IV. SECTORAL RESULTS

1. Overall Perspective

(*a*) *Broad Issues*

The analysis of the pattern of resource mobilisation at the disaggregated level brings out several distinct features of the operations in the private corporate sector. We have found that the composition of mobilised resources varied among different categories of companies under each of the classification criteria that we used. We have also found shifts in the pattern of resource mobilisation during periods of industrial recession or of hyper-inflation or when there was stringency in the capital market. These changes were generally in line with the shifts at the aggregate level (as seen in chapter II) in the pattern of resource mobilisation under different economic situations.

Inter-industry differentials in the pattern of resource mobilisation could have arisen due to the operation of several factors, some among them being the differences in the capital requirements, the rate of growth, image in the capital market and credit-worthiness. These factors were, in turn, dependent upon some others like profitability, dividend payments, plan targets, production techniques, fiscal policy and monetary policy.

Among the other factors affecting the pattern of resource mobilisation which were examined at the disaggregated level were the size of the corporate units, their location, age, effective tax liability and actual growth rate attained. We have found that the resource mobilisation effort was, to some extent, influenced by these characteristics of corporate operations which bring about differences in the volume of resource requirements and also in the capacity to raise resources from among the alternative sources, both from within the corporate sector and from outside.

(*b*) *Distribution of Mobilised Resources among Sample Companies*

The industry-wise analysis was made mainly under five broad categories which were given appropriate weights in selecting the NIPFP sample. Relevant details on 14 individual industries within these five groups are also presented. The largest proportion (31.6 per cent) of gross resources was mobilised by the engineering industry. Chemical and textile industries, also occupying important positions in the industrial sector, raised 16.1 per cent and 15.8 per cent, respectively, of the gross resources of the NIPFP sample companies (Table IV.1).

TABLE IV.1

Distribution of Gross Mobilised Resources Among NIPFP Sample Companies (1962-63 to 1975-76)

(Annual average)

	Number of companies		Gross mobilised resources	
	Number	Per cent	Rs. crore	Per cent
1. Industry group				
(i) chemicals	15	15.15	22.33	16.05
(ii) engineering	31	31.31	43.91	31.56
(iii) textiles	19	19.19	21.98	15.80
(iv) food	7	7.07	3.47	2.49
(v) miscellaneous	27	27.28	47.45	34.10
2. Size groups (share capital)				
(i) small (less than Rs. 5 crore)	80	80.81	64.14	46.10
(ii) medium (Rs. 5 crore to Rs. 10 crore)	12	12.12	31.66	22.75
(iii) large (above Rs. 10 crore)	7	7.07	43.34	31.15
3. Size groups (total assets)				
(i) small (less than Rs. 15 crore)	49	49.50	26.13	18.78
(ii) medium (Rs. 15 crore to Rs. 30 crore)	28	28.28	31.97	22.98
(iii) large (above Rs. 30 crore)	22	22.22	81.04	58.24

(Contd.)

TABLE IV.1. (contd.)

(Annual average)

	Number of companies		Gross mobilised resources	
	Number	Per cent	Rs. crore	Per cent
4. Age Groups				
(i) very old (before 1935)	31	31.32	40.87	29.37
(ii) old (1936 to 1950)	39	39.39	56.48	40.60
(iii) recent (1951 to 1955)	4	4.04	6.04	4.34
(iv) new (1956 to 1961)	25	25.25	35.75	25.69
5 Location groups				
(i) major industrial centres	23	23.23	26.73	19.21
(ii) adjacent to major industrial centres	68	68.69	100.09	71.93
(iii) others	8	8.08	12.32	8.86
6. Growth rate groups[1]				
(i) below average	21	21.21	22.11	15.89
(ii) average	36	36.36	38.01	27.32
(iii) above average	42	42.43	79.02	56.79
7. Tax liability groups[2]				
(i) below average	45	45.46	63.97	45.97
(ii) average	14	14·14	26.05	18.72
(iii) above average	40	40.40	49.12	35.31
TOTAL (All companies)	**99**	**100.00**	**139.14**	**100.00**

Note : [1]Annual compound growth rate.
[2]Average annual period effective tax rate as measured by tax provision to profits before tax ratio.

An analysis of the size-wise distribution of the NIPFP companies shows that large companies, even though numerically small, mobilised a very substantial proportion of the gross resources. A mere 7.1 per cent of the NIPFP companies, classified as large companies with individual paid-up share capital above Rs. 10 crore, together accounted for as much 31.2 per cent of gross resources mobilised. On the other hand, 80.8 per cent of the NIPFP companies, relatively small in size, each with paid-up share capital less than Rs. 5 crore together mobilised 46.1 per cent, of gross resources. As a result, the annual gross resource mobilisation effort per large company during 1962-63 to 1975-76 amounted to Rs. 6.19 crore as compared to Rs. 2.64 crore per medium size company and Rs. 0.80 crore per small company. The predominant share of large companies in mobilised resources was in line with the well-known facts about the dominant shares of such companies in the corporate sector as a whole in the total paid-up share capital, installed capacity and value added.

The pattern of resource mobilisation was found to be similar for size-groups measured in terms of total assets as seen in Tables IV.1 and IV.2. These tables also present details for other disaggregated groups of NIPFP companies.

2. Industry-wise Differentials

By and large, the industry-wise findings substantiate those presented earlier in chapter II in the aggregated analysis of the NIPFP and the RBI sample data. Between the individual industries, there were, of course, noticeable differences in the shares of some of the components of resource mobilisation.

Corporate savings constituted the most important source of gross resources in the private corporate sector. In many of the individual industries, the proportion of corporate savings in the average annual gross mobilised resources exceeded the sample average of 64.2 per cent; these industries were tyres and tubes, chemicals, sugar, man-made fibres, electrical machinery, paper and paper products, highly diversified companies and cement. A large proportion of the corporate savings in these industries (except cement), as also in some other industries, was in the form of depreciation and voluntary non-statutory reserves (Tables IV.3 and A.7).

Internal share capital, in the form of bonus shares, is also found to be an important component of corporate savings among industries which had large corporate savings. The exceptions, however, were highly diversified companies and cement companies in both of which internal share capital contributed slightly less than the NIPFP sample average level.

TABLE IV.2

Annual Resource Mobilisation per NIPFP Sample Company

(Rs. crore)

	Number of companies	1962-63 to 1975-76: gross mobilised resources	1962-63 to 1975-76: net mobilised resources	1962-63 to 1975-76: corporate savings	1962-63 to 1975-76: total long-term resources	1962-63 to 1964-65: gross mobilised resources	1965-66 to 1968-69: gross mobilised resources	1969-70 to 1971-72: gross mobilised resources	1972-73 to 1975-76: gross mobilised resources
1. Industry groups									
(i) chemicals	15	1.49	0.81	1.15	1.29	0.67	2.04	1.37	1.64
(ii) engineering	31	1.42	0.98	0.85	0.99	0.74	1.41	1.38	1.96
(iii) textiles	19	1.16	0.65	0.69	0.79	0.81	0.81	1.20	1.72
(iv) food products	7	0.50	0.29	0.33	0.43	0.02	0.68	0.49	0.67
(v) miscellaneous industries	27	1.76	1.09	1.16	1.29	0.91	1.71	1.59	2.57
2. Size groups (shares capital)									
(i) small (less than Rs. 5 crore)	80	0.80	0.52	0.47	0.54	0.43	0.65	0.81	1.22
(ii) medium (Rs. 5 crore to Rs. 10 crore)	12	2.64	1.52	2.06	2.27	1.39	2.45	2.17	4.12
(iii) large (above Rs. 10 crore)	7	6.19	3.77	4.01	4.59	3.12	8.43	5.97	6.42

3. Size groups (total assets)									
(i) Small (less than Rs. 15 crore)	49	0.53	0.34	0.32	0.37	0.31	0.48	0.50	0.78
(ii) medium (Rs. 15 crore to Rs. 30 crore)	28	1.14	0.71	0.72	0.82	0.52	0.94	1.23	1.74
(iii) large (above Rs. 30 crore)	22	3.68	2.27	2.47	2.81	3.61	7.59	6.10	8.77
4. Age groups									
(i) very old (before 1935)	31	1.32	0.79	0.86	0.94	0.79	1.22	1.24	1.87
(ii) old (1936 to 1950)	39	1.45	0.89	0.90	1.03	0.83	1.59	1.30	1.88
(iii) recent (1951 to 1955)	4	1.51	1.07	0.95	1.16	0.76	1.01	1.30	2.74
(iv) new (1956 to 1961)	25	1.43	0.91	0.99	1.16	0.54	1.46	1.52	2.00
5. Location groups									
(i) major industrial centres	23	1.16	0.64	0.85	0.99	0.62	1.29	0.93	1.61
(ii) adjacent to major industrial centres	68	1.47	0.93	0.93	1.05	0.77	1.50	1.44	1.99
(iii) others	8	1.54	1.04	0.88	1.06	0.80	1.11	1.67	2.43
6. Growth rate groups									
(i) below average	21	1.05	0.58	0.62	0.70	0.68	1.09	1.18	1.20
(ii) average	36	1.06	0.67	0.71	0.79	0.69	0.89	0.75	1.62
(iii) above average	42	1.88	1.19	1.23	1.42	0.81	2.04	1.92	2.50
7. Tax liability groups									
(i) below average	45	1.42	0.87	1.00	1.13	0.71	1.41	1.25	2.09
(ii) average	14	1.86	1.09	1.22	1.42	1.08	1.94	2.20	2.11
(iii) above average	40	1.23	0.80	0.70	0.80	0.66	1.25	1.13	1.71
TOTAL (All companies)	**99**	**1.41**	**0.87**	**0.91**	**1.04**	**0.74**	**1.42**	**1.34**	**1.94**

TABLE IV.3

Pattern of Resource Mobilisation 1962-63 to 1975-76
(Sectoral Analysis)

(As per cent of gross mobilised resources)

	Corporate savings	Depreciation	External share capital	Long-term loans	Debentures	Short-term funds	Gross resources
1. Industry groups							
(i) chemicals	77.06	45.37	5.76	8.81	1.10	7.27	100.00
(ii) engineering	60.06	31.11	5.54	6.24	3.67	24.49	100.00
(iii) textiles	59.56	43.79	3.74	8.47	0.08	28.15	100.00
(iv) food products	66.94	42.01	7.46	19.09	0.27	6.24	100.00
(v) miscellaneous industries	65.80	37.81	4.55	5.75	1.69	22.21	100.00
2. Size groups (share capital)							
(i) small (less than Rs. 5 crore)	58.33	35.06	4.96	8.37	1.20	27.14	100.00
(ii) medium (Rs. 5 crore to Rs. 10 crore)	78.09	42.50	4.21	6.11	1.77	9.82	100.00
(iii) large (above Rs 10 crore)	64.81	38.92	5.63	6.14	3.11	20.31	100.00
3. Size groups (total assets)							
(i) small (less than Rs. 15 crore)	60.57	36.47	5.09	9.06	0.43	24.85	100.00
(ii) medium (Rs. 15 to Rs. 30 crore)	62.95	38.17	4.83	7.22	1.27	23.73	100.00
(iii) large (above Rs. 30 crore)	66.83	38.36	5.04	6.72	2.62	18.79	100.00

4. Age groups							
(i) very old (upto 1935)	65.47	39.92	5.31	5.44	0.31	23.47	100.00
(ii) old (1936 to 1950)	61.92	38.41	4.51	5.73	3.51	24.33	100.00
(iii) recent (1951 to 1955)	62.85	29.04	4.26	10.37	3.77	18.75	100.00
(iv) new (1956 to 1961)	69.13	36.50	5.54	10.81	0.97	13.55	100.00
5. Location groups							
(i) major industrial centres	73.54	45.20	4.33	10.51	0.81	10.81	100.00
(ii) adjacent to industrial centres	63.46	36.68	5.21	5.89	2.30	23.14	100.00
(iii) others	57.31	32.63	4.75	10.17	1.33	26.44	100.00
6. Growth rate groups							
(i) below average	58.65	45.36	3.48	5.33	2.58	29.96	100.00
(ii) average	66.96	36.59	4.45	5.80	2.13	20.66	100.00
(iii) above average	65.67	36.55	5.69	8.32	1.65	18.77	100.00
7. Tax liability groups							
(i) below average	70.62	38.95	4.71	7.49	1.44	15.74	100.00
(ii) average	65.31	41.64	4.99	5.65	5.34	18.71	100.00
(iii) above average	57.09	34.71	5.38	7.52	0.75	29.26	100.00
TOTAL (all companies)	**64.84**	**37.96**	**5.00**	**7.16**	**1.93**	**21.07**	**100.00**

It appears that the level of corporate savings in the gross resource mobilisation effort of the corporate sector was related to the level of corporate profitability. The industries which we identified as generating a substantial proportion of the gross resources from corporate savings were those which generally had not only a good growth in their gross fixed capital formation but also had above average profitability.

The relatively low contribution of long-term borrowings and debentures seen for the corporate sector as a whole, was also witnessed in the industry-wise analysis. In only three of the individual industries was the proportion found to be significantly above the average. In these industries, namely sugar, transport accessories and cement, long-term borrowings and debentures together constituted between 14.9 per cent and 23.4 per cent, respectively, of gross mobilised resources. These industries, however, had a low proportion of voluntary internal plough-back.

As a proportion of total long-term funds, primarily meant for fixed capital formation, the significance of corporate savings was found to be even greater. For four of the five broad industry groups, the proportion of corporate savings in such long-term resources during the 14-year period ranged from as high as 79.5 per cent to 84.6 per cent; and in the fifth group, namely, food products, the proportion was 71.4 per cent. In other words, about four-fifth of the gross long-term resources in the private corporate sector was raised from internal sources from within the corporate sector. Tax policy, no doubt, had an effect on such corporate savings as is revealed subsequently in section 7 of this chapter, but it was interesting to note that inspite of the various government policies, which are generally believed to be having inhibitive effects on the generation of internal funds by corporations the internal generation of corporate funds formed such a high proportion of long-term resources.

As regards short-term funds, we found that in only a few of the selected industries such resources were substantial; these industries included jute textiles, cotton textiles, transport accessories, paper and paper products, miscellaneous industries and highly diversified industries.

Period-data for the selected industries reveal that changing economic conditions influenced the pattern of resource mobilisation in particular industries. During the recessionary period, we find that corporate savings, as a source of gross resources, declined in six of the 14 selected industries. The fall was fairly sharp in chemicals, food products, paper and paper products and tyres and tubes industries. In fact, a study of data for voluntary internal plough-back only, showed that as many as eight industries had a set back, as compared to the pre-recessionary period. Another significant indicator, the proportion of gross resources raised through the stock market, declined in 12 of the 14 selected industries.

The impact of inflationary conditions on the pattern of corporate resources becomes clear when we see the distinct improvement in the contribution of corporate savings. At the aggregate level, the NIPFP companies raised 51.4 per cent of gross resources as corporate savings during the pre-recessionary period and only 47.8 per cent during the recessionary period and this proportion improved to 77.7 per cent in the post-recessionary period; a similar trend is seen at the disaggregated level in the case of important industries.

3. Impact of Size

The degree of success that companies had at the stock market, as is reflected in the share of externally mobilised share capital in the gross mobilised resources, was found to be marginally influenced by the size of the companies. The relatively small sample companies, (paid-up share capital of less than Rs. 5 crore) mobilised 5 per cent of the gross resources through the stock market during the period 1962-63 to 1975-76 as compared to 5.6 per cent by large companies (having share capital of above Rs. 10 crore) (Tables IV.3 and A.8).

The size-wise analysis shows that corporate savings, in particular, depreciation, formed the predominant source of funds for companies of all sizes. Corporate savings accounted for between 58.3 per cent and 78.1 per cent of the gross resources and depreciation provision between 35.1 per cent and 42.5 per cent of the gross resources mobilised by the different sized companies.

Analysis of the trends in corporate savings for different sized companies brings out two conclusions: (a) all sizes of companies had, over the years, improved the proportion of their resources raised through corporate savings, which was the most important source of funds and (b) the improvement seemed to be more in the case of the relatively large companies.

The percentage share of mobilisation of resources through statutory provisions like the development rebate and depreciation was found to rise with the increase in the size of the company. In the case of voluntary internal plough-back, however, the position was just the opposite: the largest companies generated a lower proportion of gross mobilised resources from this source than the smaller companies. This would suggest a lower effective tax liability, a lower dividend pay-out ratio and/or higher profitability before tax.

We have found that the relatively small companies depended somewhat more on long-term loans from institutions than the larger companies: the small companies raised during the 14-year period 8.4 per cent of the gross resources mobilised by them from this source as compared to 6.1 per cent raised by both the medium and the large companies.

Size-wise analysis in terms of total assets brings out results similar to those presented above in terms of paid-up share capital (Table IV.3 and Table A.9).

4. Relevance of Age

While no clear cut differences emerge when we analyse sample data by the four age groups, namely, the very old, old, new and recent companies, a different pattern emerges when we restrict the classification to two broad categories: the old companies incorporated upto 1950 (groups 1 and 2) and the new companies incorporated between 1951 and 1961 (groups 3 and 4).

The new companies mobilised a larger proportion of their resources in the nature of long-term funds than the older companies (Table A.10). During the 14-year period, short-term funds constituted 23.5 per cent of gross resources for companies incorporated before 1935 and 24.3 per cent for companies incorporated between 1936 and 1950. The corresponding figures for the companies incorporated between 1951 and 1955 and for the companies incorporated between 1956 and 1961 were 18.8 per cent and 13.6 per cent, respectively. Further, the older companies mobilised only around 5 per cent of the gross resources through long-term borrowings from financial institutions as compared to over 10 per cent by the new companies. As a corollary of this, short-term funds had a greater role to play in the case of the older companies. Three factors could explain this situation. First, the older companies were generally well established and did not need as much of long-term funds as the newer companies which might still have been in the process of building up their physical capacity. Secondly, as the older companies were already in full commercial operation, their need for short-term funds to maintain larger stocks and incur other miscellaneous operational expenses would have been greater than that of the newer companies, not yet in full operation. Thirdly, even when the older companies embarked on some fixed capital formation programme, they already had some corporate savings particularly in the form of depreciation provision, which would not have been the case in respect of the newer companies. Hence, long-term funds and also long-term institutional borrowings were more important components of gross resources in the case of newer companies.

A detailed analysis of the contribution of depreciation provision over the study period shows that as a source of fresh funds, its relative importance depended upon the age of the companies. As shown earlier in this section, depreciation was a relatively more important component of gross resources mobilised for older companies. This was true not only for the 14-year period but also for the four sub-periods. A question may arise as to why depreciation was a more important source of gross resources for the older companies, as the more recent companies were more capital-intensive in nature. The explanation lies in the fact that depreciation also depended upon the availability of chargeable income and that even older companies had, over the last decade and a half, undertaken large-scale modernisation and diversification programmes, also in fields which were highly capital-intensive in nature. In fact, the product pattern of the NIPFP companies reveals that a large proportion of older companies which were initially single-product units several decades ago were, at the time of this study, operating in diverse fields.

Age-wise analysis also showed that the development rebate reserve was a more important constituent of mobilised resources for the newer companies than for the older companies. In the case of the newer companies, as other internal resources, especially depreciation, would not have been substantial (as in the case of the older companies), the share of development rebate as a proportion of gross resources and also of corporate savings worked out to be higher. Period analysis also supports this finding.

The analysis of the sample's 'new' companies, especially for the period 1962-63 to 1964-65, can be considered to be fairly representative of the situation of such new companies. In this period when the new companies were at most between five and eight years old and in many cases only two to four years old, the dependence on fresh share capital was very substantial (34.2 per cent of gross resources as compared to 8.3 per cent, 8.9 per cent and 19.1 per cent for the older companies in age groups one, two and three, respectively, for the same sub-period). In fact, with the passage of time as these new companies could mobilise other resources, the importace of fresh share capital fell drastically to 5.32 per cent of gross resources during 1965-66 to 1968-69, to 3.2 per cent during 1969-70 to 1971-72 and to 2.9 per cent during 1972-73 to 1975-76. Another interesting finding was about long-term funds, which averaged 17.8 per cent of gross resources mobilised during 1965-66 to 1968-69 when these companies could be expected to have gone into full swing with their fixed asset formation programme; thereafter, there was a net transfer of funds from such companies to the lending agencies (the projects would have started yielding positive cash flows and the instalments for repayment of long-term loans would have became due). Corporate savings also became more significant as companies started productive operations and generated taxable income; the share of depreciation increased gradually from 23.0 per cent during 1962-63 to 1964-65 to as much as 49.2 per cent during 1972-73 to 1975-76 and that of reserves from 11.6 per cent durnig 1962-63 to 1964-65 to 40.0 per cent by 1972-73 to 1975-76 (Table A.10). For companies which are new today, the pattern which emerges for the sample's 'new' companies in their initial years might be broadly similar though the dependence on long-term funds from external sources may be now even more.

5. Role of Location

The location of an industry did not seem to play a significant role in determining corporate behaviour in mobilising resources from external sources, such as the stock market and long-term financial institutions. Hardly any difference was seen in the proportions of gross resources annually mobilised from the stock market during the period 1962-63 to the 1975-76 by the three location-based groups, the respective shares ranging between 4.3 per cent and 5.2 per cent (Tables IV.3 and A.11). Similarly, as regards long-term institutional finance, the proportions of gross resources mobilised from these sources were almost identical for companies located at the major industrial centres (10.5 per cent) and at a distance away from such centres (10.2 per cent).

This finding was contrary to the general belief that companies having their operational centre in the form of the registered office (the factories could be located elsewhere) in the midst of the major financial markets had *a priori* greater access to these markets and hence would be more successful there. The corollary which followed from such a belief was that companies with their centres located at distances away from major capital markets would tend to be discriminated against in terms of obtaining resources from these agencies. Such a belief was not found to be substantiated by empirical evidence.

The explanation for the above findings is that the NIPFP companies were fairly large-sized and could incur the expenditure on regular visits to the financial and capital centres and build up the necessary liaison. A distant location did not, therefore, produce any deterrent effect on the capacity to raise resources from such markets.

While location did not seem to have any distinct effect on corporate capacity or tendency to mobilise long-term external resources, it did seem to have a bearing on corporate behaviour in generating internal savings and mobilising short-term external funds. During the study period, companies having their location at the major industrial centres mobilised 73.5 per cent of the gross resources through corporate savings but this proportion was 63.5 per cent for companies located in the proximity of such centres and even lower at 57.3 per cent for companies located at a distance from such centres. However, the differentials arose mainly through substantial differences in the contribution of depreciation: the companies located in and near the major industrial centres, being larger and older than those located farther away, mobilised a substantially higher proportion of the resources from this source.

If we only took corporate savings in the form of internal plough-back and internal share capital, the contribution of such corporate savings was found to be roughly the same, between 24.7 per cent and 28.3 per cent of the gross resources.

Our analysis, thus, showed that location did not play a major role in determining the composition of long-term funds primarily meant for fixed capital formation. The position, however, was different as regards short-term resources. The proportion of total resources that were of a long-term nature got reduced as locations were shifted farther away from the industrial centres. We found that the major industrial-centre companies raised only 10.8 per cent of their gross resources in the form of short-term borrowings and net miscellaneous liabilities as compared to 23.1 per cent raised by companies located in the vicinity of such centres and 26.4 per cent raised by those located away from such centres.

These differences may have arisen due to the need to maintain larger stocks (raw-materials as well as finished goods) at locations away from the industrial centres as the major purchasing and selling centres, including ports (for imports and exports), are located in, or nearer to, the major industrial centres. The difficulties in geting adequate wagon space in time would have necessitated to some extent the maintenance of larger stocks, especially at distant locations, thereby resulting in the blocking of short-term and to some extent even long-term funds for holding inventories.

Recessionary conditions were found to affect companies located at the major industrial centres more adversely than those located near them; the adverse effects were the least for companies located at a distance. The reasons for such a rather unexpected finding need to be studied. Recovery was, however, also immediate for companies located at the major industrial centres.

6. The Growth Angle

Companies with a higher rate of growth of gross fixed assets mobilised a larger proportion of the gross resources in the form of long-term funds than companies which had a lower growth rate. Further, among the long-term funds, the proportion of long-term institutional finance was substantially higher for the former; so also was the case with fresh share capital mobilised from the stock exchange and from internal sources. Among the components of corporate savings, the most significant difference was noticeable in respect of a statutory relief, the development rebate, which was linked exclusively to growth in gross fixed assets formation. Voluntary internal plough-back was also substantially higher for fast-growing companies as compared to slow-growing companies; in other words, it can be said that companies which ploughed back more obtained a higher growth rate in their gross fixed assets than others.

While short-term funds constituted 30 per cent of gross resources for companies whose gross fixed assets grew at a low rate (average annual compound rate of less than 7.5 per cent), the proportion was 20.7 per cent for companies having average growth rates (7.5 per cent and 12.5 per cent) and the proportion was reduced to 18.8 per cent for above average growth rate companies (more than 12.5 per cent). Similarly, while companies growing at above average rates mobilised 10 per cent of the gross resources through long-term institutional borrowings and debentures, the proportion was lower at 7.9 per cent for companies having average and below average growth rates (Tables IV.3 and A.12).

It was interesting to find that among the different categories of companies depreciation as a source of internal funds was most important for the companies having below average growth rates. This might have been due to the fact that the fixed assets of such companies were not growing fast and hence their requirement of additional funds was not as much as in the case of other categories of companies; at the same time since depreciation is an allowable charge on the existing fixed assets and remains fairly constant annually in absolute amounts when there is no growth in fixed assets, it would tend to increase as a proportion of declining total volume of fresh resources.

Growth was, thus, seen to have a favourable impact on the capacity of the companies to mobilise resources from the stock market and financial institutions and to also generate internal plough back. On the other hand, with inadequate growth companies utilised the mobilised resources more towards short-term inventory financing and for miscellaneous uses.

7. The Tax Liability Aspect

We found that the companies having a lower effective tax liability had a larger internal plough-back and were, therefore, dependent on external funds to a lower extent than companies having a higher effective tax liability. Further, in such companies the proportion of short-term funds in the mobilised resources was lower as their lower effective tax liability emanated from the use of a larger proportion of the mobilised resources for fixed capital formation.

The companies having a low effective tax liability (less than 30 per cent) during the period 1962-63 to 1975-76 raised 70.6 per cent of gross resources through corporate savings as compared to the 65.3 per cent raised by the companies having an average effective tax liability (between 30 per cent and 39 per cent) and 57.1 per cent by the companies having an above average effective tax liability (exceeding 39 per cent). Statutory retentions in the form of development rebate, which influence the level of effective tax liability was, for the average and the below average tax liability companies, between 1½ times and 3 times the level noticed for the above average tax liability companies (Tables IV.3 and A.13).

It is seen that among the long-term funds those from external sources like the stock and capital markets were relatively more important for the companies having high effective tax liabilities and conversely.

8. Private Limited Companies

Perceptible differences were noticed in the pattern of resource mobilisation as between private limited and public limited companies. The respective patterns of resource mobilisation seemed to be in line with the operational characteristics of the two types of companies. Mobilisation of long-term funds was relatively less important in the case of private limited companies than in the case of public limited campanies; hence, short-term funds occupied a more important position. As much as 33.4 per cent of the gross resources during 1961-62 to 1975-66 mobilised by private limited companies were of a short-term nature as compared to 31.8 per cent by public limited companies (Table A.14).

The analysis of the data on the use pattern of mobilised funds reveals that as much as 60.2 per cent of the gross mobilised resources were used for fixed assets formation by private limited companies, while public limited companies utilised a somewhat higher proportion, namely 66.8 per cent, for this purpose.

Depreciation provision was found to be a less important source of resource mobilisation in the case of private limited companies than in the case of public limited companies. Similarly, development rebate linked to fresh investment was also a less important component. Depreciation provision constituted 33.8 per cent of the gross resources mobilised and development rebate reserves another 4.6 per cent in the case of private limited, compared to 37.1 per cent and 6.4 per cent, respectively, in the case of public limited companies. That this happened in spite of a higher annual growth rate of gross fixed assets of private limited companies (11.2 per cent) than of public limited companies (10.4 per cent) was due to the composition of the respective gross fixed assets, plant and machinery being less important in the case of private limited companies.

It was interesting to find, however, that free reserves were relatively more important, contributing 11 per cent of the gross resources mobilised by private limited companies as against 9.4 per cent by public limited companies. The RBI data show that the profitability of private limited companies was lower than that of public limited companies. Therefore, one needs to examine further this aspect of the pattern of resource mobilisation. Our analysis shows that fresh share capital by way of equity subscribed by existing or new shareholders and by way of bonus shares made a more or less similar contribution towards the resource mobilisation effort of both private limited companies and public limited companies.

There was a perceptible difference in the proportions of resources mobilised through net miscellaneous sources by the two types of companies; this source provided 6.2 per cent of gross resources for public limited companies but only 3.2 per cent for private limited companies. The substantially lower proportion in the case of private limited companies could be due to their lower degree of credit worthiness among trade and business associates.

9. Conclusions

Sectoral analysis has brought out a number of illuminating facts on the mobilisation of resources by different types of companies. Corporate savings were the most important component of the gross mobilised resources for each of the category of companies whose results were analysed. Further, the importance of corporate savings increased over the years for all categories of companies

Industries with high rates of profitability and good growth in fixed capital formation mobilised a larger proportion of the gross resources from internal sources than other industries. This was particularly true for voluntary internal plough-back.

The importance of long-term institutional funds in the pattern of corporate resource mobilisation was not found to be as much as one generally expected. This may be partly because the data used in this study, as in other similar studies, are shown net of repayments of earlier loans. Besides, as explained earlier, there was no company less than 15 years old in our sample. There is reason to believe that relatively new companies, set up in the seventies, would have depended more on institutional finance. The importance of long-term debt gets dwindled also owing to the large volume of internal resources, particularly depreciation, generated by the private corporate sector. In only three out of the 14 individual industries studied, namely, sugar, transport accessories and cement, were long-term borrowings and debentures somewhat higher, between 14.9 per cent and 23.4 per cent of the gross resources.

Short-term funds were relatively important only in a few industries, such as jute textiles, cotton textiles, transport accessories and miscellaneous industries; these industries were not as capital intensive as the other industries studied, and further, they also needed larger stock maintenance than others.

Economic conditions were found to have a bearing on the pattern of resource mobilisation in most industries. During the recessionary periods, corporate savings became less important and mobilisation of resources from the stock market was also reduced. Corporate savings declined during this period in six of the 14 industries, the proportion of internal plough-back fell in eight industries and resource mobilisation through the stock market suffered the set back in 12 industries. On the other hand, during the period of rising prices, the proportion of corporate savings in gross resources increased in six of the 14 industries.

Size, too, had a bearing on the proportion of resources mobilised through the stock market and also on the proportion of statutory corporate savings, such as development rebate and depreciation. But size did not seem to play a role in determining the extent of success in mobilising resources from long-term financial institutions.

The size-wise analysis, however, also shows that corporate savings were to some extent influenced by the size of the companies; the proportion of corporate savings in gross resources mobilised was much higher in the case of large companies than in others.

By the very nature of operational realities in corporate life, companies require a gestation period before they can generate internal resources, even of a statutory nature. As such, external funds were found to be important when the companies were relatively new than when they became relatively old. The extent of dependence on external funds, especially long-term institutional assistance, would be found to be higher than what is true in the case of 'new' companies in the NIPFP sample, if we examined the pattern of resource mobilisation of companies in operation for even shorter periods, such as less than five years. With the passage of time, a normal corporate unit operating under normal economic and market conditions is able to generate more internal resources, particularly in the form of depreciation and development rebate; non-statutory retentions become important only when the corporate unit is fairly well-established.

The passage of time also seemed to change the pattern of use of mobilised resources. An increasing proportion of total resources in the case of older companies tended to be of a short-term nature. An increasing proportion of long-term mobilised resources was also diverted towards short-term inventory build-up.

Age-wise analysis also shows that recessionary conditions seemed to affect more immediately and adversely the capacity to generate internal funds by new companies than by old companies.

It was found that the location of an industrial unit did not play an important role in determining its success at the capital and stock markets. This result was probably obtained because the NIPFP sample did not include really 'small' companies, in the sense in which the term is generally understood. The NIPFP companies were large enough to afford the recurring expenses for maintaining the necessary liaison with the stock and capital markets when they needed to mobilise resources from such markets.

While location did not affect the capacity to mobilise long-term internal funds, it did have a bearing on the extent of recourse to short-term resources. Generally, the more distant a unit was from the major industrial centres, the greater was its need to maintain larger stocks of materials.

We found that the growth rate of gross fixed assets formation and the effective tax liability level also influenced the pattern of resource mobilisation. Companies with high growth rates had a larger proportion of internal corporate savings; similarly, companies with lower effective tax liability had a larger proportion of internal corporate savings. In both cases, this was due to fiscal reliefs like development rebate and also due to depreciation. A corrollary of this was that such companies mobilised a lower proportion of short-term funds.