III. UTILISATION OF MOBILISED RESOURCES

1. Gross Resource Mobilisation and Fixed Asset Formation

In the manufacturing segment of the private corporate sector, gross fixed assets were found to be the most important investible outlet for the mobilised resources. Over the 14-year period 1962-63 to 1975-76, as much as 65.9 per cent of the gross resources mobilised by the NIPFP sample companies were utilised in gross fixed asset formation; for almost the same period, 1961-62 to 1975-76, the RBI sample companies annually utilised 66.8 per cent of their gross resources on gross fixed asset formation. In other words, about two-third of the gross resources mobilised by the private corporate sector were used for building up gross fixed assets (Table A.5).

The NIPFP sample of 99 companies installed Rs. 1277.53 crore of gross fixed assets during the 14 years, 1962-63 to 1975-76, averaging an annual fixed capital formation of Rs. 91.25 crore in current prices (Table III.1).

A period-wise analysis reveals a falling trend in the percentage utilisation of gross mobilised resources for fixed capital formation in the private corporate sector. While the NIPFP sample companies annually utilised on the average 75.4 per cent of their gross mobilised resources for building up their gross fixed assets during the pre-recessionary period, 1962-63 to 1964-65 and 75.6 per cent during the recessionary period, 1965-66 to 1968-69, the proportion fell to 62.7 per cent during 1969-70 to 1971-72 and to 57.7 per cent during 1972-73 to 1975-76. The RBI sample data showed a similar falling trend, but the extent of the fall was not as sharp as in the case of the NIPFP sample companies (Table A.5).

The analysis of annual data brings out more clearly what was generally feared: the slow-down in gross fixed asset formation, especially during the seventies. The NIPFP sample results reveal that during 1962-63 to 1969-70, gross fixed assets absorbed between 67.7 per cent and 85.9 per cent of the gross mobilised resources (only in two of the years, the proportion was less than 70 per cent). On the other hand, in four of the six years during the seventies for which we analysed the data, the range was between 38.3 per cent

TABLE III.1

Long-Term Funds and Gross Fixed Asset Formation: NIPFP Sample

(Rs. crore per annum)

Period	Gross long-term mobilised resourecs	Gross fixed assets	Gross fixed assets as per cent of gross long-term mobilised resources
1962-63 to 1975-76	98.36 (73.08)	91.25 (65.88)	92.77
1962-63 to 1964-65	46.60 (63.57)	59.29 (75.43)	118.65
1965-66 to 1968-69	114.67 (81.54)	106.15 (75.57)	92.57
1969-70 to 1971-72	100.59 (75.96)	82.96 (62.70)	82.47
1972-73 to 1975-76	131.61 (68.54)	109.55 (57.72)	83.24

Note: Figures in parentheses are percentages of gross mobilised resources.

and 61.9 per cent; in the two exceptional years 1972-73 and 1975-76, the percentages were 71.3 and 91.9, respectively.

The lower proportion of mobilised resources being directed towards fixed capital formation in the private corporate sector subsequent to the industrial recession could imply, among other things, that the pace of capital formation slowed down or that the private corporate sector was successful in mobilising more resources than it could fruitfully utilise in fixed capital formation; the results could also mean that inventory holdings were rising considerably thereby absorbing a larger proportion of investible funds which could have otherwise gone into long-term fixed capital formation. These issues are examined in section 2 below.

2. Long-term Funds and Fixed Asset Formation

According to the analysis of the NIPFP sample data, all but a negligible proportion of long-term resources were channelised into avenues for which they were primarily mobilised: gross fixed assets absorbed 92.8 per cent of long-term resources mobilised during the

14-year period. We have not, however, included inter-corporate investment as one of the long-term uses of funds because such an investment only provides resources to some other corporate entity, which in turn may use it either for long-term or short-term purposes.

For companies in the RBI sample also, gross fixed assets were found to be only slightly less than the long-term funds that were mobilised: gross fixed assets absorbed 98 per cent of the gross long-term funds. This meant that some of the long-term funds were directed to meet short-term requirements.

The lower proportion of long-term funds being diverted to short-term purposes by the RBI companies than by the NIPFP companies arose due to the larger proportion of long-term funds mobilised by the companies in the latter sample, in the form of corporate savings, including depreciation. The NIPFP sample, as was indicated in chapter I, included a lower proportion of companies making losses than the RBI sample and further it excluded companies which were less than 15 years old, unlike the RBI sample which included recently established companies also.

We found some variation in the share of long-term gross resources in financing gross fixed asset formation, the proportion ranging from 10 per cent to 20 per cent in the four sub-periods, as can be seen from Table III.1. The period 1962-63 to 1964-65, which saw a sharp growth in corporate operations was, however, an exception; during this period some of the short-term funds were also used for long-term capital formation as is evident from the fact that gross fixed assets were 118.7 per cent of the gross long-term resources mobilised.

Our finding that the long-term funds had not been fully utilised for financing fixed capital formation could be explained partly by the low level of fixed capital formation in the private corporate sector on the one hand, and the rising interest rates and difficulty in obtaining short-term credit accommodation for maintaining high-priced inventories, on the other. As a result, it would not have been a prudent financial policy for the corporate sector to have kept its long-term funds idle rather than use them for meeting its short-term requirements.

3. Composition of Gross Fixed Assets

Among the gross fixed assets for the financing of which mobilised resources were used, the most important were plant and machinery which represent basic manufacturing capacity. Fixed assets constituted between roughly two-third and three-fourth of the gross fixed assets. For the NIPFP sample, on the average, plant and machinery formed 70.6 per cent of gross fixed asset formation during the period 1962-63 to 1975-76; the corresponding proportion for the RBI sample for the period 1961-62 to 1975-76 was 74.9 per cent. As a proportion of the gross resources mobilised by the private corporate sector, investment in plant and machinery during these periods amounted to 46.5 per cent for the NIPFP sample and 50.1 per cent for the RBI sample (Table A.5).

If we take period averages, the proportion of plant and machinery in gross fixed assets was fairly stable, between 65 per cent and 67 per cent for the NIPFP sample, except for the recessionary period when the proportion shot up to nearly 79 per cent. This was the result possibly of dis-investment in miscellaneous fixed assets such as vehicles and office equipment in some of the years. The unusually high proportion of annual investment in plant and machinery during the recessionary period as compared to other periods needs to be studied in detail.

A nominal part of the annual investment was in work-in-progress, absorbing on the average 0.9 per cent of gross resources; such investments were subsequently transferred largely to plant and machinery and, to a small extent, to buildings; to that extent, the utilisation of gross mobilised resources in building up productive capacity would be higher than that indicated by our figures.

Another important component of gross fixed assets in the private corporate sector was factory and office buildings, which on the average, annually absorbed during the study period 8.9 per cent of the gross mobilised resources (also 8.9 per cent for the RBI sample), constituting 13.5 per cent of the annual gross fixed capital formation. A small proportion, 1.03 per cent of gross mobilised resources (1.08 per cent for the RBI sample), was annually invested in land.

A fairly substantial proportion of gross fixed assets took the form of miscellaneous fixed assets such as motor vehicles and office equipment; such assets on the average accounted for 8.6 per cent of the gross mobilised resources over the 14-year period (5.2 per cent for the RBI sample).

Time series data on depreciation bring out the substantial proportion of annual transfers to depreciation in gross resources mobilised. On the average, as was shown in chapter II, 38.0 per cent of gross mobilised resources were contributed by depreciation during the period 1962-63 to 1975-76. This brought out the importance of depreciation provision as a source of funds for investment in the private corporate sector. If, in addition to depreciation, the available fiscal reliefs were also taken into account, the annual flow of resources by way of recoupment of earlier investment would have been even larger. We had separate data only for one of the fiscal incentives, namely, development rebate. If we added development rebate funds to depreciation, then, as much as 44.4 per cent of gross resources mobilised by the private corporate sector was found to be in the form of funds related to recoupment of earlier investment. As a proportion of annual gross fixed capital formation, depreciation and development rebate together constituted 67.4 per cent.

4. Inventory Financing

A little more than one-third of the gross mobilised resources were utilised by the private corporate sector in financing its inventory holdings. For the NIPFP sample, during the period 1962-63 to 1975-76, 34.1 per cent of the gross mobilised resources were invested in inventories.

The trend over the years showed an increase in the proportion of mobilised resources being invested in holding inventories. Thus, during the pre-recessionary and recession periods, inventories absorbed slightly less than one-fourth of the gross mobilised resources, but the share increased to 37.3 per cent during the post-recessionary period 1969-70 to 1971-72, and further to 42.3 per cent during 1972-73 to 1975-76. The increasing proportion of gross mobilised resources being directed towards non-fixed capital formation would suggest, on the one hand, the slow-down in fixed capital formation and, on the other, the piling up of inventory. An examination of the inventory holdings showed that the level of raw material holdings as a proportion of gross mobilised resources remained fairly stable at around 10 per cent. The proportion of miscellaneous inventory also remained fairly unchanged, around 7.5 per cent. What was noticeable was that a substantially larger proportion of investible funds was being used to hold finished goods and work-in-progress in the later years than in the earlier ones: 21.6 per cent

TABLE III.2

Utilisation of Gross Mobilised Resources in Inventory Holdings: NIPFP Sample

(In per cent of gross mobilised resources)

Year	Inventory	Finished goods and work-in-progress	Raw materials	Others
1962-63	17.62	—0.34	11.49	6.47
1963-64	20.08	3.42	10.90	5.76
1964-65	31.82	14.20	8.96	8.66
1965-66	32.26	15.46	10.89	5.91
1966-67	27.57	11.38	8.62	7.57
1967-68	27.36	15.12	9.73	2.51
1968-69	14.36	8.57	4.59	1.20
1969-70	28.47	12.36	10.08	6.03
1970-71	45.53	22.83	16.20	6.50
1971-72	38.12	12.18	14.99	10.95
1972-73	27.89	3.40	13.88	10.61
1973-74	47.13	19.81	14.40	12.92
1974-75	63.52	37.89	17.32	8.31
1975-76	6.74	11.24	—11.63	7.13
Pre recession	24.57	7.20	10.19	7.18
	(85.69)	(420.85)	(21.97)	(59.97)
Recession	24.43	12.13	8.22	4.08
	(—16.49)	(—8.15)	(—16.76)	(—40.97)
Post recession (a)	37.30	15.57	13.86	7.87
	(20.17)	(3.09)	(26.66)	(39.93)
Post recession (b)	42.28	21.60	10.77	9.91
	(—32.86)	(52.32)	(52.52)	(—15.25)
1962-63 to 1975-76	34.12	16.05	10.58	7.49
	(9.66)	(12.19)	(14.85)	(12.78)

Note : 1. Figures within parentheses are period compound growth rates.
2. While computing the growth rates, the years with negative figures are excluded; *viz.*, 1962-63 for finished goods and work-in-progress, and 1975-76 for raw materials.

of gross mobilised resources were invested in such inventories during the period 1972-73 to 1975-76 as compared to 15.6 per cent during 1969-70 to 1971-72, 12.1 per cent during 1965-66 to 1968-69 and 7.2 per cent during 1962-63 to 1964-65. A part of this increase in investment in finished goods and work-in-progress might have been due to the spiralling price rise but a part could also have been due to the difficulties that the private corporate sector might have had in off-loading its stocks. There is also the possibility that some proportion of rising stocks was due to speculative hoarding tendencies.

The annual data on utilisation of gross mobilised resources in inventories (Table III.2) indicated that the trend was clearly upwards: the proportion of gross mobilised resources being invested in inventory in the private corporate sector was rising.

5. Analysis in Real Terms

As in the case of mobilised resources, we computed the values of gross fixed asset formation in real terms using the relevant price deflators.

In terms of constant (1960-61) prices, the gross fixed asset formation effort of the NIPFP companies over the 14-year period 1962-63 to 1975-76, resulted in a net addition of Rs. 809.60 crore as compared to Rs. 1277.53 crore in current values; the increase in nominal terms was 58 per cent higher than the increase in real terms. In the case of plant and machinery which constituted 68.9 per cent of the gross fixed asset formation, total investment in current values at Rs. 879.73 crore was 62.5 per cent higher than that in real terms, estimated at Rs. 550.23 crore (Table III.3).

In real terms, there was stagnation and decline in the volume of annual gross fixed asset and net fixed asset formation. The former grew at an annual compound rate of (—) 1.5 per cent and the latter at (—) 8.6 per cent (Table III.4). Of course, a fall in the growth rate of annual additions to fixed assets in real terms did not necessarily imply that the annual accretion to fixed assets was less than the fixed assets annually discarded or the wear and tear of such assets. What it meant was that there was a slow-down in the growth of assets, but not that there was an actual depletion in capital assets. But it did mean, however, that the annual percentage additions to capital stock declined. The investment in plant and machinery grew at an annual rate of 0.2 per cent in real terms as compared to 7.1 per cent in nominal terms.

The increase in the value of inventories in current prices during the 14-year period added upto Rs. 887.30 crore, higher by 87 per cent of the value of Rs. 474.11 crore at 1960-61 prices, the annual growth

TABLE III.3

Utilisation of Mobilised Resources in Nominal and Real Terms: NIPFP Sample

(Rs. crore)

Year	Gross fixed assets		Plant and machinery		Inventory		Net fixed assets		Depreciation	
	current prices	1960-61 prices	current prices	1960-61 prices	current prices	1960-61 prices	current prices	1960-61 prices	current prices	1960-61 prices
1962-63	41.94	39.87	21.13	20.09	8.79	8.60	25.04	23.81	16.90	16.07
1963-64	58.44	51.44	32.08	28.24	14.99	13.77	29.99	26.40	28.45	25.04
1964-65	65.48	56.97	34.65	30.15	30.37	24.96	33.94	29.53	31.54	27.44
1965-66	96.02	78.68	55.99	45.88	45.83	36.35	59.96	49.13	36.06	29.55
1966-67	91.78	64.54	42.16	29.65	33.09	22.07	55.96	39.35	35.82	25.19
1967-68	93.07	63.59	98.77	67.48	34.76	19.97	64.05	43.76	29.02	19.83
1968-69	143.71	97.15	136.48	92.26	240.40	145.12	73.90	49.96	69.81	47.19
1969-70	89.57	60.50	76.62	51.76	35.17	20.02	24.75	16.72	64.82	43.79
1970-71	74.69	46.67	51.56	32.22	62.40	34.59	11.42	7.14	63.27	39.53
1971-72	84.63	51.02	34.53	20.82	52.09	27.43	28.12	16.96	56.51	34.07
1972-73	103.80	57.62	52.39	29.08	40.60	19.72	24.43	13.56	79.37	44.06
1973-74	120.31	61.62	72.63	37.20	109.50	44.05	45.30	23.30	75.01	38.42
1974-75	103.07	40.96	98.38	40.00	171.17	54.84	30.51	12.12	72.56	28.84
1975-76	111.02	38.97	72.36	25.40	8.14	2.62	30.71	10.78	80.31	28.19
TOTAL	**1277.53**	**809.60**	**879.73**	**550.23**	**887.30**	**474.11**	**538.08**	**362.52**	**739.45**	**447.21**

TABLE III.4

Comparative Growth in Mobilised Resources, Fixed Assets and Inventories : NIPFP Sample

(Average annual compound growth rates in per cent)

	1962-63 to 1964-65		1965-66 to 1968-69		1969-70 to 1971-72		1972-73 to 1975-76		1962-63 to 1975-76	
	current prices	1960-61 prices	current prices	1960-61 prices	current prices	1960-61 prices	current prices	1960-61 prices	current prices	1960-61 prices
Corporate savings	49.08	42.70	12.23	5.53	— 3.20	— 9.02	— 3.81	—17.44	13.20	5.09
Gross mobilised resources	38.34	32.40	5.13	—1.15	5.18	— 1.14	— 4.02	—17.62	7.79	0.07
Net mobilised resources	38.44	32.51	—1.65	—7.52	16.83	9.80	—11.72	—24.23	4.86	—2.65
Gross fixed assets	24.95	19.54	13.01	6.37	— 2.80	— 8.17	0.47	—14.63	5.27	—1.50
Plant and machinery	28.06	22.51	42.25	33.89	—32.87	—36.58	13.57	—3.28	7.05	0.22
Inventory	85.88	70.36	65.22	49.98	21.70	17.05	—35.43	—44.21	8.85	0.29
Net fixed assets	16.42	11.37	7.92	1.58	6.59	0.72	2.95	—2.56	—2.29	—8.57
Depreciation	36.61	30.67	19.38	12.36	—6.63	—11.79	0.02	—15.01	11.23	4.08

in nominal terms being 8.9 per cent as against a marginal annual growth of just 0.3 per cent in real terms.

It is interesting to find that though the growth in gross fixed asset formation and particularly that in plant and machinery, was only nominal or even negative in real terms, data on installed capacity in major industries showed substantial increases. In most of the 20 major industries for the period 1961 to 1976, for which we have presented data in Table A.6, we have found significant increases in installed productive capacity. The discrepancy between productive capacity data in physical terms and in financial terms could arise due to the possibility of increasing physical capacity substantially by nominal increases in financial outlay through the installation of balancing equipment and working of additional shifts.

6. Blown-up Estimates

The gross fixed asset formation of the 99 NIPFP companies in 1975-76 amounted, in current prices, to Rs. 111.02 crore; that of the population of 431 large manufacturing companies from which the NIPFP sample was selected was estimated on the above basis to be Rs. 437.22 crore, and that of the total private corporate sector was estimated to be Rs. 762.79 crore. At the total private corporate sector level, the estimates of gross fixed asset formation were, for the two preceding years, Rs. 844.52 crore in 1973-74 and Rs. 986.95 crore in 1974-75 (Table III.5).

For 1975-76, gross fixed capital formation in the form of plant and machinery in the whole private corporate sector was estimated to be Rs. 497.16 crore and depreciation to be Rs. 551.79 crore. Investment in plant and machinery in the private corporate sector in 1973-74 and 1974-75 was Rs. 509·83 crore and Rs. 942.04 crore, respectively.

Total capital formation, consisting of investment in gross fixed assets and inventories, was estimated to be Rs. 818.72 crore in 1975-76 for the total private corporate sector; the estimate for 1974-75 was Rs. 2625.99 crore and for 1973-74, it was Rs. 1613.16 crore. These estimates are broadly comparable to the estimates made by the Reserve Bank of India of gross capital formation of the private corporate sector: Rs. 1684 crore in 1973-74, Rs. 2511 crore in 1974-75 and Rs. 1732 crore in 1975-76. While for 1973-74 and 1974-75, the NIPFP estimates were similar to the RBI estimates, they were significantly lower than the RBI estimates for 1975-76, possibly due to the bias towards the larger and growing companies in the RBI estimates, as indicated in chapter II, section 8.

TABLE III.5

Blown-up Estimates of Asset Formation

(Rs. crore)

		Gross fixed assets	Plant and machinery	Inventory	Net fixed assets	Depre-ciation
NIPFP sample companies (99)	1973-74	120.31	72.63	109.50	45.30	75.01
	1974-75	103.07	98.38	171.17	30.51	72.56
	1975-76	111.02	72.36	8.14	30.71	80.31
Estimates for companies in population (431)	1973-74	516.78 (0.88)	311.97 (0.53)	470.35 (0.80)	194.58 (0.33)	322.20 (0.55)
	1974-75	427..94 (0.62)	408.47 (0.59)	710.69 (1.02)	126.67 (0.19)	301.27 (0.43)
	1975-76	437.22 (0.59)	284.97 (0.39)	32.06 (0.04)	120.94 (0.16)	316.28 (0.43)
Estimates for the total private corporate sector	1973-74	844.52 (1.43)	509.83 (0.87)	768.64 (1.31)	317.98 (0.54)	526.54 (0.89)
	1974-75	986.95 (1.42)	942.04 (1.35)	1639.04 (2.36)	292.15 (0.42)	694.80 (1.00)
	1975-76	762.79 (1.04)	497.16 (0.67)	55.93 (0.08)	211.00 (0.29)	551.79 (0.75)

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

On the basis of the annual average level of gross fixed asset formation and total capital formation of the NIPFP sample companies over the 14-year study period, we estimated that, on the average, the annual fixed asset formation and total capital formation by the large-scale manufacturing segment of the private corporate sector, were Rs. 355.1 crore and Rs. 601.7 crore, respectively.

7. Conclusions

Three important aspects of the utilisation of gross mobilised resources in the private corporate sector had come out in our analysis. Firstly, there was under-utilisation of long-term resources for fixed capital formation, for which purpose they were primarily meant. As a corollary of this, we found that a portion of long-term resources were used to finance short-term corporate requirements for holding stocks. Here, long-term funds included depreciation also. During abnormal conditions, for example, when the industrial sector was affected by recessionary forces, an increasing proportion of long-term funds got diverted towards such short-term stock holdings partly because of difficulties in off-loading stocks. In some other unusual circumstances, such as when there was inflationary rise in prices, the increase in the cost of stock holdings and short-term credit squeeze might have necessitated the use of long-term funds for short-term purposes.

Another important finding was that long-term gross resources primarily meant for fixed capital formation were very largely mobilised from internal sources; as much as 88.6 per cent of long-term resources were mobilised in the form of gross corporate savings, including depreciation. That such a large proportion of long-term fixed capital formation could be financed out of internal resources needs to be interpreted in the light of the level of capital formation achieved. Also, this finding was mainly applicable to companies that existed for all the 15 years and not to new companies.

Thirdly, the growth in the fixed capital formation in the private corporate sector was not only lower than that of gross resource mobilisation, but in real terms, when price effect over the years was allowed for, we found that gross capital formation of the private corporate sector was far from satisfactory. We have not gone into the causes for the stagnation in real capital formation in the corporate sector. However, since the level of capital formation was fairly low and not growing, the finding that a large proportion of fixed capital formation was financed through internal sources cannot be interpreted to mean that the private corporate sector is able to raise an adequate level of resources on its own.