

II. MACRO LEVEL RESULTS

1. Magnitude of Resource Mobilisation

(a) *Broad Results*

The NIPFP sample of 99 companies together mobilised Rs. 1947.96 crore of additional gross resources in current prices during the 14-year period 1962-63 to 1975-76. The average annual gross resource mobilisation worked out to Rs. 139.14 crore. Net resource mobilisation excluding depreciation amounted to Rs. 1208.52 crore over the 14-year period, the annual average mobilisation being Rs. 86.32 crore (Table II.1).

The growth in the resource mobilisation effort in the private corporate sector as reflected in the operations of the NIPFP sample companies could be more appropriately evaluated in terms of the annual average growth in the mobilised resources over the period of the study. During the 14-year period, the annual average compound growth rate of gross mobilised resources was 7.8 per cent, while in terms of net mobilised resources the growth rate worked out to 4.9 per cent.

The analysis of annual data reveals that there were three distinct phases in resource mobilisation: general upward trend from 1962-63 to 1965-66, a plateau from 1965-66 to 1972-73 and then a crest covering 1973-74 and 1974-75, mainly due to inflationary pressures. Such a pattern emerged irrespective of whether we examined the resource mobilisation data in gross or net terms (Graph A).

(b) *Analysis in Real Terms*

The 14-year study period, however, witnessed a significant increase in the price level. The price rise was sharp during the first half of the seventies, more particularly after the 1973 oil price hike. In order to arrive at the real growth in the volume of mobilised resources, it becomes necessary to eliminate, to the extent possible,

TABLE II.1
Trends in Resource Mobilisation by Public Limited Companies
(Rs. crore)

Period		NIPFP sample		RBI sample ¹	
		Total	Per corporate unit	Total	Per corporate unit
1962-63 to 1975-76	GRM(t)	1947.96	19.676	—	—
	(aa)	139.14	1.405	—	—
	NRM(t)	1208.52	12.207	—	—
	(aa)	86.32	0.872	—	—
1962-63 to 1964-65	GRM (t)	219.96	2.222	1543.11	1.158
	(aa)	73.32	0.741	308.62	0.232
	NRM(t)	143.07	1.445	965.68	0.724
	(aa)	47.69	0.482	193.14	0.145
1965-66 to 1968-69	GRM(t)	562.52	5.682	2302.49	1.534
	(aa)	140.63	1.420	460.50	0.307
	NRM(t)	391.83	3.958	1325.83	0.883
	(aa)	97.96	0.989	265.17	0.177
1969-70 to 1971-72	GRM(t)	397.25	4.013	—	—
	(aa)	132.42	1.337	—	—
	NRM(t)	212.65	2.148	—	—
	(aa)	70.88	0.716	—	—
1972-73 to 1975-76	GRM(t)	768.23	7.760	4697.28	2.847
	(aa)	192.05	1.940	939.46	0.569
	NRM(t)	460.97	4.656	3084.76	1.870
	(aa)	115.24	1.164	616.95	0.374

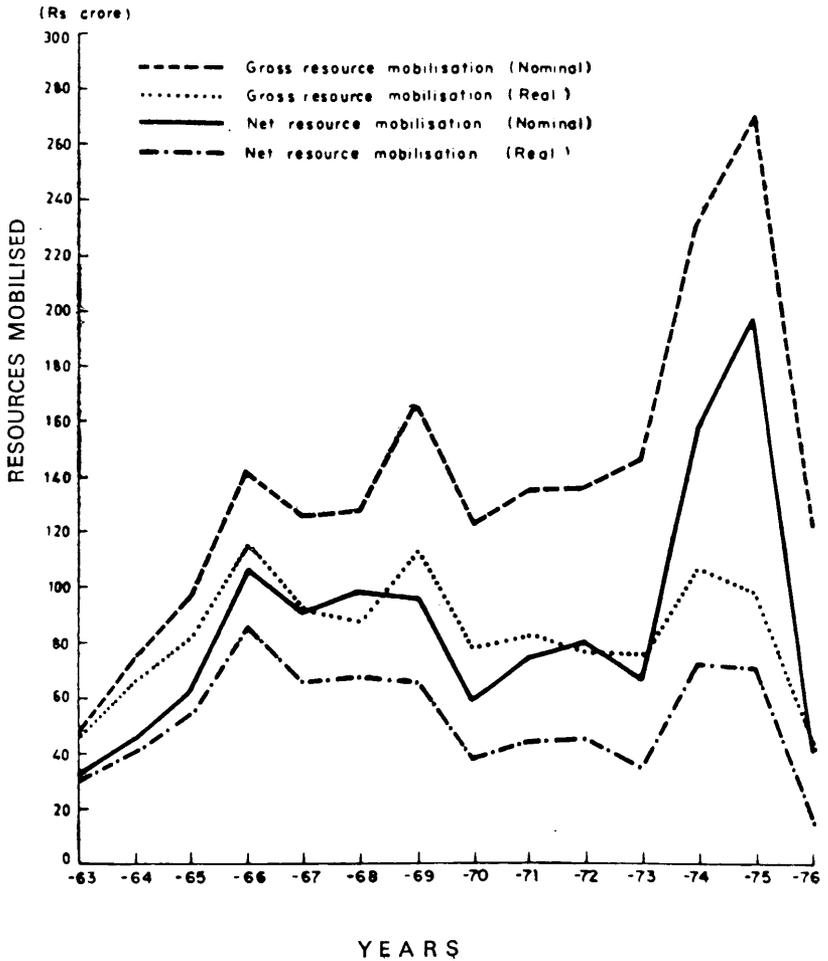
- Sources: 1. Reserve Bank of India (1975). *Financial Statistics of Joint Stock Companies 1960-61 to 1970-71*.
 2. Reserve Bank of India (1977). *Financial Statistics of Joint Stock Companies in India 1970-71 to 1974-75*.
 3. Reserve Bank of India (1977). *Reserve Bank of India Bulletins*. (monthly)
 4. NIPFP sample.

- Note: 1. GRM: Gross resources mobilised
 2. NRM: Net resources mobilised
 (t): Total during the period
 (aa): Annual average during the period

¹The RBI sub-periods are 1961-62 to 1965-66 (1,333 companies), 1966-67 to 1970-71 (1,501 companies) and 1971-72 to 1975-76 (1,650 companies). It is, therefore, not appropriate to work out the aggregates for the entire period, 1961-62 to 1975-76.

Graph A

TRENDS IN RESOURCE MOBILISATION: NIPFP Sample
(1962-63 to 1975-76)



the increase in the value of mobilised resources due to the price effect. We therefore converted through the use of an appropriate price deflator the volume of annually mobilised resources in current prices to constant prices⁶.

The value of mobilised resources in real terms was found to be considerably lower than that in nominal terms. During the period 1962-63 to 1975-76, the gross mobilised resources at 1960-61 prices for the NIPFP sample added upto Rs. 1153.86 crore as compared to Rs. 1947.96 crore in nominal terms. While the broad trend in the mobilised resources in nominal terms, as indicated earlier, showed a rise upto 1965-66, remained relatively stagnant from 1965-66 to 1972-73, rose again in 1973-74 and 1974-75 and fell steeply in 1975-76, in real terms, the rise was upto 1965-66 but then there was a decline with some improvement in two years 1968-69 and 1972-73. What is more important is that after 1965-66 the percentage addition to capital stock in real terms has been falling. While the annual compound growth rate of gross mobilised resources in nominal terms over the 14-year period was 7.8 per cent, that in real terms was only 0.1 per cent; this indicated a stagnation in growth of gross resources in real terms.

The annual data on gross mobilised resources, net mobilised resources and corporate savings for the study period, in current as well as at 1960-61 prices, are presented in Table II.2. The annual trends in gross and net resources mobilised are depicted in Graph A.

(c) *Determinants of Resource Mobilisation*

An attempt is now made to explain econometrically the yearly behaviour of gross resource mobilisation in terms of certain explanatory variables. On an *a priori* basis, and also on the basis of a study of similar exercises done elsewhere, a few important determinants of resource mobilisation were first selected and from among them, three were finally selected⁷.

⁶For a discussion on the method of constructing the price deflator. see Annexure II. A to this chapter.

⁷The determinants initially selected were profitability (profits after tax as per cent of net worth), sales turnover (net sales as per cent of total assets), effective tax rate (tax provision as per cent of profits before tax), sales income, prices of industrial manufactured products (base 1970-71=100), output and four dummy variables to represent the sub-periods.

TABLE II.2
Mobilised Resources in Nominal and Real Terms: NIPFP Sample

(Rs. crore)

Years	Corporate savings		Gross mobilised resources		Net mobilised resources	
	current prices	1960-61 prices	current prices	1960-61 prices	current prices	1960-61 prices
1962-63	21.70	20.33	49.87	46.73	32.97	30.89
1963-64	43.10	38.47	74.65	66.63	46.19	41.23
1964-65	48.22	41.40	95.44	81.92	63.19	54.24
1965-66	56.28	45.34	142.07	114.46	106.04	85.43
1966-67	68.78	49.47	126.01	90.62	90.19	64.86
1967-68	54.07	36.89	127.04	86.69	98.01	66.88
1968-69	89.60	59.82	167.40	111.77	97.59	65.16
1969-70	105.35	66.72	123.54	78.23	58.72	37.19
1970-71	104.76	61.98	137.05	81.09	73.78	43.65
1971-72	98.72	55.23	136.66	76.46	80.15	44.84
1972-73	139.00	71.87	145.57	75.23	66.20	34.23
1973-74	141.61	64.60	232.34	105.98	157.32	71.76
1974-75	161.74	58.48	269.47	97.43	196.91	71.19
1975-76	116.83	39.22	120.85	40.57	40.54	13.61
TOTAL	1249.76	709.82	1947.96	1153.86	1207.80	725.16

The three explanatory variables finally selected were:

- (i) Profitability;
- (ii) Nominal sales income which in turn was split up into price and volume of sales; and
- (iii) Effective corporate tax rate.

A priori, it could be expected that an increase in the first two variables, *viz.*, profitability and sales income, would have a positive effect on gross resource mobilisation whereas an increase in the last variable, *viz.*, effective corporate tax rate, a negative effect. The effect of changes in sales income could, in turn, be segregated into the effect due to changes in the volume of sales and that due to changes in the prices of the goods sold.

Based on the above specifications, we estimated a few versions of the gross resource mobilisation function using the NIPFP sample data for the period from 1962-63 to 1975-76; the results are presented in Table II.3. However, before we discuss these econometric

results, it may be proper to point out one aspect of the equations in Table II.3, *viz.*, the problem of identification. In the sources and uses of funds, gross resources mobilised (as we have defined it) is equal (except for a residual item) to the gross investment in the private corporate sector. Moreover, variables like profitability and sales income may also appear in the investment function of the corporate sector. It is well known that in situations such as these, there is a problem of identification, *i.e.*, the equation estimated may be either the resource mobilisation function, the investment function or a combination of both.

However, there is at least one reason why the estimated equations can be identified more as resource mobilisation functions than as investment functions, *i.e.*, that in an investment function, in addition to profitability and sales income, there may appear other variables like the rate of interest and the lagged capital stock.

The results presented in Table II.3 show that the signs of all the explanatory variables both in the linear and the log-linear forms, were as expected except that of the output variable in equation 4. The unexpected sign of the output variable in equation 4 could be due to the high collinearity the variable had with the price variable.

As judged by the statistical tests of significance of the regression coefficients of the explanatory variables, the percentage of variations explained and the 'F'—values, the log-linear model yielded slightly better results than the linear model. The equations 2 and 3 in the log-linear model explained 80 per cent of the variations in gross resource mobilisation. As between equation 2 and 3, we found that the latter which included prices as an explanatory variable in the place of sales income which was included in the former, appeared to be marginally better, as the statistical significance of the regression coefficients measured by the t-value and the F-value was slightly better; the problem of multi-collinearity was also not serious. Hence, equation 3 was selected as the most preferred variant of the gross resource mobilisation function.

It appears from equation 3 (log-linear model) that profitability, effective tax rate and prices were the most important factors which determined gross resource mobilisation during the study period. These three factors together explained 80 per cent of the variations in the dependent variable, this being one of the best explanations from among the alternative explanatory variables. Further, the

TABLE II.3
Determinants of Gross Resource Mobilisation: NIPFP Sample

Equation	Constant	Profitability	Effective tax rate	Prices	Sales income	Output	R ²	F-value	D.W. Statistic
I. Linear model									
1	-152.13** (1.95)	20.92*** (2.95)			0.034** (2.55)		0.67	11.19	1.77††
2	23.36 (0.13)	15.10* (1.70)	-2.64 (1.07)		0.04** (2.74)		0.70	7.94	1.76††
3	49.47 (0.13)	12.10 (1.51)	-3.52 (1.58)	1.11*** (3.55)			0.77	11.23	1.76††
4	138.73 (0.81)	12.01* (1.54)	-4.50** (1.95)	1.59*** (3.21)		-0.067 (1.23)	0.80	9.24	1.79†
II. Log-linear model									
1	0.102* (1.69)	1.63*** (3.04)			0.69*** (3.12)		0.73	14.62	1.39†
2	8.98 (0.69)	1.00* (1.60)	-0.92* (1.42)		0.52*** (3.66)		0.80	11.79	1.70†
3	29.29 (1.10)	0.94* (1.59)	-1.30** (2.01)	0.91*** (4.05)			0.80	13.77	1.57†
4	35.52 (0.77)	0.94* (1.51)	-1.32* (1.78)	0.93** (2.32)		-0.031 (0.06)	0.81	9.30	1.56†

Note: 1. The figures in brackets are t-values.

2. *, **, *** indicate that the regression coefficient is statistically significant at 10 per cent, 5 per cent and 1 per cent level, respectively, applying one tail t-test.

3. †Test of autocorrelation is inclusive.

4. ††Do not reject the hypothesis of 'no autocorrelation'.

problem of multi-collinearity was the least. The econometric results indicated that for every 1 per cent increase in profitability and prices, the increases that could be expected in gross resource mobilisation were likely to be 0.94 per cent and 0.91 per cent, respectively, while in the case of the effective tax rate, every 1 per cent increase in it tended to reduce gross mobilised resources by as much as 1.3 per cent. It could, however, be argued that although an increase in the corporate tax rate may lead to a reduction in the gross mobilised resources, the converse may not be true, *i.e.*, a reduction in the corporate tax rate may not lead to an increase in the gross mobilised resources due to the possibility of asymmetrical effect, and unless this asymmetrical effect of changes in corporate tax rate was actually tested, no firm conclusions can be derived.

(d) Results Based on the RBI Sample

In the case of the RBI data, it was not appropriate to add up the figures for the sub-periods to derive the aggregate for the period 1961-62 to 1975-76 due to the changing size of the sample for each sub-period. A time profile of resource mobilisation for the RBI sample was, therefore, made in terms of per sample company. The results which emerged from such an analysis of the RBI sample data was similar to that seen from an analysis of the NIPFP sample data. During the period 1971-72 to 1975-76, the resource mobilisation effort was the best among the sub-periods for which the RBI sample data were available. These results were found to be similar to those for the NIPFP sample for the comparable (though not identical) period, 1972-73 to 1975-76. Similarly, the poorest performance among the three RBI sample sub-periods was noticeable for the period 1961-62 to 1965-66 (comparable with the NIPFP sample sub-period 1962-63 to 1964-65) (Table II.1).

It is interesting to observe that the resource mobilisation effort was more successful during the period which included the years of industrial recession than during the years preceding this period, both for the NIPFP and the RBI samples; this was true irrespective of whether we examined the resource mobilisation data in gross or net terms. To some extent, such better results for the recession period may be due to the price rise; in real terms, resource mobilisation, as was shown earlier in sub-section II.1.b of this chapter, did not improve. It is also to be borne in mind (see section 5) that institutional support to long-term and short-term financing activities

cannot be abruptly stopped in the face of large-scale recessionary conditions in the private corporate sector; on the contrary, there is every likelihood of institutional support being stepped up to make good the shortfall from other sources.

2. Structural Pattern

There was a clear shift in the pattern of resource mobilisation in the private corporate sector. The shift was generally in line with the developments in the industrial sector, such as the increasing capital intensity in particular industries, rising capital outlay on new industrial projects, widespread growth of development banking operations and the sluggish nature of the capital market. Further, the pattern of resource mobilisation seemed to be influenced, to some extent, by the prevailing economic conditions in the country.

The significant aspects of the pattern of resource mobilisation in the private corporate sector which emerged from the NIPFP sample data and which also were corroborated by the RBI sample data, were the noticeable improvements over time in resource mobilisation through internal corporate savings, a net repayment of long-term funds to financial institutions and a low level of mobilisation through the equity market.

Depreciation provision emerged as the most important single component of the resources mobilisation effort, accounting for 38 per cent of the gross resources mobilised during the period 1962-63 to 1975-76 by the NIPFP sample companies and 37 per cent by the RBI sample companies. Net resource mobilisation thus constituted slightly over three-fifth of the gross resources mobilised by the private corporate sector (Table II.4.).

There were some basic changes in the relative contribution of the various components of resource mobilisation; these are examined in sections 3 to 6.

3. Corporate Savings

(a) Broad Results

Corporate savings, which we have defined to include depreciation, internal plough-back and bonus share capital, accounted for almost two-third of the gross resources mobilised by the private

TABLE II.4
Relative Importance of Corporate Savings and External Funds (Period-wise)

	(Annual average in per cent)									
	NIPFP sample		RBI sample		NIPFP sample					
	1962-63 to 1975-76	1961-62 to 1975-76	1962-63 to 1964-65	1965-66 to 1968-69	1969-70 to 1971-72	1972-73 to 1975-76	1962-63 to 1964-65	1965-66 to 1968-69	1969-70 to 1971-72	1972-73 to 1975-76
1. Corporate savings	64.15	58.94	51.39	47.77	77.74	72.78				
(i) internal share capital	6.19	6.12	3.00	6.45	7.39	6.31				
(ii) development rebate reserve	6.41	6.36	7.59	7.99	5.88	5.19				
(iii) non-statutory reserves	13.59	9.39	5.84	2.99	18.00	21.28				
(iv) depreciation	37.96	37.07	34.96	30.34	46.47	40.00				
2. External share capital	5.69	4.84	15.17	6.07	5.80	2.64				
3. Long-term funds	9.09	4.41	12.16	33.77	-1.78	-4.26				
(i) long-term loans	7.16	4.41	6.25	28.49	-1.83	-3.56				
(ii) debentures	1.93	-1	5.91	5.28	0.05	-0.70				
4. Short-term funds	21.07	31.81	21.28	12.39	18.24	28.84				
(i) short-term loans	19.32	25.58	25.38	19.03	13.66	20.72				
(ii) net miscellaneous liabilities	1.75	6.23	-4.10	-6.64	4.58	8.12				
5. Net resource mobilisation	62.04	62.93	65.04	69.66	53.53	60.00				
6. Gross resource mobilisation	100.00	100.00	100.00	100.00	100.00	100.00				

Note : Not available.

corporate sector. During the period 1962-63 to 1975-76, corporate savings contributed on an average 64.2 per cent of the gross resources in the NIPFP sample, and 58.9 per cent of the gross resources in the RBI sample (1961-62 to 1975-76). Even though there was some difference seen between the proportions of corporate savings in the gross resources mobilised by the NIPFP and the RBI sample companies, it is important to note that corporate savings in both the cases were very substantial, between 59 and 64 per cent of the gross mobilised resources (Table II.4). That such a substantial proportion of corporate resources was generated from internal sources from within the corporate sector, partly due to statutory provisions and deductions like depreciation and development rebate and partly through a conscious policy to retain a part of the after-tax profits voluntarily rather than distribute them, as was reflected in non-statutory plough-back and bonus shares, is not only interesting but also surprising in view of the belief that corporate savings have been inadequate and that the private corporate sector has been unduly dependent on outside sources of finance.

(b) Period Results

The period-wise analysis further strengthens the overall finding about the important role of corporate savings in the resource mobilisation effort. In fact, the contribution of corporate savings considerably improved over the years. There was some setback during the period of industrial recession when the share of corporate savings in gross resource mobilisation declined from 51.4 per cent in 1962-63 to 47.8 per cent in 1964-65. There was a spurt in the subsequent sub-period, 1969-70 to 1971-72, to 77.7 per cent, but a fall in the following sub-period, 1972-73 to 1975-76; these were still significant at 72.8 per cent. It is, therefore, clear that not only were corporate savings an important component of gross resource mobilisation in the private corporate sector, but that their relative contribution also improved over the years.

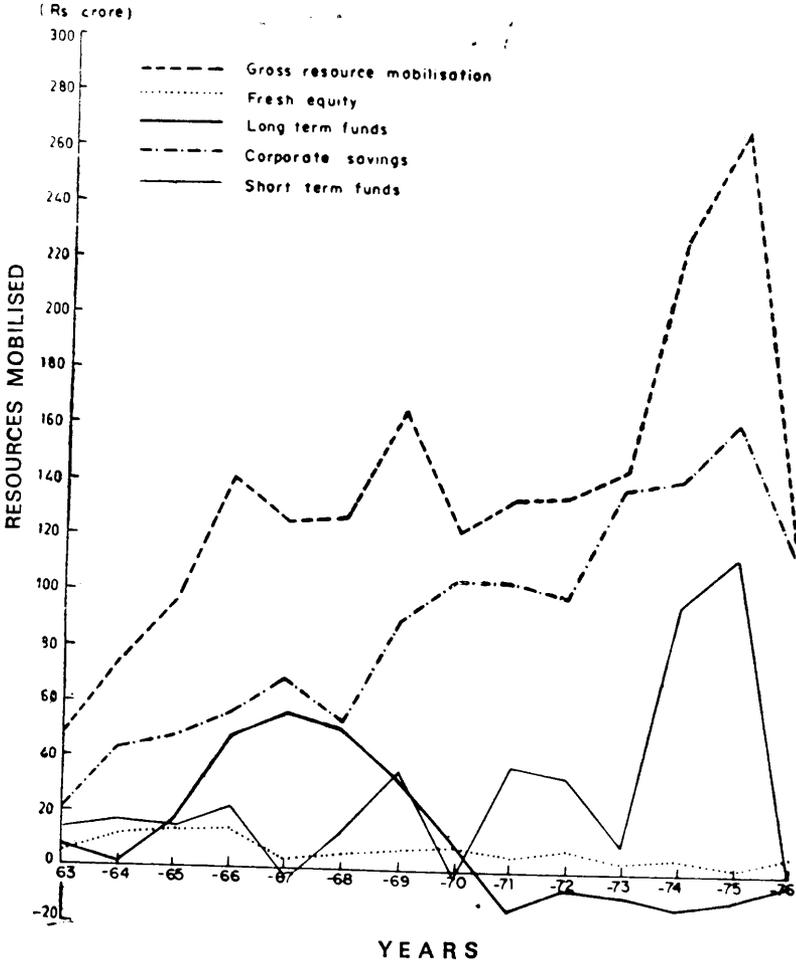
Graph B depicts the annual trends in corporate savings and other components of gross resources mobilised by the NIPFP sample companies.

(c) Composition

An analysis of the composition of corporate savings showed that depreciation was the most significant source, constituting as

Graph B

TRENDS IN PATTERN OF RESOURCE MOBILISATION: NIPFP Sample
(1962-63 to 1975-76)



much as 59.2 per cent of total corporate savings. Further, the share of depreciation considerably improved over the years. Thus, while during 1962-63 to 1964-65 depreciation constituted annually 35.0 per cent of gross resources, it constituted 46.5 per cent during 1969-70 to 1971-72 and 40.0 per cent during 1972-73 to 1975-76; only during the period which covered the recession years, the share was lower at 30.3 per cent. Non-statutory reserves accounted annually for 13.6 per cent of the gross resources during the 14-year period and the share of this source also improved considerably over time from 5.8 per cent of the annual gross resources mobilised during 1962-63 to 1963-64 to 21.3 per cent during 1972-73 to 1975-76. On the other hand, the share of statutory reserves, namely, the development rebate reserve, declined from 7.6 per cent during 1962-63 to 1964-65 to 5.9 per cent during 1969-70 to 1971-72 and to 5.2 per cent subsequently; the 14-year average worked out to 6.4 per cent (Table II.4).

It is interesting to see that bonus shares issued to shareholders through capitalisation of reserves was playing an increasingly important role in the resource mobilisation effort; the share of such funds in gross resources went up from 3.0 per cent during 1962-63 to 1964-65 to 6.3 per cent during 1972-73 to 1975-76; the average for the 14-year period worked out to 6.2 per cent. Strictly speaking, it would not be proper to take bonus shares as a separate component of fresh resources generated, as it represents only a book entry transfer from reserves (made up of internal plough-back of earlier years) to share capital. However, by showing it separately, we get an idea of the extent of capitalisation of reserves.

As was found in the case of total corporate savings, so also for individual components of corporate savings, the RBI data based results broadly corroborate the NIPFP data results. There are some differences, no doubt, but these have arisen due to two factors:

- (i) The changing size and composition of RBI samples as compared to the homogeneous NIPFP sample;
- (ii) A larger proportion of companies with operational losses in the RBI sample than in the NIPFP sample.

The RBI sample of 1650 companies for the period 1970-71 to 1975-76 had in different years loss-making companies ranging from 320 to 544 (only for this period, the RBI has presented such data). The NIPFP sample included fewer such companies,

their combined accumulated losses constituting only one per cent of the gross resources mobilised by them. However, though both the NIPFP and the RBI samples were selected on the basis of proper procedures, since, as was shown in chapter I, the former is also homogeneous over time, we place a greater degree of confidence on the NIPFP results. A comparative analysis, as in subsection (d) below, shows that the NIPFP results were not very much out of tune with those derived from the RBI data.

(d) *Comparison with Results Based on RBI Data*

A comparative analysis of the NIPFP and the RBI data based results reveals that the share of internally generated share capital in the form of bonus share capital was almost identical, the respective shares being 6.2 per cent of the gross resources mobilised for the NIPFP sample and 6.1 per cent for the RBI sample. In the case of reserves and surplus, the NIPFP sample companies mobilised 20.0 per cent of the gross resources from this avenue as against 15.8 per cent by the RBI sample companies. While the contribution of development rebate, the statutory deduction, was also almost identical (at 6.41 per cent and 6.36 per cent, respectively), the share of other reserves was significantly different, due to, as was indicated earlier, the inclusion of a larger proportion of loss-making companies in the RBI sample. Thus, for example, reserves and surplus other than the development rebate reserve, accounted for 13.6 per cent of the gross resources mobilised by the NIPFP sample as against 9.4 per cent by the RBI sample (Table II.4).

Another constituent of resource mobilisation which is not linked to profitability after tax but is, however, a statutorily allowable deduction, namely, depreciation, was found to make an almost identical contribution to the gross resource mobilisation effort in the NIPFP and the RBI samples, the respective shares being 38.0 per cent and 37.1 per cent.

The fairly similar proportionate shares of development rebate and depreciation in gross mobilised resources found for both the RBI and the NIPFP samples, despite the distinct variations in voluntary plough-back, were due to the peculiarities of the respective samples (loss-making companies, growth companies, etc.), which had a bearing on the pattern of resource mobilisation and particularly that of mobilisation of internal sources. While obligatory provisions and deductions were found to be similar in importance,

voluntary generation of specific funds was not found to be so. There are segments in the private corporate sector which had a creditable performance, as reflected in our sectoral results of selected industry groups and other categories of companies, such as rapidly growing companies (see chapter IV).

It may be pointed out here that capital reserves, derived partly from capital gains on the sale of assets and partly from revaluation of assets, contributed only minimally to the resource mobilisation effort.

4. Role of Stock Market

The growth of the stock market did not keep pace with the requirements of the private corporate sector for fresh funds. The fall in the contribution of fresh share capital in the gross resource mobilisation effort was noticeable, the contribution falling from 15.2 per cent during 1962-63 to 1964-65 to 6.1 per cent during 1965-66 to 1968-69 and further to 2.6 per cent during 1972-73 to 1975-76. The overall average for the 14-year period worked out to 5.7 per cent; the RBI sample revealed a even lower proportion, viz., 4.8 per cent (Table II.4).

While the bulk of such share capital was in the nature of equity shares, a small proportion, 4.9 per cent of the additional share capital mobilised by the private corporate sector during 1962-63 to 1975-76, was in the form of preference share capital. Of the total gross resources mobilised, preference shares accounted for a meagre 0.6 per cent as against 11.3 per cent raised through equity shares.⁸

An interesting development since 1971-72 was the contribution of premium on new shares to the resource mobilisation effort of the private corporate sector, its share fluctuating between one-half and one per cent. In earlier years, there may have been some recourse to mobilisation from this source, but the contribution appeared to have been too insignificant to warrant the inclusion of this detail in the RBI format for company finances data. The share price index (1970-71=100) increased from 78.7 in 1966-67 to 95.1 in 1971-72 and 112.5 in 1974-75 (Table A.3). The corporate sector, therefore, rightly decided to participate in the windfall arising out of the appreciation in the value of its shares in the capital market.

⁸This was based on the RBI data on large and medium public limited companies.

In spite of share appreciation, resource mobilisation through the stock market was not substantial.

It appears that the stock market was not able to grow to the extent that may have been desirable in a capital scarce economy, in spite of the issue of bonus shares from time to time, appreciation in the values of major corporate shares, the premium commanded by leading corporate shares and increasing institutional support. That the stock market, in spite of the involvement of institutional shareholders, like the LIC, ICICI, UTI, IDBI and IFCI made only a token contribution towards the resource mobilisation effort of the private corporate sector, would suggest that institutional support was still insignificant in relation to needs, while the flow of individual private savings into the corporate sector was not large enough. It may be desirable to make a study of the factors which restrained individual investment in the corporate sector, as also of the reasons for inadequate institutional participation in corporate ownership. *A priori*, it appears that the share investment habit has not percolated to the masses, that the risks involved especially in investment in new industrial undertakings are too high to induce investors, that market prices of established shares are very high and that the rate of return on equity investment is not commensurate with investor's expectations. Also, although the shares of some companies have appreciated more than the rise in the price level, the general index of share prices rose too slowly (by 43 per cent between 1966-67 and 1974-75) to enable the investor to obtain capital appreciation in real terms.⁹ Another factor is the fear of mal-practices which also induces people to rush in only for shares of good companies. Hence, the situation which prevailed in the stock market was that too many investors rushed in for a few good scripts, while other scripts went abegging.

There is, thus, no need to emphasise that efforts would have to be made to make corporate tapping of the stock market more effective and substantial.

5. Long-term Borrowings

Long-term borrowings from financial institutions, commercial banks and other sources were not found to be a major component

⁹The gain to the shareholders is not fully reflected in the rise in share prices because it is moderated by issue of bonus and rights shares.

of the gross resources mobilised by the private corporate sector. Further, the relative contribution from this source, significant only during the recessionary period, not only became less important but there was a net transfer of funds from the corporate sector to the financial institutions. These results, however, underestimate the extent of real fresh mobilisation of resources through borrowings, as the data presented are net of repayment of earlier loans.

Long-term borrowings during the period 1962-63 to 1975-76 averaged 7.2 per cent of the annual gross mobilised resources (for the RBI sample the share was still lower at 4.4 per cent). There was considerable improvement between 1962-63 and 1964-65 (when the average was 6.3 per cent) and further between 1965-66 and 1968-69 (when it was 28.5 per cent). The latter increase could be attributed to the recessionary conditions in the industrial sector. The capital market was sluggish, the share price index (base 1970-71=100) falling from 96 in 1962-63 to 84.5 in 1964-65 and 75.3 in 1967-68. (It was 80.2 in 1968-69). Further, during these years, the corporate sector's performance on the internal plough-back front was also not satisfactory, non-statutory reserves accounting for a lower proportion of mobilised resources than during most of the other years. In fact, during this period, there was a sharp decline in the share of capital reserves as well as other free reserves, in the face of a steadily maintained contribution from statutory development rebate reserve. At the same time, as on-going projects could not be completely and abruptly stopped, the sanctioned loans from long-term financial institutions must have been disbursed (Table II.4).

As a result of these factors operating simultaneously, long-term borrowings as a component of gross resources went up sharply during the recessionary period. In the subsequent period, however, when there was an improvement in the level of corporate savings and also repayment of loans taken earlier, there was a net transfer of resources from the corporate sector to the financial intermediaries; in fact, even though the data were not available with us, it may not be incorrect to presume that a part of such repayment may be the repayment due earlier but which could not be effected because of the recessionary conditions. As a result, during the period 1969-70 to 1971-72, long-term borrowings made an annual negative contribution to the extent of 1.8 per cent to the gross resources mobilised by the private corporate sector. The proportion of negative contribution increased to 3.6 per cent during 1972-73 to 1975-76. Year

to year data show that in each of the years from 1970-71 to 1974-75, there was a net repayment by the private corporate sector to long-term financial institutions. In other words, the private corporate sector repaid long-term loans by amounts exceeding what it obtained as fresh borrowings.

On the face of it, a larger proportion of annual resources being mobilised by the corporate sector from long-term financial institutions during years of poor corporate performance may look unusual as there could be a theoretical argument that during periods of recessionary conditions, when the climate was not conducive to corporate growth, there should be a lower growth of corporate capital formation and, consequently, of disbursements by financial institutions. But the practical realities of financial operations in the corporate sector are such that once an industrial project has been initiated and is in the process of being built up, it becomes financially suicidal to abandon the project half-way. Institutional financial support becomes all the more an economic necessity in the face of the non-availability of expected financial support from other outlets such as the capital market and internal corporate savings, which tend to be particularly affected during periods of recession. As such, financial institutions feel that it would be a prudent long-term policy to give additional funds to otherwise potentially viable projects under construction, when other sources dry up due to abnormal situations. After financial institutions have pumped in large sums of money into the projects, denial of the additional finances may result in blocking the already invested institutional funds indefinitely and may possibly lead to their total loss.

6. Role of Debentures

Another source of long-term funds was the debentures issued by the corporate sector from time to time. On an average, during the period 1962-63 to 1975-76, such debentures contributed less than 2.0 per cent of the gross resources mobilised by the private corporate sector. There was also a noticeable decline in mobilisation through this source over the years. Period-wise data showed that while during the pre-recessionary period debentures contributed 5.9 per cent of the gross resources and during the recessionary period 5.3 per cent, the contribution was negligible at 0.05 per cent during

the period immediately following the recessionary period and further there was a net repayment to the extent of 0.7 per cent during the last period, 1972-73 to 1975-76.¹⁰

Debentures and preference share capital, as was seen earlier in this chapter, were found to be poor sources of fresh funds for the private corporate sector. However, as between the two, investors seemed to show some preference for debentures, with both offering an assured rate of return, though generally a slightly higher rate of return was offered by debentures. It would be interesting to examine the factors that can explain investor's preference for debentures.

While debentures have a disadvantage in that there is no possibility of accrual of capital gains, preference share capital provides scope for such appreciation in values even though in practice such appreciation is uncommon. Another plus point for preference share capital is that it makes the shareholder eligible for a higher rate of interest on his fixed deposits with the respective companies. The low relative contribution of preference share capital *vis a vis* debentures could then indicate possibly the desire of investors to opt for an assured high rate of return than for a possibly higher rate of gross return in the case of preference share capital. Further, while debentures are always secured against fixed assets, assuring the repayment of capital, preference share investments are not similarly protected. The preference for debentures could also suggest that corporations may be preferring recourse to fixed term debentures with a fixed total liability, which is tax deductible and which works out to be cheaper than comparable long-term borrowings. Corporations tend to weigh the cost of debentures with that of long-term borrowings, while shareholders may weigh the return on debentures with those on equity and preference share capital; the latter would either invest in equity share capital because of basically greater advantages, or if they want an assured rate of return, would prefer investment in debentures to investment in preference share capital.

¹⁰Subsequent to the period covered in this study, there has been a spurt (in 1980 and 1981) in the successful mobilisation of resources through convertible debentures (*i.e.* debentures to be partly or wholly converted into equity shares at pre-specified prices).

7. Short-term Funds

The components of resource mobilisation so far analysed related to long-term resources normally used for fixed capital formation. The private corporate sector also raised resources of a short-term nature, mainly to finance inventory holdings and to meet various short-term contingencies. On an average, over the 14-year period, such short-term funds constituted one-fifth of gross mobilised resources. Almost the whole of this contribution (9.3 per cent out of 21.1 per cent) of gross resources was through short-term loans. The analysis of short-term loans further showed that over the 14-year period, almost 75 per cent of short-term borrowings were obtained from the commercial banking system, the remaining being mobilised from business associates and other miscellaneous sources. During the recessionary years, the dependence on short-term bank credit became more pronounced (Tables II.4 and A.2).

The reason for this is obvious. During times of financial stringency, the corporate sector finds credits from the commercial banking sector more easily available than from business associates and trading partners, who may also in turn have to depend upon the commercial banking sector for financial support. This becomes clear when we examine the comparative data on the break-up of short-term borrowings as between years of normal economic operations, such as during the sixties and the recession years. Thus, the commercial banks provided on an average 77.1 per cent of the additional short-term annual borrowings during 1962-63 to 1964-65 as against 80.7 per cent during 1966-67 to 1968-69.

It may be pointed out that in two later years, 1973-74 and 1974-75, short-term funds formed an unusually high proportion of gross mobilised resources, 41.6 per cent and 42.4 per cent, respectively. To the extent that the increase in short-term funds was due to the increase in the nominal value of inventory (there may be no real growth or a negligible growth in inventory), the improvement in the level of gross resource mobilisation was only illusory.

8. Blown-up Estimates

(a) *The Estimates*

We blew up the NIPFP results for three years 1973-74, 1974-75 and 1975-76, both for the corporate population of 431 large manufac-

turing companies from which the NIPFP sample was selected and for the total corporate sector. The exercise relating to the total private corporate sector is subject to the limitation that the composition of the NIPFP sample, with its bias towards large companies, would tend to over-estimate the actual situation in the whole private corporate sector, which also included small companies and companies which grew at rates substantially different from those attained by the NIPFP companies; there may be differences in the respective rates of profitability also.

Gross mobilised resources during 1975-76 worked out to Rs. 475.93 crore for the corporate population of 431 large manufacturing companies and Rs. 830.32 crore for the total private corporate sector (Rs. 120.85 crore for the NIPFP sample).

Over the 14-year study period, the NIPFP sample companies annually averaged a mobilisation of gross resources to the tune of Rs. 139.14 crore; on this basis, the blown-up estimate of annual gross mobilisation of resources by the large-scale manufacturing segment of the private corporate sector, worked out to be Rs. 541.4 crore.

(b) *Comparability*

The gross mobilised resources for the total private corporate sector as estimated by us were found to be fairly similar to those made by the Reserve Bank of India. Thus, for example, the NIPFP estimate for 1973-74 was Rs. 1631 crore as compared to Rs. 1877 crore by the RBI, and for 1974-75 the NIPFP estimate was Rs. 2580 crore as compared to the RBI estimate of Rs. 2548 crore. But for 1975-76, the NIPFP estimate at Rs. 830 crore was much lower than the RBI estimate of Rs. 1770 crore (Table II.5 and I.1).

It was only in respect of the last year, 1975-76, that there was a substantial difference between the NIPFP and the RBI estimates. In the preceding two years, the two estimates were fairly close. In general, the RBI estimates were higher than the NIPFP estimates. This was due to the fact that the RBI estimates were based wholly on data relating to corporate units which received financial assistance from financial institutions. It is a known fact that the operations of relatively small or non-growing or slow-growing corporate units do not get fully reflected in such financial institution-based data. Similarly, a large proportion of financial institution-assisted

TABLE II.5
Blown-up Estimates of Mobilised Resources

		(Rs. crore)		
		Gross resources mobilised	Net resources mobilised	Corporate savings
1. NIPFP sample (99 companies)	1973-74	232.34	157.33	141.61
	1974-75	269.47	196.91	161.74
	1975-76	120.85	40.54	116.83
2. Corporate population (431 companies)	1973-74	997.99 (1.70)	675.75 (1.15)	608.27 (1.03)
	1974-75	1118.83 (1.61)	817.56 (1.18)	671.54 (0.96)
	1975-76	475.93 (0.65)	159.65 (0.22)	460.10 (0.62)
3. Private corporate sector limited by shares	1973-74	1630.92 (2.77)	1104.32 (1.88)	994.04 (1.68)
	1974-75	2580.31 (3.91)	1885.51 (2.71)	1548.74 (2.23)
	1975-76	830.32 (1.13)	278.54 (0.38)	802.70 (1.09)

Note: Figures in parentheses are per cent of GNP (at current market prices).

units generally made profits or made higher profits than those not so assisted, and hence the large segment of the private corporate sector which did not make profits or made low profits were not adequately reflected in such estimates. This would be particularly true for internal plough-back and depreciation which are linked to corporate expansion, size of operations and level of profitability. The NIPFP estimates also suffer from the limitation that their base is the large manufacturing segment of the private corporate sector; however, unlike the financial institution-based estimates of the RBI, the NIPFP estimates take into account, to some extent, the operations of slow or non-growing as well as low-profit making companies.

What is more important than the extent of similarity between the NIPFP and the RBI estimates was their trend. Taking the three-year period for which the comparable estimates are presented, we find that both the NIPFP and the RBI estimates showed an upward trend in current prices in the volume of annual accretion of

mobilised resources between 1973-74 and 1974-75 and a fall in 1975-76.

The NIPFP estimates of net mobilised resources and corporate savings for the private corporate sector are presented in Table II.5. while the RBI estimates were presented earlier in Table I.1 in chapter I.

(c) *Share in GNP*

The gross resources mobilised by the private corporate sector, as estimated by us, constituted 2.8 per cent of GNP (at market prices) in 1973-74, 3.9 per cent in 1974-75 and 1.1 per cent in 1975-76. Corporate savings (gross) worked out to 1.7 per cent, 2.2 per cent and 1.1 per cent of GNP in 1973-74, 1974-75 and 1975-76, respectively. The corresponding figures for net private corporate savings from CSO's *National Accounts Statistics* (data in gross terms are not available) as per cent of GNP were 0.7, 1.0 and 0.4 for the respective years.

9. Conclusions

The analysis in this chapter has brought out the significant contribution of corporate savings to the resource mobilisation effort of the private corporate sector. The pattern of resource mobilisation is found to be influenced by the changes in the general economic conditions. During periods of financial stringency, the corporate sector depended relatively more on institutional financial support than during periods of normal economic conditions. The rationale for increasing institutional support during such times, when corporate performance was not otherwise worthy of such support, lay in the basic principle of saving the project as non-compliance with such a policy might, in the long-term, turn out to be suicidal. In this respect, financial institutions have played a positive role in promoting and nurturing industrial growth.

The significant contribution of corporate savings has great relevance for policy formulation. For one thing, it casts doubts on the generally propounded thesis that corporate units do not generate funds on their own to finance long-term capital formation. If we leave out short-term loans and net miscellaneous liabilities both of which could be construed to represent the use of mobilised resources for short-term purposes other than fixed capital formation,

only a small proportion of fixed capital formation is found to be financed by sources other than corporate savings.

In fact, as will be seen later in chapter III, 97.4 per cent of gross fixed asset formation was financed by corporate savings. This would suggest that either the private corporate sector was doing so well that it could meet all its fixed capital investment needs from internal sources, or, what was more likely (as we shall see in chapter III), the magnitude of capital formation had been at such a low level that there was no need to raise large amounts of funds from external sources. In real terms, the growth rate of resource mobilisation was found to be negligible. It is also likely that external funds were not readily available and the private corporate sector had to phase out its investment programme. Our results would, however, hold true only for established companies. As far as new companies are concerned, the situation would be quite different. In the case of new companies, internal sources would make only a nominal or no contribution at all, and resources would have to be raised from financial institutions, commercial banks and the equity market. An analysis of the pattern of resource mobilisation of new companies is presented later in chapter IV, section 4, and details are shown in Table A.10.

ANNEXURE II.A

Method of Deflation

The values of components of capital formation¹¹ in current and at constant prices as available in the CSO, *National Accounts Statistics*, formed the basis for calculating the implicit price deflators. The different series prepared by the CSO were available with regard to capital formation at constant prices. The first series was at 1960-61 prices, on the basis of which implicit deflators for the period 1962-63 to 1969-70 were derived and the other series was at 1970-71 prices, which was used to derive the implicit deflators for 1970-71 to 1975-76. The two separate deflators were formulated as follows:

$$P_{di} = \frac{CF_{ci}}{CF_{fi}} \times 100$$

where,

CF_{ci} — capital formation in current prices for the i th year,

CF_{fi} — capital formation at constant prices for the i th year, and

P_{di} — implicit price deflator for the i th year.

The two series of implicit price deflators with base 1960-61 = 100 and base 1970-71 = 100, worked out as above, were then merged by splicing them to derive an uniform index of price variations in capital goods, base 1960-61 = 100, for the period 1960-61 to 1975-76. The implicit price deflator for 'gross capital formation' was applied to the actual values of gross mobilised resources, net mobilised resources and corporate savings for the NIPFP sample to determine their values in real terms. Similarly, the implicit price deflator in respect of 'gross fixed capital formation in machinery and equipment' was used to arrive at the values, at 1960-61 prices, of gross fixed assets, net fixed assets, plant and machinery and depreciation¹².

¹¹The three different measures used which relate to the total of public and private sectors of the economy are (i) Gross capital formation (ii) Gross fixed capital formation in plant and machinery and (iii) Changes in stocks.

¹²As the implicit price deflators, for arriving at gross and net mobilised resources and depreciation in real terms were different, the net mobilised resources and depreciation would not exactly add up to gross mobilised resources at 1960-61 prices.

In the case of inventories, the implicit price deflator for the 'changes in stock' component of gross capital formation was used. We have, thus, deflated the different components of gross resources and capital formation by the relevant price deflators individually for each year and then aggregated the annual deflated values.

Table A.4 shows the implicit price deflators used in the study.