

# INDUSTRIAL FINANCE AND PERFORMANCE OF THE INDIAN INDUSTRIES

A SYNOPSIS  
SUBMITTED TO  
THE MAHARAJA SAYAJIRAO UNIVERSITY OF BARODA  
FOR THE DEGREE OF  
DOCTOR OF PHILOSOPHY  
IN  
BUSINESS ECONOMICS

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June 2001

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## **Synopsis**

It is an undeniable fact that finance is one of the powerful variables, which affects the process and the extent of industrialization in the country. The government programme of rapid industrialization is likely to be bogged down if finance is inadequate. During the pre-independence period, the impediments to industrial development in India were partly financial as well as partly those related to deficiency in the industrial leadership. Consequently, on the eve of independence India inherited a weak, scattered, poorly diversified, industrial structural base that was uneven in character in its regional distribution.

During the pre-independence period, though finance was well-recognized element in the development of the corporate activity, literature related to the nature and scope and problems of industrial finance received least attention. Hence, literature on industrial finance of the pre-independence era was confined chiefly to the Managing Agency System & its role, and studies of commercial banking activity of industrial finance. It was more or less a descriptive literature of textbook nature. It highlighted the structural gaps in Indian Capital market that was related to the non-existence of the organized investment Banks, underwrites and new issue houses.

During the post-independence period, growth of specialized financial institutions and increasing availability of data of corporate finance brought about a shift in focus of studies. In subsequent studies the emphasis was shifted from old issues like role of managing agency system, commercial banks, capital formation etc to the role of specialized financial institution and development banking in augmenting the capital market in India. Productivity was used by researchers as a parameter to measure the performance of the industry. Some studies attempted to examine the problems of measuring the total factor productivity of Indian manufacturing industries over a period of time by using single and double deflation method.

The present study seeks to examine and analyze industrial policy resolutions introduced by the government of India from time to time to foster industrial development in the country. It also assesses the efficacy of all these resolutions, sources of finance and structural changes in the Industrial Finance sources and Growth pattern of industrial development or changing industrial structure in India. In brief, the thrust of this study is to explain and analyze the relationship between industrial finance and industrial performance of the Indian industry.

The term "Finance" occupies the paramount position in the process of industrial development. The present study is concerned, therefore with the term lending financial institutions such as IFCI, IDBI, SIDBI, ICICI, IBIL, SFCs and SIDCs. Therefore other institutional & market sources of finance

such as commercial Bank, Industrial Securities Market, Insurance (LIC & GIC) and Investment Trust (UTI) and other financial intermediaries such as Mutual Funds, Merchant Banking & Leasing companies stay beyond its scopes. It may be noted that this study covers only the term lending (medium and long-term lending) with reference to financing of small, medium & large scale organized manufacturing industries at an aggregate level. It does not cover the unorganized manufacturing industry and the financing of public sector enterprises.

It may further be noted that this study is based exclusively on secondary data, which have been mainly published by IDBI & CSO (Annual Survey of Industries). The data are also taken from the Hand Book of Industrial Statistics (1992) and various issues of "Economic Survey (1996-97 & 1997-98). The time series as well as cross section data analysis from the year 1979 to 1994 has been worked out. In this time span, the years 1979-80, 1981-82, 1985-86, 1991-92 & 1993-94 mark the opening and closing year of the fifth, sixth and seventh five-year plans. The year 1992-93 & 1993-94 (ASI data is available up to 1993-94) specifically is taken in to the analysis to judge the performance of New Industrial Policy Resolution Statement of 1991. Further to make analysis more plausible, various statistical and econometric techniques such as trend analysis, rank analysis, ratio analysis, regression analysis, coefficient of correlation and testing of hypothesis etc. are worked out for the years taken for analysis.

## **SCHEME OF THE STUDY**

The study is conducted in three parts.

- I. Evolution of Industrial development.
- II. Evolution of sources and structure of Industrial finance.
- III. Performance of Industrial development.

### **Introduction:**

The introduction seeks to clarify the grounds on which the need for industrial development in India was felt in the pre-independence time. However, self centered and exploitative approach of the British imperialists to their India counterpart nullified all the possibilities of industrial development in India. Despite of all odds, some Indian industrialists ventured to develop industry from the internal sources of finance. But these sources were inadequate for the effective industrial development. The swadeshi movement of 1906-1913 sought to inspire some financial institutions to support the development. But the problems like liquidation of Industrial and commercial banks defeated the very purpose of industrial development. Further, the absence of institutional promoter's investment, issue houses, underwriting, agencies and term-lending financial intermediaries dimmed any prospects of effective and balanced industrial development in India. After India got independence, the government of free India envisaged the rapid and balanced industrial growth for the nation. It set up the planning commission in 1951 through

which long-term socio-economic goals may be determined in view of priorities and objectives and policies and plans may be worked out and implemented accordingly in the interest of balanced development of Indian industry. In this way, the introduction explains the “may be” part of the vision and prepared the ground for review, analysis and evaluation of overall growth pattern of Indian industry since 1951 till 1993-94.

The study is presented in the scheme of chapterisation as detailed below:

### **Part I: Evolution of Industrial development**

**Chapter – I** reviews the evolution of industrial development in India since 1951, the setting up of the planning commission by the Government of India. For the purpose of meaningful review the period since 1951 has been divided in to four sub periods:

- (1)** High growth period: 1951-1965
- (2)** Low growth period: 1965-1981
- (3)** Industrial Recovery period: 1981-91
- (4)** Reform and Post Reform period: 1991 onwards

It examines the strategy of industrial evolution under various five year plans and the corresponding industrial policy resolutions.

**Chapter – II** evaluates the efficacy of industrial policy on industrial development with respect to strategies growth pattern of industrialization. It further review (a) whether the policy succeeds in preventing concentration of corporate power in a few hands and (b) whether it reduces regional industrial disparities in pursuance of plan priorities. In order to evolve a better understanding of growth pattern of Indian industry and regional industrial disparities the efficacies have been reviewed for the period under consideration. However, the data analysis focuses specifically on the industrial growth pattern during the period 1979-80 to 1993-94.

## **Part-II Evolution of source and structure of Industrial Finance**

**Chapter III** explores the sources of finance and their structural composition. Correspondingly it also analyses the changing structure of the industrial finance with special reference to Institutional Finance. The study considers for its purpose the structural changes of industrial finance in view of the changing global scenario of business during the pre and post independence period.

**Chapter – IV** outlines a fresh look on sources of industrial finance in the context of recent structural changes in the area of venture capital technology finance and infrastructure finance. It also outlines financial sectoral reforms implemented by the government of India in a phased manner since 1991.

### **Part III Performance of Industrial Development**

**Chapter-V** presents an inquiry into an overall growth pattern and performance of Indian industry in the light of policy resolutions and the plan priorities. The inquiry is conducted industry wise and statewise using various indicators and ratios.

**Chapter-VI** evaluates the same phenomenon of overall industrial growth pattern in the light of industrial finance as bottleneck. On the ground of the review, inquiries and evaluation under taken on the basis of the data-analysis, it further seeks to establish the relationship between the finance and the industrial performance through various statistical techniques.

#### **Conclusion:**

At the conclusion, the present research establishes, on the ground of the results generated by the study that the industrial assistance disbursed by financial institutions has failed to generate a balanced growth pattern of industrial development in the country, in accordance with the strategies and priorities of industrial plans and policies of the Government <sup>of</sup> India.