EXCISE DUTY

More Slaps Than Sops

PRANAB MUKHERJEE's first budget, at first glance so redolent of status quo, is peppered with little booby traps. Two paragraphs in his speech have caused heartburn amidst tyre manufacturers—who are dismayed about a stiff excise hike—and soft drink bottlers, who are cut up because Mukherjee has cracked down on soft drink franchises' excise exemptions.

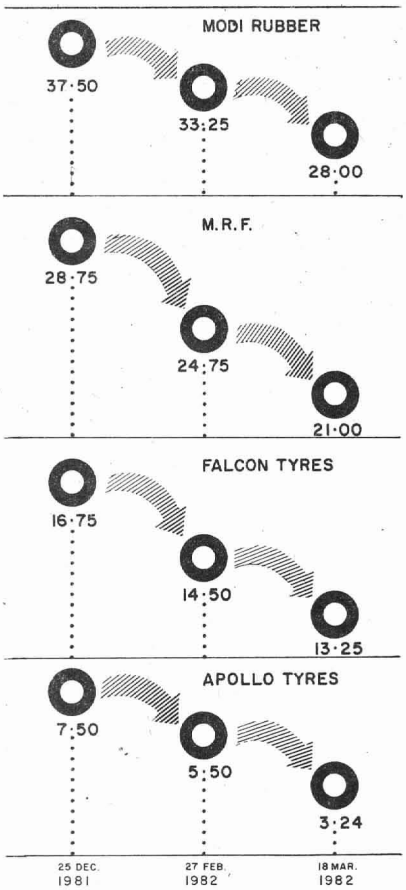
The finance minister cut back duty on synthetic rubber, carbon black and rubber processing chemicals, all needed for the production of tyres, but he also raised duty on finished tyres to 66 per cent from 60.5 per cent *ad valorem* and on processed tyre cord to 7.5 per cent from 5.5 per cent.

What this sop-cum-slap does to just one very popular truck tyre—the 900-20 16 PR, which costs Rs 2,000 ex-factory—is typical. The duty reliefs save Rs 36.26 but the additional levies come to Rs 125.08. The increased payment to the Government is Rs 88.82, which is 4.4 per cent of the tyre's basic price. Not that the manufacturers are headed for the poor-house; they promptly raised prices of truck and three-wheeler tyres by 5 per cent, and of all others by 3.5 per cent.

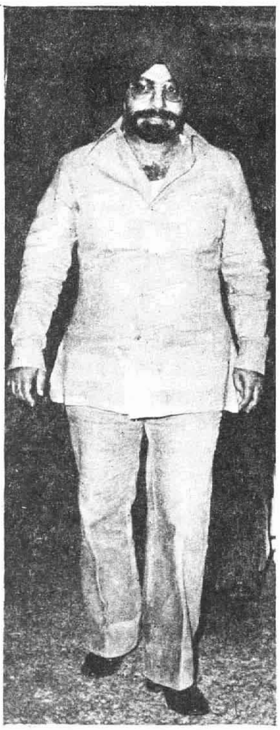
Special Burden: Manufacturers are especially furious because part of the earlier 60.5 per cent excise duty was a 'special excise duty' of 10 per cent which had been stayed by the courts. The increase to 66 per cent is therefore a 20 per cent rise on the basic rate of 55 per cent. The manufacturers are using the money collected for this held back special excise duty to ease their tight liquidity position. But if the stay is vacated, and the special duty has to be paid with retrospective effect, tyre makers will be landed with massive payments at a time when their performance is at an all-time low.

Mukherjee also made two other amendments. The first removes the ambiguity on calculation of assessable value of tyres for excise duty—a long-time dispute—and demands that the manufacturers make up their short payments with retrospective effect from October 1975. The second amendment relates to the manufacturers' claim that no excise could be levied on in-process tyre cord since it was not removed from the process line. Now tyre cord is subject to excise duty whether it is removed from the process line or not.

DEFLATED SHARES



INDIA TODAY Chart by B. K. Sharma



What is puzzling observers is that Mukherjee plugged the soft drinks loophole at all, since it hits directly at Charanjit Singh, a party colleague in the Lok Sabha. Speculation is rife about whether Singh's supposedly high-placed friends in the power-centre are indeed his friends, because he apparently had no inkling at all of the approaching crunch.

Naturally, the manufacturers are not feeling kindly towards Mukherjee. They grumble that the percentage of their net profits to sales is an abysmally low 1.4 per cent, whereas that of raw material manufacturers is as high as 5.4 per cent. Says V. Narayanan, managing director of Goodyear: "Even if the courts decide in our favour and our profits soar, we will still be losers—the Government will rake in a tax of 73.5 per cent on the profits."

The manufacturers' woes were reflected in the beating their shares took in the market after the budget. Industry whiz-kid Modi Rubber Ltd suffered the most, dropping from Rs 33.25 to Rs 28 in just 18 days. Shares might plummet further if the manufacturers are forced to pay the Government the excess excise duty they had held back.

MANY soft drink bottlers are discovering that happiness is as effervescent as the fizz in their beverages. The Government had exempted small bottlers with turnovers below Rs 7.5 lakh a year from excise duty. Large manufacturers in the cities often set up smaller plants in lesser towns under franchise agreements. Four soft drink brands—the Pure Drinks' Campa range, the Jaipurias' Vibhu range, the Pais' Baajal range and Parle's—had taken advantage of this provision to set up region-wide franchise agreements with small bottlers.

Now, Mukherjee appears to have been advised that there was "misuse of the scheme with a view to avoiding excise duty on popular brands of aerated waters". He devised an anti-avoidance measure under which small manufacturers "who sell their products under brand or trade names in pursuance of agreements with the owners of such brand or trade names would not be eligible for the concession". A notification issued on February 28 clarified that the exemption would not apply "if the aggregate value of clearances of all such aerated waters bearing the same trade mark or brand name from all such factories taken together had exceeded Rs 15 lakh during the preceding financial year".

Franchise Deals: Franchise

agreements had come into vogue after Coca-Cola's exit in 1977, and Pure Drinks currently has at least 16 franchise deals in towns such as Jammu, Saharanpur, Bareilly and Ahmedabad. Bottling plants for these factories were supplied by Pure Drinks' sister company Mohan Ortmann and Herbst, now called Mohan Machinery. Mukherjee's move will therefore affect Pure Drinks the most. The small bottlers who hold Campa franchises, however, can qualify for excise exemption if they were to opt out of their agreements with Pure Drinks and launch their own brands of soft drinks.

Clubbed together, these bottlers will each have to pay excise duty of 42 per cent. As this means a cut in profits, some of them might even withdraw from their franchise agreements. Pure Drinks' chief competitor Parle has as many as 36 franchise agreements but except for one or two plants, the rest had turnovers exceeding the exemption limit and so are in no way affected by the amendment.

Most of the Campa franchises had been set up at costs ranging between Rs 12 lakh and Rs 15 lakh per plant. Total investment in each plant including vehicles and bottles ranges between Rs 25 lakh and Rs 30 lakh. As suppliers of these plants, Pure Drinks will now have to provide an engineering service to bring them to their rated capacities and will have to help its franchises financially in case of trouble.

This will naturally place a considerable burden on the Pure Drinks companies. Campa sales in 1981 are estimated to be about 9 million cases of 24 bottles each—the Delhi plant accounts for two-thirds of this.

Great Pressure: Last fortnight, the Pure Drinks franchise bottlers gathered in Delhi along with owner Charanjit Singh to discuss the effects of the removal of the exemption. INDIA TODAY has learnt that tremendous pressure is being exerted on the Finance Ministry through Congress(I) MPs and other friends of the Pure Drinks group in the corridors of power to amend this "drastic" notification and revert to the status quo.

But Mukherjee is in a dilemma. If he agrees to restore the status quo, he will definitely invite censure in Parliament. What is puzzling observers is that Mukherjee plugged the soft drinks loophole at all, since it hits directly at Charanjit Singh, a party colleague in the Lok Sabha. Speculation is rife about whether Singh's supposedly high-placed friends in the power-centre are indeed his friends, because he apparently had no inkling at all of the approaching crunch. The immediate effect of clubbing together all Pure Drinks franchises is an estimated total excise burden of about Rs 4 crore. It should come as no surprise, then, if Campa-Cola advertising copy were to read: "Life is full of hard times". —CHAITANYA KALBAG

CEMENT

Happy Days

BOMBAY's cement price crash last month echoed all over India. The once-scarce commodity was selling for Rs 68 to Rs 70 a bag last fortnight—down from Rs 135 a bag at the end of January—and stocks in the first 20 days of March were nearly 20,000 tonnes, as against the average arrival of 4,000 tonnes a quarter last year.

The black market was a dreary memory and stockists were offering liberal credit to buyers: the Associated Cement Companies (ACC), which makes about a third of India's cement, was forced to advertise in Bombay papers to find buyers at a price of Rs 74. Builders abandoned the strategy of stockpiles for need-based purchase; says Suresh Raheja, partner in the leading Bombay construction firm Raheja Builders: "The problem of adulteration is gone and the harassment that accompanied non-availability is over."

Liberalisation: The welcome transformation has been brought about by the simple dual distribution system proposed in the budget. Under this only 66 per cent of a plant's rated capacity will be taken over as controlled cement. Further, on any new production capacity created after January 1, 1982, the manufacturer can keep 50 per cent for the free market, more than the earlier 33.3 per cent.

Mini cement plants are exempt from price controls; even levy cement will get the manufacturer Rs 8 per tonne extra on the earlier Rs 536 per tonne. Enthuses Sanjay U. Ladiwala, president of the Cement Stockists and Dealers Association of Bombay: "It's an excellent scheme which should permanently solve our cement problems."

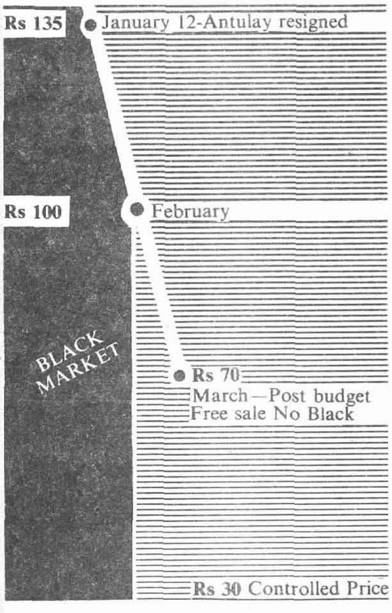
As the 66 per cent levy is on rated capacity rather than on production, manufacturers have received a prime incentive to produce more. Capacity utilisation levels have already begun to rise from an average of 78 per cent last year and by year's end are expected to touch 90 to 92 per cent.

Says S. Krishnaswami, managing director of ACC and president of the Cement Manufacturers Association: "The manufacturer has now to strive to produce 66 per cent of his capacity to get the taste of the cream. After that the more he produces the more cream he gets." ACC's present capacity utilisation is over 78 per cent and Krishnaswami projects a production level of 90 per cent by next January.

Breakthrough: Investment and profit plough-back are also likely to be galvanised. New factories by Larsen & Toubro, Narmada Cement, the Birlas and ACC are on the anvil. Asserts Krishnaswami: "It's been a breakthrough for the industry, the first time in 40 years that it has been given the opportunity to modernize."

And as the new cement order allows any user to import cement through the State Trading Corporation, domestic prices cannot be pegged artificially high—the landed cost of imported cement is roughly Rs 50 a bag. According to Krishnaswami, the Government is going to import 2 million tonnes of cement for free sale to keep prices at a reasonable level.

CEMENT: PRICE TUMBLE



With free market forces operating, a price slump is predicted for July. The estimated shortfall of about 3 million tonnes will be easily completed by the production spurt by existing plants, increases due to new ones and imports.

From April 1, in fact, the manufacturers will be lowering prices at all centres by Rs 2 to Rs 3 a bag in an effort to maintain uniformity—the decline in prices, assert market pundits, will probably be arrested at Rs 55 to Rs 60 a bag. Meanwhile, stocks are being rushed to Bombay in a bid to cash in on the last traces of the cement purchase mania. Will cement scandals become a thing of the past?

—CHANDER UDAY SINGH