Report of the

Study Group On The Provision Of Credit Facilities For Road Transport Operators.

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CONFIDENTIAL

REPORT OF THE STUDY GROUP ON THE PROVISION OF CREDIT FACILITIES FOR ROAD TRANSPORT OPERATORS.

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Report of the Study Group on the provision of credit facilities for road transport operators.

We were appointed as a study group of the National Credit Council in September 1968 to consider the question of financing the road transport industry. No formal terms of reference have been indicated to us for our guidance. But in November 1968, we had the benefit of a discussion with the Union Minister of Transport and Shipping, and in the light of this discussion, we have examined the targets for the provision of credit for road transport operators, particularly in the private sector, having regard to the production of commercial motor vehicles in the country. We have also considered the measures which will be necessary to make this credit available at a reasonable cost. As the credit has necessarily to be made available through the banking system, whether it is provided in the form of direct loans to the operators themselves or by refinancing the hire-purchase financiers, we have considered the role of the commercial banks and the hire-purchase financiers in some detail.

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2. Our report has to be considered against the background of the several other investigations of the problem of the road transport industry in the past. The Study Group on Road Transport Financing under Shri Saraiya, which submitted its report in February 1968, has in particular examined various questions relating to the provision of credit. It may be useful before any further recommendations arising out of these earlier reports are made, if the present position of the automobile and road transport industries were indicated very briefly.

3. A statement is attached indicating the production of commercial vehicles during the calendar year 1968. It will be seen that while there has been some noticeable improvement, the experience of the individual manufacturing units has been quite uneven. While Ashok Leyland, Telco and Mahindra and Mahindra have been able to maintain or increase their normal production, Hindustan Motors, Premier Automobiles and Standard Motors have not yet been able to do so. Although the production of the Bedford trucks with the new J6 diesel engines, petrol-driven commercial vehicles of Premier Automobiles, the Viking Bajaj Tempo and Jeep trucks, has improved to some extent in recent

months, the total number of commercial vehicles produced in 1968, with a capacity of 1 ton or more was still less than 32,500. In view of this experience and as the installed capacity of the automobile manufacturers appears to be inadequate for the targets in view, the projections of 50,000 in 1970-71 and 75,000 in the calendar year 1975, vide Chapter IV of the Saraiya Committee's report, appear to be optimistic.

4. The demand for credit for the offtake of the current output, estimated on the assumptions made in the Saraiya Committee's report, is not likely to be substantially in excess of about Rs.60 crores. This, even in the depressed conditions, which prevailed towards the end of 1967, could be provided by the existing agencies, including hire-purchase finance companies, other financiers and commercial banks. But while the total amount of the finance which is now immediately required is not very large, it will be necessary to provide for the doubling of the amount of the financial assistance which is required from external agencies, including the various hire-purchase financiers, but excluding the money lenders, who are not primarily engaged in carrying on hire-purchase finance as a business, within a period of about five years. It is also relevant to add that

even for absorbing the current output, adequate institutional arrangements for the provision of credit do not seem to exist at present, except perhaps in the four Southern States. The disorganised state of hire-purchase finance business, following the disappearance of a number of hire-purchase finance companies in and round Delhi and the absence of an adequate number of medium or large-sized hire-purchase financiers of good standing and repute are now inhibiting the flow of credit; and the private operators seem to be experiencing some genuine difficulties. If there is no change in this situation, the automobile and road transport industries are unlikely to be well-served, when the recession comes to an end and the production of commercial vehicles is increased.

5. The Saraiya Committee attached considerable importance to the elimination of the unscrupulous hire-purchase financiers, whether incorporated or not, the improvement of the norms and standards of business, the formation of a few medium-sized hire-purchase finance companies and the linking of these companies as intermediaries with the I.D.B.I. and the Reserve Bank through the commercial banks. It is necessary that follow-up action on the lines indicated in that Committee's report should be taken urgently.

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6. A major development, since the Saraiya Committee's report was submitted, has been the introduction of an official Hire-Purchase Bill in the Rajya Sabha in July 1968. The bill, however, differs in some important respects from the recommendations made in the Report. In particular, the bill does not provide that the owner should have a clear title at the time of entering into a contract with the hirer or for an expeditious procedure for the settlement of outstanding claims in respect of hire-purchase debts. It is understood that in rejecting the arguments in favour of the modifications, Government have taken the view that the Hire-Purchase Act, 1965 in the United Kingdom also provides that the owner or seller shall have the right to sell the goods, at the time when the property is to pass, and that this precedent can be followed in India, particularly as a large number of hire-purchase financiers, who may not be in a position to become owners of the goods sold by them, prior to the stage of the ultimate nominal payment by the hirers, and the transmission of the title, will be enabled thereby to transact hire-purchase business. This argument ignores the practical implications in Indian conditions, namely, that any external financing agency, financing a debt at a time

when the title is not clear beyond the possibility of a dispute, is bound to provide for a higher margin, while lending on the security of hire-purchase documents. As hire-purchase finance companies in India will have to depend increasingly on assistance from external sources, this will be a serious limitation on the amount of bank finance or other external accommodation, which may be provided.

7. Fortunately, while the Hire-Purchase Bill does not make it obligatory for the owner to acquire a proper and valid title at the time of entering into a contract with the hirer, it does not prohibit the acquisition of such a title by the owner, before he enters into the contract. As far as commercial banks and other refinancing agencies, including the I.D.B.I. are concerned, they are not also obliged to refinance a loan within the framework of a contract, which may leave the owner's title in dispute. It will be in order for them, on the other hand, to make the acquisition of such a clear title a condition precedent for the recognition of the hire-purchase finance company as an approved agency and the extension of refinancing facilities to that agency. In actual practice, while the stage for an insistence by commercial banks and the official

financing agencies on the acquisition of a clear title at the time of the contract has not, perhaps, been reached yet, this will have to be borne in mind and the established and well-managed hire-purchase finance companies should be persuaded in their own interests, to become as far as possible the actual and not only the reputed owners of the vehicles sold by them under hire-purchase contracts.

8. The bill provides for the continuance of the hire-purchase financier's right of repossession as the owner till 75 per cent of the hire-purchase has been paid. Thereafter, the hire-purchase financier's claim can only be a money claim for the balance of the amount due under the hire-purchase contract. In the case of motor vehicles, provision has been made in the bill for a higher percentage upto 90 per cent. to be notified by Government, so that the hire-purchase financier's right as the owner may be preserved up to this stage. In the light of the experience in the United Kingdom since 1965, when the new Hire-Purchase Act was brought into force and hire-purchase finance companies, including the United Dominions Trust, found it necessary to switch over to credit sales or personal loans, because the right of repossession under the new law turned out

to be illusory,.we would like to suggest that the Government of India should, as soon as the pending Hire-Purchase Bill in our own country is enacted into law, fix the percentage of repayment at which the hire-purchase financier's right as an owner lapses at 90%. This is necessary, as it appears to us that hire-purchase finance companies or the hire-purchase contract cannot, in Indian conditions, be replaced immediately or to any significant extent by other institutions or forms of financing. So long as the bulk of the loans for financing the purchase of vehicles continues to be provided under hire-purchase contracts, the rights of the financier or of the commercial bank, which may be refinancing him, will have to be protected, if an adequate supply of funds is to be made available.

9. A scheme for the rediscounting of bills, relating to the sale of motor vehicles was announced by the I.D.B.I. in September 1967 and the following limits were granted under that scheme for a period of one year.

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(Rs. in lakhs)

Name of the Bank	Limit sanctioned• for 1967-68
1. The Bank of Baroda Ltd., Bombay.	100.00
2. The United Bank of India Ltd., Calcutta.	100.00
3. The Andhra Bank Ltd., Hyderabad.	25.00
4. The Dena Bank Ltd., Bombay.	30.00
5. The Canara Bank Ltd., Bangalore.	50.00
Total :	305.00

No limit has, however, been availed of yet, partly because the demand for credit, as has been pointed out at the beginning of this report, is not yet very keen, but partly also because the nine manufacturing and hire-purchase finance companies already approved by the I.D.B.I. have been unable to accept the "flat" rate of 7½%, which has been prescribed as the ceiling rate of interest to be charged to the hirers. All the limits have since lapsed.

10. An interesting development, which may be of interest to hire-purchase finance companies and the banks or official agencies financing them should also, perhaps, be mentioned. The Madras High Court has recently held in a case relating to the winding up

of a trading company in liquidation that the hire-purchase financier as the owner is entitled to the rights of a secured creditor in respect of vehicles in which he has an interest and that as the charge on the vehicle in his favour is a secured charge, the question of registering it under Section 125 of the Companies Act, 1956 does not arise. This amounts to a clear recognition of the special status of such financiers. While this finding (vide Official Liquidator, Madras High Court vs. Commissioner of Police and others, C.P. No.21 of 1961, decided November 1967) is not necessarily binding on the other Courts, it is important enough to be brought to the notice of the financing banks and official agencies.

11. Before we conclude this review of the developments since the Saraiya Committee's report was published, we would like to point out that there has been practically no progress in the direction of reducing the burden of taxation on the road transport, automobile and allied industries, in improving the condition of the roads, or in expediting the flow of traffic across the State frontiers and removing the difficulties, including multiple taxation, when the borders of more than two States have to be crossed.

Costs continue to rise; and the recent increase in tyre prices is an instance in point. In the course of our discussions, we came across cases of indiscriminate licensing and the grant of permits, apparently for political or other reasons, without regard to the volume of traffic, which may be offering. Our attention has also been drawn to the surcharge on the motor vehicles tax, amounting to 75 per cent, which the Kerala Government has levied with retrospective effect. This has the effect of leaving no profits or funds with the Kerala State Road Transport Corporation for meeting even the most essential requirements for operation, replacement and normal additions to the fleet.

12. The State Governments seem to regard road transport as a profitable industry, which can still bear the burden of annual and increasing levies. Whatever the position might have been in the past, and notwithstanding the experience of some of the larger and well-organised undertakings which still continue to be profitable, the smaller operator now finds it increasingly difficult to repay his debt or to improve his services or to add to his fleet. He is tempted to overload and to work overtime beyond the limits of safety. The hazards to the general public,

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as a result of the conditions in which the smaller operator now operates his vehicle do not seem to have been appreciated.

13. A change in the States' outlook will clearly be necessary. We indicate below some estimates of the traffic carried by road and rail in recent years.

	Percentage of goods traffic carried by		Percentage of passenger traffic carried by	
	Rail	Road	Rail	Road
1950-51	89	11	74	26
1955-56	87	13	66	34
1960-61	83	17	58	42
1965-66	77	23	53	47

We have to assume that the trend, which is obviously apparent from the preceding table, will continue. With the growth in the population and the development of the economy, and for a variety of other reasons, the absolute volume of traffic to be carried on our roads is bound to increase very considerably. The State Governments' policy, or the absence of any policy at all, in so far it means that not all the operators can hope to make reasonable profits or to plough them back into the industry, and what is equally if not even more important, the tendency to neglect the roads because of the scarcity of resources, or the diversion of resources for other purposes, are matters which should cause us grave concern.

14. We cannot consider these questions in much greater detail within the scope of our own report. But we would like to point out that our recommendations in regard to credit facilities cannot be effective, if the industry itself ceases to be paying or becomes incapable of generating enough internal resources for sustained expansion and growth.

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CHAPTER II

Credit Guarantee

15. The road transport industry is basically a small-scale industry. About 98 per cent of the individual operators are persons owning less than five vehicles each. This is not an entirely satisfactory state of affairs, as an operator owning only one or two lorries does not normally have the resources which are needed to make the normal down payment on the vehicles, to book the traffic or retain in full the earnings on account of the traffic booked, to repair and maintain the vehicles in good condition and to operate them within the limits of safety. We consider it to be necessary in the wider public interest, and not merely in the interests of the transport operators themselves, that the standard of viability, which has been recommended by the recent study group on viable units, namely, five vehicles with a spare bus for passenger transport and ten vehicles for goods transport should be reached as soon as possible. In the nature of the circumstances, however, this standard cannot be reached immediately and this process may well be spread over several years. Moreover, even an operator with ten lorries plying on the road will,

at the current prices of commercial vehicles have an invested capital of less than Rs.7.50 lakhs. Although all the evidence before us and before the Saraiya Committee earlier points to the conclusion that an individual operator does not ultimately default in meeting his obligations, his methods of operation are not very business-like, instalment payments are likely to be delayed, and as the vehicles are movable, the value of a charge on them may in some cases turn out to be illusory. It will be necessary, therefore, to consider in some detail the question of extending the credit guarantee scheme so as to cover road transport operators. It has been considered in the past that the expression "small-scale industrial concern" which occurs in Section 17(11A) of the Reserve Bank of India Act, 1934 may not cover the road transport industry and that this Section might have to be amended, before the credit guarantee scheme can be extended to this industry. The Reserve Bank has, however, extended the scheme recently to cover workshops undertaking repairs and servicing of automobiles or plant or machinery, pump-sets, tubewells, boilers, electric motors, air-conditioning and refrigeration equipment, road rollers and other road repair equipment, radio receivers, cine projectors, electrical and photographic equipment, although strictly speaking, these workshops are not industrial concerns as defined in the IFC Act, 1948 or the State Financial Corporations Act, 1951.

16. As it appears, on this interpretation of Section 17(11A), that there is no longer any legal difficulty in extending the existing credit guarantee scheme, so as to cover the road transport industry, the following proposals can be considered and if necessary submitted to the Central Government for their approval -

(i) the guarantee should be available in respect of direct loans granted to road transport operators by approved banks or financial institutions or loans under hire-purchase contracts made by approved automobile manufacturing concerns where they have their own hire-purchase divisions, or by hire-purchase finance companies;

(ii) the book value of the investment on motor vehicles by any road transport operator without taking depreciation into account, should not be in excess of Rs.7.50 lakhs;

(iii) the guarantee fee will be $\frac{1}{2}$ of 1% of the amount outstanding, in the case of loans granted by commercial banks and $\frac{1}{2}$ of 1% of the stock on hire in the case of hire-purchase finance companies, if all the loans granted to road transport operators by the bank or hire-purchase finance company, as the case may be, are covered under the credit-guarantee scheme, or 1.75% of the amount or the stock on hire, in case each loan is covered separately, and it will be payable every year;

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(iv) the amount guaranteed by the credit guarantee organisation will be 75% of the amount of the loan or hire-purchase debt, which may be in default, limited to a maximum of Rs.2 lakhs per borrower;

(v) the amount in default will, for the purposes of this guarantee, be deemed to be the total hire-purchase price remaining unpaid in respect of a loan contract on the date on which the last instalment of repayment falls due and this amount may be claimed at any time after the expiry of a period of three months thereafter;

(vi) the hire-purchase financier will be free to repossess or release the vehicles in his discretion, at any time before or after the date on which a claim in respect of the loan against the vehicle is submitted to the Credit Guarantee Organisation;

(vii) the hire-purchase financier will also be free to sell the vehicle without reference to the Credit Guarantee Organisation, but if the vehicle is sold before the date of the claim, the loan amount will be automatically reduced and if the vehicle is sold after the date of the claim, 75% of the amount realised will be passed on to the Credit Guarantee Organisation;

(viii) the credit-guarantee organisation will become subrogated to the rights of the bank or the hire-purchase finance company as the case may be but will appoint these institutions as its agents for the recovery of the amounts paid by it, sharing pro-rata in the proceeds of the securities which may be released; and

(ix) it will be a condition precedent for the approval of the hire-purchase finance company that the norms in regard to the debt : equity ratio, provision for bad and doubtful debts and appropriation to general reserves, as indicated earlier in this report, will have to be observed by the hire-purchase finance company, before it can be recognised as an approved institution, entitled to the benefits of this scheme.

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17. We have tried to assess the financial implications of the proposals which we have made in the preceding paragraph. The premium rate, which we have suggested and the proportion in which the risk is to be shared by the credit-guarantee organisation, are based on the experience of the general insurers and the terms on which they now grant over to the hire-purchase finance companies. As regards the operations of these companies, we indicate below the details obtained from 141 companies with reference to their position as at the end of March 1967.

(Amounts in lakhs of Rs.)

Companies with	No.	No. of functioning cos.	Total deposits: Deposits	Total deposits: Exempted loans borrowed by the companies not treated as deposits	Total hire-purchase credit disbursed during the year	Outstanding credit at the end of the year
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Paid-up capital & reserves of Rs.50 lakhs & over	9	9	1072.92	1092.05	1333.36	2557.23
2. Paid-up capital & reserves between Rs.25 lakhs & Rs.50 lakhs	-	-	-	-	-	-

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(1)	(2)	(3)	(4)	(5)	(6)	(7)
3. Paid-up capital & reserves between Rs.10 lakhs & Rs.25 lakhs	3	3	2.93	65.00	113.82	123.39
4. Paid-up capital & reserves below Rs.10 lakhs	129	112	399.24	168.83	735.60	847.96
Total :	141	124	1475.09	1325.88	2182.78	3528.58

<u>Note</u> : Excluding the hire-purchase division of Telco.

18. Adding about Rs.2 or 3 crores on account of loans granted by the commercial banks directly to road transport operators, without the intervention of the hire-purchase finance companies, the extent of the outstanding credit covered by the guarantee, if the nine companies with paid-up capital and reserves of Rs.50 lakhs or over in each case the hire-purchase division of Telco and all banks are taken into account, may be about Rs.30 crores. The annual premium income on this amount at ½ of 1% may be Rs.15 lakhs. This premium will be added to the amount which is collected from other insured institutions or

units by the Credit Guarantee Organisation and although separate proforma accounts, in respect of the guarantee scheme for motor vehicles may be kept, the risk will be borne by the Central Government, out of the proceeds of the premium income from all the small-scale industrial concerns.

19. The risks involved in an extension of the credit-guarantee scheme on these lines are not as great as may perhaps, appear, considering the disorganised state of the road transport industry and hire-purchase finance business at present. In the first place, the guarantee will be only in favour of approved banks and financial institutions, as far as direct loans are concerned, and approved automobile manufacturers or hire-purchase finance companies, as far as hire-purchase financing is concerned. The banks and other financial institutions may be expected to ensure that their direct loans will be to reasonably sound borrowers and that adequate securities will be taken. In the case of hire-purchase finance companies or the automobile manufacturers or the hire-purchase finance divisions, provision for bad and doubtful debts and for reserves will, to the extent indicated have to be made, and the approval of these institutions will be contingent on

this condition being satisfied. Secondly, in all these cases a substantial portion of the risk will continue to be borne by the banks, or hire-purchase finance companies (including in the case of Telco, their hire-purchase finance division). The selection of the approved hire-purchase finance companies will be on the basis of fairly rigid standards, based on an inspection of their books. Only a few hire-purchase finance companies are likely to be approved for the time being and the list will be enlarged only as and when other companies qualify for recognition, after their working and methods of operation have been improved. Thirdly, the institutions availing themselves of the credit-guarantee scheme will be expected to cover all their loans under the scheme, in order that the risks may be fairly well spread.

20. Considering the safeguards, which will be available and the importance of the road transport industry, the risks will not be very heavy. The Reserve Bank may be requested to examine these proposals further and if they agree, to obtain the approval of the Central Government in the Ministries of Transport and Shipping and Industrial Development, so that the scheme guaranteeing in part of the loans to road transport operators may be brought into force as early as possible.

CHAPTER III

Commercial Banks

21. We have discussed with leading bankers the possibilities of commercial banks being able to finance the road transport operators directly. For various reasons, including the low priority which has so far been accorded to the road transport industry, it has not been possible for commercial banks, except perhaps in a few cases in South India, to grant direct loans to individual operators to any substantial extent. Banks are also likely to experience certain genuine difficulties in increasing the volume of direct assistance to transport operators.

22. The main difficulties which are likely to be experienced by the banks in increasing the amount of their direct assistance very substantially are -

(i) the bank's interest as the hypothecatee is not now recognised by the authorities in charge of the registration of motor vehicles.

(ii) a bank, unlike a hire-purchase financier, cannot become the owner of a vehicle at any stage prior to the failure of the hypothecation loan and its right of repossession, notwithstanding the attempt to retain this right during these earlier stages through appropriate provisions in the loan contract, can only be an illusory right, in the absence, firstly, of a clear recognition of the bank's position as an owner and not merely as a financier, and secondly, of a field staff and inspectorate for supervising the utilisation of the loans by the operators and the enforcement of instalments of repayment by them.

(iii) within the ceiling rate of interest, which banks are permitted to charge namely 9½%, banks do not have an adequate margin for covering their costs, including expenses amounting to about 2.5% for supervision and inspection after the grant of the loans.

23. Of these difficulties, the one which is referred to at (i) will be removed, when the Motor Vehicles (Amendment) Bill which has now been passed by the Rajya Sabha, having been reported by a Joint Select Committee of both the Houses, is finally enacted. This bill provides for the hypothecatee's interest to be

recognised, to the same extent and in the same manner as that of a hire-purchase financier. The two other difficulties, will however still remain. They are fundamental and cannot easily be resolved.

24. Commercial banks in India cannot undertake trading functions. They are prohibited under Section 8 of the Banking Regulation Act, 1949 from buying or selling any goods except in connection with the realisation of any loans granted by them or the negotiation or collection of bills. It is true that the Reserve Bank has interpreted the provisions of Section 8 liberally, holding that so long as a bank does not

(a) deal in motor vehicles on its own account for a profit,

(b) get the registration transferred to its own name, and

(c) take or attempt to take physical possession of the vehicles, in advance of the loan turning out to be bad,

the nature of the documents taken by the bank may not be very material and need not be deemed to involve trading on the part of the bank, within the meaning of Section 8. This liberalisation seems, however, to be intended, in terms of the Reserve Bank's circular

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dated the 25th November 1966, to be confined to cases where the financing commercial bank refinances a hire-purchase financier or finances an operator and the hire-purchase sale of motor vehicles directly by a bank, does not seem to have been envisaged. Commercial or cooperative banks cannot, therefore, carry on hire-purchase financing directly as a part of their own business.

25. In the result, in the case of the smaller operators who own less than five or even ten vehicles, because of the undoubted advantages of providing for assistance to the ultimate borrower through hire-purchase sales, namely -

(i) the enjoyment by the lender, as the owner, of the right of repossession or of a secured creditor in liquidation, which is superior to that of a mere financier,

(ii) the easy realisation of the loans advanced through monthly or other periodical repayments, and

(iii) the loading in the 'flat' rate of interest charged to the hirers, of the very substantial expenses on account of management, inspection, supervision and control,

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hire-purchase finance companies, functioning within the framework of a special enactment, will have to be the primary lending agencies and are in a favourable position to grant assistance to the smaller operators. Because of the flexibility in the operations of these companies, the smaller operators also find it convenient to deal with them.

26. It has been suggested that banks should promote a few hire-purchase finance companies as their subsidiaries. In the United States, instalment credit has been handled by commercial banks since the Bank of America started making loans under its industrial plan soon after 1920, and in the United Kingdom, banks have been acquiring since 1954 interests varying upto 100% in hire-purchase finance companies. We reproduce below a table showing the share holding by commercial banks in the leading hire purchase finance companies:

Bank (1)	Hire Purchase Company (2)	% of equity held by bank (3)
Barclays	United Dominions Trust (which in turn owns British Wagon)	28%
Martins	Mercantile Credit	17½%
Westminster	Mercantile Credit	17½%

(1)	(2)	(3)
National Provincial	North Central Finance	100%
District	Astley Industrial Trust	33-1/3%
Midland	Forward Trust	100%
Lloyds	Bowmaker Lloyds & Scottish	25% 50%
National Commercial	Lloyds & Scottish	50%
Three Banks' Group	UDT	7%
Bank of Scotland	North West Securities	100%
Yorkshire Bank	Northern & General Finance	100%
Charterhouse Group	Charterhouse Credit	100%
S.G. Warburg	Wagon Finance	@
Hambros	Western Credit First National Finance	@ @
Chartered Bank	Financings	27%

@ Figure not available. Shareholding is through associated companies.

The two major hire purchase companies not connected to commercial banking groups are Anglo-Auto and Lombank. In addition to the banks listed the First National City Bank of New York has an affiliate National City Credit; and Bank of Ireland Group (through National Bank) has a one third stake in St. Margaret's Trust.

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The leading Australian banks also have substantial interests in the share capital of the hire-purchase finance companies.

27. While there are some obvious advantages in the formation of a few well-managed hire-purchase finance companies by the leading Indian banks so that they may be able to fill the gaps in the institutional structure for the provision of credit, to standardise the rates of interest and other charges and to bring them down over a period of time, there is a legal difficulty, which prevents Indian banks from forming wholly-owned subsidiaries for this purpose. Section 19 of the Banking Regulation Act, 1949 prohibits a bank from forming subsidiaries except for certain purposes. The extent of the participation by a bank in the share capital of a hire-purchase finance company is also limited to 30 per cent of the paid-up capital of the participating bank or of the hire-purchase finance company, whichever is lower.

28. We suggest that the Reserve Bank of India may consider whether Section 19 of the Banking Regulation Act, 1949 can appropriately be amended, so as to enable banks to promote subsidiary hire-purchase finance

companies, in which any single banking company may own shares to the extent of 51% or more. In the meantime, it will be desirable for the leading banks, acting in participation and together, to form a few hire-purchase finance companies. A vital gap in the existing institutional arrangements for the provision of credit is that considering the size of the country, the targets for the production of commercial vehicles and the need for the development of transport, particularly in areas, which are not served at all by the railways, the number of good and well-managed hire-purchase finance companies is quite inadequate.

29. A number of hire-purchase finance companies are in liquidation at present. Among those, which are still nominally at work, there are very few companies, which having regard to their antecedents, owned resources or interests in the automobile or road transport industries, can be recognised as established or potentially viable financial intermediaries. At the same time, the need for a reasonably adequate number of financial intermediaries, spread all over the country is quite pressing in this sector, as hire-purchase financiers enjoy certain advantages, which will not be available to commercial banks or other financing institutions and as the financing of

road transport operators calls for specialised experience, local knowledge of the individual operators, a system of inspection, supervision and control, subsequent to the grant of loans, and close and constant touch with the borrowers.

30. Within the limitations of the existing legal position, we recommend that the leading Indian banks should be invited to consider the question of promoting about a dozen hire-purchase finance companies. We have come to the conclusion that there is room for the formation of a medium or large sized hire-purchase finance company, with a paid up capital of not less than Rs.50 lakhs, in each of the States of Maharashtra, Gujarat, Rajasthan, Madhya Pradesh, Uttar Pradesh, Punjab, Haryana, Bihar, Assam, West Bengal and Orissa and in the Union territory of Delhi, which are not now well-served or are inadequately served. If the banks were to take the lead in the formation and management of these companies, the volume of credit which they may be able to offer and the healthy influence, which they may be able to exert as a result of competition, can lead to a very substantial increase in credit facilities and also to a reduction in the cost of credit generally.

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31. Apart from promoting these hire-purchase finance companies in the States, which are now inadequately served, it will also be necessary for the commercial banks to consider whether the volume of their own direct financing can be increased, if some assistance can be obtained from the hire-purchase finance companies or other independent organisations, which are equipped to investigate the credit-worthiness of the individual operators and to undertake the collection of the instalments of repayment, the inspection of the vehicles and the enforcement of securities available to the banks including repossession of the vehicles, where necessary. We understand that it may be possible for commercial banks to obtain these services by negotiation with other companies, to which the borrower will make a small service payment of about 1% direct.

32. We do not see any major objection to commercial banks obtaining these safeguards from other organisations, on the basis of individual negotiations regarding the nature of the services to be provided and the cost of the services, which may be passed on directly to the borrowers without the intervention of the banks. As the facility of chattel mortgages attaching to the vehicles is not available in India as in the United States and

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as the risks involved in the direct financing of small operators, can be reduced or eliminated only if banks are enabled to obtain these services, we think that it will be in the long-term interests of the industry and will also ultimately lead to a reduction in the lending rates all round, if banks can be helped to increase the volume of their direct financing on this basis. We should however like to emphasise the point that in consideration of the services, which they are able to obtain, banks should even within the present permitted ceiling of 9½%, reduce their lending rate to the ultimate borrowers in all cases in which these safeguards are available.

33. We have referred earlier to the fact that notwithstanding the difficulties, which banks have been experiencing or are likely to experience, there may be scope for the direct financing of the larger operators with more than five or ten vehicles each. We think that without prejudice to our other suggestions, banks should be encouraged to increase the amount of their direct loans to the operators, within the interest ceiling of 9½% on the outstanding amounts of the loans in all cases in which by reason of the credit-worthiness

of the parties or the collateral or other securities which they may be able to offer or the credit-guarantee which has been suggested in Chapter II of this report, the risks of direct lending can be minimised.

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CHAPTER - IV

Refinancing Hire-Purchase Finance Companies

34. We shall now proceed to consider the scope for linking the well-managed hire-purchase finance companies to the commercial banking system and the I.D.B.I. or the Reserve Bank. The main point, which arises for consideration in this connection is whether the rate of interest, which the approved hire-purchase finance companies may be permitted to charge to the road transport operators, can be increased from 7½% flat to some higher figure.

35. The I.D.B.I., in a circular dated the 25th June 1968 has reduced its basic rediscounting rate under its scheme to 5½% and the approved banks are permitted to charge 8½% to the hire-purchase finance companies, as against 9%, which was previously stipulated as the ceiling. While this, together with the general reduction by ½% in the lending rates of the banks, following the reduction of the bank rate in March 1968, means that the effective rates charged to hire-purchase finance companies are now less by about one-half of one per cent, the relief which the hire-purchase finance companies have been able to obtain, by reducing the rates of interest on public deposits, does not seem

to have been appreciable. There has been no general move on the part of these companies to reduce the rates offered to the public, although the lending industrial and commercial companies in Bombay have reduced their rates by ½% with effect from March 1968.

36. There is some scope for a reduction in the rates of interest on public deposits, and it will be desirable if one or two of the hire-purchase finance companies could be persuaded to reduce these rates, in line with the general reduction in the rates offered by the leading industrial companies in the Bombay region since March 1968.

37. The effect and significance of the rate, which is allowed to be charged under the I.D.B.I.'s scheme is limited however by the fact that banks may not have any recourse to the I.D.B.I., except marginally, so long as credit conditions continue to be easy. For the time being and until there is a major change in the pattern of interest rates generally, a realistic estimate of the lending rate which the hire-purchase finance companies may be allowed to charge will thus have to be based on the following assumptions, namely, firstly, that the I.D.B.I.'s refinancing scheme will be mainly a stand-by, providing for the banks concerned

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the assurance of liquidity, and of recourse to the I.D.B.I. in case this is found necessary, secondly, that the lending to the hire-purchase finance companies will normally be from the banks' own funds and thirdly, that for obtaining bank accommodation in the normal course and deposits from members of the public, the hire-purchase finance companies will have to pay rates upto 9½% or even 10% respectively.

38. The normal arrangement, which we envisage is that a hire-purchase finance company will continue to obtain accommodation from a financing bank on the basis of a cash credit overdraft against the hypothecation of hire-purchase documents, the margin against this security, where any such margin now is maintained, being reduced as and when this may be possible. The hire-purchase finance companies will assign their rights under their hire-purchase contracts to the lending banks. The contracts themselves will contain a clause in future, providing that the hirers i.e. borrowers, if called upon to do so, either by the hire-purchase finance companies or the financing banks, will make out, in favour of the hire-purchase finance companies, as many promissory notes representing future monthly payments under the terms of the subsisting

contracts as may be required by the hire-purchase finance companies or the financing banks. The rate of interest charged by the hire-purchase finance companies to the ultimate borrowers under any hire-purchase contract, will notwithstanding the fact that the documents relating thereto might not have been actually hypothecated to the bank at any given time or that promissory notes from the borrowers under the contract might not have been drawn or discounted with the bank, be subject to the ceiling which is specified by the I.D.B.I. The other conditions, which are generally specified by the I.D.B.I. will also be observed.

39. So long as a bank is able to finance a hire-purchase finance company from its own funds on this basis, this arrangement should be adequate. If, however, any bank finds that it needs liquidity or refinance, it will be open to that bank to convert its cash credit overdraft to the hire-purchase finance company into a loan, by getting one or more promissory notes or a series of them discounted under the I.D.B.I.'s scheme. If and when the mode of lending by the bank is changed on these lines, the bank's lending rate, which under the normal arrangement is

limited to a ceiling of 9½% will be reduced to 8½% which is now specified by the I.D.B.I. The amounts drawn from the I.D.B.I. on account of the discounted promissory notes will reduce the outstanding on account of the cash credit overdraft. The effect of this arrangement, in short, will be that while the financing bank gets the assurance of liquidity or refinance, and the hire-purchase finance company is assured in turn that resources will be available to it to the extent necessary, the discipline, which the I.D.B.I. is now seeking to enforce, will be available in regard to all the contracts of all the approved hire-purchase finance companies generally.

40. We now turn to the question of the ceiling rate, which the I.D.B.I. can appropriately prescribe in these circumstances in place of the 7½% flat rate, which has proved to be unacceptable and unrealistic. The expenses of a reasonably well-managed hire-purchase finance company for every hundred rupees of its own funds invested in the business will be as follows:

I.	Equity capital and reserves	Rs.100.00
II.	Amount borrowed	Rs.500.00
III.	Income at $5\frac{1}{2}\%$ on Rs.20 i.e. 10% of deposits, invested in Government securities and 10% flat or 18.5% per annum for a period of repayment in three years on Rs.580.	Rs. 108.00*
IV.	<u>Expenses</u> -	
	(a) Interest on bank borrowing at $9\frac{1}{2}\%$ on Rs.300.	Rs. 28.50
	(b) Interest on deposits at 10% on Rs.200.	Rs. 20.00
	(c) Guarantee commission payable to the credit guarantee organisation at $\frac{1}{2}\%$ on Rs.600.	Rs. 3.00
	(d) Establishment charges at 2.50% on Rs.600.	Rs. 15.00
	Total :	Rs. 66.50

(* The effective annual rate corresponding to a rate of 10% flat will vary, depending on the time allowed for building a body on the chassis, after which the instalments of repayment will start, the number of instalments and the period of repayment. 18.5% has been assumed as a mean average rate.)

V.	Balance of taxable profit	Rs. 41.50
VI.	Taxes at 65%	Rs. 26.98
VII.	Provision for bad and doubtful debts at 1% on Rs.600	Rs. 6.00

VIII.	Less 20% of tax-paid profit appropriated towards reserves	Rs.	2.90
IX.	Balance of profit available for dividends	Rs.	5.62@

@ On equity capital and reserves. On equity capital only the rate will be higher.

41. These calculations, we should add, are notional. They are also based on assumptions as regards the credit-worthiness of the hire-purchase finance companies, a high debt : equity ratio of 5 : 1 and maximum utilisation of funds, which may be optimistic or unrealistic in the case of a number of companies. Some hire-purchase finance companies have also claimed that their establishment expenses are considerably in excess of 2.5%. The experience of the various companies cannot be uniform. If in fact, a company incurs more than 2.5% by way of establishment expenses and pays on the amounts borrowed or on deposits higher rates than are assumed in this table, or if the company is not able to command credit from the banking system to the full extent indicated above or is not able to achieve a debt : equity ratio of 5 : 1, because its credit is not sufficiently high, or if the company has inadequate reserves to start with, so that its dividend liability on the paid-up equity capital is correspondingly greater, the calculations

in this table may not be strictly relevant. On the other hand, however, a well-managed company, commanding adequate credit and paying reasonable rates to the financing commercial bank or to the public, may be able to improve on the net dividend of 5.6% indicated in the foregoing table.

42. We suggest that the ceiling rate, which is now prescribed by the I.D.B.I. be raised to 10% flat, subject to the conditions indicated below, namely, that -

(i) this should be regarded as a ceiling and not as the normal rate;

(ii) the rate charged by all the hire-purchase finance companies in respect of all their contracts, whether or not refinance is availed of from the I.D.B.I., should be restricted to this ceiling in future;

(iii) a system of rebates from the rate actually charged within this ceiling should be announced and brought into force by every hire-purchase finance company, where payments by the hirers are punctual;

(iv) the penal rate charged on any amount which is overdue should be as reasonable as possible, consistently with the objective of securing prompt payments on the due dates of the instalments.

(v) no credit investigation, legal, stamp, registration or other charges should be separately debited to the hirers under the contract.

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43. In making these recommendations, we have taken into account the fact that the Saraiya Committee had suggested a somewhat lower rate of 9%. After providing for the credit insurance fee of ½% which will be payable to the credit-guarantee organisation and the appropriations towards bad and doubtful debts and general reserves at 1.00% and 20 per cent of the tax-paid profits respectively under our present scheme, the rate of 10% which we now suggest will not be more liberal than the rate, which had been recommended earlier by the Saraiya Committee.

44. We have tried to ascertain whether the ceiling, which we have recommended can be deemed to be reasonable, in the light of experience in regard to financing charges in other countries. It appears that there is a wide range of variation in the rates of interest charged, depending on the financing agencies and the degree of risk. According to the evidence from the Industrial Bankers' Association before the Radcliffe Commission in the United Kingdom, the range of variation was from 6% to 12½% flat. We understand that the standard rate which is now charged by the United Dominions Trust, the leading financing agency, is 8½% flat for one year for heavy commercial vehicles with a capacity of 5 tons or

more and 11% flat for lighter vehicles with a capacity of 3 tons. The actual rates in individual cases vary around the standard rate according to the security offered and the credit-worthiness of the parties. In the United States, precise details of the average gross income for consumer finance companies, sales finance companies, commercial banks and credit unions cannot be ascertained, because of the varying modes of levy such as add on, add on plus, discount, discount plus and per cent per month, but it appears that the gross finance charges per \$.100 of average outstanding credit were \$.24.04, \$.16.59, \$.10.04 and \$. 9.13 in 1959. Since then, they seem to have declined because of competition for business, but the current ruling rates may be around 20 per cent per annum effective, for consumer finance companies. In Canada, the Porter Commission on Banking and Finance found that in 1961, the effective annual charges of 17 companies on a standard new car contract varied from 12.5% to 18.8%, with most companies reporting rates from 13.5% to 16%. Rates on smaller contracts were found to have ranged from 16% to 23%.

45. The experience of the financing agencies in other countries is not relevant except as indicating that even in advanced countries the charges tend to be high and can be brought down only as competition for business forces the financing agencies to reduce their profit margins and offer cheaper service to the borrowers. We cannot, in the light of this experience, recommend a rate, which will be unrealistic by Indian standards and is likely to be evaded very largely in practice. We would also like to make two general observations which must be borne in mind, in arriving at a decision in regard to the ceiling rate to be fixed at present.

46. The availability of finance is in this sector relatively more important than the rate at which it is made available. It will also be desirable if organised and well-established agencies, subject to some broad degree of supervision and control by the Reserve Bank or the I.D.B.I., can replace the smaller firms and individual financiers, who are not subject to any control at all and who charge extortionate rates. If the well-established hire-purchase finance companies agree to charge not more than 10% flat and if the smaller firms and individual financiers, who are being

refinanced by the banks, can in due course be persuaded to accept this rate, and if the volume of credit provided through these sources can be substantially increased, the extraordinarily high rates which now prevail outside the corporate sector can be brought down. This will obviously be more desirable than driving business to the unorganised and uncontrolled sector, because of an unrealistic ceiling, which we may seek to enforce.

47. It is our hope that the ceiling of 10% will prove only to be a limit and that the rates which are actually charged will turn out to be less. One or two of the leading hire-purchase finance companies have already assured us that they do not intend to raise their existing rates, which are appreciably lower. If a few other companies find it necessary to charge this rate, it may be because they will not be in a position to make reasonable profits to be able to declare dividends, which may be adequate to attract capital and resources for financing a growing volume of credit.

48. The rate, which we have recommended will enable the organised and well-managed hire-purchase finance companies to increase the scale of their operations. The competition, which they may be able to offer to

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other financiers and within the organised sector, the competition from the more efficient units, once they are assured of the necessary resources, will bring down the ruling rates of interest within a few years. At this stage, the ceiling now recommended by us will obviously have to be reviewed.

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CHAPTER V

Co-operative Banks

49. The Saraiya Committee had recommended that cooperative credit societies should, if possible, undertake hire-purchase finance business accepting voluntarily, although they may not be compelled to do so by law, the discipline, which is sought to be imposed on hire-purchase finance companies. This recommendation seems to have been made in the belief that if it is possible for companies to carry on hire-purchase finance business, within these restrictions, without being treated as banking companies, cooperative hire-purchase finance societies, as distinguished from cooperative banks, can also be formed. The distinction between hire-purchase finance societies, which will not be subject to the Banking Regulation Act, 1949 as extended to cooperative societies and cooperative banks, which will be governed by this Act, will be that -

(i) deposits will be accepted by the hire-purchase finance societies only for periods of six months or more than six months;

(ii) the business of these societies will be predominantly hire-purchase finance business; and

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(iii) the hire-purchase finance societies will not be accepting cheques drawn on accounts maintained with them.

In addition to these restrictions, the lending by the hire-purchase finance societies will be confined to their members, although deposits will be accepted from members of the public.

50. Although the formation of a few medium-sized hire-purchase finance societies, as distinguished from cooperative banks, might be very welcome in States like Maharashtra and Gujarat, where it might not be difficult to form such societies, the legal position, in the light of the provisions of Section 8 of the Banking Regulation Act, 1949 as applied to cooperative societies and the criteria referred to in paragraph 24 will have to be examined further, before this recommendation can be implemented. Although hire-purchase finance companies, incorporated under the provisions of the Companies Act, 1956 have been treated as non-banking companies, on administrative and not on strictly legal grounds, the hire-purchase finance companies have been in existence for a number of years, whereas hire-purchase finance societies have yet to be formed. It is doubtful whether the exclusion of hire-purchase finance societies, which will have to be distinguished for this purpose from cooperative banks will be feasible at this stage, unless

the depositors in these societies can be persuaded to become members of these societies. If the depositors themselves become members, the hire-purchase finance societies will automatically cease to be cooperative banks, as they will not then be accepting deposits from the public. The scope for the formation of a few hire-purchase finance cooperative societies, subject to this condition, may be explored in detail by the Reserve Bank.

51. In the meantime, primary urban cooperative banks even if they do not transact their business within the framework of the hire-purchase law, enjoy certain advantages, namely, that their operations are confined to small and compact areas and they can, therefore, be expected to have a great deal of knowledge about local conditions and may also be expected to be able to assess the creditworthiness of their borrowers and to keep in touch with them. This makes it possible for the cooperative urban banks to grant direct loans to road transport operators. It will be possible for these banks, while granting these loans, to obtain such documents as may be necessary to protect their interests, subject to the restrictions mentioned in paragraph 24.

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52. It will also be possible for them to obtain, through the central banks, to which they are affiliated, refinance from the I.D.B.I. In order to facilitate such refinancing, the Reserve Bank may be asked to consider whether the credit guarantee scheme referred to in Chapter III can be extended, on the same terms, so as to cover loans granted by primary urban cooperative banks, provided that the primary urban bank makes provision to the extent of 1.00% for bad and doubtful debts and also appropriations towards reserves, to the extent required under the provisions in lieu of Section 17 of the Banking Regulation Act, 1949, as applicable to it.

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CHAPTER VI.

State Road Transport Corporations.

53. The estimates and the proposals in the foregoing Chapters relate only to the provision of increased facilities for transport operators in the private sector. We do not think that we are precluded from considering the needs of transport corporations in the public sector. We cannot, within the scope of this report, undertake a detailed examination of the financial position of all the public sector road transport undertakings. Our recommendations regarding the credit guarantee scheme cannot be applicable in relation to these undertakings because of the limit of Rs.7.50 lakhs, which we have recommended. As these undertakings will not find it necessary to purchase their vehicles on hire purchase terms, most of our proposals in regard to hire-purchase finance companies will not also be of any relevance so far as they are concerned. Within these limitations, we have considered the needs of these public sector units and the scope for enabling them to replace or add to their fleets.

54. We indicate below the fleet strength of the various road transport undertakings as on the 1st April 1968.

	Mercedes Benz	Leyland Comet	Others	Total
I. State Road Transport Corporations	9,861	7,267	1,774	18,902
II. Municipal Undertakings	620	2,431	398	3,449
III. Calcutta State Transport Corporation		270	839	1,109
IV. Departmentally-managed undertakings	4,997	3,166	2,421	10,584
Total :	15,478	13,134	5,432	34,044

(Based on information supplied to the Association of State Transport Undertakings and published in State Transport News, December 1968).

55. The combined fleet strength of all public sector undertakings, it will be noticed, was about 34,000 as on the 1st April 1968. While this is not negligible and while this fleet strength is bound to increase very rapidly during the fourth plan period, not all these undertakings are financially viable or in a position to service and amortise the loans, which they will have to raise for financing the additions, from their current earnings. This is particularly true of city transport services, which like other similar services elsewhere are uneconomic, because of the fact

that fares are very low and cannot for various reasons be increased.

56. We think that this is an extremely unsatisfactory situation and that some basic policy decisions, with a view to ensuring that all the transport undertakings in the public sector will be viable are necessary and have in fact been overdue. An arrangement under which some undertakings still continue to be managed departmentally by the State Governments, is not, for example, reasonable and sound. We note that the Saraiya Committee had recommended earlier that all these undertakings should be separated and should be incorporated as independent corporations under the Road Transport Corporations Act, 1950. This will enable them to manage their affairs on commercial and business principles, to ensure that adequate depreciation funds can be built up and to borrow from the market for their further needs. During our discussions, our attention was drawn to the very considerable scope for an improvement in the gross revenue and the operating ratios and net operating surplus, through such steps as plugging leakages and thefts, discontinuing non-paying services and increasing the number of vehicles in use, by paying proper attention to their maintenance and upkeep increasing workshop facilities and reducing the time taken for repairs.

57. We suggest that all the State transport undertakings which have been experiencing losses should introduce a system of effective control of the operations at the depot and other levels and that their operations should be conducted on purely commercial principles. No undertaking can hope to be able to add to its capital at charge or to borrow from commercial banks or the public, if it is not financially sound.

58. If fares cannot be increased for political or other reasons, the concerned undertakings should logically receive a State subsidy for covering their losses. But the case for such a subsidy in India, where there are so many other claims on the resources of the State Governments, is not very strong. Whatever the experience in the metropolitan cities in other countries may be, city and municipal transport undertakings in India will in particular have to be managed as remunerative commercial concerns. They cannot be treated as welfare services.

59. We have referred earlier to the Kerala Government's enhanced rate of taxation, which has reduced the resources available to the State Road Transport Corporation. We think that the attempt to pre-empt such surpluses as the transport undertakings

may be able to build up, through an increase in State taxes, in order that the surplus may not be available for taxation under the Income Tax Act, 1961 are short-sighted. The depletion of the resources of the transport undertakings by the State Governments can only result in a denial of facilities to the travelling public and a shortage of transport in relation to the demand for it, which can become quite serious in a few years.

60. On the assumption that public sector road transport undertakings will be financially viable units, they may now be able to obtain resources

(i) by having their promissory notes in favour of the automobile manufacturing concerns discounted under a variant of the I.D.B.I.'s scheme (by a recent decisions of the I.D.B.I., the facilities under the scheme for the purchase of indigenous machinery have been liberalised, so as to enable public sector undertakings as purchasers to benefit from the scheme); and

(ii) by issuing bonds carrying the guarantee of the concerned State Governments (by a recent decision of the trustees of the Employees Provident Fund, a large

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portion of the monthly accretions to this provident fund can now be invested in State Government securities or other securities carrying the guarantee of the State Governments).

61. We have not tried to estimate very precisely the requirements of the public sector road transport units for assistance from these or any other external sources. Any estimate will have to be based on assumptions as to the availability of depreciation funds during the next five years, the expenses and the operating ratios during this period, the plans for the nationalisation of passenger routes, the further nationalisation of goods services being assumed to be unlikely, and the likely additions to the fleets. In the somewhat disorganised state of the road transport industry at present, any assumptions as regards these or other matters are bound to be unrealistic. On a broad examination of the needs and resources of the public sector units incorporated as independent autonomous concerns, our general impression, however, is that, after allowing for the depreciation funds, which have been or may be built up, other internal

resources and an increase in capital, the need for funds from external sources, for replacing or adding to the fleets, may be about Rs.15 to Rs.20 crores per annum at present, rising to about Rs.50 crores per annum at the end of March 1974. These needs can be met to a very large extent from the sources indicated in this Chapter, if the performance of the undertakings and their creditworthiness in consequence can be improved.

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CHAPTER VII

Conclusion.

62. Our report is deliberately short. We have not covered the same ground as in the earlier reports. We have tried to deal instead with some matters in regard to which action can usefully and immediately be taken. Our main findings and recommendations are briefly summarised below:-

(1) There have been a number of reports in the past on the road transport industry, but action on many of the recommendations in these reports and more particularly on the reports of the recent study groups on road transport taxation under Shri Keskar, on viable units under Shri Mullick and on road transport financing under Shri Saraiya, still remains to be taken and should be expedited.

(2) The Hire Purchase and Motor Vehicles (Amendment) Bills, now pending before Parliament, should be passed into law and brought into force without any further delay.

(3) The percentage of the payments made or recovered by a hire-purchase financier in respect of a commercial vehicle before his right to repossess a vehicle lapses under the law should be notified immediately as 90, as provided for in the pending Hire-Purchase Bill.

(4) The current demand for assistance to road transport operators in the private sector from organised external financing agencies is about Rs.60 crores per annum, but may be expected to double in about five years; in view of the failure and disappearance of a number of hire-purchase finance companies, the arrangements for the flow and distribution of credit to private operators are now inadequate except in the four Southern States; and there is room for the promotion of a reasonable number of additional hire-purchase finance companies in the States, which are now inadequately served.

(5) The credit guarantee scheme for small-scale industries should be extended to cover direct loans by banks and the outstanding hire-purchase credit granted by approved hire-purchase finance companies on the conditions specified in Chapter II.

(6) Commercial banks are likely to experience genuine difficulties in financing the smaller road transport operators and the development of hire-purchase finance companies as financial intermediaries is, therefore, not only desirable but also necessary; the banks themselves can take the lead in promoting new hire-purchase finance companies as partly-owned subsidiaries.

(7) Where the size of the borrower's fleet is large, say 5 or 10 vehicles, the risks involved in financing the borrower directly are not likely to be great and if the original book value of the investment is less than Rs.7.50 lakhs, the benefit of a guarantee cover will also be available; commercial banks should be encouraged to grant direct loans in these circumstances.

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(8) The ceiling for the interest rate charged by the hire-purchase financiers to the hirers should be 10% flat, subject to the conditions specified in Chapter IV.

(9) Primary urban cooperative banks should try to grant direct loans to their members against refinance from the central and apex banks and ultimately, if necessary, from the I.D.B.I.

(10) Apart from the credit needs of the operators in the private sector referred to in sub-paragraph (3), the public sector road transport corporations may need about Rs.15 to 20 crores per annum from external sources at present and this amount may be expected to increase to Rs.50 crores by the end of March 1974; they should try to obtain these funds to the extent possible from the I.D.B.I.'s scheme as extended to them or by borrowing from the open market.

63. We would like to conclude our report by saying that these recommendations should be considered in the context of the several other suggestions which have been made from time to time in regard to the road transport, automobile and allied industries. At the risk of some repetition, we would also like to point out that all the units in the road transport industry whether they are big or small and whether they are in the private or the public sector, should be or become viable, before they can undertake additional investment of the order indicated. The need for relief to the

road transport operators is urgent and action on the lines suggested will have to be taken as soon as possible.

Sd/- B.K. Dutt, Chairman
P.S.Lokanathan, Member
T.S. Santhanam, "
A.H. Tobaccowala, "
Z.S. Jhala, "
C.D. Datey, "

R.K. Seshadri
Convener.

Bombay,
January 28, 1969.

Statement showing the production of commercial vehicles in India.

	1963	1964	1965	1966	1967	1968
1. Ashok Leyland						
(a) Comets	2,730	3,727	4,203	3,650	4,462	4,266
(b) Heavy duty	2	1	82	207	156	127
2. Hindustan Motors						
(a) Bedford petrol	744	886	1,684	1,344	679	615
(b) Bedford diesel	5,971	4,054	3,257	2,757	856	1,366
3. Premier Automobiles						
(a) Diesel	4,019	3,818	5,553	3,882	2,245	2,248
(b) Petrol	2,297	4,931	3,599	923	831	1,107
4. Telco						
TMB	12,424	14,367	17,328	18,900	19,140	21,669
5. Bajaj Tempo						
Viking	-	-	-	112	362	626
6. Standard Motors						
Standard Twenty (one ton truck chassis)	-	-	71	979	373	448
TOTAL :	28,187	31,784	35,777	32,754	29,104	32,472