ANNEXURE I

RESOURCE MOBILISATION IN THE PRIVATE CORPORATE SECTOR: RECENT TRENDS[1]

1. Introduction

On two aspects of the problem of resource mobilisation, both of which are very relevant today, our study (completed in May 1980) did not shed any light. These were, first, the pattern of resource mobilisation in more recent years, in particular, during the latter half of the seventies; and secondly, the pattern of resource mobilisation of new companies. While the first aspect was beyond the purview of our study, the analysis on the second aspect was not adequate, because it related only to companies which had been in existence for 15 years or more. These two inadequacies in the study arose due to non-availability of published data for more recent years and constraints of time which did not permit us to compile more recent data ourselves.

2. Sources of Data

The Reserve Bank of India (RBI) made available in 1981 data for recent years for two samples, namely, 1720 medium and large public limited companies in the private corporate sector for the period 1975-76 to 1977-78 and 421 large public limited companies (paid-up share capital of Rs. 1 crore or more) for two years, 1977-78 and 1978-79. Around the same time, the Industrial Credit and Investment Corporation of India (ICICI) published data for 417 assisted companies for the period 1975-76 to 1978-79 and the Economic Times (ET) for 251 industrial giants for 1978-79 and 1979-80. While the RBI and the ICICI provided details on all sources and

[1]This study was presented at a Workshop in Bombay on August 8, 1981 to supplement the findings in the basic study.

uses of corporate funds, the ET data related to a few variables, on the basis of which estimates of gross resources mobilised and some components of corporate savings could be worked out. Using these three sources of data, the analysis of major components of mobilised resources was extended upto 1979-80. The ICICI data, as they relate to industrial units (new as well as existing units) implementing some investment programme, becomes very relevant in the context of actual operations.

3. Results

(*a*) An analysis of the pattern of resource mobilisation during the latter half of the seventies has brought out a definite change in the structural pattern. The significance of gross corporate savings declined. The RBI data show that, whereas corporate savings annually constituted during the first half of the seventies 57.2 per cent of the gross mobilised resources for the RBI sample of 1650 companies (and 73.2 per cent in the case of the NIPFP sample), these accounted for 45.3 per cent and 46.9 per cent, respectively, during the second half of the seventies for the RBI samples of 1720 and 421 companies.[2] The ICICI data show that the proportion of gross corporate savings was still lower at 39.9 per cent for the period 1975-76 to 1978-79 and the ET data show that the 251 industrial giants mobilised 39.3 per cent of their gross resources in 1979-80 through gross corporate savings (Tables A I.1 and A I.2).

The most noticeable decline among the components of gross corporate savings was found to be that in the case of depreciation. The RBI data showed that depreciation, which accounted for 34.3 per cent of the gross mobilised resources during the first half of the seventies (41.0 per cent, according to NIPFP data), accounted for 31.4 per cent and 29.6 per cent, respectively, of the gross mobilised resources during the latter half of the decade, as revealed by the RBI data on 1720 companies (for the period 1976-77 to 1977-78) and on 421 companies (1977-78 to 1978-79), respectively. The proportion was even lower, at 29.1, per cent for the ICICI-assisted companies and 22.1 per cent for the ET industrial giants. Annual data for the years 1975-76 to 1979-80 also brought out clearly the

[2]The latter RBI sample included companies, with a paid-up share capital of Rs. 1 crore or more, and is therefore, more comparable to the NIPFP sample.

TABLE A.I. 1

Structure of Gross Mobilised Revenues During the Sixties and the Seventies

(Per cent)

	Sixties	First half of the seventies		Second half of the seventies			
	NIPFP (1962-63 to 1969-70)	NIPFP 1970-71 to 1975-76)	RBI (1971-72 to 1975-76)	RBI (1976-77 to 1977-78)	RBI (1977-78 to 1978-79)	ICICI (1975-76 to 1978-79)	ET (1979-80)
Sample size (number of companies)	223	223	1650	1720	421	417	251
1. Corporate savings	53.7	73.2	57.2	45.3	46.9	39.9	39.3
(*a*) Internal share capital	5.5	6.8	5.5	7.4	7.3	—	—
(*b*) Statutory reserves	8.0	5.0	5.4	4.8	3.2	10.8*	17.2*
(*c*) Non-statutory reserves	5.7	20.4	11.9	1.7	6.8	—	—
(*d*) Depreciation	34.5	41.0	34.3	31.4	29.6	29.1	22.1
2. External share capital	8.4	3.4	2.5	2.6	2.6	9.3	3.2
3. Debt	25.1	—4.8	1.5	9.5	10.2	8.3	57.5**
(*a*) Long-term loans	20.3	—4.3	1.5	9.5	10.2	6.9	—
(*b*) Debentures	4.8	—0.5	—	—	—	1.4	—
4. Short-term funds	12.8	28.2	38.8	42.6	41.3	42.5	—
(*a*) Loans	20.0	18.7	24.3	16.3	26.6	20.0	—
(*b*) Miscellaneous	—7.2	9.5	14.5	26.3	14.7	22.5	—
5. **Gross mobilised resources**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: *Includes all reserves.
**Includes debt and short-term funds.
—Indicates not available or not compiled.

TABLE A.I. 2

Trends in Structure of Gross Mobilised Resources, 1975-76 to 1979-80

(Per cent)

	1975-76			1976-77		1977-78			1978-79		1979-80
	NIPFP	RBI	ICICI	RBI	ICICI	RBI	RBI	ICICI	RBI	ICICI	ET
Sample size (number of companies)	223	1650	417	1720	417	1720	421	417	421	417	251
1. Corporate savings	96.7	54.4	39.9	46.0	38.2	45.2	47.7	38.2	46.2	42.1	39.3
(*a*) Internal share capital	11.3	7.1	—	8.7	—	7.3	9.3	—	5.8	—	—
(*b*) Statutory reserves	—10.5	0.2	12.8*	0.9	3.0*	9.1	2.4	8.4*	3.6	16.2*	17.2*
(*c*) Non-statutory reserves	29.4	7.0	—	2.1	—	—	3.6	—	9.4	—	—
(*d*) Depreciation	66.4	40.1	27.1	34.3	35.2	28.8	32.3	29.8	27.4	25.9	22.1
2. External share-capital	5.5	3.5	7.0	3.4	15.8	2.0	2.3	10.5	2.8	6.1	3.2
3. Debt	—2.6	6.8	2.7	10.4	7.8	8.8	14.6	10.3	9.0	11.8	57.5**
(*a*) Long-tern loans	0.9	6.8	2.2	10.4	7.7	8.8	14.6	9.1	9.0	10.6	—
(*b*) Debentures	—3.5	—	0.5	—	0.1	—	—	1.2	—	1.2	—
4. Short-term funds	0.4	35.3	50.4	40.2	38.2	44.0	35.4	41.0	42.1	40.0	—
(*a*) Loans	29.1	39.8	44.7	16.1	38.2	16.1	23.2	38.2	32.8	42.8	—
(*b*) Miscellaneous	—28.7	—4.5	5.7	24.1	—	27.9	12.2	7.8	9.2	—2.8	—
5. **Gross mobilised resources**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: *All reserves

**All loans and miscellaneous funds

—Indicates break-up not available or not compiled declining contribution of depreciation as a source of corporate funds.

The declining proportion of depreciation in gross resource mobilisation suggests several possibilities. First, it suggests that the companies were becoming more dependent on external funds. Secondly, corporate savings were becoming less and less adequate to meet the requirements of the private corporate manufacturing sector. Thirdly, (which we feel is quite important) there was not enough generation of income on the basis of which the corporate units were able to take full advantage of the provisions relating to depreciation under the income-tax law.

(*b*) The mobilisation of resources through the equity market continued to be poor during the second half of the seventies. The RBI data showed that, as against 2.5 per cent of the gross resources being mobilised through the equity market during the first half of the seventies, the proportion was 2.6 per cent during the second half. However, the proportion of resources mobilised through the equity market was substantially higher, at 9.3 per cent, in the case of the ICICI-assisted companies, which had undertaken investment programmes. During the period 1975-76 to 1978-79, even though the annual data on ICICI companies revealed some fluctuations in the proportionate mobilisation of resources through the equity market by the ICICI-assisted companies, from 6.1 per cent to 15.8 per cent, the proportion, in any case, was substantially higher than during the first half of the seventies and also during the sixties. To some extent, this high proportion of resource mobilisation through the equity market by companies implementing some investment programmes may be due to the requirement by financial institutions and the government for the maintenance of a stipulated equity debt ratio. Another reason for the high mobilisation through the equity market could be that these companies were generally well-established companies or were promoted by well-established companies, having a readily acceptable image in the capital market and were, therefore, able to successfully tap this source for fresh funds.

(*c*) The proportion of long-term debt had also increased during the second half of the seventies: the RBI data showed that the proportion increased from 1.5 per cent of the gross resources mobilised during the first half of the seventies to 9.5 per cent for medium and large companies and to 10.2 per cent for only large companies. In the case of the ICICI-assisted companies also, the proportion at 6.9 per cent was higher than what was noticed during the first half of the seventies, as seen for both the RBI and the NIPFP samples.

(*d*) The ICICI data have shed some light on the pattern of resource mobilisation of new companies, as the sample included existing companies as well as new industrial undertakings (the break-up into new companies and existing companies was, however, not available). The results represent the operations of companies which had undertaken and implemented an investment programme, *i.e.*, they relate to the growing segment of the private corporate sector. As such, they are of special interest from the point of view of resource mobilisation.

The analysis of the ICICI data showed that the proportion of corporate savings in gross mobilised resources fell for such companies as were implementing an investment programme. Such a situation arose largely due to the low level of retentions and almost little or no generation of share capital internally, due to, possibly, gestation-period difficulties. In fact, resource mobilisation through the equity market became more important in order to maintain a specified level of equity to obtain long-term debt (in the absence or inadequacy of retentions, it was possible to maintain the equity level only through fresh equity). The ICICI data also has brought out the increased importance of debt. Together, the fall in the proportion of internal resources and the growing need to mobilise resources from outside substantially raised the proportion of external funds in the capital structure.

(*e*) It might be mentioned that in the last two to three years, major corporate units have been able to successfully mobilise resources directly from foreign lenders. In the foreign currency market, while the share of corporate units in developing countries is rising over the years, Indian corporations have yet to fully tap this source. During the eighties, this source of funds, as also the secondary bond market already being developed, will play a major role in the resource mobilisation effort of the private corporate sector.