments, it has been contended by the industry that during the period for which royalty has been claimed at the enhanced rate, coal prices were statutorily controlled, the prices themselves having been fixed taking into account the royalty rates then prevailing, and that consequently there can be no claim for enhancement of royalty with retrospective effect.

† Passages driven from the surface at an inclination through the earth's strata to reach the coal underground when the coal seam is nearer the surface.

mortgage of fixed assets in their favour. The withholding of permission by the State Governments for assigning the leasehold mining rights which is required to be obtained under the provisions of rule 37 or 46 of the Mineral Concession Rules, 1960, on the ground that arrears of royalty have not been cleared, acts as a serious inhibiting factor to the flow of institutional finance. In order, therefore, to enable the collieries to embark upon expansion programmes as approved by competent authorities which would result not only in an increase in production but would at the same time provide employment opportunities and result in additional revenue to the exchequer, State Governments should freely permit the collieries to create a charge on the mining leases to enable them to raise the required funds from financial institutions.

6.10 If the recommendation made in the preceding paragraph is not feasible, an alternative solution would have to be found to safeguard the interests of the lending institutions. In this connection it may be mentioned that certain special facilities were introduced in 1963 to enable collieries to avail themselves of bank finance to import capital goods under the World Bank Loan granted to the Government of India for development of the coal industry in the private sector. The measures were (1) a scheme for partial guarantee of the term loans given by credit institutions to colliery undertakings in the private sector; losses on account of such advances were to be shared between the lending institutions and the Government of India in the ratio of 35 : 65, and (2) grant of additional accommodation by the Reserve Bank to banks at a concessional rate to induce them to increase their advances to collieries guaranteed under the Scheme. The Guarantee Scheme helped the collieries to utilise the foreign exchange released under the World Bank Loan to the extent of Rs. 13.5 crores out of an authorised amount of Rs. 13.8 crores. Between April 1963 (when the scheme was introduced) and March 1967, the Refinance Corporation for Industry Private Ltd. which administered the Scheme on behalf of the Government of India and later the IDBI which took over the Refinance Corporation, received 81 guarantee applications in respect of advances aggregating Rs. 6.8 crores of which 66 guarantees for Rs. 4.3 crores were issued. The Working Group is of the view that a guarantee scheme somewhat on similar lines may be helpful in encouraging financial institutions to grant term loans to the coal industry.

6.11 Apart from the measures recommended above to encourage a larger flow of term finance from the existing credit institutions, a question that requires serious consideration is whether there is a need for a separate institution to meet the long term credit requirements of the industry. Till now the development needs of the industry, especially in the private sector, were restricted to relatively small and gradual increases in production during the Second, Third and Fourth Five Year Plans. The industry had met its limited requirements of additional finance mostly from internal resources and by borrowings from non-institutional sources. As indicated earlier, however, a substantial increase in the production of coal is envisaged during the Fifth Five Year Plan period while internal resources of the industry have been severely affected in recent years. Moreover, the cost of development has now increased very substantially as is evident from the reports submitted by the Tariff Commission in 1967 and more recently by the Fuel Policy Committee.

6.12 It is estimated that the development of a mine may take about 5 to 10 years depending upon its depth and the required production capacity. As full production can commence only after completion of the development programme, the period of repayment of loans may extend beyond 10 years and it will not ordinarily be possible for commercial banks to finance these projects except in the case of quick-yielding schemes where the cash generation would be adequate to repay the loans within 10 years. Although term lending institutions are not circumscribed by such limitations, their contribution so far has been negligible. While the ICICI has stated that it has always favoured the financing of non-traditional industries, the IFC and the IDBI being all-India institutions are required to meet the demands on their funds from the various sectors of the economy and may not, therefore, be able to pay the special attention required by the coal industry. Moreover, as mentioned earlier, the IFC can assist only public limited companies. It has also been pointed out to the Working Group that the existing financial institutions do not have sufficient technical expertise to process the applications for expansion, etc., of mines and exercise post-sanction supervision over the utilisation of funds and the working of collieries. Exploration and prospecting expenses which are non-existent in most other industries and which are of an unproductive nature have to be incurred and because of dependence on geological factors which cannot be forecast accurately in difficult areas where mining may have to be undertaken, the chances of cost over-run are also greater.

6.13 Further, one of the difficulties faced by the collieries at present is that there is no competent organisation to make a comprehensive techno-economic appraisal of development projects. While the Coal Controller's Organisation and the Coal Board have some statutory functions*

* Under the existing procedure in regard to the development of the industry in the private sector, applications for granting or renewal of mining leases and for industrial licences for starting new ventures or for undertaking substantial expansion in production capacity, are referred by the Central Government to the Coal Controller for his views and recommendations before conveying the Government's approval for the grant/renewal of mining lease or issue of industrial licence. The supply of steel materials and cement required in connection with the working of mines has to be sponsored by the Coal Controller, who also assesses the foreign exchange requirements for import of machinery, etc. The Coal Board is statutorily entrusted with the work relating to the safety in and development of coal mines and conservation of coal. Permission for the opening and reopening of seams has to be granted by the Coal Board. While granting such permission the Coal Board examines the technical suitability of the project and stipulates conditions with a view to preventing indiscriminate mining for realising quick profits.

regarding the development projects proposed by the collieries, their assessment is largely confined to technical aspects and they do not have the expertise to make a thorough financial appraisal.

6.14 In this context, the question of setting up a separate institution to meet the financial requirements of the coal industry came up for consideration before the Working Group. It would appear that the question of providing term finance was first considered when the industry had to find matching rupee finance in order to utilise the foreign exchange secured by the Government of India from the World Bank for the development of the private sector of the industry during the Third Plan period. It is understood that, at that time, the question of setting up a separate finance corporation for the coal industry was vaguely discussed. The Government of India, however, adopted the Guarantee Scheme, as mentioned earlier, with a view to inducing a larger flow of finance from the existing institutions.

6.15 Subsequently, the Ganguly Committee in 1966 and later the Tariff Commission which went into the question of coal prices examined the problem of term finance but no conclusions were arrived at or firm recommendations made apart from a suggestion for creating a fund through the levy of a cess for development primarily of coking coal. Following this suggestion an additional cess of 75 paise per tonne was levied by the Government of India on all coking coal raised and despatched with effect from the 14th October 1968. A scheme for granting financial assistance in the form of loans out of the above cess collections, to be administered by the Coal Board, has been formulated but as yet no assistance has been sanctioned.

6.16 On a review of the position in the present context and particularly keeping in view the importance of coal to the national economy and the large outlay that would be required in the Fifth and subsequent Plans for stepping up coal production to the required level, the Working Group is of the view that it would be expedient to set up a financial institution for catering exclusively to the requirements of the coal industry in regard to term finance and for providing technical assistance in the formulation of projects for the scientific development of mines so that the accelerated rate of growth, as contemplated, could be achieved. Such an institution could, in addition to providing term finance for the coal industry, also undertake a promotional role, such as advising on long-term development plans of the industry, on methods of working and on diversification of the uses of coal, etc. Further, when the institution acquires sufficient expertise it would, in turn, be possible for it to provide technical assistance to commercial banks in regard to verification of stocks of coal, stores and spares, etc., and tender advice on the viability of projects proposed to be financed by them. The two functions of providing finance and looking after the promotional aspects could thus be conveniently entrusted to one single organisation. While the Governmental and statutory functions would continue to be discharged by the Coal Controller, the DGMS and the Coal Board, all other functions relating to or connected with the development of the coal industry and which involve or are likely to involve financial commitments other than those of a short term nature could be entrusted to the proposed institution.

6.17. The proposed coal finance corporation may be incorporated as a public limited company under the Companies Act, 1956 with its registered office at Calcutta. The IDBI may be the major shareholder while others may consist of the commercial banks, the IFC, the SFCs, the ICICI, the LIC and the Unit Trust of India. It may be empowered to raise funds by issue of shares, bonds and debentures and borrowings in India from Governments and others, refinance from IDBI, borrowings from abroad and acceptance of deposits. The organisation may be provided with additional funds through a special cess levied on coking as well as non-coking coal. The Board of Directors may consist of (1) the representatives of the institutional shareholders, (2) the representatives of the coal industry, (3) the nominees of the Central Government (including one on behalf of the railways) and (4) the nominees of the State Governments.

* * * * * *

The major difficulties faced by the coal industry at present relate to the lack of sufficient finance as well as inadequate transport facilities to move coal from the pitheads to the consuming points. The terms of reference of the Working Group are, however, confined to the immediate financial problems and the existing institutional arrangements for financing the industry. The Working Group has made a number of recommendations with a view to facilitating an adequate flow of institutional finance to meet the immediate needs and the long-term requirements of the industry, keeping in view the substantial increase in output the industry would be called upon to achieve during the Fifth Plan period. The Working Group hopes that if these recommendations are implemented, the industry would be able not only to tide over its present difficulties but also to gear itself to meet the challenge of the vastly increased demands for coal in the Fifth and subsequent Plans.

Sd/-
(P. C. D. Nambiar)
Chairman

Sd/-
(S. J. Utamsing)
Member

Sd/-
(R. Lall)
Member

Sd/-
(H. N. Mookherjee)
Member

Sd/-
(G. D. Ghatak)
Member

Sd/-
(R. P. Pal)
Member

Sd/-
(V. M. Sundar Raj)
Member-Secretary

Calcutta,

28th November 1972.

Shri V. Subramanian, Member-Secretary, did not attend the last meeting of the Working Group and hence could not sign the report. He is, however, in agreement with the recommendations of the Working Group.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. The measures of relaxations in credit limits, etc., which were advised by the Reserve Bank of India in January 1972 to scheduled commercial banks should continue till the strain on the financial resources arising out of wagon shortage at present faced by the coal industry eases (paragraph 3.6).

2. Banks should assess the working capital requirements of individual collieries by taking into account, *inter alia,* the output, normal inventories of coal, stores and spares they have to carry, amount ordinarily locked up in receivables and resources available by way of sundry creditors for purchases, etc. (paragraph 4.4).

3. There should be a reasonable degree of flexibility in prescribing margins as well as sub-limits in order that adequate finance could be made available to the coal industry to meet exigencies arising out of circumstances beyond its control such as accumulation of pithead stocks (paragraph 4.4).

4. The cost of some of the items essential for maintaining production and for which 100 per cent depreciation is allowed for the purposes of income-tax (*viz.* tubs, winding ropes, haulage ropes and safety lamps) should, in the opinion of the Working Group, be included under working capital. Besides, the extra expenditure incurred by collieries in sand stowing operations and for working under adverse mining conditions should be taken into account for assessing the working capital requirements (paragraph 4.5).

5. There is now a need for a liberalisation of the lending policy of banks in respect of advances against pithead stocks (paragraph 4.10).

6. An arrangement could be worked out between the financing banks and the Coal Controller for a verification, whenever required, of coal stocks by the field staff attached to the Coal Controller's Organisation (paragraph 4.11).

7. In consideration of the services rendered by the Coal Controller's Organisation, banks may pay them such fees as may be mutually agreed upon and the fees so paid may, if necessary, be recovered from the borrowers (paragraph 4.11).

8. In order to give effect to the arrangement referred to at item 6 above, it may be necessary for the Coal Controller to augment the strength of his staff suitably (paragraph 4.11).

9. The Government of India should issue suitable instructions to the Coal Controller in regard to the verification of coal stocks and furnishing of certificates whenever required by banks (paragraph 4.11).

10. While insurance of coal stocks at pitheads against which advances have been made by banks need not be insisted upon, the collieries should be required to take adequate precautions against fire risk such as installation of fire-fighting equipments, proper stacking, etc. as an essential condition for making advances (paragraph 4.12).

11. Banks should fix drawing limits in respect of advances against unused items of consumable stores and spares on the basis of six months' consumption requirements (paragraph 4.14.)

12. Banks may also grant suitable sub-limits against items which the collieries are required to hold in stock as stand-by to the extent they are statutorily required to be maintained provided the collieries certify that they have not been put into use (paragraph 4.15).

13. Banks should freely grant advances against book debts for the customary period of 90 days and, if necessary, extend the period up to 180 days in deserving cases. Borrowing collieries may also be persuaded to issue instructions to their buyers to make payments directly to the financing banks (paragraph 4.17).

14. Banks should grant advances to colliery owners by way of negotiation of coal bills evidencing despatches of coal or overdraft against the security of such bills in respect of sales to all categories of consumers on the basis of the credit rating of the collieries and the extent of credit sales (paragraph 4.19).

15. Banks may discount bills of exchange with a maturity exceeding 90 days where necessary and enhance the bill limits suitably (paragraph 4.20).

16. There is a need for liberalising the flow of finance to the small collieries. In view of the risk cover available under the Credit Guarantee Scheme for small scale industries, credit institutions should have no hesitation in extending credit facilities to small collieries. In fact, credit institutions could consider offering to the small units special concessions in respect of margin, interest rate and service charges in deserving cases.

The small collieries should ensure that they furnish the credit institutions with balance sheets and other financial data required by them (paragraph 4.24).

17. Banks should extend financial assistance to collieries undertaking stowing operations against the amount of stowing subsidy receivable by them on the basis of the monthly returns of claims submitted to the Coal Board (paragraph 5.9).

18. Financial assistance by banks against subsidy receivable from the Coal Board in respect of adverse mining conditions could be extended to the collieries by banks only after the receipt of billing instructions from the Coal Board (paragraph 5.11).

19. While it would not be desirable for banks to grant advances specifically against the security of sand itself, the resources of the collieries tied up in storing sand may be taken into consideration while fixing the working capital requirements (paragraph 5.12).

20. The tentative projections of the Fuel Policy Committee which envisage a substantial increase in coal demand during the Fifth Plan period would call for a corresponding increase in production which would, in turn, entail a large financial outlay on the part of the industry (paragraph 6.6).

21. It would appear that a much higher volume of institutional term finance than has been provided hitherto would have to be made available to the coal industry (paragraph 6.7).

22. The with-holding of permission by the State Governments for assigning the leasehold mining rights acts as a serious inhibiting factor to the flow of institutional finance (paragraph 6.9).

23. In order to enable the collieries to embark upon expansion programmes, the State Governments concerned should permit the collieries to create a charge on mining leases to enable them to raise the required funds from financial institutions (paragraph 6.9).

24. If the recommendation at item 23 is not feasible a guarantee scheme somewhat on lines similar to the one adopted at the time of utilisation of the foreign exchange loan provided by the World Bank to the Government of India in 1963 may be helpful in encouraging financial institutions to grant term loans to the coal industry (paragraph 6.10).

25. In view of the importance of coal to the national economy and the large outlay that would be required in the Fifth and subsequent Plans for stepping up coal production to the required level, it would be expedient to set up a financial institution for catering exclusively to the requirements of the coal industry in regard to term finance and for providing technical assistance in the formulation of projects for the scientific development of mines (paragraph 6.16).

26. The proposed coal finance corporation may be incorporated as a public limited company under the Companies Act, 1956 with its registered office at Calcutta (paragraph 6.17).

Appendix I

QUESTIONNAIRE ISSUED TO THE MINING ASSOCIATIONS

1. What are the financial problems affecting the coal industry in regard to production, storage, despatch and marketing (including export) of —

(*a*) coking coal and

(*b*) non-coking and other coal including coke ?

2. (*a*) What are the credit lines (and sub-limits) available from banks and financial institutions in regard to working capital and term loan requirements for—

(*i*) coking coal and

(*ii*) non-coking and other coal including coke ?

Please indicate in respect of each type of credit facility—

(*i*) rate of interest,

(*ii*) security,

(*iii*) margin and

(*iv*) period of repayment (for term-loans).

(*b*) Are there any other sources of finance and, if so, please indicate them and also the terms and conditions on which the finance is made available.

3. Are the present arrangements for working capital requirements adequate and satisfactory ? If not, give suggestions for improvement.

Note : In furnishing the information it is requested that specific problems, if any, relating to any particular region/category of collieries may be brought out clearly.

4. What was the total production (State-wise and grade-wise) in terms of units and value during each of the last 5 years? (The information may be furnished in the form given at Annexure A). Please give reasons for the major variations, if any.

5. (*a*) What are the various components of the cost of production and what is the share of each component in the total cost?

(*b*) What is the average —

(*i*) cost of production per tonne,

(*ii*) sale price per tonne and

(*iii*) margin of profit per tonne on sales?

Please furnish the above information separately for each of the two categories of collieries, *viz.*,

(*a*) those which do not resort to stowing and do not work under adverse mining conditions and

(*b*) those which have to resort to stowing and/or are working under adverse mining conditions,

for each of the last 5 years, in the forms enclosed at Annexures B and C, respectively. Are there any problems peculiar to West Bengal and Bihar in regard to the above aspects? Please elucidate.

6. What is the time-lag between the raising of coal from the mines and the actual despatch thereof? Can this be reduced and, if so, how and to what extent? What would be the effect of reduction in the time-lag on—

(*a*) the quantum of raisings,

(*b*) the cost of production,

(*c*) the requirements of working capital funds and

(*d*) any other aspect of working?

7. What is the period between the despatch of coal and the realisation of sale proceeds from various consumers, category-wise?

Year			Category of consumer	% of sales to total sales	Average number of days taken for payment
1969-70	..	..			
1970-71		..			

8. Do the sales take the form of bills of exchange (which would be eligible for rediscounting by the banks with the Reserve Bank of India) or of book debts? What is the average percentage of bills of exchange to book debts for the years 1969-70 and 1970-71?

9. Are there any difficulties in creating bills of exchange (which would be accepted by the Reserve Bank of India for rediscounting facilities) in respect of supplies of coal to

(*a*) railways,

(*b*) steel/coke plants,

(*c*) defence,

(*d*) power-houses and

(*e*) others?

If so, specify the nature of difficulties and suggestions to overcome them.

10. What are the marketing arrangements for coal? Are there any selling agencies through which coal is marketed? What is the average rate of commission in terms of value paid to such agencies?

11. Whether the industry receives any payment from the buyers of coal by way of advances against sales and, if so,

(*a*) what is the average period for which such advances are retained,

(*b*) what is the percentage of such advances to total sales for the years 1969-70 and 1970-71 and

(*c*) what is the price discount/rebate, if any, allowed for such advance payments?

12. (*a*) What are the major items of stores purchased by the collieries ? What is the percentage of cost of stores to—

(*i*) net cost of production and

(*ii*) sale price,

per tonne ?

(*b*) What is the period of credit allowed for the purchase of stores and what is the percentage of such credits to total purchases ?

13. Can the quality and quantity of stocks of coal/coke at the pitheads be ascertained for the purpose of advances by banks ? If so, how ?

14. What are the problems and risk in regard to storage of coal ? What are the difficulties in insuring stocks of coal ?

15. What are the financial problems affecting the improvement, modernisation, mechanisation, scientific exploitation and development of coal mines ?

Note : It is requested that besides a general assessment, the peculiar problems of any particular region/category of collieries may be indicated.

16. Are the terms and conditions stipulated by the credit institutions in regard to term finance considered reasonable ? If not, what type of concession/relaxation would the industry like to suggest ?

17. What are the projected additional requirements of funds for the next 5 years in respect of —

(*a*) working capital and

(*b*) capital expenditure ?

How are these proposed to be met ? Please furnish particulars as indicated below :

(Amounts in lakhs of rupees)

Type of finance	1972-73	1973-74	1974-75	1975-76	1976-77
A. *Working Capital*					
(a) Share capital					
(b) Debentures					
(c) Bank borrowings (short-term) ..					
(d) Other borrowings					
(e) Sundry creditors and other current liabilities					
(f) Internal resources					
B. (1) *Capital expenditure for maintaining current output*					
(a) Share capital					
(b) Debentures					
(c) Deferred payments					
(d) Term finance					
(e) Other borrowings					
(f) Sundry creditors and other current liabilities					
(g) Internal resources					
(2) *Capital expenditure for additional output*					
(a) Share capital					
(b) Debentures					
(c) Deferred payments					
(d) Term finance					
(e) Other borrowings					
(f) Sundry creditors and other current liabilities					
(g) Internal resources					

Note :—If any foreign exchange is involved, the purpose and amount thereof may please be indicated.

18. Is the industry affected by seasonal factors in regard to production, storage, despatch or other aspects of working? If so, please elaborate with special reference to financial requirements.

19. Does the industry consider it necessary to have a separate financial institution to meet its overall requirements of finance in addition to the existing institutions? If so, on what grounds?

20. Have the recommendations of the Wage Board been fully implemented by the coal industry? If these recommendations are implemented fully, what will be the additional impact thereof on the industry from the financial point of view? Please specify under major heads of expenditure.

21. What would be your suggestions to ensure that working capital/term loans granted are not utilised for the payment of past accumulated liabilities of a statutory nature, etc.?

22. Please furnish the number of mines where stowing is carried out and the tonnage of sand stowed annually as under:

Name of State	Year	No. of mines	Sand stowed (in million tonnes)
West Bengal	1966-67		
	1967-68		
	1968-69		
	1969-70		
	1970-71		
Bihar	1966-67		
	1967-68		
	1968-69		
	1969-70		
	1970-71		
All other States	1966-67		
	1967-68		
	1968-69		
	1969-70		
	1970-71		

23. What is the percentage of coal raised with stowing to total production ?

Name of State	1966-67	1967-68	1968-69	1969-70	1970-71
West Bengal					
Bihar					
All other States					

24. What is the amount of subsidy received from the Coal Board during the last 5 years ?

(In lakhs of rupees)

Name of State	1966-67		1967-68		1968-69		1969-70		1970-71	
	For sand stowing	For difficult mining	For sand stowing	For difficult mining	For sand stowing	For difficult mining	For sand stowing	For difficult mining	For sand stowing	For difficult mining
West Bengal										
Bihar ..										
All other States ..										

25. What is the average time-lag between the submission of bill to the Coal Board claiming subsidy/assistance from it and the receipt of such subsidy/assistance ? What are the reasons for the delay, if any ? What are the remedies suggested to overcome the delay ?

26. Is any other form of financial assistance received from the Coal Board besides those stated above ? If so, please indicate the purpose for which such assistance was given and the amount thereof during each of the last 5 years.

27. Are there any other financial problems or aspects of working peculiar to the coal industry as distinct from other industries which the industry would like to bring to the notice of the Working Group ?

ANNEXURE A

(*vide* item 4 of the questionnaire)

I. *Production of coking coal*

(Production—in million tonnes)
(Value—in lakhs of rupees)

Name of State	No. of colli-eries	Grade	Production and value									
			1966-67		1967-68		1968-69		1969-70		1970-71	
			Produc-tion	Value	Produc-tion	Value	Produc-tion	Value	Produc-tion	Value	Produc-tion	Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
W. Bengal												
Bihar												
etc.												

II. *Production of non-coking coal*

Name of State	No. of colli-eries	Grade	Production and value									
			1966-67		1967-68		1968-69		1969-70		1970-71	
			Produc-tion	Value	Produc-tion	Value	Produc-tion	Value	Produc-tion	Value	Produc-tion	Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
W. Bengal												
Bihar												
etc.												

ANNEXURE B

(*vide* item 5 of the questionnaire)

STATEMENT SHOWING THE COST OF PRODUCTION, SELLING PRICE AND MARGIN OF PROFIT PER TONNE IN RESPECT OF COAL RAISED BY COLLIERIES WHICH .. HAVE NOT RESORTED TO STOWING AND WHICH DO NOT WORK UNDER ADVERSE MINING CONDITIONS

(Amounts in rupees per tonne)

Year	O.M.S.	Cost of produtction						Average selling price	Margin of profit
		Wages and salaries	Stores	Royalty and cess	Deprecia- tion	Other expenses	Total		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1966-67 ..									
1967-68									
1968-69									
1969-70									
1970-71									

ANNEXURE C

(*vide* item 5 of the questionnaire)

STATEMENT SHOWING THE COST OF PRODUCTION, SELLING PRICE AND MARGIN OF PROFIT PER TONNE IN RESPECT OF COAL RAISED BY COLLIERIES WHICH HAVE TO RESORT TO STOWING AND/OR ARE WORKING UNDER ADVERSE MINING CONDITIONS

(Amounts in rupees per tonne)

Year	O.M.S.	Cost of production								Average selling price	Margin of profit
		Wages and salaries	Stores	Royalty and cess	Depreciation	Other expenses	Total	Amount of subsidy received	Net cost of production (8)—(9)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1966-67											
1967-68											
1968-69											
1969-70											
1970-71											

Appendix II

QUESTIONNAIRE ISSUED TO THE COMMERCIAL BANKS

1. Please state the policy followed by your bank regarding the financing of the coal industry in regard to production, storage, despatch and marketing (including export) of

(*a*) coking coal and

(*b*) non-coking and other coal including coke.

2. Please describe the system and procedure adopted by your bank in regard to advances against

(*a*) coal at pitheads,

(*b*) coal-in-transit,

(*c*) book debts,

(*d*) stores and spares and

(*e*) fixed and other assets (term loans).

3. (*a*) What is the basis on which working capital requirements are assessed? Are 'Sundry Creditors' deducted while arriving at the working capital limit?

(Please furnish suitable illustrations showing the basis adopted)

(*b*) Are any sub-limits fixed for advances against various items of inventories, stores and spares, book debts, etc., within the overall limits? If so, on what basis?

(*c*) Are the stocks and other items of security regularly inspected? If so, by whom and at what intervals? How are the quality and quantity of coal ascertained and value determined?

(*d*) Does your bank insist on insurance of stocks lying at pitheads and/or in-transit? What is the nature of risk to be covered?

(*e*) What are the rates of interest and the margin stipulated in respect of each type of secured facility ? Please state the type of security obtained and the nature of charge.

(*f*) Does your bank grant unsecured advances to the industry ? If so, please state the purposes for which such advances are granted and the rates of interest.

Please indicate particulars of collateral, if any, taken in respect of (*e*) and (*f*) above.

(*g*) Are the accounts adjusted during any time of the year ? Are any of the types of advances of a seasonal character, *i.e.*, the limits are varied or regulated at different times during the year ? If so, please indicate the peak and slack periods.

(*h*) Is there any system of mid-term review after sanction of the advance and how are the reviews undertaken ? How often the facilities are renewed ?

4. Does your bank experience any difficulty in regard to obtaining the security for advances, particularly charge over the coal mines and the fixed assets, verification of stocks and follow-up ?

5. What is your experience in regard to payment of coal bills drawn by various collieries on different categories of consumers such as railways, steel/coke plants, defence, power-houses and others ? What is the normal period taken by each category of buyers in retiring the bills ?

6. Are the bills drawn on the buyers 'on demand'/'sight' basis or are they drawn as usance bills of different maturities ? Are the usance bills accepted by the various categories of buyers ? Is there any demand from the coal industry for giving longer period for payment of bills by the drawees ?

7. What is the percentage of bills returned unpaid both in regard to number and amount to total bills drawn in respect of supplies of coal, during the years 1970 and 1971? Are these bills debited to the account of the collieries and, is the payment ultimately received from the drawees ?

8. Do the buyers open letters of credit in favour of the collieries/ coal companies in respect of coal supplied to them ? What is your experience in this regard ?

9. Does your bank sanction credit limits and maintain accounts, colliery-wise, in the case of advances granted to coal companies managing/controlling more than one colliery ?

10. Have the advances granted to collieries/coal companies shown any tendency to run block for a prolonged period during the last three years and during 1972 ? If so, please indicate the period during which the feature persisted and the reasons attributed therefor.

11. Are your borrowers experiencing any difficulty in regard to furnishing bills covering consignments of coal which are eligible paper for rediscounting under the new Bills Rediscounting Scheme introduced by the Reserve Bank of India under section 17(2)(a) of the Reserve Bank of India Act, 1934 ? Please indicate the maximum outstandings under the above category during 1971 and balance outstanding as on the 31st December 1971.

12. Does your bank accept bills returned unpaid as security by way of book debts and grant advances thereagainst ?

13. What is your experience in regard to granting advances against the security of book debts ? Has there been any request from the industry for inclusion of book debts outstanding for a period of over 6 months as security for advances ? What is the maximum period up to which your bank would allow book debts to remain outstanding and what margins are maintained for book debts falling due within 3/6 months ?

Please furnish particulars regarding advances against book debts as at the 31st December 1971 in the form given below :

(Amounts in lakhs of rupees)

	Outstanding for a period of 6 months and less	Outstanding for a period of over 6 months	Total
(*i*) Value of book debts taken as security ..			
(*ii*) Drawings allowed against item (*i*)			

(*Note :* Wherever book debts form a part of composite security, the extent thereof may suitably be indicated).

14. Has your bank granted advances to coal industry in participation with other institutions? If so, please furnish particulars as under :

(Amounts in lakhs of rupees)

No. of units	Total limits sanctioned to the unit by all the participating institutions	Amount of your share	Purpose and period of advance, type of security and nature of charge

15. Has your bank received any request for review/enhancement of credit limits and, if so, whether any action has been taken in pursuance of the circular letter DBOD. No. CAS.BC.9/C. 446(U)-72 dated the 19th January 1972 issued by the Reserve Bank of India?

16. Is there a practice in your bank of giving separate limits for bills purchased/bills discounted as also for advances against book debts? Is the drawing power available in the accounts against book debts earmarked to the extent of bills negotiated by your bank?

Illustration

Overdraft limit sanctioned against book debts ..	Rs. 100 lakhs
Margin stipulated	20%
Drawing power	Rs. 80 lakhs
Bills purchased/discounted	Rs. 10 lakhs
Effective drawing power against book debts ..	Rs. 70 lakhs

17. Does your bank advance against the security of subsidy receivable by the colliery from the Coal Board? If so, what is the procedure followed? If not, what are your suggestions for granting advances against the security of such subsidy?

18. How are the term loan requirements of the industry assessed? Has your bank granted any term loans? Please indicate the rate of interest, type of security, nature of charge, margin retained and period of repayment.

19. Please furnish particulars of advances (including bills) granted to coal industry as on the 31st December 1971 as in the proformae given at Annexures A and B.

Notes: (1) Limits sanctioned and advances outstanding in respect of companies the management of which has been taken over by Bharat Coking Coal Ltd. may kindly be indicated within brackets.

(2) If any refinance facilities have been obtained in respect of term finance, particulars thereof may also be furnished indicating the number of units, total amount of loans sanctioned in respect of which refinance has been obtained, amount of refinance obtained and balance outstanding as on 31-12-1971.

20. What is the quantum of advances which has been covered by the Credit Guarantee Scheme for small scale industries? What is the percentage of such advances to total advances to coal industry granted by your bank?

21. Please give particulars regarding finance granted to meet export of coal? Whether any difficulties have been brought to your notice in this field?

22. Does the industry experience any difficulty in regard to opening import letters of credit in respect of machinery, etc., to be imported from abroad?

23. How the end-use of bank credit is ensured? How can it be ascertained that there has been no diversion of bank credit for purposes other than those for which it has been granted?

24. How can it be ensured that there has been no 'multiple financing' for the same purpose in case of a borrowing colliery?

Does your bank lay down any restrictive covenant to guard against features mentioned at items 23 and 24 above.

25. Please state the overall experience of your bank in the matter of financing the coal industry.

ANNEXURE A

(*vide* item 19 of the questionnaire)

PARTICULARS OF ADVANCES GRANTED TO THE COAL INDUSTRY AS ON THE 31ST DECEMBER 1971

(Amounts in lakhs of rupees)

No. of units	Nature of industry	Total limits sanctioned as on 31-12-1971					Balance outstanding as on 31-12-1971					Remarks (Please indicate type of security, nature of charge, etc.)
		Term loans	Cash credit or over-draft against coal, stores and spares	Cash credit or over-draft against book debts	Bills purchased/ discounted	Any other facility	Term loans	Cash credit or over-draft against coal, stores and spares	Cash credit or over-draft against book debts	Bills purchased/ discounted	Any other facility	
1	2	3	4	5	6	7	8	9	10	11	12	13
	(*a*) Coking coal ..											
	(*b*) Non-coking and other coal											
	(*c*) Coal washeries											
	(*d*) Coke manufacturers											

Note : Advances, etc., granted against composite security may suitably be indicated.

ANNEXURE B

(*vide* item 19 of the questionnaire)

PARTICULARS OF GUARANTEES

(Amounts in lakhs of rupees)

No. of units	Nature of industry	Deferred payment guarantees as on 31-12-1971		Other guarantees as on 31-12-1971		Remarks (Please indicate type of security, nature of charge, etc.)
		Limits sanctioned	Balance outstanding	Limits sanctioned	Balance outstanding	
1	2	3	4	5	6	7
	(*a*) Coking coal					
	(*b*) Non-coking and other coal ..					
	(*c*) Coal washeries ..					
	(*d*) Coke manufacturers					

Appendix III

(*vide* paragraph 5.9)

PARTICULARS OF CLAIMS FOR SAND STOWING OUTSTANDING WITH THE COAL BOARD AS ON THE...............

(1) Name of colliery .. ..

(2) Name(s) of seam(s) .. ..

(3) Quantity sanctioned for the financial year 19....-19...... (*vide* Coal Board sanction No....... dated the ....) .... cubic metres

(4) Rate admissible per cu. metre (*vide* paragraphs .... of Coal Board Manual) .. .. per cubic metre

(5) Progressive total of the quantity of sand stowed admitted by the Coal Board as per billing instructions [*vide* column (5) of Annexure] .... cubic metres

(6) Total quantity of sand stowed as per the monthly return of claims in respect of which billing instructions have *not* been received [*vide* column (3) of Annexure] .... cubic metres

(7)	Total of items (5) and (6) ..	.... cubic metres
(8)	Total dues yet receivable from the Coal Board as per billing instructions received [*vide* column (8) of Annexure] ..	Rs.
(9)	Total amount of claims submitted to the Coal Board in respect of which billing instructions have *not* been received [*vide* column (4) of Annexure] ..	Rs.
(10)	Total of items (8) and (9) ..	Rs.
(11)	Margin (%) prescribed by the bank	Rs.
(12)	Drawing power admissible [item (10) — item (11)]	Rs.

ANNEXURE

STATEMENT SHOWING PARTICULARS OF CLAIMS FOR SAND STOWING OUTSTANDING WITH THE COAL BOARD AS ON............

Month to which the return of claims relates	Date of submission of the return to the Coal Board	Where billing instructions have not been received		Where billing instructions have been received				Remarks
		Quantity claimed in the monthly return (in cu. metres)	Amount of claim on the basis of monthly return	Quantity admitted (in cu. metres)	Amount admitted	Amount of payment received from the Coal Board	Balance amount due as per billing instructions	
			Rs. p.		Rs. p.	Rs. p.	Rs. p.	
1	2	3	4	5	6	7	8	9
April 19								
May								
June								
. ..								
....								
January 19								
February ..								
March								
Total								

Note: Whenever billing instructions are received in respect of any particular month, columns (3) and (4) relating to that month should not be filled up.