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MADRAS RECORD OFFICE

GOVERNMENT OF MADRAS

Revenue DEPARTMENT

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Not to be folded or roughly handled

28

1390

*Proceedings of the Madras Government, Public Works Department,
23rd May 1876.*

No. 116. Read the following Despatch from the Most Honorable the Secretary of State for India :—

Public Works.
No. 12.

INDIA OFFICE, LONDON,
12th April 1876.

MY LORD DUKE,—I transmit herewith copies of a correspondence* with the Madras Irrigation and Canal Company, including a letter to them of this day's date, from which latter your Grace will perceive that I have resolved not to permit, after 30th September next, any advances of public money to be made in aid of the Company's working expenses.

2. I request that your Grace will cause all officers concerned to be instructed accordingly.

I have, &c.,
SALISBURY.

His Excellency the Right Honorable
The Governor in Council, Fort St. George.

From T. L. SECCOMBE, Esq., to J. WESTWOOD, Esq., dated India Office, 30th November 1875.

REFERRING to Sir Louis Mallet's letter of 30th April of last year, whereby it was allowed that liquidation of certain debentures of the Madras Irrigation and Canal Company held by the Secretary of State for India should be deferred until two years from the dates on which they severally had or might become due, I am desired by the Marquis of Salisbury to observe that payment for a debenture of £15,000 became due on 10th instant, but has not yet been liquidated, and to request that the Directors of the Company may be moved to give orders for immediate payment of its amount.

From J. WESTWOOD, Esq., Secretary of the Madras Irrigation and Canal Company, to the Under Secretary of State for India, dated 24, Coleman Street, London, 14th December 1875.

In acknowledgment of your letter of the 30th November last, I am instructed by the Directors to express their regret that the progress of irrigation and the anticipated revenue from that source up to this date have not been such as to enable them to raise money on reasonable terms to repay the balance of loan from the Government.

The loan in question originally of £600,000 was granted by the Government for purposes of capital in order to complete the construction of the section of the Company's project between the river Toombudda and Cuddapah of 191 miles in length which the Directors were requested by the Government to undertake, and which has been executed. It was therefore a loan similar in character to the debenture or preference stock of a railway which could only be repaid by reborrowing from other parties and not by any returns from the works themselves. The Government acknowledged this position by sanctioning an application to the Legislature for an Act, the express object of which was to authorize the raising of money for the purpose of repayment by the issue of a series of mortgages to the public. Under that Act the Directors succeeded in placing mortgages at the rate of £82 for £100 nominal redeemable at par sufficient to repay the sum of £228,000 leaving still to pay 372,000 as represented by debentures maturing at various dates during the next five years.

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The Directors were in hopes that by this time the returns from the works would have been of a nature to enable them, without material difficulty, to obtain the requisite amount of subscriptions to repay the balance still outstanding upon the loan as the same falls due.

The progress made notwithstanding the many obstacles with which the Company have had to contend has been such as to leave no doubt on the minds of those conversant with the Madras Presidency and the working of the Ryotwar system that it is merely a question of a little time before there will be a surplus revenue from the works to allow of mortgages to the requisite amount being floated on fair terms. This might indeed be done now on certain conditions, but naturally subscribers would require more stringent rates so long as the revenue out of which the interest must be paid is anticipatory in consequence of the present undeveloped state of the works than when sufficient surplus revenue is currently earned to provide that interest, and this would especially prejudice the Government in respect to repayment of interest on guaranteed capital. For this reason the Directors would greatly regret being under the necessity of resorting to a course which would be so disadvantageous to the Government and which may be obviated by a little delay.

The Directors would further point out that from want of the necessary funds they have not been able to turn to profitable account the navigable facilities afforded by the canal, which are of the highest order and calculated greatly to benefit the country no less than to augment the annual receipts.

Under this explanation of the circumstances in which they are at present placed, the Directors would respectfully solicit from the Government an extension of time to allow of the further development of irrigation, the establishment of a system of navigation, and the revenue which these will secure by which all difficulties will be surmounted. The fact that all water either by storage of the rainfall or from rivers which can be applied to agricultural purposes by means of irrigation is so used in the Carnatic, and also in the Ceded Districts east of the ghats where the works of the Company are situated, and has indeed hitherto been availed of with avidity by the ryots, precludes the idea that the Company's works providing as they will do a never-failing supply of water, should form a solitary exception to a universal rule, when time and opportunity has enabled the cultivators to give effect to it, in a country, moreover, where, without irrigation, the principal and staple food of the population cannot be produced.

From G. HAMILTON, Esq., to J. WESTWOOD, Esq., dated India Office, 3rd January 1876.

I HAVE received and laid before the Marquis of Salisbury your letter of 14th ultimo, whereby the Directors of the Madras Irrigation and Canal Company apply for a further extension of time before being required to repay the balance of £372,000 still due to Government on account of the loan of £600,000 made to the Company between May 1867 and May 1871.

In reply, I am directed to express His Lordship's regret that he can perceive no sufficient ground for the expectations entertained by the Directors, and, therefore, he is unable with due regard to the public interest to comply with this application.

I am consequently to renew the requisition contained in Mr. Seccombe's letter of 30th November last for immediate repayment of the debenture of £15,000 which became payable on 10th idem, and to remind you that another debenture for £15,000 will fall due on 9th instant.

From J. WESTWOOD, Esq., Secretary, Madras Irrigation and Canal Company, to the Under Secretary of State for India, dated London, 25th January 1876.

I HAVE received instructions from the Directors of this Company to address to you the following reply to your letter to me of the 3rd instant:—

The Directors are (as already intimated in my letter of the 14th ultimo) prepared to take immediate steps to raise upon mortgage the amount required to pay off the debentures now in the hands of the Secretary of State; but in view of the heavy expenditure and the very large addition to the annual interest payable out of receipts which such a proceeding would cause,

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they feel it to be their duty, in protection of the interests of their shareholders, to place before the Marquis of Salisbury—more fully than in my former letter—the facts which led to and have occurred since the loan of £600,000 was made, believing that his Lordship will be thereby induced to relieve them from the necessity of entering upon a course so prejudicial to the Company, and not less to the Government itself—they are further moved to this, because to secure an understanding of the present position of the Company, and the very strong and special claim it has upon the Secretary of State in Council for support and encouragement, it is essential that all the facts bearing upon its history should be carefully considered, and the more so if a fair trial is to be given to the experiment instituted by the present Earl of Derby, when he granted to the Company a guarantee of interest on the first issue of capital.

In pursuance of the conditions upon which the Earl of Derby agreed to support the undertaking, a work was selected by the Madras Government for carrying on the intended experiment, which work was estimated by the ablest officers of that Government to cost a little over £1,000,000. With this estimate the Company had nothing whatever to do, but they accepted the selected work when offered to them, assuming the stated cost to be fairly accurate. Subsequently—that is, after the Company had for some time carried on construction—it was found that £1,000,000 would not be sufficient to complete even one section of the intended work, as for that purpose alone a further £600,000 would be required. To meet this additional outlay, the Company proposed arrangements admitting the raising of *unsecured* capital; but these did not meet with the confirmation of the Secretary of State in Council, who ultimately offered to lend to the Company the amount named, in sums, as the same should be required, upon certain conditions, one of which was that a debenture payable in three or five years from each advance should be executed by the Company; and another that the work should be completed on or before the 1st July 1871. The Directors had no other course open to them but to accept the loan thus proffered, but in doing so they earnestly requested that the time for repayment should be fixed at ten in lieu of the three or five years proposed, and they explained that the longer period was in their judgment necessary, as it could not be reasonably expected that a fair revenue by which alone funds could be raised to provide repayment could be earlier realized. Subsequent events have clearly proved that these representations were accurate; nevertheless the solicited extension was not assented to, and five years was fixed as the time during which the debentures should run. The Directors having no alternative assented to this limited period, expecting that a renewal would at the proper time be readily granted, should the necessary revenue not be then arrived at.

By means of the financial assistance thus rendered, the Company completed the work within the stipulated time in a thoroughly substantial manner, as has since been proved by a test to which most other works in the locality, the Madras Railway included, succumbed, and the power to supply irrigation then properly commenced, though not fully for that first season. During the few seasons which have since passed, the operations of the Company have of necessity been of a tentative character; indeed, in an experimental enterprise so extensive and so novel, it could not be otherwise, and experience has naturally disclosed many causes of obstruction which the Directors are pleased to add, have from time to time, as represented by the Company, been properly dealt with by the Government; and so (but especially by the concession made at the commencement of the season 1875-76 of power to receive applications for water through its own officers) the Company has now, and now only, arrived at a fair and practical start in its operations so far as irrigation is concerned. However, notwithstanding the impediments that have hitherto stood in the way of an extended supply of the Company's water to the land, a steady progress has been maintained. For instance, in 1871-72 there were 8,540 acres irrigated, in 1872-73 these were increased to 9,400. In 1873-74 a further increase to 13,215 took place. In 1874-75, notwithstanding the unexampled floods of that season, the acreage supplied was 13,915; and during the season just expired 1875-76, the first in which the rule empowering the Company's officers to receive applications for water came into force, though too late then to have its full effect, a large increase has occurred, which, as reported by the Engineers, has ranged from 50 to 100 per cent. upon the total of 1874-75, and it is but fair to add that, in the view of the Directors, had the proposal made by the Company in October 1874,

to navigate the main canal by means of unguaranteed capital, to be raised by a separate Company, been acceded to, an additional impetus would have been given to the spread of irrigation by opening up the district to distant markets.

That the Company has from its establishment by Lord Derby achieved all that could be expected either from such an agency, or from the Government itself, is an indisputable fact, the work was efficiently constructed within the contract time, all operations since the first opening of the main canal for irrigation in July 1871 have been carried on with ability and energy, many difficulties have been satisfactorily dealt with and the realization of larger returns has been solely delayed by causes admittedly uncontrollable. It is likewise obvious that the point has now been reached, from which a much more rapid development may reasonably be expected, and that the Company must after a few more seasons be placed in a position to raise funds upon economical terms.

Under all these circumstances, the Directors most respectfully submit that the Company is really entitled to claim at the hands of Government continued support and encouragement, especially as not only is the object of the work—upon the construction of which the loan has been expended, under the supervision and control of Government—to benefit the country, but a considerable portion of that loan has been actually repaid and a balance of only £372,000 is now outstanding.

Reverting to the circumstances more closely connected with the loan of £600,000 (now reduced as just stated to £372,000), I have to observe that the Directors refrained as long as possible from attempting to raise by mortgage the funds required for repayment, seeing that the nearer they approached the realization of a revenue sufficient to cover interest, the less onerous would be the terms they would have to offer; still they were anxious to make every effort to pay off the debt, and accordingly with a view to effect this and to use the canal for navigation, and thus secure a return for the capital expended in that respect, they, shortly before the first dated debenture fell due, again submitted arrangements under which they might make an attempt to raise further Capital without the aid of a guarantee. These, however, were not agreed to, but payment of the debentures was required, and then an Act of Parliament was with the full assent of the Secretary of State procured, by which the Company were enabled to mortgage their works and property, whereupon a prospectus was issued to the public soliciting subscriptions towards the desired funds. As at this time no revenue existed, the Directors were compelled to offer onerous terms as to interest, that is to say, mortgages were to be issued for £100 each upon a payment of 82 per cent., bearing interest on the £100 (nominal) at 5 per cent. and repayable at the expiration of twelve years at par, so that the total interest would amount to 8 per cent. That these terms were the lowest the Directors could offer, is shown by the fact that a little over one-half only of the full amount was thereby raised. Out of the funds thus produced debentures to the amount of £228,000 were paid off, leaving, as I have said, only £372,000 to accrue due. The Directors having done their best with the terms named were desirous not to incur a more expensive loan, and therefore solicited from the Marquis of Salisbury a postponement of the times at which the remaining debentures were to fall due, and his Lordship was pleased to grant a further period of two years in each case. This extended time has now expired so far as the first and second dated debentures are concerned; but entirely from the causes I have before explained, the Company is unfortunately not yet in receipt of those returns which will alone enable it to effect a further loan upon terms less costly than those connected with the mortgages already issued; in fact, a higher rate of interest will have to be offered now to induce lenders to come forward, and as this would create a charge upon the property of the Company which would seriously jeopardize the repayment of even a portion of the guaranteed interest upon the first capital of £1,000,000 and would also not only heavily encumber future revenue, but add largely to the amount to be paid by Government should a sale to the latter be hereafter found advisable, the Directors are most earnestly desirous of being relieved from the demand made in your letter under reply.

Each coming season will bring with it improvement, the desire for irrigation having beyond doubt taken firm hold of the ryots, and experience will enable the Company, with the sanction of Government, to render still more practical the rules under which the water shall be supplied, and thus the great public benefits which the undertaking is capable of bestowing will be properly and beneficially developed.

Upon the grounds above stated, the Directors make respectful solicitation for the consideration and aid I have before-mentioned.

As a most satisfactory and most economical mode of rendering the Company altogether free from debt, and of enabling it not only to materially lessen its future annual payments of interest out of profits, but of largely increasing the revenue, aided by the establishment of a complete system of navigation, the Directors respectfully suggest, for the consideration of the Secretary of State, the following financial arrangement, viz. —

1. Let the Secretary of State award to the Company an extension of the existing guarantee* of interest but of $4\frac{1}{2}$ per cent. payable in India, or 4 per cent. payable in England on, say, £800,000, or other agreed amount with the stipulation, in event of the Government electing to purchase the works, the amount so raised shall be repaid at par.
2. Let the Company be bound thereout to pay off the unpaid debentures and the outstanding mortgages, also to establish an efficient system of navigation upon the main canal.
3. Let the existing contract between the Secretary of State and the Company be rescinded, and be replaced by one framed in accordance with the amended contracts lastly made with some of the Railway Companies in India, that is so that the existing debt in respect of guaranteed interest shall be cancelled, and the Secretary of State be entitled to participate equally with the Company in all profits realized beyond 5 per cent. on £1,000,000, and 4 per cent. or $4\frac{1}{2}$ per cent. (as the case may be) on the proposed additional capital.

By the adoption of such an arrangement as the foregoing, an annual outlay of over £28,000 should the guarantee be 4 per cent., or of £24,000 should it be $4\frac{1}{2}$ per cent., will be saved, and the Company will be placed in a position to utilize the canal to the utmost, whilst the guarantee will in a few years be more than covered.

Should his Lordship be unwilling to enter into such an arrangement as the foregoing, then the Directors respectfully solicit the postponement of the times for payment of the outstanding debentures (aggregating £372,000 only), until by the extension of irrigation and the consequential increase of revenue, the Company shall be able to borrow at 5 per cent. interest, as by such postponement there will be a saving of £11,480 per annum effected in favor of the Company.

In the event of his Lordship declining to entertain either of the above proposals, the Directors would respectfully repeat their request for a further fixed extension of time — say to the expiration of the ten years originally solicited — to pay the debentures in question, so that the Company may not be driven to incur the heavy outlay and onerous terms as to interest which, by the demand for immediate payment being persisted in, it will be compelled to undertake.

MEMORANDUM.

If the debentures now with the Secretary of State are taken up, and replaced by mortgages bearing interest at 8 per cent. only, the total yearly interest payable by the Company will be £110,000—namely,			
Five per cent. on £1,000,000	...	...	50,000
Eight per cent. on, say, £750,000 (at least)	...	...	60,000
			110,000

* Not a new guarantee.

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But a higher rate than 8 per cent. will have to be given.

If payment of the same debentures should be postponed indefinitely and no other mortgages issued, the interest payable will be £98,520—namely,

	£
Five per cent. on £1,000,000	50,000
Eight per cent. on existing mortgage	29,920
Five per cent. on unpaid debenture	18,600
	<u>98,520</u>

Showing a saving of £11,480 per annum over the first plan.

If an additional capital of £800,000 were raised upon a guarantee of four per cent., it would pay off the whole of the outstanding debentures and mortgages, would complete the canal for navigation, and would provide boats, &c. The interest payable would be £82,000—namely,

	£
Five per cent. on £1,000,000	50,000
Four per cent. on £800,000	32,000
	<u>82,000</u>

Therefore this plan would (irrespective of the additional useful expenditure) secure a saving as compared with the first case of £16,500 per annum; that is, assuming that the additional mortgages would be issued at eight per cent., but they could not.

25th January 1876.

From Sir LOUIS MALLET, to J. WESTWOOD, Esq., dated India Office, 12th April 1876.

I AM directed by the Marquis of Salisbury to acknowledge receipt of your letter of 25th January which, in reply to mine of 3rd January last, applies for an extension to £800,000 of additional capital of the Madras Irrigation and Canal Company's guarantee of interest, and requests that, in the event of this application being negatived, the times for payment of outstanding debentures in the hands of the Secretary of State may be further postponed, either until the Company shall be able to borrow at 5 per cent. for their redemption, or at least until the expiration of the period of ten years originally solicited by the Company.

In reply, I am directed to state as follows:—

The application for an extension of the guarantee cannot be entertained, but in consideration of the exceedingly disadvantageous terms at which alone it would be possible for the Company at present to borrow money for redemption of the outstanding debentures, Lord Salisbury will not press for immediate payment in respect of them. At the same time he feels it to be incumbent upon him not to permit any avoidable addition to be made to the heavy debt due by the Company to Government—a debt already comprising, irrespectively of about £176,000, interest on debentures more than £711,785 for guaranteed interest on share capital, and at least £43,000 for working expenses.

He cannot acquiesce in any further disbursements on the part of the State on this last account after the 30th September next, and he has to advise the Governments of India and Madras.

In the event therefore of the earnings of the Company's works continuing insufficient to defray working expenses, it will be for the Company to make good the deficit from their own resources.

*Proceedings of the Madras Government, Public Works Department,
23rd May 1876.*

No. 417.

ORDER THEREON, 23rd May 1876, No. 1,296.

IRRIGATION, No. 42.

ORDERED to be recorded, and communicated to the officers concerned for information and guidance.

(True Ex. et.)

Colonel,
Offg. Under Secy. to Govt., P.W.D.

To the Chief Engineer for Irrigation.

- „ Chief Engineer and Manager, Irrigation and Canal Company.
- „ Examiner, Irrigation and Canal Company's Accounts.
- „ Accountant-General.
- „ Revenue Department. ✓
- „ Financial

Exd. E. C. Shunker.

Spare Copies

Sent to Madras office

No 1389
Revenue 1876 Despatch
Govt. of 1876 Madras.
PUBLIC WORKS.

To
THE CHIEF ENGINEER FOR IRRIGATION,
&c., &c., &c.

Dated May 23rd.

Issued

Recd. *5 June 76* Encl.

G. O., 23rd May 1876, No. 1,296.

MAY.
Nos. 416-417.

In

Madras Irrigation and Canal Company.—
Despatch from Secretary of State trans-
mitting correspondence on the subject of
discontinuing from 30th September next
any advances of public money in aid of the
working expenses of the —, communicated
to the officers concerned. *No 1396*

Communicated to Mr. D. P. R.

16 June 1876

New No. Sectt. I (i)-1—Old No. M.R.O. 1—10,006—10-6-63.

(1) Number of pages

(2) Date of receipt