

**REPORT OF
THE COMMITTEE ON FINANCING
OF TEA INDUSTRY**



**RESERVE BANK OF INDIA
BOMBAY
1981**

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CHAPTER I

INTRODUCTION

Background

1.1 The Working Group on Finance for Tea Industry (Dutt Working Group) had reviewed the credit requirements of the tea industry in 1972 and recommended certain norms/guidelines for providing working capital and development credit to the industry. In the context of the continuous rise in cost of production and a downtrend in the auction prices of tea, the tea industry has been representing to the Reserve Bank of India that the norms for providing working capital credit recommended by the Dutt Working Group do not adequately meet the requirements of the industry and have, therefore, to be revised. There is also the need to expand tea production substantially in the coming years to cope with the sustained rise in domestic consumption without impinging on the exportable surplus. The Reserve Bank of India, therefore, constituted a Committee in October 1980 to examine the problems relating to the financing of the tea industry.

1.2 The terms of reference of the Committee are as follows:

- ✓ (i) To review the existing norms for providing working capital to the tea industry recommended by the Reserve Bank of India to scheduled commercial banks in March 1972 on the basis of the Report of the Working Group under the Chairmanship of Shri B.K.Dutt, and to suggest suitable modifications in the present changed circumstances;

- (ii) To examine the credit requirements of the tea industry (both working capital and term loans) in the wider context of the need to expand output to meet the sustained rise in domestic consumption without impinging on the exportable surplus;
- (iii) To enquire into the problems faced by the industry in obtaining finance (both working capital and term loans) from commercial banks, other financial institutions, and the Tea Board;
- (iv) To consider other problems faced by the commercial banks in providing credit to the tea industry; and
- (v) To make recommendations on these and any other related matters which the Committee may consider germane to the subject.

1.3 The Committee was constituted on 3rd October 1980 with the following members:

- ✓ 1. Shri K.B.Chore,
Chief Officer,
Department of Banking
Operations and Development,
Reserve Bank of India,
Central Office,
Bombay. .. Chairman

2. Shri V.M.Sundar Raj,
Director,
Economic Department,
Banking Division,
Reserve Bank of India,
Central Office,
Bombay. .. Member
 3. Shri S.P.Chandavarkar,
Senior Deputy General Manager,
Union Bank of India,
Bombay. .. Member
 4. Shri S.C.Khanna,*
Chief Manager,
Grindlays Bank Ltd.,
Calcutta. .. Member
 5. Shri K.Margabanthu,
Chief Manager (Commercial
Division),
State Bank of India,
Calcutta. .. Member
 6. Shri C.R.Mukherjee,
Assistant General Manager,
Merchant Banking Division,
United Bank of India,
Head Office,
Calcutta. .. Member
 7. Shri R.Barua, I.A.S.,
Managing Director,
Assam Co-operative Apex
Bank Ltd.,
Gauhati. .. Member
 8. Shri Y.S.Borgaonkar,
General Manager,
Agricultural Refinance and
Development Corporation,
Bombay. .. Member
 9. Shri R.C.Mody,
Additional Chief Officer,
Department of Banking
Operations and Development,
Reserve Bank of India,
Central Office,
Bombay. .. Member-
Secretary
- * Since appointed as General Manager-
Western India, Grindlays Bank Ltd.,
Bombay.

The following members were subsequently appointed on the Committee on the dates indicated against their names:

1. Shri A.N.Roy,
Plantation Officer,
Tea Board,
Calcutta. 17-10-1980
2. Shri K.K.Misra,*
Deputy Secretary,
Government of India,
Ministry of Finance,
Department of Economic
Affairs (Banking
Division),
New Delhi. 31-12-1980

* Since appointed as Director in the
Ministry of Finance.

1.4 Shri S.P.Chandavarkar resigned from the membership of the Committee with effect from 3rd April 1981 consequent upon his resignation from the service of the Union Bank of India. Shri R.Barua retired from the service of the Assam Co-operative Apex Bank Ltd., on 28th February 1981 and in his place Shri G.C.Khound, the new Managing Director, was appointed on the Committee on 13th April 1981.

1.5 The Committee issued questionnaires to the associations representing the tea industry (both producers and traders) to elicit their views on various issues and to get information on their current financial problems particularly relating to institutional credit. A detailed questionnaire was also addressed to the major tea financing commercial banks and apex co-operative banks for information on their present practices regarding lending to the tea industry and for their views on various issues. A brief questionnaire was issued to

certain State Financial Corporations. The text of the questionnaires is given in Appendix I. The list of associations, banks and State Financial Corporations to which the questionnaires were issued is given in Appendix II. Apart from the information obtained through these questionnaires, the Committee has also made use of various studies made by the Tea Board, United Planters' Association of Southern India, Agricultural Refinance and Development Corporation and by some of the financing banks.

1.6 The Committee held discussions with representatives of the tea industry and the financing banks at Calcutta, Gauhati, Jorhat, Coonoor, Bangalore, Darjeeling, Siliguri and New Delhi. A Sub-Group of the Committee held discussions in Cochin, while the Officers-in-Charge of the Gauhati Office of the Department of Banking Operations and Development of Reserve Bank of India and the Agricultural Refinance and Development Corporation made a study of the problems of the tea industry in Tripura, at the instance of the Committee. A list of the persons and organisations with whom the Committee held discussions is furnished in Appendix III.

1.7 The Committee met on the following dates at the places indicated:

10th November 1980	..	Calcutta
20th January 1981	..	Calcutta
10th March 1981	..	Calcutta
13th May 1981	..	Calcutta
23rd and 24th June 1981	..	Bombay
23rd and 24th July 1981	..	Calcutta
17th and 18th August 1981	..	New Delhi
28th August 1981	..	Bombay

Scheme of the Report

1.8 The Report is divided into five chapters, including the Introduction. The second chapter presents the position of the tea industry in India as regards production, exports, domestic consumption, prices, marketing arrangements and bank finance. The Committee has also brought out in that chapter the problems posed by the tea industry and the difficulties expressed by banks. The third chapter gives the present practices of banks in the provision of working capital finance and the Committee's recommendations regarding working capital credit. The fourth chapter deals with the development needs of the tea industry over a five-year span and the institutional arrangements for financing the development programmes. The fifth chapter summarises the Committee's recommendations.

Acknowledgements

1.9 The Committee wishes to place on record its deep appreciation of the co-operation extended by various tea associations, research organisations, bank officials and individuals, particularly Dr.R.K.Hazari, Shri B.K.Dutt and Shri B.C.Ghose, in placing their views before the Committee orally as well as through Memoranda. It is also grateful to the executives/senior officers of the Agricultural Refinance and Development Corporation, Reserve Bank of India, Industrial Development Bank of India, Tea Board, and West Bengal and Tamil Nadu State Governments for meeting the Committee and having an exchange of views. Particular mention needs to be made of Shri M.Ramakrishnaya, Chairman, Agricultural Refinance and Development Corporation, Shri W.S.Tambe,

Executive Director, Reserve Bank of India, Shri C.R. Sen Gupta, Executive Director, Industrial Development Bank of India, Shri Jayanta Sanyal, Deputy Chairman, Tea Board, Shri K.M. Lall, Special Secretary, West Bengal Government and Shri Sukavaneshvar, Collector, Nilgiris, who spared their valuable time and brought several important points to the notice of the Committee. Some of the meetings/discussion sessions of the Committee were hosted by the United Bank of India, Assam Co-operative Apex Bank Ltd., United Planters' Association of Southern India, Allahabad Bank and Grindlays Bank Ltd., and the Committee is thankful to them for the excellent arrangements made. The brunt of the organisational arrangements as well as drafting and finalisation of the Report was borne by the Member-Secretary, Shri R.C. Mody, Shri P. Diwakar, Deputy Chief Officer, Shri C.K. Varma, Assistant Chief Officer and Shri M.V. Murkunde, Staff Officer, of the Department of Banking Operations and Development of Reserve Bank of India, and the Committee is grateful to them for their excellent work. Particular mention needs to be made of one of the members of the Committee, Shri V.M. Sundar Raj, who devoted considerable time and energy in finalising the Report.

CHAPTER II

POSITION AND PROBLEMS OF TEA INDUSTRY

2.1 India is the world's largest producer of tea, accounting for about one-third of the world production. The tea industry has an unique position in our national economy. The industry is agro-based, export-oriented and situated in backward areas employing over one million people belonging largely to the backward classes. It also contributes appreciably to the Central and State exchequers.

Production of tea in India

2.2 Tea is mainly produced in Assam, West Bengal, Tamil Nadu and Kerala. It is also produced to a small extent in Tripura, Karnataka, Himachal Pradesh and Uttar Pradesh. The State-wise distribution of the area under tea and production is given in Table 1.

Note : The data furnished in Tables 1 to 10 are based on the Statistics published by the Tea Board or otherwise available with the Tea Board.

Table 1

Area under tea and production of tea
(Area as on 31st March and production during the year)

State	1971			1979 (Provisional)		
	Area (Hecta- res)	Produc- tion ('000 kgs)	Average yield rate (Kg per hectare)	Area (Hecta- res)	Produc- tion ('000 kgs)	Average yield rate (Kg per hectare)
Assam	182325 (51.2)	223665 (51.3)	1227	195459 (52.3)	283876 (51.4)	1452
West Bengal	88499 (24.8)	104087 (23.9)	1176	91003 (24.3)	124281 (22.5)	1366
Tamil Nadu	34646 (9.7)	57531 (13.2)	1661	36853 (9.9)	77620 (14.1)	2106
Kerala	37271 (10.5)	42729 (9.8)	1146	36097 (9.7)	58225 (10.6)	1613
Tripura	5444 (1.5)	2960 (0.7)	544	5791 (1.5)	3320 (0.6)	573
Karnataka	1870 (0.5)	2877 (0.7)	1539	1866 (0.5)	3515 (0.6)	1884
Himachal Pradesh	4183 (1.2)	888 (0.2)	212	4183 (1.1)	560 (0.1)	134
Others	2278 (0.6)	731 (0.2)	321	2488 (0.7)	533 (0.1)	214
All India	356516 (100.0)	435468 (100.0)	1221	373740 (100.0)	551930 (100.0)	1477
	=====	=====	=====	=====	=====	=====

Note: Figures in brackets are percentages to total.

Assam accounted for 51.4 per cent of the total tea production in 1979, followed by West Bengal (22.5 per cent), Tamil Nadu (14.1 per cent), Kerala (10.6 per cent) and other States (1.4 per cent).

2.3 A statement showing the size-wise area and production of tea in India, as available in Tea Statistics 1979-80 published by the Tea Board, is given in Table 2. It may be noted that the figures do not cover Himachal Pradesh.

Table 2

Size-wise area and production of tea
(Area as on 31st March 1978 and production during 1978)

	Upto 8.09 hect- ares	Above 8.09 hect- ares and upto 50 hect- ares	Above 50 hect- ares and upto 100 hect- ares	Above 100 hect- ares and upto 200 hect- ares	Above 200 hect- ares and upto 400 hect- ares	Above 400 hect- ares	Total
<u>1.</u>	<u>2.</u>	<u>3.</u>	<u>4.</u>	<u>5.</u>	<u>6.</u>	<u>7.</u>	<u>8.</u>

North India

No. of estates	49 (4.2)	128 (11.1)	134 (11.6)	257 (22.3)	339 (29.4)	247 (21.4)	1154 (100.0)
Area in hectares	172 (0.1)	3694 (1.3)	9691 (3.3)	36701 (12.6)	99848 (34.4)	140390 (48.3)	290495 (100.0)
Production in '000 kgs	171 (0.04)	4357 (1.0)	10124 (2.3)	46140 (10.7)	144781 (33.5)	227110 (52.5)	432683@ (100.0)

South India

No. of estates	10237 (95.5)	238 (2.2)	42 (0.4)	64 (0.6)	101 (0.9)	37 (0.4)	10719 (100.0)
Area in hectares	9352 (12.5)	4321 (5.8)	3106 (4.2)	9643 (12.9)	29174 (39.1)	18990 (25.5)	74586 (100.0)
Production in '000 kgs	N.A.	1843 (1.7)	2760 (2.6)	15442 (14.5)	52782 (49.5)	33860 (31.7)	106687@ (100.0)

1.	2.	3.	4.	5.	6.	7.	8.
<u>All India</u>							
No. of estates	10286 (86.6)	366 (3.1)	176 (1.5)	321 (2.7)	440 (3.7)	284 (2.4)	11873 (100.0)
Area in hectares	9524 (2.6)	8015 (2.2)	12797 (3.5)	46344 (12.7)	129022 (35.3)	159380 (43.7)	365081 (100.0)
Production in '000 kgs	171% (0.03)	6200 (1.2)	12884 (2.4)	61582 (11.4)	197563 (36.6)	260970 (48.4)	539370@ (100.0)

N.A. : Not available.

@ These figures do not tally with those given in Table 4 because of the difference in coverage.

% Relates to North India only.

Note: Figures in brackets are percentages to total.

Tea production is perennial in the South and seasonal in the North. In the North (excluding Himachal Pradesh), the number of tea estates registered with the Tea Board is around 1150 but nearly three-fourths of them are large in size with area above 100 hectares (250 acres) each. There are over 10,000 estates in the South, registered with the Tea Board, with a preponderance of small estates with area upto 8.09 hectares (20 acres) each which account for about 96 per cent of the total. It is estimated that there are also about 10,000 small tea estates in the South which are not registered with the Tea Board. The total area under tea and production of tea in the North is nearly four times that of the South.

Ownership of tea estates

2.4 The bulk of India's tea production comes from the corporate sector. However, in terms of number, proprietary concerns predominate. This will be evident from Table 3 compiled from the latest data available with the Tea Board.

Table 3

Ownership of tea estates

Nature of ownership	No. of owners in the category	No. of tea estates belonging to them	Percentage share in total	
			Area under tea@	Production@
Proprietary (mostly small growers)	12,200	12,261)	15.4	10.1
Partnership firms	74	99)		
Private limited companies	166	234	11.1	10.4
Public limited companies	341	706	73.5	79.5
Total	12,781	13,300	100.0	100.0
	=====	=====	=====	=====

@ Based on Tea Directory, 1976.

Trends in production

2.5 The production of tea in India has been continuously increasing in the last decade except for a decline in 1975 and 1979 due to drought. The total production during the last ten years is indicated in Table 4.

Table 4

Trends in production of tea

(Million kgs)

<u>Year</u>	<u>North India</u>	<u>South India</u>	<u>Total</u>
1971	332.33	103.14	435.47
1972	352.69	103.31	456.00
1973	368.16	103.79	471.95
1974	389.81	99.67	489.48
1975	380.58	106.56	487.14
1976	400.64	111.18	511.82
1977	427.79	128.47	556.26
1978	433.40	130.45	563.85
1979*	412.57	139.36	551.93
1980*	444.83	130.29	575.12

* Provisional.

The average annual increase in production between 1971 and 1978 was of the order of 18 million kgs, but there was a decline in 1979 by about 12 million kgs due to bad weather. The increase in production has been mainly due to increase in the yield rate per hectare. The average yield per hectare which was 1221 kgs in 1971 increased to 1527 kgs in 1978. The yield rate, however, declined to 1477 kgs in 1979.

Exports

2.6 The trends in exports since 1971-72 are given in Table 5.

Table 5

Trends in exports of tea

<u>Year</u>	<u>Quantity £ (Million kgs)</u>	<u>Value @ (Rs. crores)</u>	<u>Unit Price @ (Rs. per kg)</u>
1971-72	214.32	160.92	7.51
1972-73	193.23	147.29	7.62
1973-74	190.27	144.85	7.61
1974-75	225.06	223.54	9.93
1975-76	211.41	238.29	11.27
1976-77	242.42	295.48	12.19
1977-78	221.52	563.71	25.45
1978-79	177.33	359.12	20.25
1979-80**	208.45	384.69	18.46
1980-81**	234.32	424.49	18.12

£ Excluding instant tea.

@ Including packet tea and tea bags and export duty but excluding instant tea.

** Provisional.

While tea production in the country has shown a steady increase since 1971, exports of tea did not reveal any significant change during the period. Exports totalled 214 million kgs in 1971-72 and 234 million kgs in 1980-81. During this period, exports had fluctuated widely, touching a peak of 242 million kgs in 1976-77 and a low of 177 million kgs in 1978-79. These trends cause concern on two accounts. Firstly, the larger increase in

production than in exports indicates that internal market has been absorbing an increasing proportion of the country's production. Secondly, while India's share in world production of tea has more or less been maintained, its share in world exports of tea has declined from 30 per cent in 1971 to 24 per cent in 1979. However, a substantial part (about 40 per cent in terms of quantity) of the country's production of tea is still being exported. The destination-wise pattern of exports has also changed over the years. Tea exports from India to U.K. declined from 136 million kgs in 1951 to 53 million kgs in 1979, while exports to U.S.S.R. increased from around one million kgs to 40 million kgs during the period. Some other major buyers of Indian tea in 1979 were A.R.E., U.A.E., Afghanistan, Iraq, Iran and Ireland.

2.7 The thrust of Government policy is towards the export of more and more teas in value added forms. Table 6 indicates the performance in this regard.

Table 6

Export of value added items of tea

Year	<u>Packet Tea</u>		<u>Tea Bags</u>		<u>Instant Tea</u>	
	<u>Quan- tity</u>	<u>Value</u>	<u>Quan- tity</u>	<u>Value</u>	<u>Quan- tity</u>	<u>Value</u>
1975-76	10.79	17.25	0.16	0.59	0.48	1.92
1976-77	12.61	19.36	0.29	1.06	0.58	2.51
1977-78	25.19	51.98	0.39	1.85	0.60	3.15
1978-79	38.60	78.74	0.24	1.06	0.69	3.55
1979-80*	30.02	58.07	0.49	2.03	0.66	3.05

* Provisional.

Internal consumption

2.8 An increasing proportion of the production of tea in the country is being absorbed by the domestic market. The annual increase was around 5 per cent during 1972-73 to 1977-78. Since 1978-79, the internal consumption has been increasing by 6 per cent per annum. The trends in internal consumption of tea are indicated in Table 7.

Table 7

Trends in internal consumption of tea

(Million kgs)

Year	Consumption	Increase over the previous year	
		<u>Volume</u>	<u>Percentage</u>
1971-72	225		
1972-73	237	12	5.3
1973-74	248	11	4.6
1974-75	260	12	4.8
1975-76	272	12	4.6
1976-77	286	14	5.1
1977-78	300	14	4.9
1978-79	318	18	6.0
1979-80	337	19	6.0
1980-81 (Estimated)	358	21	6.2

Projections for future

2.9 The Tea Board has estimated the internal consumption to go up by about 20 million kgs every year during the period 1980-81 to 1984-85. The annual increase in export has been envisaged at 10 million kgs.

It is, therefore, necessary to increase the production annually by 25 to 30 million kgs to meet the domestic and export demand. The targets set up by the Tea Board for production, export and internal consumption are given in Table 8.

Table 8
Targets for five years

<u>Year</u>	<u>Production</u>	<u>Export</u>	(Million kgs) <u>Internal consumption</u>
1980-81	585	220	358
1981-82	610	230	378
1982-83	640	240	398
1983-84	670	250	418
1984-85	705	260	438

The production target is to be achieved by adopting various long, medium and short term measures which would ensure a balanced vertical and lateral growth. Among the long term measures are included extension planting, replanting and replacement planting, while rejuvenation and infilling of vacancies would be the medium term measures. Improved cultural practices in the existing plantations and creation of drainage and irrigation facilities are expected to show results in the short term. In order to improve the competitive character of Indian tea in the foreign markets, it is also necessary to improve the quality of the product. Adoption of scientific processing methods on the basis of recommendations made by the Tea Research Organisations would, by and large,

ensure desirable cup character. For this purpose, modernisation of tea factories and installation of adequate processing capacity are also necessary.

Price trends

2.10 The annual average prices realised at the various auction centres between 1975 and 1979 are given in Table 9.

Table 9

Average sale prices at auctions
(Leaf and dust combined)

<u>Auction centre</u>	(Rs. per kg)				
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u> (Provisional)
Calcutta	11.35	12.08	16.77	14.02	14.69
Gauhati	9.52	10.83	13.30	12.40	12.83
Siliguri@	-	11.05	13.00	11.05	10.60
Amritsar	5.35	6.69	10.27	8.86	6.39
Cochin	9.71	11.17	16.30	12.32	12.05
Coonoor	8.26	10.17	12.75	10.90	9.99

@ Auction centre set up in October 1976.

The average prices at the various auction centres showed a marked decline in 1978 and remained further depressed in 1979 except for a marginal improvement in Calcutta and Gauhati. According to one estimate, the average sale price in Indian auctions during 1980 was Rs.13 per kg. As a substantial part of the country's production of tea is still being exported and since teas for exports and domestic consumption are sold through the same auctions, international demand/supply position appears to be the dominant factor determining the price trends at the

auctions. The offtake by U.S.S.R. is the major factor which determines the prices of Darjeeling teas and the prices at Cochin auctions.

2.11 The unit value realisation* on exports of tea (including packet tea and tea bags) rose from Rs.9.93 per kg in 1974-75 to Rs.25.45 per kg in 1977-78 as compared with an average of about Rs.7.60 per kg during 1971-72 to 1973-74. Subsequently, the unit value of tea exports declined to Rs.20.25 per kg in 1978-79 and further to Rs.18.46 per kg in 1979-80 and Rs.18.12 per kg in 1980-81.

2.12 The annual average wholesale and retail prices of tea compiled on a sample basis by the Tea Board for three major cities are given in Table 10.

Table 10

Wholesale and retail prices of loose and packet tea on a sample basis in three major cities

(Rs. per kg)

	Wholesale		Retail	
	<u>Loose</u> 1	<u>Packet</u> 2	<u>Loose</u> 3	<u>Packet</u> 4
<u>Calcutta</u>				
1975	11.59	16.08	13.00	18.78
1976	14.07	16.90	14.95	19.92
1977	17.72	19.62	18.61	22.16
1978	15.67	18.80	16.53	22.08
1979	15.14	19.39	15.92	22.26

* Including export duty whenever it was applicable.

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
<u>Bombay</u>				
1975	11.72	16.08	12.99	18.91
1976	N.A.	16.90	13.74	18.89
1977	20.71	19.62	21.39	21.93
1978	19.04	18.80	19.35	21.44
1979	18.42	19.39	19.20	21.87
<u>Madras</u>				
1975	12.01	16.08	13.80	18.24
1976	13.42	16.90	15.26	18.97
1977	17.03	19.62	18.19	21.74
1978	16.10	18.80	17.80	21.57
1979	16.00	19.39	17.58	21.98

N.A. : Not available

The prices paid by the domestic consumers may be compared with the prices realised by the producers at the auctions, given in Table 9. If account is taken of the fact that auction prices include high value teas meant for exports, there seems to be a wide margin between auction prices and the prices paid by domestic consumers. This is an aspect which causes concern and has to be looked into by an appropriate agency.

Cost of production

2.13 According to the tea industry, there has been all round escalation in the cost of production due to various reasons. The hike in the prices of coal and petroleum products has had a cumulative effect on the costs in the industry. Because of irregular and

inadequate supply of wagons by the Railways, practically all inputs and finished products are required to be transported to and from the tea gardens by road which entails additional costs. Apart from these factors, the wages had increased recently by about 28 per cent effective from July 1979 in the Eastern and North-Eastern regions and from January 1980 by 40 per cent in Kerala and by 38 per cent in Tamil Nadu. The wages are linked to the consumer price index and changes in the index would have a corresponding effect on the costs. No data were, however, available to the Committee to assess the impact of the trends in costs and the prices of tea on the industry.

Financing of tea industry

2.14 The problems relating to the flow of institutional credit to the tea industry were reviewed by the Dutt Working Group constituted by the Reserve Bank of India in September 1971. The Dutt Working Group had recommended the following norms for the calculation of cash credit limits and for fixing seasonal drawing limits for the tea industry:

"(a) The cash credit limit (i.e., the maximum outstanding that may be permitted in the account at any one time) may ordinarily be 60 per cent of the gross sales turnover or 75 per cent of the cost. Cost should be taken to include all expenses including excise duty, provident fund dues, transport, stores, foodgrains, interest on term loans, etc.

(b) The seasonal drawings or total drawing limit (i.e., the aggregate debits or withdrawals which would be allowed in the cash credit account for the entire season) may be permitted to rise upto 95 per cent of the net sales turnover or the actual cost, whichever is less. The drawings may be regulated by monthly schedules as submitted by the borrowers and approved by the bank.

Sales and cost referred to above may be calculated on the basis of average of actuals of the past two years (any abnormal year being given due weight for the purpose), with a built-in cover for normal crop expansion, cost escalation and other contingencies."

The Working Group had also made the following recommendations in respect of short-term credit to the tea industry:

i) The annual credit review should be completed at least a month before the commencement of the season.

ii) Mid-season reviews undertaken around August or September should take into account unforeseen developments and provide for necessary adjustments in the financial arrangements.

iii) Where gardens are not able to bring their accounts to credit at the end of a season, consideration may be given to segregating the cumulative deficit and covering it with a term loan with suitable repayment schedule so

that the working capital limit sanctioned would be available in full.

The Reserve Bank of India accepted the recommendations of the Dutt Working Group and advised commercial banks in March 1972 to give due consideration to the recommendations made by the Working Group for financing the industry.

2.15 The main recommendations of the Dutt Working Group relating to term finance are summarised below:

a) Term loans should be provided for all purposes connected with the development of tea gardens.

b) Consortium arrangements should be adopted for financing tea gardens having in mind firstly, parties who experience difficulties in meeting the security requirements of the financing institutions providing different types of credit and secondly, institutions whose resources are insufficient to provide credit in full.

c) Banks which are not financing tea industry should take up providing finance to tea gardens.

d) The lead bank in each tea growing district should take the initiative and ensure that no garden suffers for want of adequate finance.

On the basis of the recommendations made by the Working Group in regard to term finance, the Reserve Bank of India issued suitable guidelines to commercial banks and State Financial Corporations in September 1972 with a view to improving the flow of finance to the tea industry.

2.16 Commercial bank credit for financing working capital requirements rose from Rs.105.05 crores as at the end of December 1974 to Rs.191.35 crores as at the end of December 1979. Term loans increased from Rs.3.34 crores to Rs.27.89 crores during the period. The distribution of outstanding credit of scheduled commercial banks to the industry according to type of account is indicated in Table 11. It may be noted that these figures represent advances to the tea industry and do not include advances to exporters, traders and brokers.

Table 11

Distribution of outstanding credit of scheduled commercial banks to tea industry according to type of account

Period	(Rs. crores)					
	Cash credit/ Over-drafts/ Demand loans	Inland bills purchased and discounted	Export finance (Pack- ing credit and Export bills purchased and disco- unted)	Total working capital (Cols. 2+3+4)	Term loans (incl- uding Advan- ces against import bills)	Grand total (Cols. 5+6)
<u>1.</u>	<u>2.</u>	<u>3.</u>	<u>4.</u>	<u>5.</u>	<u>6.</u>	<u>7.</u>
1974 June	77.73	3.72	15.14	96.59	5.62	102.21
December	63.83	6.76	34.46	105.05	3.34	108.39
1975 June	79.20	2.54	15.38	97.12	5.41	102.53
December	80.07	1.09	29.87	111.03	5.15	116.18
1976 June	91.60	1.63	14.30	107.53	5.48	113.01
December	64.94	2.11	41.39	108.44	7.04	115.48

1.	2.	3.	4.	5.	6.	7.
1977 June	70.94	2.23	29.43	102.60	7.92	110.52
December	60.96	2.98	48.14	112.08	13.06	125.14
1978 June	98.79	3.22	18.27	120.28	16.88	137.16
December	123.71	3.79	30.88	158.38	19.32	177.70
1979 June	141.64	5.69	32.70	180.03	26.11	206.14
December	135.06	6.43	49.86	191.35	27.89	219.24

Note : Data relate to accounts with credit limits over Rs.10,000.

Source: Basic Statistical Returns.

2.17 The Committee had called for statistical data from 17 scheduled commercial banks and two State co-operative banks regarding the credit provided by them to the tea industry. Of these, one State co-operative bank has not furnished the data. The data received from the remaining banks as on the last Friday of October 1980 reveal that they have financed 559 tea units with 950 accounts as indicated below:

Nature of credit facility	No. of accounts	(Amount Rs. crores)	
		Limit	Balance outstanding
Cash Credit/Overdraft/Demand loan	513	236.28	169.87
Inland bills	63	9.92	5.32
Export finance	116	62.00	28.60
Total working capital	692	308.20	203.79
Term loans	258	41.90	22.99
Grand total	950	350.10	226.78

Particulars of non-borrowal limits granted by the banks in favour of tea units as on the last Friday of October 1980 are given below:

(Amount Rs. crores)

<u>Nature of facility</u>	<u>No. of accounts</u>	<u>Limit</u>	<u>Outstanding liability</u>
Inland L/Cs	5	0.50	0.09
Foreign L/Cs	1	0.70	0.14
Deferred payment guarantees and acceptances	52	6.17	3.42
Other guarantees	94	12.41	9.45
Total	<u>152</u>	<u>19.78</u>	<u>13.10</u>

Although the data given above are not comparable with those in Table 11 (which relate to all scheduled commercial banks), it will be evident that the involvement of the major tea financing banks in the tea industry is substantial. The region-wise distribution of the credit provided by the major tea financing banks to the tea industry as on the last Friday of October 1980 reveals the following pattern:

<u>Region</u>	<u>Percentage share in</u>	
	<u>Limit</u>	<u>Balance outstanding</u>
a) Assam (Assam Valley, Cachar and Tripura)	66.5	61.6
b) West Bengal (Dooars, Terai and Darjeeling)	28.3	32.0
c) Southern Region (Tamil Nadu, Kerala and Karnataka)	5.2	6.4
Total	<u>100.0</u>	<u>100.0</u>

The distribution of credit among the tea units, classified according to their annual production, is indicated below:

Tea units with annual production of:	<u>Percentage share in</u>	
	<u>Limit</u>	<u>Balance outstanding</u>
i) Upto 1 lakh kgs	0.7	0.7
ii) Over 1 lakh kgs upto 5 lakh kgs	17.6	18.9
iii) Over 5 lakh kgs	81.7	80.4
Total	<u>100.0</u>	<u>100.0</u>

Tea units with annual production over 5 lakh kgs absorbed over 80 per cent of the credit, while the share of tea units with annual production upto 1 lakh kg was insignificant.

2.18 The Committee had also called for data from the State Financial Corporations (SFCs) in Assam, Tamil Nadu, Kerala and West Bengal regarding the assistance provided by them to the tea industry. Particulars have been received from these SFCs except West Bengal SFC. They had provided term loans to the extent of Rs.2.33 crores to tea units in about 80 accounts for acquisition of machinery, construction and modernisation of factory buildings, etc. The balance outstanding as on the last Friday of October 1980 was about Rs.45 lakhs in 23 accounts.

Marketing arrangements

2.19 The various channels of marketing of tea are: (i) auctions in India and in London, (ii) ex-garden sales or direct sales by the producer in the domestic

market, and (iii) C & F sales, a term commonly used by the tea trade for direct exports by Indian producers, either on a forward crop contract basis or current contracts, without routing the teas through auctions in India or abroad. The producers are free to choose the method of marketing of their teas either through auctions or by entering into private contracts for sale at home or abroad. They usually choose a combination of these different methods so as to maximise their returns from the crop.

2.20 The various auction centres in the country are at Calcutta (set up in 1861), Cochin (1947), Coonoor (1963), Amritsar (1964), Gauhati (1970), Siliguri (1976) and Coimbatore (1980). Auction centres give the producer the benefit of having his tea tasted, valued, catalogued and exhibited by specialists, the brokers, who know the particular needs of buyers and countries. Payment is also assured within 15 days from the date of sale.

2.21 London auctions have a long tradition dating back to 1834. They were regarded by all interests in U.K., Europe and India, as an explicit form of open selling in public that sets guidelines and price trends to buyers in all markets in U.K. and elsewhere. They offer besides the advantage to tea producing countries of being able to compare their teas with those of other countries by the prices realised, thus giving them a check on the standard of their qualities.

2.22 Ex-garden sales include all sales outside auctions and cover sales taking place at the garden itself, or from a warehouse in Calcutta. In recent

years, some producers have started their own retail outlets for direct sales to the consumers, while one has been holding "mini auctions" at the consuming centres. Such sales are also reflected in the ex-garden sales. One advantage claimed for making ex-garden sales is the quickness with which the payments are received in respect of such sales.

2.23 Direct exports (C & F sales) by producers find favour with many gardens for selling their teas directly to importers abroad, either for immediate delivery or on a forward contract. It helps them to overcome the uncertainty of the final price.

2.24 The changes in the pattern of marketing of tea over a 20 year period are indicated in Table 12.

Table 12

Changes in the pattern of marketing of tea over a 20 year period

	1960-62		1975-77		1979(Provisional)	
	<u>Annual average</u> Million kgs (1)	<u>Percent- age</u> (2)	<u>Annual average</u> Million kgs (3)	<u>Percent- age</u> (4)	<u>Million</u> kgs (5)	<u>Percent- age</u> (6)
<u>All India</u>						
Indian auctions	184.53	54.3	305.12	58.7	323.27	58.6
London auctions	79.37	23.3	40.00	7.7	32.90	5.9
C & F sales	12.75	3.8	26.74	5.2	21.92	4.0
Ex-garden sales	63.33	18.6	147.73	28.4	173.84	31.5
Total sales (Production)	339.98	100.0	519.59	100.0	551.93	100.0

	(1)	(2)	(3)	(4)	(5)	(6)
<u>North India</u>						
Indian auctions	148.26	57.1	217.16	53.8	218.35	52.9
London auctions	64.60	24.9	38.83	9.6	30.08	7.3
C & F sales	10.28	4.0	25.06	6.2	20.63	5.0
Ex-garden sales	36.50	14.0	122.56	30.4	143.51	34.8
Total sales (Production)	259.64	100.0	403.61	100.0	412.57	100.0
<u>South India</u>						
Indian auctions	36.27	45.1	87.96	75.8	104.92	75.3
London auctions	14.77	18.4	1.17	1.0	2.82	2.0
C & F sales	2.47	3.1	1.68	1.5	1.29	0.9
Ex-garden sales	26.83	33.4	25.17	21.7	30.33	21.8
Total sales (Production)	80.34	100.0	115.98	100.0	139.36	100.0

Source : 1960-62 and 1975-77 figures - Report of Tandon Committee on Tea Marketing (1978).
1979 figures - Tea Statistics 1979-80 published by Tea Board.

Over the years, the importance of Indian auctions has been growing at the expense of London auctions which have been losing ground in Indian teas. Ex-garden sales have also acquired greater prominence in the North, but not in the South where their importance has declined. The Tandon Committee on Tea Marketing has, in its report submitted to the Government of India in November 1978, observed that while the time taken between the despatch

of goods and the receipt of payment is about 21 days for ex-garden sales, it takes about 40 days for Gauhati and Siliguri auctions and 81 days for Calcutta auctions. Auctions are also said to duplicate or add to certain costs like transportation, warehousing, brokers' commission and sampling, thus raising the cost to the producers. Banks have attributed the increasing trend of ex-garden sales to external impediments to auction, like transport difficulties and frequent strikes of warehouse workers. According to the Indian Tea Association, the increase in ex-garden sales reflects a change in the market practices adopted by individual companies whereby they are seeking to get closer to the ultimate consumers, thus improving their unit realisations. The prices realised by the producers in auctions are contended to be less than the cost of production lately.

2.25 The Tandon Committee on Tea Marketing had recommended that taking into account the advantages and disadvantages of ex-garden sales, this channel may be left open to the choice of the producers and the buyers, because of its intrinsic advantages. There should, however, be monitoring of ex-garden sales by the Tea Board. The Tea Board has proposed to the Central Government to amend the Tea Act and Rules to provide for statutory registration of owners of tea estates so as to call for periodical returns from them for the purpose of monitoring ex-garden sales. The Tandon Committee had further recommended that auctions in India should be allowed to progress on their merits and that the Tea Board should be associated with the

conduct of auctions to ensure that their role is properly fulfilled to the advantage and satisfaction of all concerned, viz., industry, Government, trade and consumer. As a follow-up of this recommendation, the Central Government has decided that an official of the Tea Board and also of the concerned State Government will be included in the local auction bodies conducting auctions in different centres in India. In addition, the Central Government has also constituted an Apex Auction Committee consisting of the Chairman of the Tea Board, Chairmen of the local auction bodies, representatives of the State Governments of Assam, West Bengal, Tamil Nadu and Kerala, and six members of the Tea Board. This Apex Committee will consider various matters relating to auctions. Regarding marketing for small growers, the Tandon Committee had recommended that some priority should be given to the auctions of tea by the small producers with holdings upto, say, 100 hectares (250 acres), so that they can be enabled to realise their proceeds a little earlier. The Central Government has since set up a Committee to consider the problems of the small planters. On consumer marketing of tea in India, the Tandon Committee had recommended a change from loose to packaged tea. This recommendation is under examination by the Tea Board in consultation with the Tea Trading Corporation of India Ltd., National Agricultural Co-operative Marketing Federation Ltd., and National Co-operative Consumers' Federation Ltd.

2.26 In its budget for 1981-82, the West Bengal Government has imposed a Rural Employment and Production Cess at specified rates on ex-garden/direct sales of teas from the gardens in the State on consignment basis to

outside the State and on teas sold within the State but not through the auction machinery. It is reported that with the imposition of the Cess, the volume of teas offered for sale through auctions in the State has increased considerably, e.g., by nearly six times in Siliguri auction by mid-July 1981.

2.27 The Tea Trading Corporation of India (a Central Government enterprise) has built up substantial production capacity for supply of various grades of black tea in blended and packaged forms. It is presently exporting packaged teas to 30 markets including the sophisticated markets of Europe, U.S.A., Canada and Australia. Its exports rose from Rs.1 lakh in 1974-75 to nearly Rs.20 lakhs in 1979-80. It acts as the buying agents in India for Iraq and U.S.S.R. and the turnover of agency business in 1980-81 was Rs.1.72 crores and Rs. 9 crores for the two countries, respectively. In the domestic front, the Corporation has been catering selectively to the requirements of Defence, Railways and other Government institutions in bulk form. As its main object is to export value-added packaged teas, it has not so far engaged in extensive internal marketing operation. It is managing two large tea warehouses in Calcutta with a capacity for storing eight lakh tea chests at a time. It has also plans to establish joint ventures in other countries to market its pre-packed products.

Problems of small gardens
and bought leaf factories

2.28 The small gardens with area of less than 8.09 hectares (20 acres) each pose special problems. They are mainly situated in South India and Himachal Pradesh. The small plantations constitute less than three per cent of the total area under tea and their output forms even a smaller proportion of the total production. From the point of view of total acreage, output and employment, small gardens may not be of much significance. But, as the Dutt Working Group had observed, they nevertheless have a relevance in the current socio-economic context and any measure to raise their efficiency standards has to be accorded importance. Special problems are also posed by bought leaf factories in the Nilgiris (so called because they operate mainly with green tea leaves bought from growers who have no processing facilities attached to their gardens), whose machinery and equipment are old with the result that they produce poor quality teas.

Sick/marginal units

2.29 According to the data furnished by the major tea financing banks, they are carrying in their books the accounts of 41 sick units out of a total of 559 units financed by them. These units are mostly in West Bengal and Assam. Normally, in banking parlance, sick units are deemed to be those which have incurred cash losses in the previous year and which, in the banks' judgement, are likely to incur cash losses in the current year as well as the following year, coupled with a worsening trend in current ratio and debt-equity ratio. As far as the tea industry is concerned, the definition of a

sick unit is different. The Tea Act, 1953, was amended in 1976 to enable the Central Government to deal effectively with the problems of sick tea estates. In terms of the amendment, the Central Government has been empowered to order investigation into the working of the sick and uneconomic tea estates, to take over management of such tea estates for a period of five years with extension of one year at a time but not beyond seven years on the whole, and to take decision for liquidation or restructuring of the managed tea estates in accordance with the provisions under the Industries (Development and Regulation) Act, 1951. The Central Government has been empowered to take necessary action in relation to a tea unit or tea undertaking in one or more of the following circumstances:

- (a) The average yield of the tea estate during three out of five preceding years has been lower than the district average yield by 25 per cent or more.
- (b) The tea unit has made losses in three out of five years.
- (c) The tea unit has habitually made default in payment of statutory dues.
- (d) The tea unit is being managed in a manner highly detrimental to the tea industry or to public interest.
- (e) The tea estate, by reckless investment or creation of encumbrances or by diversion of funds, has brought about a situation which is likely to affect the production and manufacture of tea.

- (f) The tea estate has been closed for a period of not less than three months but it is possible to restart the tea estate.

2.30 The Central Government has so far taken over the management of five tea estates in West Bengal and one in Assam, and appointed the Tea Trading Corporation of India, the West Bengal Tea Development Corporation and M/s. Andrew Yule & Co. (a Central Government controlled company) as authorised persons to run these estates. On the basis of a Court's order, the management of one of the tea estates had to be returned to the legal owners and presently, the West Bengal Tea Development Corporation ~~Corporation~~ is not managing any sick tea estates the management of which has been taken over by the Central Government. The Central Government has also issued certain directions under the Tea Act to the present owners of some of the other tea estates for improving the conditions within a specified period. Orders for investigation into the affairs of certain other estates have also been issued by the Central Government. It is reported that the Government of West Bengal has resumed lands belonging to five tea estates in pursuance of action under Section 106 of the Transfer of Property Act because of the default made by the respective tea estates to execute summary lease/long term lease by paying Government dues within a specified date. The management of these estates has been entrusted to the West Bengal Tea Development Corporation. This Corporation has also purchased one small tea estate in Darjeeling which had not been functioning properly in the past.

2.31 According to the major tea financing banks, the factors responsible for tea estates turning sick are both internal and external. The main internal factors are : (a) lack of properly equipped/trained professional management, (b) absence of planning, (c) internecine quarrel/infighting among partners/directors, (d) indiscriminate withdrawal of funds from business by partners/directors, (e) diversion of funds to other business, and (f) liberal dividend policies in good years. The uneconomic size of the garden, absence of properly equipped factory, absence of appropriate irrigation facilities and low capital base are also reasons for sickness in small units. Among the external factors have been mentioned the bad state of tea market for several years prior to 1974, frequent labour strikes in warehouses, docks, etc., and frequent changes in demand pattern in the international market and inability of the planters to change the pattern of product-mix in appropriate time. Banks are of the view that the rehabilitation of a sick unit should start with the correct diagnosis of the factors responsible for the malady, preferably by technical experts through a techno-economic viability study. Banks closely monitor the accounts and endeavour to remove the reasons for the sickness by looking into individual problems and providing long-term financial and other assistance.

Problems posed by tea industry

2.32 The tea industry had at first represented to the Reserve Bank of India that the Dutt Working Group norms for providing working capital finance required revision, as they were hardly applicable in the present changed

circumstances. However, in response to the questionnaire issued by the Committee, the Tea Associations have generally expressed the view that it is not the norms laid down by the Dutt Working Group which are at fault, but the manner in which these are sought to be applied by the banks. According to them, the flexibility recommended by the Group (i.e., built-in cover for normal crop expansion, cost escalation and other contingencies) is not being exercised by the banks when they assess the working capital requirements of the industry. The assessment of credit requirements is made by the banks on the basis of the costs and sales figures for the previous two years without any weightage being given for abnormal conditions which may have prevailed and without making any allowance for increase in costs or increase in the level of production. The Tea Associations complain that the actual credit limits sanctioned are not based on the requirements worked out according to the norms, but on the banks' own individual and completely arbitrary assessment of the working capital requirements. The cash credit limits sanctioned by the banks are stated to be generally much lower than those to which the tea companies were "entitled" or "qualified" under the norms. According to the Associations, unless banks have cogent reasons for believing the contrary, they should accept the borrowers' assessment of the prospective costs and crops likely to be harvested, and based upon this information, should sanction finance as per the Dutt Working Group norms. They consider that the norms are still valid and pertinent, but should be applied by banks in their entirety when assessing proposals. If, for any reasons, the banks cannot or will not make an assessment

of the working capital requirements on prospective basis applying the Dutt Working Group norms in their entirety, but will only sanction working capital facilities based upon the past gross costs and sales turnover, it has been suggested that the norms may be revised upwards from 60 per cent to 75 per cent of the gross sales turnover and from 75 per cent to 90 per cent of the costs, both to be calculated on the basis of the actual figures for the past two years.

2.33 In a note submitted to the Reserve Bank of India by Shri B.K. Dutt in May 1980, he had pointed out that in a cyclic industry like tea, it may not be possible for a borrower to repay all his borrowings on an annual basis. Shri B.C. Ghose (Chairman, Siliguri Tea Auction Committee) and the Tea Associations have subsequently supported this view. According to them, an average cycle may be taken to be approximately five years, comprising two bad years, two average years and one good year. In their opinion, banks should view their working capital lending to the tea industry in the context of a five-year cycle rather than on an annual basis. So long as all the working capital borrowings, whether by way of annual cash credit/overdraft and outstanding working capital term loans, are extinguished within a five-year cycle, the operation of the account should be regarded as being satisfactory. Banks must, of course, be fully secured in respect of their advances, after allowing for the necessary margin, and they should not be expected to provide more finance than is justified by the value of the security they hold. The responsibility for providing security must rest with the borrower. While no doubt there are good and bad years in the tea industry,

no convincing statistical evidence on the basis of production, prices or profitability has been furnished to the Committee to establish the cyclical nature of the industry as stated above.

2.34 A suggestion has been made by Shri B.K. Dutt and the Tea Associations that borrowers should be given additional facility to the extent of 20 per cent of working capital limits for financing expenditure required for maintaining the existing assets in good health and for replacing worn out plant and equipment. According to Shri Dutt, working capital limit should cover maintenance investment, such as, installation of power plants, purchase of balancing equipments, building workers' houses, replantation, etc. Borrowers who avail of this additional facility should be required to ensure that all borrowings including this additional facility are repaid within the duration of the five-year cycle.

2.35 The Tea Associations have mentioned that in the North, there is no inflow in the first four to five months, but the agricultural operations have to be carried out from January itself entailing outflows. In respect of major purchases like fertilisers, coal, oils and fuels, foodstuffs, etc., which are, by and large, marketed by Government organisations, tea companies are required to make advance payments for their purchases. They have also to make bulk purchases for the whole season just to ensure supply for the seasonal requirements. This is stated to result in outflows being heavy in the first two to three months and in tying up working capital for longer periods.

2.36 The Tea Associations have stated that in order to achieve the objective of rapid expansion of the output of the tea industry, all-out efforts are needed. Investment of the order of Rs.50 to Rs.75 crores per annum has been estimated for this purpose over the next 20 years. In view of the present state of the tea industry when escalation of costs has squeezed out its margins, investment of this size is stated to be clearly beyond the capacity of the industry and a major portion of the finance will have to be provided by external sources at cheap rates of interest with long repayment periods.

2.37 According to the Tea Associations, the inherent profitability of the industry has declined very considerably and the tea companies are left with a very thin margin or no margin. This is attributed partly to the steep increase in labour costs and partly to the high rates of taxation applicable on the profits of the industry. It has been pointed out that under the present tax laws, the tea industry is subjected to State Agricultural Income-tax on 60 per cent of its income and to Corporate Income-tax on the balance of 40 per cent. With the Agricultural Income-tax rates varying from 60 per cent to 75 per cent, the effective rate of tax for the industry is stated to be 62.65 per cent in Tamil Nadu and Kerala and 68.65 per cent in Assam and West Bengal. These rates compare unfavourably with the Corporate Income-tax rate of 59.125 per cent (for 1980-81) applicable to other industries. As regards Agricultural Income-tax, it has been pointed out that the West Bengal Government has introduced legislation to make the entire

income from tea subject to Agricultural Income-tax and that the Kerala Government has also taken similar action. As a result of this action by the State Governments, the tea companies, according to the Tea Associations, have been placed in the position of being asked to pay Agricultural Income-tax on 100 per cent of their income and Corporate Income-tax on 40 per cent of the same income. The tea companies are reported to have sought relief from the Courts in this regard.

2.38 The Tea Associations have stated that about half the existing tea bushes are very old due to which the yield rate has not increased significantly during the last decade. In order to encourage intensive replanting, infilling, **inter-planting** and replacement planting under a phased programme, it has been suggested that depreciation on tea bushes - a wasting asset - should be allowed as in the case of rubber plantations and that development allowance on replantation should be reintroduced for income-tax purposes. The Tea Board has pointed out in this context that the development allowance on the cost of replanting was withdrawn from April 1970 following the introduction of the Tea Board's Replantations Subsidy Scheme from October 1968. The rate of subsidy has been enhanced from September 1980 from Rs.4,000 to Rs.10,400 per hectare for plains gardens and from Rs.5,000 to Rs.12,400 per hectare for hill gardens. Simultaneously, a higher rate of Rs.15,000 per hectare has been allowed to tea estates in Darjeeling hills. At present, development allowance is admissible in respect of new plantings only, at the rate of Rs.20,000 per hectare for Darjeeling gardens, Rs.17,500 per hectare

for gardens in other hill areas and Rs.15,000 per hectare for plains gardens. The Tea Board has also pointed out that under the Central Income-tax Rules, the entire cost of replantation without any ceiling has been allowed to be treated as revenue expenditure. Further, the subsidy granted by the Tea Board is not considered as income for the purpose of Income-tax. Other tax concessions like development rebate, depreciation allowance, etc., for installation of new plant and machinery are available to the tea industry like any other industry as specified in the Income-tax Act.

Difficulties of banks

2.39 Banks have enumerated some specific problems generally faced by them in financing the tea industry. Tea production is uncertain since it is dependent on climatic factors; vagaries of nature like hailstorm and drought, natural calamities, etc., adversely affect the crop and the repayment capacity of the borrowers. Insurance against hailstorm and natural calamities is highly expensive and the realisation of claim is also difficult. Of late, port strike, warehouse strike, postponement of auction sale, etc., have delayed the return flow of funds.

2.40 Banks have pointed out that the controlling managements of the tea companies are seated in Calcutta or other metropolitan/urban centres, while the tea gardens are located at far away places. The accounts of the tea companies are maintained at the centres where the managements are seated. A few banks have represented that sometimes queries raised by banks in

connection with the appraisal of credit proposals have to be referred by the managements sitting in the metropolitan/urban centres to the technical personnel at the gardens, which results in avoidable delays in sanctioning the limits. It also becomes difficult for banks to exercise proper control over the drawings, operations, production, sales, etc., of the gardens.

2.41 Banks have stated that it would be difficult to work out a system of consortium arrangements with the Tea Board for providing term loans to the tea industry, as envisaged by the Dutt Working Group. Some banks have entered into tripartite agreements with the Tea Board, but considerable delay is experienced in completing the security documentation. Banks would not agree, as a general rule, to concede pari passu charge over the tea estates to the Tea Board, because the equitable mortgage of the tea estates is the primary security for them to guard against possible deficits arising in the accounts due to contingencies like drought, hailstorm, strikes, etc. Further, the Tea Board's loans are usually very small, as compared to the advances provided by banks, to justify a pari passu charge in its favour. One of the terms of the pari passu agreement is that any increase in the credit facilities of the borrowers will require prior consent of the Tea Board. As the Board takes considerable time to give such consent, banks find it inconvenient to increase the cash credit limits of the borrowers urgently under pressing circumstances. In view of these difficulties, banks would prefer to consider the question of pari passu charge in favour of the Tea Board on the merits of each case, instead of such a requirement being made compulsory for them.

Other problems of tea industry

2.42 According to the representations received from the tea industry, the industry is facing many problems other than those relating to availability of credit. The tea industry is predominantly agricultural and, as such, it is subject to all the uncertainties of agriculture. While costs have been increasing steadily, prices realised by the producers are determined largely by international demand/supply position. It has been represented to the Committee that there is a large difference between the prices realised by the producers in auctions and the prices charged by the retail outlets to the ultimate consumers in the domestic market. It has also been represented to the Committee that cash generation in the industry is less than in other industries since no depreciation is allowed on its main asset, the tea bushes. Tax rates on the industry are stated to be much higher than on other industries. These problems are, however, outside the terms of reference of the Committee and it has not gone into these aspects. The Committee would, however, suggest that the effect of these problems, in their totality, on the tea industry should be examined by an appropriate agency.

CHAPTER III

WORKING CAPITAL FINANCE

Practices followed
by banks

3.1 The Working Group on Finance for Tea Industry (Dutt Working Group) had, in its report submitted in 1972, recommended certain norms (indicated in paragraph 2.14) ~~which~~ for the calculation of cash credit limits and for fixing seasonal drawing limits in respect of short-term credit to the tea industry. The Reserve Bank of India had accepted these recommendations and had advised banks to consider these norms while fixing credit limits. Following this, the general impression has been that the working capital credit limits for the industry were being fixed by banks on this basis. The information received by this Committee from banks, however, indicates that there is a wide diversity at present in the practices followed by them in fixing credit limits. Not all banks are fixing credit limits on the basis of the Dutt Working Group norms and even those banks which have accepted these norms are applying them in different ways.

3.2 For financing tea units in the Eastern and North-Eastern regions, some banks follow these norms and calculate the credit requirements on the basis of 60 per cent of average sales turnover and 75 per cent of cost of the past two years (past three years in one case) and fix the credit limits at the lower of these two figures. Some of these banks also fix seasonal drawing limits on the lines indicated by the Dutt Working Group while a few others do not appear to fix any seasonal drawing limits. One major financing bank, however, provides finance generally on the basis of seasonal drawing limits, cash credit limits

being fixed only for some large borrowers. The rationale for fixing only seasonal drawing limits for the smaller units appears to be that the seasonal drawing system is more suitable for them as it ensures finance throughout the season notwithstanding any interruption in production or marketing schedule.

3.3 Some banks do not fix cash credit limits on the basis of the Dutt Working Group norms since they feel that the actual credit requirements of the borrowers are generally much below those admissible as per the norms. They, therefore, fix cash credit limits according to the need-based peak as reflected in the projected monthly cash budget for the season; the Dutt Working Group norms are considered by these banks as ceilings. A few banks do not use the Dutt Working Group norms at all. One of them assesses the working capital requirements on the basis of the production potential of the tea estates reflected in the borrowers' projected monthly cash budgets vis-a-vis their track record revealed by their latest audited accounts. The projections are scrutinised with the help of the cash budgets for the preceding years to determine the need-based character of their 'peak' and 'non-peak' limits for the next 12 month period. Another bank fixes cash credit limits on the basis that the facility should not exceed 33 per cent of gross annual sales of the estate/company averaged over the three previous years.

3.4 Banks financing the tea industry in South India consider that the Dutt Working Group norms are not suitable for that region since tea production in the South is perennial and not seasonal as in the North. Banks fix cash credit limits representing 2½ to 3 months' requirements

of the estimated cost of production for the whole year. In the South, banks generally do not also fix any drawing schedule or a drawing limit.

3.5 The Dutt Working Group had recommended that once limits are sanctioned, banks should undertake mid-season reviews around August or September to take into account unforeseen developments and provide for necessary adjustments in the financial arrangements. The information received by the Committee indicates that some banks carry out mid-season reviews of the limits between July and September each year and suitably enhance/reduce the limits on the basis of such reviews. Other banks do not carry out mid-season reviews as a matter of routine, but consider specific requests from the borrowers for increases in limits in mid-season wherever justified on account of unforeseen developments like shortage of consumable stores, increase in wages, fall in prices, auction difficulties, transport bottlenecks, port strike, etc.

An assessment of Dutt Working Group norms

3.6 The Tea Associations had represented before the Committee that they were generally satisfied with the recommendations of the Dutt Working Group and at the most they would require only some marginal liberalisations in the norms. Their complaint was that the banks were not fully implementing the recommendations. The Committee, therefore, had to consider whether the norms, with modifications, if any, are to be retained or a new approach has to be made.

3.7 The Dutt Working Group norms suffer from some serious limitations. The norms, designed as they are for a seasonal industry, are not suitable where production is

perennial as in the South. Further, even in the Eastern and North-Eastern regions, where production is seasonal, not all banks have found the norms suitable for fixing working capital credit limits. These norms seem to have given the borrowers the impression that they represent "eligibility" or "entitlement" for credit irrespective of their actual needs. From the discussions with various tea interests and banks, the Committee understands that the borrowers consider the limits on the basis of the norms as the minimum, while banks consider them as the maximum. The granting of limits according to "eligibility" or "entitlement" under the norms could lead to overfinancing which is likely to be misused or diverted for other activities. The Dutt Working Group had suggested fixation of a seasonal drawing limit, in addition to the need-based cash credit limit, keeping in mind that there should not be excess drawings in relation to cost of production. However, it has been pointed out to the Committee that a simultaneous application of the two limits can sometimes create practical operational difficulties.

3.8 The Dutt Working Group's recommendations, it should be noted, were made before the Study Group on Follow-up of Bank Credit (Tandon Study Group) submitted its report in 1975. The basic principle enunciated by the Tandon Study Group, and which has since been generally accepted, was that the role of the banker as a lender is to supplement the borrowers' own resources. The main drawback of the Dutt Working Group norms is that they do not take into account the other resources available to the borrowers. In other words, the norms place borrowers who have other resources and those who do not have any other resources, on the same footing. Considering all these aspects, the

Committee is of the view that new guidelines have to be evolved for the financing of the working capital needs of the tea industry.

Applicability of Tandon Study Group
lending methods to tea industry

3.9 The Dutt Working Group norms for providing working capital to the tea industry were not revised or superseded by the Reserve Bank of India even after the Tandon Study Group made its recommendations in 1975 regarding lending methods to be applied to industrial borrowers. The First and Second methods of lending recommended by the Tandon Study Group for non-seasonal industries as well as most agro-based industries cannot be applied to the tea industry for a number of reasons. A major segment of the tea industry is highly seasonal. In the case of tea industry in the North, during the first four months of the season (January to April), the industry will only incur expenditure with no production. Even after May, stocks of made tea will be built up only gradually to cover the banks' advances. In the initial period of the season, the banks' advances will, therefore, be on a clean basis. In the South, though tea production takes place throughout the year, there are peak periods immediately after monsoon rains and the production (of made teas) shows wide fluctuations during the year/season. Secondly, the industry's current assets are understated since it does not carry any raw material (the green leaves, which are its raw material, are on the tea bushes) while the industry would have incurred expenditure for raw material in the form of agricultural inputs. Thirdly, inputs such as fertilisers, tea chests, etc., are in short supply and their creditors cannot be stretched.

Consequently, such items are not usually available on credit and the industry has to resort to bank credit. As a result, the industry's current liabilities (excluding bank credit) are on the lower side compared to other industries. The working capital gap cannot, therefore, be worked out on the basis of current assets and current liabilities. It may also be mentioned that the examples furnished by the tea financing banks to this Committee show that the permissible cash credit limits on the basis of the First and Second methods of lending, as recommended by the Tandon Study Group, are very low (and in some cases negative) as compared with the permissible limits worked out under the Dutt Working Group norms.

3.10 This Committee is, therefore, of the view that the lending methods recommended by the Tandon Study Group for other industries cannot be made applicable to the tea industry. The Tandon Study Group had, however, suggested that "in the case of industries with a high degree of seasonality, assessment of bank finance, i.e., the overall credit limit, may have to be done on the basis of monthly cash budgets, as is being done at present for the sugar industry by certain banks and thereafter also drawings will be regulated by up-dated monthly cash budgets". The question before the present Committee was, therefore, as to how and the extent to which cash budgets could be the basis for fixation of credit limits for the tea industry.

Coverage of the cash budget method

3.11 The main issue the Committee had to consider was whether all the units in the tea industry, irrespective of their size, organisation and nature of production, should be required to avail of bank credit on the basis of

projected cash budgets. In the tea industry, there are a very large number of planters with relatively small holdings and a vast majority of them are in the unincorporated sector. The Tandon Committee on Tea Marketing, in its report submitted to the Government of India in November 1978, has generally categorised planters with holdings upto 100 hectares (250 acres) as small; only very few of them have their own processing factories. The report has pointed out that among them, there are some with very small holdings, less than 8.09 hectares (20 acres), who only grow green leaves and sell them to bought leaf factories, private or co-operative. The Tea Board considers planters with holdings upto 20 acres as small for certain purposes. Tea planters with holdings upto 25 acres and employing upto 30 labourers are treated as small for the purpose of the Plantation Labour Act and are not subject to the provisions of the Act requiring every employer to provide certain basic amenities to the labourers. Of the 11873 tea estates registered with the Tea Board as at the end of March 1978 (excluding Himachal Pradesh), the number of estates with holdings upto 100 hectares (250 acres) stood at 10828 and accounted for 91.2 per cent of the total; their area under tea and production, however, constituted only 8.3 per cent and 3.6 per cent, respectively, of the total. Among them, tea estates with holdings upto 8.09 hectares (20 acres) predominated, numbering 10286 and accounting for 86.6 per cent of the total; the majority of them are reported to own less than 5 acres. They are mainly concentrated in the Nilgiris district of Tamil Nadu (6344) and Kottayam and Idikki districts of Kerala (3767). There are many others who have not registered their names with the Tea Board. It is estimated that there are about 20000 such estates in

Nilgiris alone (against 6,344 registered with the Tea Board). A survey made by the Agricultural Refinance and Development Corporation (ARDC) of the tea plantation industry in Himachal Pradesh has indicated that there are 2,626 small holdings under tea in Kangra Valley and 78 per cent of them are of less than one acre.

3.12 Tea estates with holdings above 100 hectares (250 acres) numbering 1,045 constituted only 8.8 per cent of the total number of estates registered with the Tea Board as at the end of March 1978, but they occupied a dominant position in the tea industry accounting for 91.7 per cent of the total area under tea and for 96.4 per cent of the total production. Almost all of them are in the corporate sector, have their own processing factories and their field practices and productivity levels are, by and large, superior.

3.13 The Committee felt that the definition of small planters as given by the Tandon Committee on Tea Marketing, with a slight modification, could be accepted for the purpose of the guidelines relating to the financing of the working capital requirements of the tea producing units. The Committee recommends that the method of assessing credit requirements on the basis of cash budgets should be made applicable to all the units with their own processing factories, irrespective of the size of their holdings, as well as to the units which do not have processing factories but whose holdings are above 100 hectares (250 acres). The units with holdings upto 100 hectares which do not have their own factories, may not have the organisation and the expertise to prepare estimated cash budgets; for them, a simpler method of assessing the working capital credit requirements has to be adopted.

Financing of the larger borrowers

3.14 The cash credit limits for the larger borrowers (i.e., units other than those with holdings upto 100 hectares and not having their own processing factories) may be fixed by banks on the basis of a detailed monthly cash budget for the entire season/year to be obtained from them in advance before commencement of a particular season/year. This should not be difficult for the borrowers since even now, whatever be the method adopted for fixing credit limits, most of the banks call for projected cash budgets from these tea producing units. The cash budget should indicate month-wise the borrowers' projections relating to production, sales and stock position, sales realisations, drawal of funds from the account, outstandings in the account, and purposes for which funds would be drawn from the account. For the purpose of the cash budget, cost should be taken to cover all expenses including excise duty, provident fund dues, transport, stores, foodgrains, repayment of term loans, interest, etc., but excluding capital expenditure of any nature. As past sales/cost will be a major ingredient for fixing the cash credit limit for the next season/year, the projections in the cash budget should be compared with the estimates of the immediate previous season/year (as actuals may not be available by the time the cash budget for the next season/year is submitted) and the actuals of the season/year prior to that. Banks may fix the cash credit limits at the level of the peak deficit reflected in the monthly cash budget. Variations from the projected drawing schedules as per the cash budget may be allowed, within the overall cash credit limit, with flexibility at the discretion of the Branch Managers on the basis of periodical review of the actual operations.

3.15 It is necessary for banks to ensure that the larger borrowers in the tea industry meet at least a part of their working capital requirements from their owned funds and long-term resources and reduce their over-dependence on bank credit. For this purpose, while considering credit proposals for the next season/year, banks should insist on these borrowers furnishing a pro forma balance sheet as on 31st October of the current year. The surplus available with the borrowers (i.e., excess of owned funds and long-term resources over investments in fixed and non-current assets), as revealed by the pro forma balance sheets as on 31st October, should normally be equal to at least 25 per cent of the limits proposed to be fixed for the next season/year on the basis of the projected cash budgets. Banks should ensure that such surplus is reflected in the projected cash budgets furnished by the borrowers to them. Wherever the borrowers' own contribution is found to be less than 25 per cent of the limits proposed to be fixed, banks should lay down suitable covenants while sanctioning the limits so that the borrowers achieve the level of minimum contribution over a period not exceeding five years. The stipulation of a minimum of 25 per cent contribution by the borrowers themselves towards their working capital requirements is intended for improving their intrinsic financial position; in good years, they should plough back as much as possible instead of frittering away their profits. Where it is observed that the surplus available with the borrowers is more than 25 per cent of the limits proposed to be fixed, banks should not normally allow a slip-back in the following years unless warranted by factors like loss or low profitability of the borrowing unit or its need to make

matching contribution for development finance.

3.16 In the context of the recommendation regarding minimum contribution of 25 per cent towards working capital by the larger borrowers from their owned funds and long term resources, the Committee has considered the need for converting the deficits in owned funds and long-term resources on this basis into 'working capital term loans' repayable over a fixed period of time. Considering the agro-based nature of tea industry which is subject to vagaries of weather, the Committee does not consider it desirable to convert the deficits into 'working capital term loans' repayable in fixed instalments. Such deficits should be made good by plough back of profits in good years or by other means, wherever feasible, i.e., increase in equity, long-term borrowings, etc., and as stated in the previous paragraph, banks should lay down suitable covenants while sanctioning the limits.

Financing of the smaller borrowers

3.17 Tea units with holdings upto 100 hectares (250 acres) without their own processing factories have to depend upon bought leaf factories, private or co-operative, or adjacent tea estates with processing factories for sale of their green tea leaves. Since green tea leaves are perishable and have to be processed within a maximum of 24 hours of plucking, the prices of green leaves are largely determined by the buyers. It has been represented to the Committee that most of the very small planters in Nilgiris and elsewhere also do not get institutional finance to meet their working capital requirements and have to depend on bought leaf factories for their credit requirements. Recourse to bought leaf factories for finance

compels them to sell their crop to those factories and weakens their bargaining power when they sell the green leaves. The Committee recommends that banks and co-operatives should make sustained efforts to institutionalise the borrowings of these planters so as to make them less dependent on bought leaf factories. The Lead Banks in Nilgiris and other concerned districts should take initiative in this direction and ensure that the small planters are provided adequate short-term credit.

3.18 Where such small holdings are being financed by banks and co-operatives, their needs are assessed according to certain scales of finance as in the case of other agricultural crops. The Committee was informed that in Nilgiris, the Central Co-operative Bank provides short-term credit to planters with cultivated area of 5 acres and below on the basis of scale of finance of Rs.2,000 per acre. In Kerala also, the State Bank of India grants short-term credit to planters with small holdings on the basis of scale of finance of Rs.1,500 per acre.

3.19 The Committee recommends that the method of fixing scales of finance per acre may be adopted for providing short-term credit to tea planters with holdings upto 100 hectares (250 acres) and who do not have processing factories of their own. Area Committees (recommended in paragraph 4.24 ~~below~~) could fix scales of finance for different areas periodically. They may also determine the cash and kind components of the scales of finance, ~~as well as the repayment terms~~. Banks may grant credit limits to these smaller borrowers on the basis of the scales of finance.

The limits may be allowed on cash credit basis, to be adjusted by the end of each season/year. Banks should ensure that in working out their credit requirements, the amount of owned funds that could be brought in by the more affluent among them, is taken into account in determining the size of the limits. If any of these borrowers is prepared to project his requirements of finance on the basis of detailed cash budgets, banks should allow the borrower the choice to do so instead of adopting the scale of finance.

Inclusion of tea industry
in the priority sector

3.20 The Tea Associations have represented to the Committee that the tea industry may be treated as agriculture and included in the priority sector for the purpose of financing. According to them, the activities of a tea garden are 60 per cent agricultural and 40 per cent industrial.

3.21 The priority sector concept for bank lending was evolved with the introduction of the social control measures in 1968-69 with a view to enlarging the flow of credit to the neglected and weaker sectors of the economy. Substantial short-term credit was already flowing to traditional plantations, viz., coffee, tea, rubber and spices, and they were not considered either as neglected or weak. However, development finance extended to these traditional plantations was included in the category of priority sector advances. The advice tendered by the Reserve Bank of India to banks in February 1972 permitted them to include, in the category of priority sector advances, development loans (i.e., the type of loans eligible for refinance from ARDC) to traditional

plantations, viz., coffee, tea, rubber and spices, and short-term as well as development loans to other plantations, horticulture (including the growing of bananas, cashewnuts, coconuts, lemon grass oil, etc.) and bee-keeping.

3.22 The major part of the tea industry, i.e., the large units mainly in the corporate sector, cannot be treated as agricultural since they combine agriculture and processing activity. Further, owners of plantations in some cases are traders or industrialists and management is in the hands of groups which have other activities also. The bulk of the tea production comes from the corporate sector. Traditionally, commercial bank credit has been flowing to this sector and these large borrowers can be considered neither as neglected nor as weaker sections.

3.23 But there are a large number of very small planters with holdings of less than 8.09 hectares (20 acres). According to a study made by the United Planters' Association of Southern India, the average size of a small planter holding in tea, measuring 1.1 hectares in Tamil Nadu and only 0.55 hectare in Kerala, is lower than the average small unit size of 2.04 hectares in general agriculture. The small tea planters are in no way different from small farmers producing other agricultural crops. Most of them do not at present get bank credit and it is necessary to bring them within institutional fold. The Committee recognises that their problems are not merely financial; but in the present socio-economic context, any help that can be given to them assumes importance. The Committee recommends that short-term credit granted by banks to these very small planters may be treated as agricultural advances and included in the category of priority sector advances.

3.24 A question which has to be considered is whether the same treatment should be accorded to units with holdings between 20 acres and 250 acres and without processing factories. There are some possible objections to their inclusion under the priority sector category. Firstly, in the case of other agricultural crops, land ceilings limit the size of individual holdings and these tea plantations would be much bigger than other agricultural holdings. Their income, it may be argued, may also be much higher than the income of growers of other agricultural crops. Their inclusion may, therefore, be contrary to the view taken by the Working Group on Priority Sector Lending and the 20-Point Economic Programme (Krishnaswamy Committee) that bank advances within the priority sectors should be given increasingly to the comparatively weaker and more under-privileged sections. Secondly, most of these planters may already be getting institutional credit and they cannot, therefore, be considered as neglected sector.

3.25 The tea industry has been kept out of the purview of land ceilings presumably because the economics of plantation crops is different from that of other agricultural crops. Some recent studies by the Tea Board show a correlation between the size of the holdings and productivity in the tea industry. It may not be appropriate to compare the size of the holdings of the plantations with that of other agricultural crops. It should also be noted that unlike other major crops like wheat, rice, cotton, jute, sugarcane, etc., there are no minimum prices fixed or price support arrangements for tea. On the other hand, the realisations of these tea planters depend largely on

an uncertain export market which may or may not give them a reasonable margin. In this context and also because of the need to increase substantially the production of this mass consumption item, any help to them to increase their productivity has to have a priority. While it is true that Krishnaswamy Committee had recommended an increasing share of priority sector advances to the weaker sections, the Committee did not suggest the exclusion of comparatively larger farmers from the priority sectors. If this category of planters is not included in the priority sector, they would have to compete increasingly with large industrial borrowers for a share in the lendable resources of banks, after providing for food credit and priority sector advances. Thus, even if they are not neglected at present, there is a distinct possibility of their being neglected in future.

3.26 Separate figures of bank credit provided to this category of borrowers are not available. The area held by these planters totals about 51,000 acres. On the basis of a scale of finance of Rs.2,000 per acre, their total credit requirements may be placed at the maximum at Rs.10 crores. Actual utilisation of credit may be lower since not all of them may borrow to the hilt. Since the total priority sector advances in March 1981 amounted to about Rs.8,500 crores, the inclusion of this category of tea planters in the priority sector would not make any dent on the resources deployed to other priority sectors and would not be of much significance to the target stipulated for priority sector advances. After the rationalisation of the lending rates of banks in March 1981, the benefit in interest rates that they may get also would be small;

currently, the maximum interest rate applicable to short-term agricultural credit is 17.5 per cent for credit limits above Rs.25,000, compared with the general ceiling rate of 19.5 per cent. Considering these aspects, the Committee is of the view that, on balance, there is a strong case for including short-term credit granted to this category (i.e., tea plantations with holdings between 20 acres and 250 acres without having a processing factory) also under priority sector advances, which in effect would mean that the borrowers in this category would be able to obtain adequate credit from banks more easily at rates of interest applicable to agricultural advances. The Committee feels that such help to this sector is well-deserved and would not be misplaced, particularly as these borrowers would be engaged in purely agricultural operations and economics of tea leaf production, as it exists currently, does call for some help to ~~small and medium~~ ^{such} planters.

3.27 In this context, the Committee has considered the question of extending the guarantee cover of the Deposit Insurance and Credit Guarantee Corporation of India Ltd., to the short-term credit facilities granted to the small tea planters. Under the Small Loans Guarantee Scheme of the Corporation, the credit facilities granted to farmers and agriculturists for financing seasonal agricultural operations are eligible for guarantee cover if the facility is to be repaid or adjusted within a period not exceeding 15 months (24 months for cultivation of sugarcane). The Corporation's liability on account of a credit facility to farmers and agriculturists for seasonal agricultural operations will be limited to 75 per cent of the amount in default or Rs.2,500, whichever may be lower. The guarantee will cover automatically and in bulk all the

eligible credit facilities without requiring the credit institution to make or submit to the Corporation a prior application for covering any or all of the credit facilities under the guarantee.

3.28 The Committee has been given to understand that the Small Loans Guarantee Scheme of the Corporation is meant only for the benefit of small borrowers seeking credit facilities from participating financial institutions for small amounts. It is against this background that credit facilities extended to borrowers for plantation crops such as tea, coffee and rubber have been specifically excluded from the purview of the guarantee cover as, according to the Corporation, plantation activity involves large investment in land, machinery and labour to make them economically viable. However, in view of the Committee's recommendation that short-term credit granted to the tea planters with holdings upto 250 acres may be treated as agricultural advances and included in the category of priority sector advances, there would be justification for extending the Corporation's guarantee cover to such credit facilities. At the same time, it is necessary to ensure that the benefit of the guarantee cover is confined to the weaker among these planters. It is, therefore, not necessary that the guarantee cover should automatically extend to all such tea planters. Considering also the fact that the Corporation's liability on account of a credit facility is limited to a maximum of Rs.2,500, the Committee recommends that the guarantee cover may be confined to short-term credit facilities granted to the small tea planters with holdings upto 20 acres.

Ad hoc limits and financing by brokers

3.29 The general policy at present is that borrowers should be discouraged from approaching banks frequently for ad hoc or temporary limits in excess of sanctioned limits. The tea industry is, however, predominantly agricultural and subject to all uncertainties relating to agriculture. Moreover, it has to depend largely on an unpredictable export market. Consequently, it may be difficult for tea units to project accurately their cash budgets and they may have to approach banks for temporary or ad hoc limits. Where there are exceptional circumstances, e.g., natural calamities, fall in prices or other contingencies like port strike, warehouse strike, etc., banks may consider sympathetically requests from tea units for temporary limits in excess of the regular cash credit limits. Such limits should be allowed only for pre-determined short durations and given through separate demand loan or 'non-operable' cash credit account. In view of the uncertainties faced by the tea industry, banks should view the deviations from the projected cash budgets more leniently than in the case of other industries and charge additional interest of one per cent per annum over the normal rate on such ad hoc or additional limits only in exceptional cases.

3.30 It has been brought to the notice of the Committee that brokers provide ways and means finance to the tea producers to get over temporary liquidity constraints. They provide advances to the tea producers against teas kept in warehouses pending auction or to cover the gap of 14 days after teas are sold in auction till realisation of sale proceeds. They do so with the permission of the financing banks and in some cases without the knowledge of the banks. Brokers get finance from the banks. They

charge the producers rates of interest higher by 1 to 1½ per cent over the rates payable by them to banks. Financing by brokers is contrary to the concept of need-based financing of tea producers by banks. This would distort the financial position of the producers and interfere with the lending discipline imposed by banks. Financing of tea producers by brokers should be discouraged by banks and they should desist from accommodating brokers for the purpose of re-lending to the producers. The one main reason for resort to brokers is that it is at present difficult to get temporary or ad hoc credit at short notice from banks. As indicated in the earlier paragraph, there may be occasions when additional credit may have to be provided without delay to tide over temporary difficulties. To facilitate granting of such credit, banks should delegate adequate discretionary powers to the Regional Managers/Branch Managers.

Adjustment of shortfall in cash credit account at the end of a season/year

3.31 Short-term credit facilities granted to tea units are basically self-liquidating and it is necessary that banks should maintain separate accounts for each season/year so that the expenses and realisations for each season/year are reflected in the same account. The Dutt Working Group had recommended that where the units are not able to bring their accounts to credit at the end of a season, consideration may be given to segregating the cumulative deficit and covering it with a term loan with suitable repayment schedule so that the working capital limit for the next season would be available in full. The Tea Associations have complained that banks are not implementing this recommendation.

3.32 The Committee is unable to concede the demand of the tea industry for automatic conversion of the deficits in working capital accounts into term loans. Where the units are not able to adjust the accounts by the end of the season/year because they have not disposed of the made teas by that time, the borrowers would not face any difficulty as there would be sufficient carry forward stocks. Deficits in the accounts may arise due to bad management or diversion of sale proceeds for liquidation of past liabilities, financing of capital expenditure, etc. In such cases, banks should take necessary corrective steps to ensure that the borrowers tone up their management and bring in funds from outside sources to cover the shortfalls. Where banks are ~~convinced of~~ satisfied that the deficits represent losses incurred by the units due to price fluctuations or natural calamities or other factors beyond their control, the deficit may be kept in a separate account to be adjusted over a period of time which may be determined taking into account the financial position and projected future cash generation of the individual borrower. Normally, such period should not exceed three years.

Financing of bought leaf factories

3.33 As indicated in paragraph 3.11 ~~earlier~~, there are a large number of small tea planters in the Nilgiris district of Tamil Nadu who cannot afford to have their own factories to process their green tea leaves. In this situation, a number of factories termed as 'bought leaf factories' were set up in the district in the thirties (the first one in 1920) which buy green leaves of the neighbouring small planters for processing. For purposes of concessions in excise duty, a bought leaf factory is defined as a unit

which has purchased not less than two-thirds of its green leaf from outside sellers during the current and preceding financial years. These factories are now mostly proprietary or partnership concerns and appear to be rendering a useful service to the small planters. While the small planters depend upon these factories for the sale of their green leaves, the factories in turn depend upon the small planters for the supply of green leaves. Many small planters are themselves partners or shareholders of these factories. From about 128 such factories in 1958, their number has come down to about 80 at present in the Nilgiris district. The tea leaves supplied by the small planters are stated to be of very poor quality as they do not follow scientific methods of cultivation and cultural practices. These disadvantages are compounded by the old machinery and equipment of the factories, which are mostly second-hand. As a result, the tea manufactured by them is of poor quality which has its impact on the prices realised. It has been represented to the Committee that the bought leaf factories are not getting sufficient bank finance for modernisation or for normal processing operations, and that unless their economic stability is ensured, they cannot pay an economic price to the large number of small planters who depend upon them.

3.34 The idea of setting up co-operative tea factories for improving the economic viability of the small tea planters was first stressed by the Plantation Enquiry Commission in 1956. The Government of Tamil Nadu made the pioneering effort in this regard by formulating a scheme for small planters in 1958 on a co-operative basis.

The first industrial co-operative tea factory was thus started in Nilgiris in 1962. There are at present 11 such industrial co-operative tea factories in the Nilgiris district, set up by the State Government with financial support from the Tea Board and the 12th factory is stated to be under construction. These factories buy green leaves from the small planters for manufacturing into black tea. Similar factories in the co-operative sector have been set up in Kerala (1) and Himachal Pradesh (3) and there is a proposal to set up two such factories in West Bengal (in Terai and Dooars areas). A co-operative tea factory will be eligible for concessions in excise duty provided it satisfies the following conditions: (i) no member of the co-operative society owns a holding exceeding 10 hectares under tea cultivation; and (ii) the green leaf used is not purchased by such co-operative society from any grower who has a holding exceeding 10 hectares under tea cultivation.

3.35 The Committee has been given to understand that the co-operative tea factories cover only about 6,000 small tea planters in the Nilgiris district. The existing bought leaf factories in the private sector in the district thus cater to the needs of the remaining large number of small planters. The Committee recognises that the better patronage of private bought leaf factories by the small planters at present may be partly due to the fact that, by and large, they have to depend on these factories for their credit requirements. If institutional finance is provided to the small planters as recommended by the Committee, this situation may change. When co-operative factories gradually gain ground, the private bought leaf factories may get eliminated. For the present, the

private bought leaf factories seem to have a role to play and these existing productive facilities cannot be ignored.

3.36 According to the information received by the Committee, 51 private bought leaf factories (out of 80) and nine industrial co-operative tea factories (out of 11) in the Nilgiris district have been issued registration certificates as small-scale industrial (SSI) units by the concerned authority of the State Government. This is stated to be on the basis that the value of their plant and machinery does not exceed Rs.20 lakhs. These factories, it is reported, are accordingly eligible for financial assistance as available to SSI units. Under the current interest rates structure effective from 2nd March 1981, the ceiling rates prescribed for short-term advances to SSI units are the same for Central Co-operative Banks as well as commercial banks (viz., 15 per cent for limits upto and inclusive of Rs 2 lakhs, 17.5 per cent for limits over Rs.2 lakhs and upto Rs.25 lakhs, and 19.5 per cent for limits above Rs.25 lakhs). The private bought leaf factories and the industrial co-operative tea factories will thus be eligible for short-term advances at the same rates from commercial banks and Central Co-operative Banks, respectively. ~~Such~~ Advances to the bought leaf units in Nilgiris as well as in other areas (both in the private and co-operative sectors), holding registration certificates as SSI units, should also be eligible for classification as priority sector advances. It was, however, gathered that the position in this regard was not clearly understood by some bank officials at branch level. The Committee, therefore, suggests that the Reserve Bank of India, in consultation with Government of India, may issue suitable clarificatory instructions to the banks in this

regard. For the reasons given in paragraph 3.22 ~~added~~, the Committee is, however, not in favour of tea units other than bought leaf factories being classified as falling within the priority sector even though the value of their plant and machinery may be less than Rs.20 lakhs.

Export finance

3.37 The Dutt Working Group had pointed out that the output of several tea estates, though exported, was done indirectly and the benefit of the concessionary interest rate on packing credit went to the trade and not to the producing units. The Reserve Bank of India had indicated its willingness to extend the facility of packing credit at concessionary rates to plantations engaging in exports through trade channels provided they were able to establish definite and tangible evidence of the export of their output. The Working Group felt that the question of providing such tangible proof of export was one which might pose practical difficulties. The Group suggested that the various Planters' Associations, in consultation with the brokers and the trade, should devise methods to make it possible to identify the quantum of tea exports from different gardens.

3.38 The Tea Associations have not indicated any procedure to ensure that the benefit of the concessionary interest rate is given to the producers. In the circumstances, the Committee is unable to find a way of passing on the benefit of concessionary rate of interest on export credit to the producers. While large tea companies make direct exports to some extent and get the benefit of the concessionary packing credit, the small producers do not have the ability to make direct exports.

It has been suggested to the Committee that there should be a co-operative marketing organisation or a State sponsored export house for channelising the exports of the small producers. This is of particular importance to Darjeeling where high value tea is produced. The Tandon Committee on Tea Marketing had made certain recommendations in regard to marketing for small planters and the Government of India has set up a Committee to consider the recommendations.

3.39 It has been represented to the Committee that the period of pre-shipment credit at concessionary rates of interest for tea exports may be extended from 90 days to 180 days. At present, packing credit at concessionary rates of interest is given for a period up to 90 days, which may be extended by banks by another 45 days. As the bulk of tea exports is made by the traders themselves, they would require packing credit only from the date they receive the cable advice or confirmed export order from the foreign buyer, till the shipment is actually made. This period would normally be less than the period of 90 days for which packing credit is made available by banks. There would, therefore, be no justification for extending the period of packing credit at concessionary rates of interest for tea exports from 90 days to 180 days. In fact, the packing credit should not be given by banks automatically for the initial period of 90 days, but should be restricted to the actual period required for making the exports which would generally be less.

Financing of traders

3.40 It is the usual practice of traders to buy teas from auctions for their outstation customers on commission basis and to despatch the documents to the outstation

centres through banks under bill limits. It has been represented to the Committee that unless traders are given adequate bill limits, they will not be able to bid for lots which are not urgently required for meeting their immediate needs and, as a result, it would be the producers who suffer indirectly. Further, with the imposition by the West Bengal Government in its budget for 1981-82 of the Rural Employment and Production Cess on teas sold otherwise than through auction centres in the State, the traders expect that the quantities of teas offered for sale through auctions in the State will increase considerably. The traders will, therefore, have to absorb larger quantities of teas sold through auctions than hitherto. This would necessitate an increase in their credit facilities. It has been suggested that bills purchase limits of all traders registered as members of the recognised auction centres may be suitably increased. It has also been represented that if limits are granted to the traders against pledge of delivery orders issued by the registered broker-firms covering auctioned teas, they would be able to lift the increased quantity of teas sold through auctions. The banks should consider granting of increased bill or other working capital limits to their trader clients on the merits of each case.

Appraisal and follow-up of credit

3.41 Banks have pointed out that tea companies maintain accounts at urban or metropolitan centres, where the managements are seated, although the gardens are located at far away places. For instance, in respect of gardens located in Assam and North Bengal, the accounts

are maintained at Calcutta, and in respect of gardens located in Idikki district in Kerala, the accounts are maintained at Cochin. For meeting the operational expenses of the gardens, telegraphic transfers of funds are arranged by the managements from the accounts at the urban/metropolitan centres to the branches situated near the gardens. The branches have no control over the drawings and operations in the accounts, and production, sales, etc., of the gardens. Bank staff at the offices where the accounts are maintained also are not in a position to exercise any close supervision over the working of the gardens. Sometimes queries raised by the banks in connection with the appraisal of credit proposals have to be referred by the managements sitting in the urban/metropolitan centres to the technical personnel at the gardens, which results in avoidable delays in sanctioning the limits.

3.42 The Committee recognises that from the point of view of the tea companies, the balance of advantage would be to maintain the accounts at Calcutta or other metropolitan/urban centres for quick appraisal of credit applications and material consultation between the management of the companies and the banks. However, from the point of view of banks, it is necessary that the branches nearest to the gardens should exercise proper control over the operations in the accounts. The Committee recommends that while there should be no objection to the tea companies maintaining accounts at Calcutta or other metropolitan/urban centres for managing the sales of teas through auctions, etc., where the financing bank has branches in the tea growing areas, a part of the sanctioned working capital limits may be

transferred to the branches nearest to the tea gardens so that the Branch Managers can exercise adequate supervision over the operations in the accounts. This will also facilitate the control of drawings in the accounts as well as the grant of ad hoc credit to the gardens to get over temporary difficulties in exceptional circumstances.

Efficiency of banks in providing adequate and timely credit

3.43 It has been brought to the notice of the Committee that there is a substantial time interval between application and approval of credit limits, particularly in the case of larger borrowers. The Tea Associations have pointed out the inability of branches of banks in tea growing regions to take decisions on applications for credit without making elaborate and time-consuming references to their Head Offices in other parts of the country, resulting in considerable delays. To remedy the situation, banks should delegate adequate discretionary powers to their Regional Offices in the tea growing regions so that decision-making on tea proposals may be decentralised without having to resort to time-consuming references to Head Offices, to the extent possible.

3.44 Representatives of the tea industry have pointed out to the Committee that except certain banks based in Calcutta, other banks do not generally have an appreciation of the complexities of the tea industry and the problems relating to its financing. The Committee would suggest that banks which have a

substantial stake in the tea industry and which do not have a separate Tea Department or Tea Cell, should set up Tea Cells in their Head Offices or in Regional Offices in the tea growing regions, manned by officers with adequate knowledge of the tea industry, to closely guide and monitor the financing of the industry.

CHAPTER IV

TERM FINANCE

Development strategy

4.1 The growing internal offtake of tea calls for a substantial increase in tea production in the coming years, so that the domestic requirements can be met while maintaining or increasing India's share in world exports of tea. Though the major part of the increased output of tea would, no doubt, come from the large producers, socio-economic considerations necessitate special efforts to improve the productivity and income of the existing large number of small units in the tea industry.

4.2 The basic strategy is to increase the production of tea and improve its quality. To achieve this, it is necessary to adopt replanting, rejuvenation with infilling, inter-planting and replacement planting, in addition to extension planting. Further, tea cultivation has to be extended to non-traditional areas. Better planting material is also expected to contribute to an increase in production and improvement in quality. These would take some time to yield results. In the short term, production has to be increased by the adoption of improved agricultural practices, viz., application of fertilisers, control of weeds, pests and diseases, and improving the drainage and irrigation system. Along with the increase in production, the existing manufacturing capacity has to be augmented for scientific processing of the larger crop. Provision has also to be made for renovation and modernisation of tea factories and for construction of new labour houses and ancillary buildings.

4.3 As regards the small tea planters, it is necessary to provide technical and financial support to them by adopting a cluster approach. Besides, construction of modern tea factories in the co-operative sector, establishment of clonal multiplication centres for the supply of improved planting materials, setting up of demonstration plots, etc., are the other activities which are required to be taken up in the interest of the small tea planters.

4.4 A planned increase in the country's tea production and improvement in its quality would need extensive support in the shape of scientific research on tea culture and manufacture, and wide application of the results of such research. The research efforts have necessarily to be supported by well organised extension services for dissemination of the results of research. All these would necessitate increase in the tempo of the current research and advisory work for the tea industry. For effective application of the findings of research, it would also be necessary to organise suitable courses of technical training for persons employed in the tea industry as well as for those who opt for a career in tea, particularly in non-traditional areas.

Estimates of development finance

4.5 The Tea Board has estimated the gross requirement of funds by the tea industry during the Sixth Plan period from 1980-81 to 1984-85 at about Rs.300 crores as follows :

	(Rs. crores)
a) For extension planting of 25,000 hectares @ Rs.35,000 per hectare	87.50
b) For replanting, replacement and rejuvenation of 20,000 hectares @ Rs.30,000 per hectare	60.00
c) For new factories and factory equipment	75.00
d) For addition to existing factory capacity	50.00
	c/o <u>272.50</u>

		b/f 272.50
e)	For construction of new houses	5.00
f)	For construction of other buildings, etc.	8.00
g)	Research and training	<u>12.57</u>
	Total	298.07 =====

Out of the above estimates, a sum of about Rs.10 crores is meant to be utilised for providing assistance to small tea planters with holdings upto 25 acres. An additional provision of Rs.5.85 crores is required for planting of tea in about 2,600 hectares in Nagaland, Manipur, Arunachal Pradesh and Mizoram.

4.6 The Committee was informed that the Planning Commission has accepted the development plan for the tea industry for the Sixth Plan period, suggested by the Tea Board with some changes. The estimated total requirements of Rs.300 crores may change on the basis of adjustments made after periodical reviews of the overall plan. The Committee has proceeded on the assumption that the total financial requirements for development purposes would be about Rs.300 crores over a five-year period.

4.7 The Tea Board's assessment includes extension planting of 25,000 hectares over a five-year period. The State-wise position of land available for extension planting in the existing tea estates, as compiled by the Tea Board from the annual area returns for the year 1978-79, is as follows:-

<u>State</u> (1)	<u>Area</u> (Hectares) (2)
Assam	36,485
West Bengal	8,380
Tripura	<u>1,665</u>
Total : North India	<u>46,530</u>

(1)	(2)	
Tamil Nadu	7,949	
Kerala	4,633	
Karnataka	<u>1,016</u>	
Total : South India		<u>13,598</u>
All India		60,128 =====

The Committee understands that the Tea Board is of the view that enough land would be available to carry out the programme.

Employment potential

4.8 The tea industry provides direct employment to about one million workers in tea estates and another one million in industries ancillary to tea. The optimum employment potential in tea is one worker per acre. Extension planting in an estimated area of 25,000 hectares in the existing tea estates and new planting of 2,600 hectares in non-traditional areas during a five-year span are expected to create employment opportunities for about 69,000 persons.

Resources for development

4.9 Resources to the extent of about Rs.300 crores for the development of the tea industry would be much beyond the capacity of the tea industry and would call for substantial support from the existing institutional set-up comprising the Tea Board, the Agricultural Refinance and Development Corporation (ARDC), the Industrial Development Bank of India (IDBI) and the banks.

4.10 The Tea Board operates certain financial schemes. Under its Plantation Finance Scheme, it provides loans to owners of tea estates who are not in a position to undertake replanting, replacement planting and/or extension planting out of their own resources. The

quantum of loan that can be granted under the scheme was enhanced from Rs.11,250 to Rs.20,000 per hectare for plains gardens and from Rs.13,750 to Rs.25,000 per hectare for hill gardens, effective from January 1979. The loan carries a rate of interest of 9.5 per cent per annum, with a rebate of 0.5 per cent for punctual payment of principal and interest on the due dates. Equitable mortgage of the loanee tea estates is accepted as security for the loans. The mortgage is shared with the tea financing banks providing short-term credit under pari passu or second charge arrangement, depending on the merits of each case. The Tea Board has sanctioned loans aggregating Rs.13.91 crore to 310 tea estates in different States under the scheme upto the end of September 1980; the total amount disbursed was Rs.7.21 crores and the outstanding balance was Rs.2.63 crores. The Tea Board also operates the Tea Machinery and Irrigation Equipment Hire Purchase Scheme for supply on hire purchase basis tea machinery, irrigation equipment, tractors, vehicles, etc., essentially required for better production and manufacture of tea. Purchase of second-hand driers and prime movers is also admissible under the scheme, provided the Tea Board is fully satisfied that the machines are suitable in all respects. At present, loan can be made available to an individual tea estate upto a maximum of Rs.10 lakhs for the supply of irrigation equipment. A revolving ceiling of Rs.10 lakhs has been fixed for supply of machinery. The rate of interest is 9.75 per cent per annum with a rebate of 0.5 per cent for prompt payments. The Tea Board has granted loans aggregating Rs.41.24 crores to 1,910 applicants in different States under the scheme upto the end of September 1980. The Tea Board also provides subsidies for

replantation/rejuvenation under the following schemes:

(Rs. crores)

Scheme	Amount disbursed upto 30th September 1980
a) Tea Replantation/Replacement Subsidy Scheme	3.96
b) Tea Area Rejuvenation and Consolidation Subsidy Scheme (For hill areas)	0.35
c) Tea Replantation/Replacement Subsidy Scheme for Small Growers*	4.31
d) Tea Area Rejuvenation and Consolidation Subsidy Scheme for Small Growers* (For hill areas)	-----
Total	4.31
	=====

* With holdings ^{of} ~~10~~ tea area upto 25 acres.

4.11 The Tea Board has granted loans amounting to Rs.128.79 lakhs for setting up of ten co-operative tea factories in Tamil Nadu, one in Kerala and two in Himachal Pradesh till September 1980; the outstanding ^{amount} ~~loan~~ was Rs.99.13 lakhs. These factories have been granted subsidy aggregating Rs.22.78 lakhs for fertilisers, staff, setting up of tea nurseries, etc. The Tea Board has also granted subsidy amounting to Rs.2.10 lakhs for setting up of tea nurseries in non-traditional areas, viz., three in Nagaland and one each in Madhya Pradesh and Orissa.

4.12 The assistance made available by the Tea Board to the tea industry is primarily meant to motivate the tea

estates towards development activity and it is not supposed to meet the entire credit needs of the industry. The Committee has been informed that the total financial outlay under the Tea Board's Plan schemes over the five-year period would be Rs.41 crores as under :

	(Rs. crores)
a) Loans under Tea Plantation Finance Scheme	3.50
b) Loans under Hire Purchase Scheme	27.70
c) Subsidies for replantation	4.47
d) Loans and subsidies under Small Growers Scheme	2.33
e) Finance to tea units to be set up in non-traditional areas*	2.00
f) Research and training	1.00
Total	<u>41.00</u> =====

* For seven tea units with a total acreage of 2600 hectares in Nagaland, Manipur, Arunachal Pradesh and Mizoram.

4.13 ARDC has so far sanctioned 230 schemes for development of tea plantations in different States with total financial outlay of Rs.103.79 crores, financial assistance by banks of Rs.78.05 crores and ARDC refinance commitment of Rs.70.24 crores as at the end of March 1981. The total amount disbursed by ARDC upto 31st March 1981 was Rs.19.14 crores. In all its efforts to promote the development of the tea industry, ARDC co-ordinates ~~closely~~ with the Tea Board. ARDC provides

refinance to the extent of 90 per cent of the financial assistance extended by the banks in the North-Eastern and Eastern States and 80 per cent in the case of other States. Owners of tea plantations are normally required to bring in 25 per cent of the financial outlay out of their own resources and the banks provide the balance. The rate of interest on refinance provided by ARDC to the banks is 6.5 per cent per annum in respect of loans to small farmers and 7.5 per cent per annum for other farmers with the stipulation that the rate to the ultimate borrower (for diversified purposes) is not to exceed 10.25 per cent per annum in the case of small farmers and 12.5 per cent per annum for others (inclusive of interest tax). The borrower has to mortgage the land and buildings and hypothecate the plant and machinery and tea crops owned by him to the financing bank as security for the loan.

4.14 The Chairman and some of the members of the Committee had discussions with the Chairman and the Managing Director of ARDC in regard to the development needs of the tea industry. During the discussions, it was indicated that there would be no difficulty for ARDC to provide funds by way of refinance to the extent of about Rs.125 crores to the tea industry over the five-year period; it would also be the endeavour of ARDC to give due share of its finance to the small planters. One suggestion which came up during the discussions was that the Tea Board could consider divesting itself gradually of the direct financing function, as different agencies financing tea planters at different rates of interest for the same purpose often creates problems. The Tea Board could utilise its

resources for providing subsidies, such as, for compensating the loss of income on account of replanting or for reducing the interest burden to deserving sectors. Besides, the Tea Board would have to attend to the planning process and provision of extension service. It was also suggested that the Tea Board and ARDC should closely collaborate in formulation of physical programmes. A suggestion was also made that while factory equipment upto certain levels could be financed by ARDC as a part of development project, there could be consortium arrangement between ARDC and IDBI for larger projects.

4.15 IDBI has provided assistance to the tea industry for purchase of machinery under its Bills Rediscounting Scheme. Since the inception of the scheme in April 1965 upto June 1980, the face value of bills rediscounted by IDBI in respect of the tea industry under the scheme was Rs.8.61 crores and the net amount disbursed was Rs.6.52 crores. IDBI has also provided assistance to the tea industry under its Refinance Scheme for industrial loans. Particulars of assistance provided by IDBI to the tea industry under this scheme since its inception in 1964 upto 30th June 1980 are given below:

	(Amount in Rs. lakhs)		Total
	<u>Assistance through Banks</u>	<u>State Finan- cial Corpor- ations</u>	
No. of units	21	14	35
Total sanctions	85.08	54.02	139.10
Total disbursements	80.20	25.23	105.43
Outstanding assistance as on 30-6-1980 (Banks and State Financial Corporations together)			76.39

4.16 The Chairman and some of the members of the Committee had discussions with an Executive Director and other officials of IDBI. It was mentioned that IDBI would be able to provide development finance to the tea industry to the extent of Rs.50 to Rs.75 crores spread over a period of five years, if project schemes are properly organised. It would be desirable to adopt consortium approach between State Financial Corporations, State Industrial Development Corporations and banks for financing the tea industry under the Refinance Scheme of IDBI. At present, IDBI sanctions overall limits in favour of banks for discounting of bills under its Bills Rediscounting Scheme, which are allocated by the individual banks among the various industries. To ensure availability of funds to the tea industry, IDBI would consider giving separate limits for the tea industry under the overall limits, once the planning process gets going.

4.17 Banks are at present granting term loans to the tea industry mainly under ARDC Refinance Scheme. As ARDC provides refinance to the extent of 90 per cent of the financial assistance extended by banks in the North-Eastern and Eastern States and 80 per cent in other States, it is envisaged that banks will have to provide term loans to the extent of 10 to 20 per cent of the total institutional outlay of about Rs.150 crores to be covered by ARDC Refinance Scheme; this would work out to about Rs.25 crores.

4.18 The resources that could be made available for the development of the tea industry for the next five

years by the Tea Board and ~~other~~ financial institutions would, on this basis, aggregate Rs.240 crores as under:

	(Rs. crores)
Tea Board	40
ARDC	125
IDBI	50
Banks	<u>25</u>
Total :	240
	===

This would leave a gap of Rs.60 crores in the projected requirements of about Rs.300 crores, to be met by the tea industry itself out of its own resources. Normally, the industry is expected to make its own contribution to the extent of Rs.75 crores on the projected outlay of Rs.300 crores. Some Tea Associations have represented to the Committee that with the existing taxation level, it may not be possible for the tea industry to provide margin on the projected development finance at the normal rate of 25 per cent. While no general norm can be laid down in this regard, the Committee is of the view that relaxation may have to be allowed in individual cases on merits, particularly in the case of small planters and deserving weak units.

4.19 In this connection, a reference may be made to the suggestion made by Shri B.K. Dutt (vide paragraph 2.34) that working capital limit should cover maintenance investment, such as, installation of power plants, purchase of balancing equipments, building workers' houses, etc., to be repaid within the duration of a five-year cycle. According to Shri Dutt, these requirements may not be included in "term loans", but may be called "unavoidable capital expenditure" and tea producers should be encouraged to get "quick loans" from banks through working capital accounts for such expenditure; banks in due course could go to ARDC for refinance. This suggestion has apparently been prompted by the delays involved in granting term loans by banks. The Committee is of the view that the normal maintenance and repairs are part of the annual expenditure of a tea unit and should be projected in the cash budgets of the larger borrowers for each season/year, recommended in paragraph 3.14. Banks cannot, however, provide loans for capital expenditure without a detailed appraisal of the technical and economic viability of the proposition to be financed, nor can term loans be provided through working capital accounts, as suggested by Shri Dutt, without prescribing a repayment schedule. Nevertheless, there may be cases where a tea unit has to purchase balancing equipments or undertake renovation of factory building for which finance may not be available from ARDC or the Tea Board according to their existing schemes. It should be the endeavour of banks to provide term loans for such purposes on merits. Time is of essence in such cases and banks should avoid delay in meeting such genuine requirements.

4.20 In the light of the larger requirements of development finance for the tea industry, the Committee feels that the Tea Board, ARDC and IDBI should make a review of their existing financing schemes so that term loans for essential purposes not covered by the existing schemes are made available to tea units (e.g., construction of building for housing machinery acquired through loans provided by any of these agencies, purchase of second-hand machinery, etc.).

4.21 It may be mentioned here that the State Governments operate, with funds made available by the Central Government, schemes for grant of loan and subsidy under the Subsidised Housing Scheme for plantation workers. Under the scheme, ceiling cost for a normal two-room labour house has been fixed at Rs 5,000 and of this amount, 50 per cent, i.e., Rs 2,500 is made available as loan and 37.5 per cent, i.e., Rs 1,875, as subsidy. It has been represented to the Committee that the ceiling of Rs 5,000 for the purpose is very low as the present cost of construction of such houses is about Rs 12,500 and that the assistance should accordingly be increased. Revision of the scheme for raising the ceiling from Rs 5,000 is stated to be under consideration of some State Governments.

4.22 The Tandon Committee on Tea Marketing had suggested two alternatives to meet the growing financial needs of the tea industry, viz., (a) the Tea Board may extend its existing financial activities; (b) a new Tea Finance Body comprising the Tea Board, financial institutions and the tea industry, under the administrative control of the Ministry dealing with

the commodity may be set up. Since the resources of the Tea Board are obtained through budgetary allocations, the Tea Board would not be able to meet the entire financial requirements of the plan. As already indicated, the required finance can be provided from within the existing institutional framework. The Committee finds no special merit in setting up a new financing institution (particularly in the context of the proposed NABARD*) which would have to depend for its resources on the existing financial institutions and the Government. In the following paragraphs, the Committee has indicated arrangements to co-ordinate the activities of the Tea Board and the existing financial institutions in the implementation of the development plan.

Implementation of development programmes

4.23 It is essential that the plan for investment envisaged over a five-year period for the development of the tea industry is implemented in a systematic manner so as to obtain maximum results. The implementation and monitoring of the plan should be the responsibility of the Tea Board. The Tea Board has a Statutory Development Committee whose membership is restricted to the members of the Tea Board, and the financial institutions are not represented on the above Committee. In order to ensure co-ordination between the Tea Board and the different financial institutions in the implementation of the development plan, the Committee suggests that the representatives of the Reserve Bank of India, ARDC, IDBI and banks may be, formally or informally, associated with the Statutory Development Committee. This enlarged Committee would attend to various aspects relating to

* National Bank for Agricultural Credit and Rural Development.

the implementation and monitoring of the plan and co-ordination between the different financial institutions.

4.24 The Tea Board's development plan is a central plan based on the estimated total demand for tea in the coming years. If the targets set out in the plan are to be achieved, the development programme would have to be translated into specific schemes. Considering the different problems in the various tea growing areas, the Committee is of the view that suitable development schemes have to be formulated at the grass-root level in different areas. In this context, the Committee suggests that Standing Area Development Committees may be constituted for the tea industry by the Tea Board for the various tea growing areas, consisting of representatives of the Tea Board, Reserve Bank of India, ARDC, IDBI, tea producers, State Governments and banks. The more important functions of these area committees may be as specified below :

- a) Preparation of sub-plans for the respective areas out of the total plan.
- b) Preparation of specific schemes out of the area plans, particularly for small planters.
- c) Co-ordination between different financial institutions and development agencies in the areas.
- d) Fixing of scales of finance for small planters in different areas periodically (as recommended in paragraph 3.19).

The organisational support to these area committees should be provided by the Regional Offices of the Tea Board, which will have to be suitably strengthened. These area committees would have to identify and consider the specific problems of the concerned areas while formulating schemes for development. The problems in some of the tea growing areas are very briefly indicated below.

4.25 According to a study made by the United Planters' Association of Southern India (UPASI), the most striking features of the small tea planters in the South are their unorganised form of cultivation and consequent low productivity. The major constraints in improving the productivity of the small planters are stated to be inter-planting of tea areas with vegetables or other horticultural crops for their home consumption or marketing, low bush population with vacancy levels rising upto 50 per cent, improper and untimely application of fertilisers, non-application of plant protection chemicals for want of information and understanding, improper cultural practices by resorting to a 15-20 day plucking round instead of the normal 10 day cycle which leads to a deterioration in quality and quantity of green leaves plucked, and delayed pruning of fields once in 8-12 years instead of in 5-6 years.

4.26 While Darjeeling produces high value teas, the cost of production is also very high because of the nature of the terrain. Many of the gardens are reported to be either sick or on the verge of sickness. Because of agro-climatic

and other factors, the per hectare yield of Darjeeling at about 640 kgs is the lowest among the traditional tea growing districts. The proportion of area with tea bushes of average age of 50 years or more was 78 per cent for Darjeeling as against 38 per cent for all India in 1977. According to a techno-economic survey by a firm of Tea Consultants, to revive the tea industry in Darjeeling it would be necessary to adopt a programme of expansion of the area by 20,000 hectares, replanting/replacement of old and uneconomic area to the extent of 4,500 hectares and rejuvenation of 3,000 hectares within a period of ten years. On this basis, the Tea Board has prepared a scheme for subsidising interest on loans required for financing the ten-year development programme.

4.27 According to a study made by certain officials of the Reserve Bank of India and ARDC at the instance of the Committee (vide paragraph 1.6), the basic problem of the Tripura tea industry appears to be inefficient management and lack of technical know-how. After partition, which made transport and communication with the rest of the country very difficult and costly, the cost of production went up and the tea industry became uneconomic. Garden owners, who lived away from the estates at Calcutta, lost interest in the maintenance of the gardens. Presently, the average yield per hectare is low at 800 kgs and the prices fetched are generally the lowest among the teas produced in the North-East. The low yield and the poor quality of tea are attributed to the high vacancy ratio, absence of high-yield clonal planting material, irregular pruning, inefficient control of weeds, pests and diseases, non-existence of modern and scientific plantation methods and outmoded plant and

machineries. The State Government has taken some steps to improve the position, such as, by setting up three estates in the co-operative sector and clonal nurseries in those estates and the establishment of a Tea Development Corporation.

4.28 The area under tea in Kangra Valley, which is reported to be dwindling over the years as a result of poor processing facilities and uneconomic returns, is placed currently at 3,800 hectares. The effective area would be lower if the number of bushes is taken into account, as the vacancies are large. The holdings are small; as many as 2,051 out of the total of 2,626 are of less than one acre. Most of the bushes (over 98 per cent) in the area are over 50 years old. According to a study made by ARDC, the worn-out and inadequate machinery in the larger estates and the crude methods of processing by the small planters have resulted in the poor quality of teas. The consequent poor prices fetched have made tea production unattractive to many of the planters. The State Government has set up three co-operative processing factories. While the bulk of green teas - the traditional product of this area - is sold at Amritsar auctions, the better quality black teas, it is stated, have to be transported all the way to Calcutta auctions which adds to the cost. It was represented to the Committee that the position of the small planters in Kangra Valley is such that they can absorb development assistance only at subsidised rates of interest.

4.29 Certain other tea growing areas, e.g., Cachar, are also stated to be having special problems which need

special attention. The area committees should look into these problems and suggest suitable solutions.

4.30 Adequate provision has to be made for the small planters in the tea development plan. The Committee notes that a sum of Rs.10 crores has been earmarked by the Tea Board out of the total plan outlay for development of small tea planters with holdings upto 25 acres. Similar arrangement is necessary for other small planters with holdings between 25 acres and 250 acres. The allocation of plan outlay for them should at least be proportionate to their holdings in relation to the total area under tea. The Tea Board should organise a regular information system for reviewing the implementation of the schemes for small planters.

4.31 It is necessary to organise the activities of clusters of small planters in each area into groups, either on co-operative basis or otherwise. Once they are organised into groups, it would be easier to channelise technical and financial support to them from institutional agencies. The Standing Area Committees (referred to in paragraph 4.24) ~~should~~ should draw up schemes for small planters coming together for development programmes. The Lead Bank in each tea growing district should take the initiative and ensure that such development schemes for small tea planters do not suffer for want of adequate and timely finance. ARDC should also consider extending refinance in respect of small tea planters with holdings upto 20 acres at the same concessionary rate of interest as applicable to small farmers.

4.32 The Committee has been given to understand that the small tea planters in Nilgiris district, Tamil Nadu, have a problem of providing security to banks, because they are

holding joint "pattas" in respect of their lands. The Committee recommends that the State Government should take urgent steps for revising the land records so that this impediment to the flow of institutional finance to them could be removed.

4.33 The small tea planters have many problems other than financial. As the Dutt Working Group had indicated, and which hold good even now, the inferior quality of planting material used, the adoption of antiquated methods of cultivation, harvesting and manufacture, poor management and employment of not properly trained labour, result in the production of poor quality tea. The Committee, therefore, endorses the view of the Dutt Working Group that the small planters need technical advice of a high order. The Tea Board and UPASI are providing this at present; but there is still considerable scope for enlargement of this service.

Sick/marginal units

4.34 The Tea Board has a separate Sick Unit Cell for monitoring sick units. The amendment made to the Tea Act in 1976 has incorporated therein provisions analogous to those in the Industries (Development and Regulation) Act, 1951, to deal with the problems of sick tea units. The legal position in regard to sick tea units, in terms of the above amendment, is stated to be that they have to be handed over to the previous management after rehabilitation. The Reserve Bank of India has appointed a Committee to examine, inter alia, various aspects having a bearing on rehabilitation of sick units, including legal provisions. It is expected that the Tea Board will study the recommendations of this Committee, when available, in so far as

they have bearing on tea industry and take appropriate action.

4.35 The definition of a sick unit as given in the Tea Act is different from the concept of sick units as understood in banking parlance. The Committee recommends that the banks should monitor the performance of the tea producing units according to the definition of sick units as applicable to the other industries and adopt suitable measures for rehabilitation, where necessary.

Availability of finance from one source

4.36 It has been represented to the Committee by the representatives of the tea industry that the financial requirements of the industry for working capital as well as for development purposes should be available from one source. This source, according to them, should be the commercial bank (or the co-operative bank) which provides credit for working capital. The concerned bank may obtain refinance from the Tea Board, ARDC and IDBI. It is stated that this would lead to cutting down of the delays in processing applications, completing documentation, etc. This would also solve the problem of sharing of the security on pari passu basis by the tea financing agencies.

4.37 As it is, ARDC and IDBI finance is routed through the banks or other financial institutions. In view of the special nature of the assistance provided by the Tea Board, its finance, however, is made available to planters by way of direct loans. In this context, it has been stated that the Tea Board's assistance is very small compared to the total requirements and is intended only as a catalyst to development efforts. Some of its assistance is given

to units which are not financed by the banks. Further, if the Tea Board's assistance which is at a low rate of interest is routed through the banks, the interest cost to the borrowers would increase as the banks would add their servicing charges. It may also be noted that the problem of sharing of security arises only in the case of its assistance under the Plantation Finance Scheme and not under its Hire Purchase Scheme. In the case of Plantation Finance Scheme, banks are reluctant to concede pari passu charge in favour of the Tea Board as the working capital advances given by banks are unsecured for most of their duration (vide paragraph 2.41). In view of this, the Tea Board may review its lending arrangements and consider adopting either a consortium approach or refinance approach. Meanwhile, banks may concede pari passu charge in favour of the Tea Board on merits of each case. There is a trend all over the country of routing subsidy through banks. The Tea Board may take into account the methods adopted by various Government departments in this regard and consider the merits of adopting this approach.

Research and training

4.38 Scientific research for the tea industry in India is being conducted under the aegis of the Tea Research Association (TRA), UPASI and the Tea Board. The Tea Board provides grants-in-aid to TRA and UPASI for maintaining and extending their research and advisory work on tea. TRA maintains the Tocklai Research Institute at Jorhat (Assam). The research centre of UPASI is located at Cinchona (Nilgiris district, Tamil Nadu). The Tea Board also provides grants-in-aid to universities and technological institutions for undertaking research on specific projects covering items which are not included in the research programme of TRA

and UPASI. Currently, such grants-in-aid are being provided to the Calcutta University, Himachal Pradesh University, the Central Food and Technological Research Institute, the Indian Institute of Packaging and some other institutions. The Tea Board has undertaken a project for establishment of a tea research centre at Kurseong in Darjeeling for looking into the specific problems of tea growing in the hilly areas of Darjeeling. The total annual expenditure incurred by the various organisations mentioned above for research work on tea is estimated to be of the order of Rs 150 lakhs. The gross requirement of funds for research and training during the next five years has been estimated by the Tea Board at Rs 12.57 crores, of which the Tea Board's involvement would be Rs 3.21 crores (Rs 1 crore under Plan expenditure and Rs 2.21 crores under non-Plan schemes). According to the Tea Board, the gap of Rs 9.36 crores is expected to be provided by the tea industry and other agencies like Council of Scientific and Industrial Research. ARDC (NABARD when set up) and IDBI may also consider providing some assistance for this purpose.

4.39 The Committee has been given to understand by the Tocklai Research Institute that the tea industry would require managers trained in multi-disciplines, viz., Agriculture, Engineering and Management. The requirements are estimated to be 200 graduates per year for North-East Indian tea industry alone. It is expected that qualified managers could be produced by the existing colleges/universities at Jorhat (Assam), Palampur (Himachal Pradesh), Kalyani (North Bengal) and Coimbatore (Tamil Nadu). It is the view of

the Tocklai Research Institute that the graduates turned out by the above institutions should be given pre-job training in tea. Such training is at present provided only by the Assam Agricultural University. It would also be necessary to give on-the-job training to the existing managers in the tea industry after a "feet wetting" experience of two to three years and regular refresher training courses to update the knowledge of managerial cadres in respect of the latest developments in technology. The Tocklai Research Institute has suggested that a 'Plantation Crop Research Institute' for training of managerial cadres (dealing with tea in the beginning and other crops later) may be set up at Jorhat. The capital expenditure has been estimated roughly at Rs 13 crores. The suggestion may be examined by the Tea Board.

CHAPTER V

SUMMARY OF RECOMMENDATIONS

1. The tea industry has represented that it is facing many problems other than those relating to availability of credit, such as, increasing cost of production, inadequate price realisation, low cash generation compared to other industries and high rates of taxation. Also, there is a large difference between the prices realised by the producers in auctions and the prices charged by the retail outlets to the ultimate consumers in the domestic market. The effect of these problems, in their totality, on the tea industry may be examined by an appropriate agency (paragraph 2.42).

2. The method of assessing credit requirements on the basis of cash budgets should be made applicable to all tea units with their own processing factories, irrespective of the size of their holdings, as well as to the units which do not have processing factories but whose holdings are above 100 hectares (250 acres). The cash credit limits for these borrowers may be fixed on the basis of a detailed monthly cash budget for the entire season/year obtained from them in advance before the commencement of a particular season/year, at the level of the peak deficit reflected in the cash budget. Variations from the projected drawing schedules as per cash budget may be allowed, within the overall cash credit limit, with flexibility at the discretion of the Branch Managers on the basis of periodical review of the actual operations (paragraphs 3.13 and 3.14).

3. It is necessary for banks to ensure that the larger borrowers in the tea industry meet at least a part of their

working capital requirements from their owned funds and long-term resources. For this purpose, while considering credit proposals for the next season/year, banks should insist on these borrowers furnishing a pro forma balance sheet as on 31st October of the current year. The surplus available with the borrowers (i.e., excess of owned funds and long-term resources over investments in fixed and non-current assets), as revealed by the pro forma balance sheets, should normally be equal to at least 25 per cent of the limits proposed to be fixed. Where the borrowers' own contribution is found to be less, banks should lay down suitable covenants while sanctioning the limits so that the borrowers achieve the level of minimum contribution over a period not exceeding five years. Where it is observed that the surplus available with the borrowers is more, banks should not normally allow a slip-back in the following years unless warranted by factors like loss or low profitability of the borrowing unit or its need to make matching contribution for development finance (paragraph 3.15).

4. Banks and co-operatives should make sustained efforts to institutionalise the borrowings of tea planters so as to make them less dependent for their credit requirements on bought leaf factories. The Lead Banks in the concerned tea growing districts should take initiative in this direction and ensure that the small planters are provided adequate short-term credit (paragraph 3.17).

5. The method of fixing scales of finance per acre may be adopted for providing short-term credit to tea planters with holdings upto 100 hectares (250 acres) and who do not have processing factories of their own. Area committees

(referred to in paragraph 22 below) could fix scales of finance for different areas periodically. They may also determine the cash and kind components of the scales of finance. ~~on a cash credit basis to be adjusted by the end of each season/year.~~ The limits may be allowed on cash credit basis to be adjusted by the end of each season/year. Banks should ensure that in working out the credit requirements of these borrowers, the amount of owned funds that could be brought in by the more affluent among them, is taken into account in determining the size of the limits. If any of these borrowers is prepared to project his requirements of working capital finance on the basis of detailed cash budgets, banks should allow the borrower the choice to do so instead of adopting the scale of finance (paragraph 3.19).

6. Short-term credit granted by banks to very small planters with holdings of less than 8.09 hectares (20 acres) may be treated as agricultural advances and included in the category of priority sector advances. There is also a strong case for including short-term credit granted to planters with holdings between 20 acres and 250 acres without having processing factories under priority sector advances, which in effect would mean that the borrowers in this category would be able to obtain adequate credit from banks more easily at rates of interest applicable to agricultural advances. Such help to this sector is well deserved and would not be misplaced, particularly as these borrowers would be engaged in purely agricultural operations and economics of tea leaf production, as it exists currently, does call for some help to ~~small and medium~~ such planters (paragraphs 3.23 and 3.26).

7. The guarantee cover of the Deposit Insurance and Credit Guarantee Corporation of India, under its Small Loans

Guarantee Scheme, may be extended to short-term credit facilities granted to the small tea planters with holdings upto 20 acres (paragraph 3.28).

8. Where there are exceptional circumstances, e.g., natural calamities, fall in prices or other contingencies like port strike, warehouse strike, etc., banks may consider sympathetically requests from tea units for temporary limits in excess of the regular cash credit limits. Such limits should be allowed only for pre-determined short durations and given through separate demand loan or 'non-operable' cash credit account. In view of the uncertainties faced by the tea industry, banks should view the deviations from the projected cash budgets more leniently than in the case of other industries and charge additional interest of one per cent per annum over the normal rate on such ad hoc or temporary additional limits only in exceptional cases (paragraph 3.29).

9. There may be occasions when additional credit may have to be provided without delay to tea producers to tide over temporary difficulties. To facilitate granting of such credit, banks should delegate adequate discretionary powers to the Regional Managers/Branch Managers. Financing of tea producers by brokers for such purposes should be discouraged by banks and they should desist from accommodating brokers for the purpose of re-lending to the producers (paragraph 3.30).

10. Short-term credit facilities granted to tea units are basically self-liquidating and banks should maintain separate accounts for each season/year so that the expenses and realisations for each season/year are reflected in the same account (paragraph 3.31).

11. The demand of the tea industry for automatic conversion of the deficits in working capital accounts at the end of a season/year into term loans cannot be conceded. Deficits in working capital accounts may arise due to bad management or diversion of sale proceeds for liquidation of past liabilities, financing of capital expenditure, etc. In such cases, banks should take necessary corrective steps to ensure that the borrowers tone up their management and bring in funds from outside sources to cover the shortfalls. However, where banks are ~~convinced~~ satisfied that the deficits in working capital accounts represent losses incurred by the units due to price fluctuations or natural calamities or other factors beyond their control, the deficit may be kept in a separate account to be adjusted over a period of time which may be determined taking into account the financial position and projected future cash generation of the individual borrower. Normally, such period should not exceed three years (paragraph 3.32).

12. According to the information received by the Committee, 51 private bought leaf factories (out of 80) and nine industrial co-operative tea factories (out of 11) in the Nilgiris district, Tamil Nadu, have been issued registration certificates as small-scale industrial (SSI) units by the concerned authority of the State Government on the basis that the value of their plant and machinery does not exceed Rs.20 lakhs. These factories are accordingly eligible for financial assistance as available to SSI units. ~~Short-term~~ Advances to the bought leaf units in Nilgiris as well as in other areas (both in the private and co-operative sectors), holding registration certificates as SSI units, should be eligible for classification as priority sector advances. The position regarding

the classification of ~~short-term~~ advances granted to bought leaf units as priority sector advances is not clearly understood by some bank officials at branch level. The Reserve Bank of India, in consultation with Government of India, may issue suitable clarificatory instructions to the banks in this regard (paragraph 3.36).

13. Tea traders have represented for larger bill purchase limits, and for grant of limits against pledge of delivery orders issued by the registered broker-firms covering auctioned teas, in view of the expected increase in the quantities of teas offered for sale through auctions. The banks should consider granting of increased bill or other working capital limits to their trader clients on the merits of each case (paragraph 3.40).

14. While there should be no objection to the tea companies maintaining accounts at Calcutta or other metropolitan/urban centres for managing the sales of teas through auctions, etc., where the financing bank has branches in the tea growing areas, a part of the sanctioned working capital limits may be transferred to the branches nearest to the tea gardens so that the Branch Managers can exercise adequate supervision over the operations in the accounts. This will also facilitate the control of drawings in the accounts as well as the grant of ad hoc credit to the gardens to get over temporary difficulties **in** exceptional circumstances (paragraph 3.42).

15. To ~~avoid~~ delays, banks should delegate adequate discretionary powers to their Regional Offices in the tea growing regions so that decision-making on tea proposals is decentralised to the extent possible (paragraph 3.43).

16. Banks which have a substantial stake in the tea industry and which do not have a separate Tea Department or Tea Cell, should set up Tea Cells in their Head Offices or in Regional Offices in the tea growing regions, manned by officers with adequate knowledge of the tea industry, to closely guide and monitor the financing of the industry (paragraph 3.44).

17. The gross requirement of funds for development of the tea industry during the Sixth Plan period from 1980-81 to 1984-85, according to the plan prepared by the Tea Board, is estimated at about Rs 300 crores. The Committee is assured that funds to the extent of Rs 240 crores would be made available by the existing institutional set-up comprising the Tea Board, ARDC, IDBI and banks. This would leave a gap of Rs 60 crores to be met by the tea industry itself out of its own resources. Normally, the tea industry should provide margin on the projected development finance at the rate of 25 per cent. However, where it is not possible for individual units to do so, relaxation may be allowed on merits, particularly in the case of small planters and deserving weak units (paragraph 4.18).

18. There may be cases where a tea unit requires finance for purposes not covered by the existing schemes of ARDC or the Tea Board, such as, purchase of balancing equipments or renovation of factory building. It should be the endeavour of banks to provide ^{term} loans for such purposes on merits. ~~for periods not exceeding three years.~~ Time is of essence in such cases and banks should avoid delay in meeting such genuine requirements (paragraph 4.19).

19. The Tea Board, ARDC and IDBI should make a review of their existing financing schemes so that term loans for

essential purposes not covered by the existing schemes are made available to tea units (paragraph 4.20).

20. There is no special merit in setting up a new financing institution for meeting the growing financial needs of the tea industry as the required finance can be provided from within the existing institutional framework (paragraph 4.22).

21. The implementation and monitoring of the development plan for the tea industry should be the responsibility of the Tea Board. The representatives of the Reserve Bank of India, ARDC, IDBI and banks may be, formally or informally, associated with the Statutory Development Committee of the Tea Board. This enlarged Committee would attend to various aspects relating to the implementation and monitoring of the plan and co-ordination between the different financial institutions (paragraph 4.23).

22. Standing Area Development Committees may be constituted for the tea industry by the Tea Board for the various tea growing areas, consisting of representatives of the Tea Board, Reserve Bank of India, ARDC, IDBI, tea producers, State Governments and banks. The more important functions of these area committees would be preparation of sub-plans for the respective areas out of the total plan, preparation of specific schemes out of the area plans, particularly for small planters, co-ordination

between different financial institutions and development agencies in the areas, and fixing of scales of finance for small planters in the different areas periodically.

The area committees should also look into the special problems of the concerned tea growing areas which need special attention and suggest suitable solutions (paragraphs 4.24 and 4.29).

23. A sum of Rs 10 crores has already been earmarked in the plan for development of small tea planters with holdings upto 25 acres. Similar arrangement is necessary for other small planters with holdings between 25 acres and 250 acres. The allocation of plan outlay for them should at least be proportionate to their holdings in relation to the total area under tea. The Tea Board should organise a regular information system for reviewing the implementation of the schemes for small planters (paragraph 4.30).

24. It is necessary to organise the activities of clusters of small planters in each area into groups, either on co-operative basis or otherwise. The area committees should draw up schemes for small planters coming together for development programmes. The Lead Bank in each tea growing district should take the initiative and ensure that such development schemes for small tea planters do not suffer for want of adequate and timely finance. ARDC should also consider extending

refinance in respect of small tea planters with holdings upto 20 acres at the same concessionary rate of interest as applicable to small farmers (paragraph 4.31).

25. The small tea planters in Nilgiris district, Tamil Nadu, have a problem of providing security to banks, because they are holding joint "pattas" in respect of their lands. The State Government should take urgent steps for revising the land records so that this impediment to the flow of institutional finance to them could be removed (paragraph 4.32).

26. The Tea Board and UPASI are providing technical advice to the small tea planters at present; but there is still considerable scope for enlargement of this service (paragraph 4.33).

27. Banks should monitor the performance of tea producing units according to the definition of sick units as applicable to the other industries and adopt suitable measures for rehabilitation, where necessary (paragraph 4.35).

28. The problem of sharing of security between the Tea Board and tea financing banks arises in the case of the Tea Board's assistance under the Plantation Finance Scheme. The Tea Board may review its lending arrangements and consider adopting either a consortium approach or refinance approach. Meanwhile, banks may concede pari passu charge in favour of the Tea Board on merits of each case. The Tea Board may take into account the methods adopted by various Government departments for routing subsidy through banks and consider the merits of adopting this approach (paragraph 4.37).

29. The gross requirement of funds for research and training during the next five years has been estimated by the Tea Board at Rs 12.57 crores, of which the Tea Board's involvement would be Rs 3.21 crores (Rs 1 crore under Plan expenditure and Rs 2.21 crores under non-Plan schemes). According to the Tea Board, the gap of Rs 9.36 crores is expected to be provided by the tea industry and other agencies like Council of Scientific and Industrial Research. ARDC (NABARD when set up) and IDBI may also consider providing some assistance for this purpose (paragraph 4.38).

30. The Tea Board may examine the suggestion made by the Tocklai Research Institute for setting up a 'Plantation Crop Research Institute' at Jorhat for training of managerial cadres in the tea industry (paragraph 4.39).

K.B.Chore
Chairman

V.M.Sundar Raj
Member

S.C.Khanna
Member

K.Margabanthu
Member

Y.S.Borgaonkar
Member

A.N.Roy
Member

K.K.Misra
Member

G.C.Khound
Member

Bombay,
28th August 1981.

Shri C.R.Mukherjee and Shri R.C.Mody could not attend the last meeting of the Committee due to their indisposition and could not, therefore, sign the Report. They are, however, in agreement with the recommendations of the Committee.

APPENDIX I

Questionnaires issued to associations representing tea industry (both producers and traders), major tea financing banks and certain State Financial Corporations (vide paragraph 1.5 of the Report)

PART A

Questionnaire to Associations of Tea Industry

I. Working capital finance

1.1 Banks are at present providing working capital finance to the tea industry, keeping in view the broad guidelines issued to them by the Reserve Bank in 1972 on the basis of the recommendations of the Study Group under the Chairmanship of Shri B.K. Dutt. According to these recommendations, (a) the cash credit limit (i.e., the maximum outstanding that may be permitted in the account at any one time) may ordinarily be 60 per cent of the gross sales turnover or 75 per cent of the cost, and (b) seasonal drawings or total drawing limit (i.e., the aggregate debits or withdrawals which would be allowed in the cash credit account for the entire season) may be permitted to rise up to 95 per cent of the net sales turnover or the actual cost, whichever is less. Sales and cost are to be calculated on the basis of average of actuals of the past two years (any abnormal year being given due weight for the purpose) with a built-in cover for normal crop expansion, cost escalation and other contingencies. Thus, according to these recommendations, there is sufficient in-built flexibility in regard to the application of the above norms vis-a-vis the actual credit requirements of the tea gardens.

What are the views of your Association in this regard ?

1.2 Does your Association consider that the above norms for working capital finance prescribed in 1972 do not meet the requirements of the tea industry as they are at present, in spite of the much higher prices of tea now than in early '70s? If so, what, according to your Association, are the factors justifying a change in the norms?

1.3 Please specify the changes your Association would consider necessary in the aforesaid norms for fixing working capital limits by banks and determining seasonal drawing limits.

1.4 According to the Dutt Study Group's recommendations, cost of production should be taken to include expenses like excise duty, provident fund dues, transport, stores, foodgrains, interest on term loans, etc. Does your Association consider this adequate? If not, what are the other items of expenditure to be taken into account for assessing the working capital requirements of the tea estates?

1.5 What is the customary practice in the tea industry in regard to trade credit on purchase of consumable stores, etc.? Please indicate (a) the quantum of such credit normally received in terms of number of days'/months' consumption, and (b) the period for which such credit is generally allowed by the suppliers.

1.6 The norms recommended by the Dutt Study Group for provision of working capital finance to the tea

industry do not take into account other resources, e.g., public deposits, trade credits received, plough back of profits, etc., apart from margin contribution. Would your Association agree that the other resources of the tea gardens should also be taken into account while assessing their working capital requirements ? Please specify the constraints, if any, in this regard.

1.7 Do the members of your Association encounter any problems in obtaining working capital finance with regard to (a) timeliness, and (b) adequacy ?

II. Development finance

2.1 The different agencies providing term finance to the tea industry are commercial and co-operative banks, State Financial Corporations and the Tea Board. Do the members of your Association experience any difficulty in obtaining term loans for development purposes from these institutions ? If so, please specify the difficulties and give suggestions to overcome them.

2.2 Does your Association consider that the terms and conditions (relating to period, rate of interest, etc.) on which development finance is now provided to the tea industry are reasonable ? If not, what are the modifications that your Association would suggest ?

2.3 What are the different major purposes for which term loan assistance for large amounts is required by the tea industry ?

III. Expansion of output of tea industry

3.1 The major objective at present is a rapid expansion of the output of the Indian tea industry so

that it can meet the sustained rise in domestic consumption without impinging on the exportable surplus. What are the views and suggestions of your Association in this regard, particularly in the context of the credit requirements (both working capital and term loans) ?

3.2 What, according to your Association, should be the specific role of (a) banks, (b) other financial institutions and (c) the Tea Board, in achieving the above objective ? -

3.3 It is reported that tea plantations all over India generally have an unusually large proportion of aged bushes and this is a significant factor in influencing the yield rates of the tea bushes. In this context, replantation efforts need all-out encouragement. What is the experience/assessment of your Association in this regard on the basis of the plantations of its members ?

3.4 What are the factors, if any, which inhibit the replantation efforts and what suggestions would your Association make to get over the problems ?

3.5 One of the solutions to the problem of expanding the output of tea industry is to bring new areas under cultivation. What are the specific steps taken by the members of your Association for extension planting and what are the constraints, if any, in this regard ?

3.6 Has your Association made any estimate of the quantum of finance required by the tea industry in general over the next five years for expansion of output ? If so, please furnish details.

IV. Marketing of tea

4.1 What is the procedure followed by the members of your Association for sale of tea in the domestic market ? Do they experience any difficulty in realising the sale proceeds during the season itself ?

4.2 What is the normal period for realising the sale proceeds (a) when tea is sold through auctions, and (b) when ex-garden sales are made ? Do the gardens have to make sales on credit terms ? If so, please indicate the period of credit usually allowed.

4.3 It is reported that during the last ten years, share of sales of tea through auctions has declined while ex-garden sales have substantially increased. Is this trend applicable to the members of your Association ?

4.4 What, according to your Association, are the factors responsible for the substantial increase in ex-garden sales over sales through auctions ?

4.5 The aforesaid change causes problems to the financing banks/institutions in ensuring a prompt return flow of funds lent. What suggestions would your Association make to get over the problem for the financing banks/institutions ?

4.6 Do the members of your Association engage in direct exports of tea ? If not, what are the agencies through which their produce is exported ?

4.7 Who normally gets the benefit of the concessionary rate of interest on packing credit - (a) the producers, or (b) the trade ? Has your Association devised any procedure to ensure that the benefit of the concessionary rate is given to the producers ?

4.8 Does your Association consider that there are problems of loading tea containers for export on ships ? If so, what are the suggestions of your Association to overcome the problem ?

4.9 What, according to your Association, is the assistance required from banks and other financial institutions for increasing the export of tea ?

V. Miscellaneous

5.1 What are the susceptibilities of the tea gardens to the vagaries of nature ? Please give specific instances.

5.2 What are the suggestions of your Association to overcome such vagaries, particularly (i) from the point of view of the financing banks/institutions in recovering their dues, and (ii) in the context of the need for finance for rehabilitation of the gardens ?

5.3 Has there been any change of ownership of the tea estates of your members during the last five years ? If so, please indicate the nature of changes. Has the change been favourable or otherwise in the output of tea of the estates ?

5.4 Are any estates of the members of your Association managed by professionals and/or technicians ? If so, what are the effects of such management on production, costs and earnings of the estates ?

5.5 Does the tea crop have periodical cycle ? If so, please furnish a brief note on such a phenomenon.

5.6 Does your Association consider that there is a need for a separate Corporation to finance tea

plantations ? If so, please enumerate the reasons for such a separate body.

5.7 Does your Association have any other information/data/suggestion to furnish to the Committee in examining the problems relating to the financing of the tea industry ?

PART B

Questionnaire to banks

I. Norms for fixing working capital limits

1.1 Banks are at present providing working capital and term loans to the tea industry, keeping in view the broad guidelines issued to them by the Reserve Bank in 1972 on the basis of the recommendations of the Study Group under the Chairmanship of Shri B.K. Dutt. The Study Group had recommended that working capital should be made available to the tea industry by the commercial banks against hypothecation, on the following basis :

"(a) The cash credit limit (i.e., the maximum outstanding that may be permitted in the account at any one time) may ordinarily be 60 per cent of the gross sales turnover or 75 per cent of the cost. Cost should be taken to include all expenses including excise duty, provident fund dues, transport, stores, foodgrains, interest on term loans, etc."

"(b) The seasonal drawings or total drawing limit (i.e., the aggregate debits or withdrawals which would be allowed in the cash credit account for the entire season) may be permitted to rise upto 95 per cent of the net sales turnover or the actual cost, whichever is less. The drawings may be regulated by monthly schedules as submitted by the borrowers and approved by the bank."

" Sales and cost referred to above may be calculated on the basis of average of actuals of the past two years (any abnormal year being given due weight for the purpose), with a built-in cover for normal crop expansion, cost escalation and other contingencies."

It is understood that different banks follow different practices in applying the above norms. It appears that some banks fix the working capital limit on the basis of the first norm, while some others fix the limit on the basis of the second norm and some banks appear to be using both these norms.

Please state the actual practice followed by your bank in the application of the above norms: (a) for fixing the cash credit limit, and (b) for determining the seasonal drawing limit.

1.2 As stated above, the Dutt Study Group had recommended that sales and cost for the purpose of the norms may be calculated on the basis of average of actuals of the past two years (any abnormal year being

given due weight for the purpose) with a built-in cover for normal crop expansion, cost escalation and other contingencies. In other words, according to these recommendations, some marginal adjustments in the calculation of ceiling limits and in fixing the seasonal drawing limits would be needed to introduce an element of flexibility. It is understood that in actual practice, banks are taking this into account and also taking a liberal/flexible view of the requirements of the tea gardens.

Please indicate the manner in which these recommendations are being implemented by your bank in actual practice. Please also elaborate how exactly weightage is given by your bank for any abnormal year while reckoning the working capital limit and seasonal drawing limit.

1.3 The norms stated above were prescribed in 1972. The tea industry has represented to the Reserve Bank that these norms do not meet the requirements of the gardens at present. Does your bank agree with this view? If so, what, according to your bank, are the factors justifying a change?

1.4 If your bank feels that the norms stated above are not adequate, what changes would it suggest in the norms?

1.5 The Dutt Study Group made its recommendations in 1972. Subsequently, the Study Group on Follow-up of Bank Credit (Tandon Committee) recommended inter alia that the main function of a banker as a lender is to supplement the borrower's own resources. The aforesaid norms for the tea industry prescribed by the Dutt Study Group do not take into account other

resources, apart from margin contribution, which may be available with the tea gardens. Would your bank agree that the 1st or 2nd Method of lending recommended in 1975 by the Tandon Committee could be applied to the tea industry, at least in the case of large borrowers ? If your bank does not agree, kindly specify the reasons.

Note: Please work out and indicate the permissible cash credit limit for the last season in the case of six tea gardens (representing as far as possible small, medium and large units) financed by your bank on the basis of (i) the Dutt Study Group norms, (ii) 1st Method of lending as per the Tandon Committee report, and (iii) 2nd Method of lending as per the Tandon Committee report.

1.6 Does your bank consider that the working capital requirements of tea industry must be based on the future estimates of cost of cultivation and manufacture of tea, as is being done in other industrial and agricultural advances ?

1.7 Does your bank think that inventory norms should be fixed for tea industry to avoid speculative holding of consumable stores and withholding normal sales of made tea for speculative purposes ? If so, what, according to your bank, should be the maximum holding that could be permitted ?

1.8 What is the procedure followed by your bank for sanctioning working capital limits to the tea gardens at the beginning of each season ? Have there been any complaints about delays in sanctioning the limits ? If so, what are your bank's suggestions to get over the delays ?

1.9 Does your bank have the practice of reassessing the working capital requirements of each tea garden before the commencement of the season ? If not, do you allow the limits fixed for a previous season to be utilised for the following season also ?

1.10 Does your bank obtain month-wise Cash Budgets covering the entire season while fixing the working capital limit with a view to ensuring that adequate finance is made available to the tea gardens ?

1.11 What is the policy adopted by your bank for increasing the working capital limit and/or seasonal drawing limit, if these limits, fixed at the beginning of the season, have been found inadequate subsequently ?

1.12 Does your bank follow the practice of making mid-season review of the working capital limits ? If so, when is the review undertaken and what action is taken on the basis of the review ?

1.13 If your bank does not carry out mid-season review in all cases, what is the percentage of accounts for which mid-season review is normally carried out ?

1.14 When the borrowers are not able to bring their accounts to credit at the end of a season, how does your bank get the outstanding balance adjusted ? Please indicate whether the deficit is converted into a term loan or whether the working capital limit for the next season is reduced to the extent of the deficit.

1.15 In some cases, the estimated profit during the following year may be sufficient enough to wipe out the deficit in the previous year. In such cases, do you think that the bank should increase the working capital

limit for the next season to the extent of the deficit, so that smooth functioning of the garden will not be affected ?

1.16 What are the rates of interest usually charged by your bank on working capital accounts of the tea industry ? Please indicate the rates charged separately for small, medium and large borrowers in the industry.

1.17 What is the definition adopted by your bank for deciding "small", "big" and "large" borrowers in the tea industry ?

1.18 Has your bank introduced any special scheme for financing small and marginal tea gardens ? If so, please furnish full details thereof.

1.19 Is your bank financing the working capital requirements of "bought leaf factories" ? If so, on what basis ?

1.20 Does your bank entertain new proposals for financing working capital requirements of tea gardens, or decline such requests on account of resources constraint, etc. ?

1.21 Does your bank adopt any special method for fixing working capital limit for sick tea gardens ? If so, please furnish full details thereof.

II. Term Loans

2.1 What are the types of term loans and the purposes for which such loans are given by your bank to tea plantations for development purposes ?

2.2 What is the normal time taken for processing the term loan proposals and sanctioning them ? Have there been any complaints about delays in sanctioning term loans? If so, what are your bank's suggestions to get over the delays ?

2.3 For granting term loans under ARDC Scheme, is it the practice of your bank to wait for formal clearance of the proposal by ARDC or does it grant the loans and subsequently seek refinance from ARDC ?

2.4 Does your bank experience any delay in obtaining refinance from ARDC ? If so, what are its suggestions for overcoming the delays ?

2.5 Does your bank give term loans to tea gardens, even if ARDC refinance is not available, having regard to the nature of the scheme submitted by the borrowers ?

2.6 Does your bank extend deferred payment guarantees for purchases of plant and machinery/equipment either under IDBI Bills Rediscounting Scheme or otherwise ? If so, what is the security arrangement stipulated by the bank and the normal time taken to issue such guarantees ?

2.7 What is the commission charged by your bank for issuing deferred payment guarantees for tea gardens ?

2.8 What are the rates of interest usually charged by your bank on term loans granted to the tea industry ?

2.9 What is the spread between the rate of interest charged by ARDC on the refinance provided by it and the rate of interest charged by your bank on the term loans provided by it to the borrowers in the tea industry ? Does your bank consider that the spread is adequate ? If not, what are its views in this regard ?

2.10 Please specify the security taken by your bank in respect of term loans granted to the industry,

2.11 Does your bank allow any repayment holiday in respect of instalments and/or interest on term loans ? If so, please specify the circumstances under which it is allowed.

2.12 The Dutt Study Group had recommended in its report a consortium arrangement for providing term finance except in cases where the borrowers were able to provide security for all their requirements, to different institutions. The commercial/co-operative bank which provided the working capital finance was to undertake the function of a sponsoring agent for the consortium arrangement. The Study Group had also emphasised that the Tea Board should continue to function as a lender and be a member of the consortium. It is reported that the above recommendation regarding consortium arrangement (including the Tea Board) is not being implemented.

Please specify the difficulties, if any, being encountered by your bank in implementing this recommendation.

2.13 The Tea Board has pointed out that in respect of the long-term loans provided by it to the tea estates under the Tea Plantation Finance Scheme, it should be allowed to share the security of the tea estate (charged to banks by way of equitable mortgage as collateral for short-term credit) on pari passu basis with banks, as it would be difficult for it to accommodate the increased requirements of the tea estates for development finance under the arrangement of the second charge. What are the difficulties, if any, for your bank to agree to pari passu charge with the Tea Board ?

2.14 What are the other problems, if any, encountered by your bank in having a co-ordinated approach with other financial institutions, Tea Board, etc., in financing the tea estates ?

2.15 A suggestion has been made that the scope of working capital finance should be enlarged to include certain unavoidable capital expenditure like installation of power plants, statutory liabilities such as workers' housing, etc., to be adjusted within 5 years, so that renovation of plantation, investment in balancing equipment and additional machineries to maintain production, do not get delayed or postponed. This approach is stated to be essential if tea production has to grow in proportion to the growth of domestic demand without cutting into export sales.

Please give your bank's detailed comments on this suggestion.

III. Expansion of output of tea industry

3.1 The major objective at present is how rapidly the Indian tea industry can expand its output to meet the sustained rise in domestic consumption without impinging on the exportable surplus. What are your bank's views on the role of banks in achieving this objective ?

3.2 It is reported that tea plantations all over India have an unusually high proportion of aged bushes and this is a significant factor in influencing the per bush yield of the tea bushes. What is your bank's experience/assessment in this regard on the basis of plantations financed by it ?

3.3 The Tea Board is understood to be providing a subsidy per hectare of Rs.10,400 and Rs.12,400 for plains and hill gardens, respectively, and Rs.15,000 for gardens in Darjeeling, to encourage replantation. However, the cost involved in replanting is reported to range between Rs.40,000 and Rs.45,000 per hectare. What role can banks play in meeting the gap ?

3.4 Since the main factor which appears to be inhibiting replantation efforts is the immediate loss of income for a period of 5 to 7 years, would your bank suggest that term loans should be given for the purpose (a) at a specially concessionary rate of interest, and (b) with an interest-free initial period.

3.5 One of the solutions to the problem of expanding the output of tea industry is to bring new areas under cultivation. What role can banks play in meeting the financial requirements for extension planting ? What are the constraints, if any, in this regard ?

IV. Other problems encountered by banks in financing tea industry

4.1 What are the special problems, if any, encountered by your bank in financing the tea industry vis-a-vis the viability and the health of the tea gardens, their cash generating capacity, etc. ?

4.2 What is the control exercised by your bank on the marketing of tea produced by the gardens financed by it ? How far is the control effective in ensuring the recovery of the bank's dues ?

4.3 It is reported that during the last ten years, share of sales of tea through auctions has declined

while ex-garden sales have substantially increased. Has this caused any problem to your bank in ensuring a prompt return flow of funds lent ? If so, what are your bank's suggestions to get over the problem ?

4.4 Does your bank provide financial assistance to the tea gardens for export of tea ? If so, at what rate/s of interest and for what period ?

4.5 What is generally the maximum period for which (a) packing credit usually remains outstanding, and (b) the benefit of the concessionary rate of interest on packing credit is allowed to the borrower ?

4.6 In case export credit is made available to the traders, does your bank ensure that the benefit of the concessionary rate of interest is extended to the producers ? If not, what are the difficulties in extending the benefit to the producers and what are your suggestions in this regard ?

V. Statistical data and other particulars

5.1 Please furnish data regarding the number of units in the tea industry which have been provided credit facilities by your bank as on the last Friday of October 1980 in the following form :

No.of units	Of which number of units which are treated as 'Sick'
<u>1.</u>	<u>2.</u>

(a) Working capital
limits only

(b) Term loans only

	<u>1.</u>	<u>2.</u>
(c) Working capital limits and term loans		
Total :		

(Note : Sick units may be deemed to be those which have incurred cash losses in the past year and which, in the bank's judgement, are likely to incur cash losses in the current year as well as the following year, coupled with a worsening trend in current ratio and debt-equity ratio)

5.2 Please furnish data as on the last Friday of October 1980 regarding credit facilities extended by your bank to the tea industry (both for agricultural operations and tea processing) in the following form :

As on the last Friday of October 1980

(Amounts in lakhs of rupees)

(a) Working capital limits	No.of A/cs.	Limit	Balance out- stan- ding
1) Cash credit/overdraft			
ii) Packing credit			
iii) Discount/purchase of			
1. Inland bills			
2. Export bills			
iv) Other facilities (Please specify)			
Total :			

(b) <u>Term loans</u>	<u>No.of accounts</u>	<u>Amount of loan</u>	<u>Balance outstanding</u>
i) For new planting and maintenance :			
1) Extension			
2) Replanting			
3) Replacement planting			
4) Maintenance of immature area			
5) Infilling, if any			
ii) For purchase of machinery, irrigation equipment, tractors, transport vehicles, etc.			
iii) For construction of labour and supervisors' quarters, etc.			
iv) For construction of factory or leaf withering sheds			
v) For clearing old debts			
vi) For other purposes (please specify)			
Total :	_____	_____	_____

(c) <u>Non-borrowal limits</u>	<u>No.of accounts</u>	<u>Limit</u>	<u>Outstanding liability</u>
i) Letters of credit :			
Inland			
Foreign			
ii) Deferred payment guarantees (please specify the purposes)			
iii) Guarantees			
Total :	_____	_____	_____

5.3 Of the credit facilities as on the last Friday of October 1980 detailed under item 5.2 above, please furnish particulars regarding sick units in the following form :

As on the last Friday of October 1980

(Amounts in lakhs of rupees)

	<u>No.of accounts</u>	<u>Limit</u>	<u>Balance outstanding</u>
(a) Working capital limits			
(b) Term loans			
Total :	_____	_____	_____

5.4 What, according to your bank, are the factors responsible for the above units turning sick and what steps does it propose to take (i) to rehabilitate the sick units, and (ii) to prevent sickness in the units ?

5.5 Please furnish size-wise and area-wise details of credit facilities extended by your bank to the tea industry in the proforma given in Annexure I.

VI. Miscellaneous

6.1 Please furnish (i) a specimen of the application form obtained by your bank from a borrower in the tea industry for working capital limits, and (ii) a specimen of the note put up by your bank to its Board of Directors/competent authority for sanctioning the limits.

(Note : The specimens may relate to an actual case without disclosing the name of the borrower).

6.2 Has your bank evolved any forms for submitting periodical progress reports by tea gardens and inspection reports by inspecting officials ? If so, please furnish specimens of these forms.

6.3 Please also furnish specimens of other forms, if any, evolved by your bank for use in regard to financing of the tea industry.

6.4 Does your bank have any other information/data/suggestion to furnish to the Committee in examining the problems connected with the financing of the tea industry ?

Annexure I to questionnaire to banks

(Question 5.5)

Name of bank:

Size-wise and area-wise details of credit facilities
extended by the bank to the tea industry as on the
last Friday of October 1980

(Amounts in lakhs of rupees)

Area/Region	No. of units	Of which, No. of units considered as sick	Cash credit/overdraft*		Packing credit		Discount/purchase of bills		Term loans	
			Li-mit	Out-standing balance	Li-mit	Out-standing balance	Li-mit	Out-standing balance	Amo-unt. of loan	Out-standing balance
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

I. West Bengal (Dooars, Terai and Darjeeling)

Units with annual production -

- (i) upto 1 lakh kg.
- (ii) over 1 lakh upto 5 lakh kg.
- (iii) over 5 lakh kg.

Sub-total

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
II. <u>Assam (Assam Valley, Cachar and Tripura)</u>											
Units with annual production -											
(i) upto 1 lakh kg.											
(ii) over 1 lakh upto 5 lakh kg.											
(iii) over 5 lakh kg.											
Sub-total											
III. <u>Southern Region (Tamil Nadu, Kerala and Karnataka)</u>											
Units with annual production -											
(i) upto 1 lakh kg.											
(ii) over 1 lakh upto 5 lakh kg.											
(iii) over 5 lakh kg.											
Sub-total											
IV. <u>Northern Region (Himachal Pradesh)</u>											
Units with annual production -											
(i) upto 1 lakh kg.											
(ii) over 1 lakh upto 5 lakh kg.											
(iii) over 5 lakh kg.											
Sub-total											
Grand total (I+II+III+IV)											

* Other facilities, if any, granted (e.g., demand loan) may be separately shown in columns (4) and (5).

PART C

Questionnaire to State Financial
Corporations

I. Term loans

1.1 What are the types of term loans and the purposes for which such loans are given by the Corporation to tea plantations for development purposes ?

1.2 What is the normal time taken for processing the term loan proposals and sanctioning them ? Have there been any complaints about delays in sanctioning term loans ? If so, what are the Corporation's suggestions to get over the delays ?

1.3 Does the Corporation extend deferred payment guarantees for purchases of plant and machinery/equipment either under IDBI Bills Rediscounting Scheme or otherwise ? If so, what is the security arrangement stipulated by the Corporation and the normal time taken to issue such guarantees ?

1.4 What is the commission charged by the Corporation for issuing deferred payment guarantees for tea gardens ?

1.5 What are the rates of interest usually charged by the Corporation on term loans granted to the tea industry ?

1.6 Does the Corporation levy any other charges from the borrowers in the tea industry for term loans granted to them ? If so, please give details and indicate the rates.

1.7 Please specify the security taken by the Corporation in respect of term loans granted to the tea industry.

1.8 Does the Corporation allow any repayment holiday in respect of instalments and/or interest on term loans ? If so, please specify the circumstances under which it is allowed.

1.9 What are the problems, if any, encountered by the Corporation in having a co-ordinated approach with banks, Tea Board, etc., in financing the tea estates ?

II. Statistical data and other particulars

2.1 Please furnish data regarding the number of units in the tea industry which have been provided credit facilities by the Corporation as on the last Friday of October 1980 in the following form :

	No. of units <hr/>	Of which number of units, if any, which <u>are treated as 'Sick</u>
(a) Term loans only		
(b) Guarantee facilities only		
(c) Term loans and guarantee facilities		
Total :	<hr/>	<hr/>

(Note : Sick units may be deemed to be those which have incurred cash losses in the past year and which, in the Corporation's judgement, are likely to incur cash losses in the current year as well as the following year, coupled with a worsening trend in current ratio and debt-equity ratio).

2.2 Please furnish data as on the last Friday of October 1980 regarding credit facilities extended by the Corporation to the tea industry in the following form :

As on the last Friday of October 1980

(Amounts in lakhs of Rs.)

(a) <u>Term loans</u>	<u>No.of A/cs.</u>	<u>Amount of loan</u>	<u>Balance outstanding</u>
i) For purchase of machinery, irrigation equipment, tractors, transport vehicles, etc.			
ii) For construction of factory or leaf withering sheds.			
iii) For clearing old debts			
iv) For other purposes (please specify)			
Total :	_____	_____	_____
(b) <u>Non-borrowal limits</u>	<u>No.of A/cs.</u>	<u>Limit</u>	<u>Outstanding liability</u>
i) Deferred payment guarantees (Please specify the purposes)			
ii) Guarantees			
Total :	_____	_____	_____

III. Miscellaneous

3.1 Does the Corporation have any other information/
data/suggestion to furnish to the Committee in examining
the problems connected with the financing of the tea
industry ?

APPENDIX II

List of associations, banks and State Financial Corporations to which the Committee issued questionnaires (vide paragraph 1.5 of the Report)

I. Associations of tea industry

(a) Producers

1. Assam Tea Planters' Association, Jorhat
2. Association of Planters of Kerala, Cochin
3. Bharatiya Cha Parishad, Calcutta
4. Consultative Committee of Plantation Associations, Calcutta
- * 5. Dehra Dun Tea Planters' Association, Dehra Dun
6. Indian Tea Association, Calcutta
7. Indian Tea Planters' Association, Jalpaiguri
8. Kangra Valley Tea Planters Association, Palampur
- * 9. Kangra Valley Small Tea Growers' Association, Baijnath
- *10. Nilgiri Small Tea Growers' Association, Coonoor
11. North Bengal Small Tea Growers' Association, Siliguri
- @12. Planters' Association of Tamil Nadu, Coonoor
- *13. Small Scale Tea Estates Association, Darjeeling
14. Tea Association of India, Calcutta
15. Terai Indian Planters' Association, Siliguri
- *16. Tripura Tea Association, Calcutta
17. United Planters' Association of Southern India, Coonoor

(b) Traders

1. Amritsar Tea Traders Association, Amritsar
2. Calcutta Tea Traders' Association, Calcutta
3. Coonoor Tea Trade Association, Coonoor
4. Indian Tea Merchants Association, Calcutta
5. Siliguri Tea Auction Committee, Siliguri
6. Siliguri Tea Traders' Association, Siliguri
7. Tea Auction Committee, Gauhati
8. Tea Exporters Association, Calcutta
9. Tea Trade Association of Cochin, Cochin

II. Banks

(a) Commercial banks

1. Allahabad Bank
2. American Express International Banking Corporation
3. Bank of Baroda
4. Canara Bank
5. Central Bank of India
6. Chartered Bank
7. Grindlays Bank Ltd.
8. Indian Bank
9. Indian Overseas Bank
10. Mercantile Bank Ltd.
11. Punjab National Bank
12. State Bank of India
13. Syndicate Bank
14. Union Bank of India
15. United Bank of India

16. United Commercial Bank
17. United Industrial Bank Ltd.

(b) Co-operative banks

1. Assam Co-operative Apex Bank Ltd.
- *2. West Bengal State Co-operative Bank Ltd.

III. State Financial Corporations

1. Assam Financial Corporation
2. Kerala Financial Corporation
3. Tamil Nadu Industrial Investment Corporation Ltd.
- *4. West Bengal State Financial Corporation

* Replies to the questionnaire not received.

@ Covered by the reply of United Planters' Association of Southern India, Coonoor.

APPENDIX III

List of persons and organisations with whom
the Committee held discussions (vide para-
graph 1.6 of the Report)

PART A

Executives/senior officers of Agricultural
Refinance and Development Corporation,
Reserve Bank of India and Industrial
Development Bank of India

ARDC

1. Shri M. Ramakrishnayya, Chairman
2. Shri Sant Dass, Managing Director

RBI

1. Shri W.S. Tambe, Executive Director
2. Dr. P.D. Ojha, Chief Officer, Industrial
Credit Department
3. Dr. N.A. Mujumdar, Adviser, Credit Planning Cell

IDBI

1. Shri C.R. Sen Gupta, Executive Director
2. Shri S.M. Chitnis, General Manager
3. Shri P.K. Vartak, Manager

PART B

Individuals

1. Shri B.K. Dutt, Calcutta (Chairman of RBI Working
Group on Finance for Tea Industry, 1971-72 and
ex-Chairman of United Bank of India)
2. Shri B.C. Ghose, Chairman, Siliguri Tea Auction
Committee, Siliguri (Also a Member of Tandon
Committee on Tea Marketing, 1978)
3. Dr.R.K. Hazari, Bombay (Former Deputy Governor of
Reserve Bank of India)

PART C

Representatives of Tea Board

1. Shri Jayanta Sanyal, Deputy Chairman
2. Shri S.S. Nandkeolyar, Director, Tea Development

PART D

Representatives of State Governments

1. Shri K.M. Lall, Special Secretary, Institutional Finance, Government of West Bengal, Calcutta
2. Shri N.K. Zutshi, Deputy Secretary, Institutional Finance, Government of West Bengal, Calcutta
3. Shri Sukavaneshvar, Collector of the Nilgiris, Udthagamandalam, Ootacamand (Tamil Nadu)

PART E

Tea Associations, banks, etc.,
at different centres

I. CALCUTTA

Tea Associations

1. Bharatiya Cha Parishad
2. Calcutta Tea Traders' Association
3. Consultative Committee of Plantation Associations
4. Indian Tea Association
5. Indian Tea Merchants Association
6. Tea Association of India
7. Tea Exporters Association

Packeters and exporters

1. Brooke Bond (India) Ltd.
2. Duncan Bros.
3. Lipton Tea (India) Ltd.
4. Tata Finlay Ltd.
5. Tea Trading Corporation of India Ltd.

Brokers

1. A.W.Figgis & Co. Pvt. Ltd.
2. Carrit Moran & Co. Pvt. Ltd.
3. Contemporary Tea Co. Pvt. Ltd.
4. J. Thomas & Co. Pvt. Ltd.

Representatives of banks

1. Allahabad Bank
2. American Express International Banking Corporation
3. Bank of Baroda
4. Bank of India
5. Central Bank of India
6. Chartered Bank
7. Grindlays Bank Ltd.
8. Mercantile Bank Ltd.
9. Punjab National Bank
10. United Bank of India
11. United Commercial Bank
12. United Industrial Bank Ltd.
13. West Bengal State Co-operative Bank Ltd.

II GAUHATI

Tea Association

1. Tea Auction Committee

Others

1. Chairman, Assam Tea Corporation Ltd.
2. Shri S. Singhanian and Shri K. Singhanian of Nahorjan Tea Co. Pvt. Ltd.
3. Shri A.K. Chowdhury of Nirmala Tea Co.

Representatives of banks

1. Allahabad Bank
2. Assam Co-operative Apex Bank Ltd.
3. Canara Bank
4. Federal Bank Ltd.
5. Indian Bank
6. Punjab National Bank
7. Union Bank of India
8. United Bank of India
9. United Commercial Bank

III. JORHAT

Tea Association

1. Assam Tea Planters' Association

Academicians

1. Vice-Chancellor, Assam Agricultural University
2. Dean, Tea Husbandry Department, Assam Agricultural University
3. Director, Tocklai Experimental Station of Tea Research Association

IV. COONOR

Tea Associations

1. Coonoor Tea Trade Association
2. United Planters' Association of Southern India

Representatives of bought leaf factories
and small growers

1. Shri B. Raju Bettan (Raja Plantation (I) Ltd.)
2. Shri M.R. Bhiman (Vel Murugan Tea Plantations)
3. Shri C. Lingan (Bergalmattom Tea Estate)
4. Shri G. Nanjan (Small grower)
5. Shri T. Rangaiah (Small grower)

Representatives of banks, etc.

1. Bank of Baroda
2. Bank of India
3. Canara Bank
4. Central Bank of India
5. Corporation Bank
6. Indian Bank
7. Nilgiris Central Co-operative Bank Ltd.
8. South Indian Bank Ltd.
9. State Bank of India
10. State Bank of Travancore
11. Syndicate Bank
12. Union Bank of India
13. Vijaya Bank
14. Project Officer (ARDC), Collectorate, Udthagamandalam

V. BANGALORE

Representatives of banks

1. Canara Bank
2. Indian Bank
3. Indian Overseas Bank
4. Syndicate Bank
5. Union Bank of India
6. Vijaya Bank

VI. DARJEELING

Tea Associations

1. Indian Tea Planters' Association
2. Indian Tea Association and Tea Association of India (Darjeeling Branch)
3. North Bengal Small Tea Growers' Association

VII. SILIGURI

Tea Associations

1. Siliguri Tea Auction Committee
2. Siliguri Tea Traders' Association
3. Terai Indian Planters' Association

Representatives of banks

1. Allahabad Bank
2. Bank of Baroda
3. Bank of India
4. Central Bank of India
5. Punjab National Bank
6. State Bank of India
7. Union Bank of India
8. United Bank of India
9. United Commercial Bank
10. United Industrial Bank Ltd.
11. Vijaya Bank
12. West Bengal State Co-operative Bank Ltd.

VIII. COCHIN

Tea Associations

1. Association of Planters of Kerala
2. Tea Trade Association of Cochin

Brokers

1. J.Thomas & Co.
2. C.W.S. (India) Ltd.

Exporters

1. India Tea Exports
2. Madhu Jayanti Pvt. Ltd.
3. Saraf Trading Corporation

Representatives of banks

1. Allahabad Bank
2. Bank of Cochin Ltd.
3. Canara Bank
4. Catholic Syrian Bank Ltd.
5. Central Bank of India
6. Federal Bank Ltd.
7. Indian Overseas Bank
8. Nedungadi Bank Ltd.
9. Punjab National Bank
10. State Bank of India
11. State Bank of Travancore
12. Syndicate Bank
13. Union Bank of India
14. Vijaya Bank

IX. NEW DELHI

Tea Association

1. Kangra Valley Tea Planters Association

PART F

Special invitees at some of
the meetings of the Committee

CALCUTTA

1. Shri Jayanta Sanyal, Deputy Chairman, Tea Board,
Calcutta
2. Dr. N.K. Jain, Director, Tocklai Experimental
Station, Jorhat
3. Dr. R.C. Awasthi, Agricultural Economist, Tocklai
Experimental Station, Jorhat

PART G

Tea estates/factories visited

1. Meleng Tea Estate, Jorhat, Assam
(Owners: Jayshree Tea & Industries Ltd.)
2. Glendale Tea Estate, Coonoor, Nilgiris district,
Tamil Nadu
(Owners: Kothari (Madras) Ltd.)
3. Bengalmattom Tea Estate Factory, Bengalmattom,
Nilgiris district, Tamil Nadu
(Bought leaf factory)
4. Kaikatty Industrial Co-operative Tea Factory Ltd.,
Melur, Nilgiris district, Tamil Nadu
5. Happy Valley Tea Estate, Darjeeling
(Owners: Happy Valley Tea Co. (Pvt.) Ltd.)
6. Some tea estates of Darjeeling Plantation Industries
Ltd., Darjeeling
7. Munjamullay Tea Estate, Vandiperiyar, Idikki district,
Kerala
(Owners: R.B.T. (Private) Ltd.)