Savings and Capital Formation of the Indian Private Corporate Sector

--Trends and Patterns During the 'Nineties

A Project Report for the
Department of Economic Affairs
Ministry of Finance

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Preface

The concept of the present study, "Savings and Capital Formation of the Private Corporate Sector during the 'Nineties", had emerged from our informal discussions with senior policy analysts of the Department of Economic Affairs, Ministry of Finance, during the middle of 2000. In course of the exchange of ideas, a concern was expressed about the falling savings rate of the private corporate sector after 1995-96. It was desired that in view of the problems surrounding the estimation procedure, it would be helpful if alternative estimates could be generated for possible comparison with the official estimates. Another suggestion was that developments in different industries which were not receiving much attention needed to be looked into in some detail.

Comments of Dr. Arvind Virmani (then Senior Economic Advisor), Shri Yogesh Chandra (Advisor), Shri Arvind Kumar (Additional Economic Advisor) and Shri S. Lakshmanan (Deputy Economic Advisor) of the Department of Economic Affairs on the initial proposal helped in focussing the study better. The interaction with the analysts at the Department of Statistical Analysis and Computer Services (DESACS) of the Reserve Bank of India and the National Accounts Division of the Central Statistical Organisation improved our understanding of the concepts involved in the exercise and made us conscious of the practical problems. DESACS also helped us by providing the necessary data from the Company Finance studies. The Institute is thankful to Ms. R. Ananathakrishnan (then Principal Advisor), Shri A. Saran (Director) and Shri S.N.S. Tyagi (Assistant Advisor) of DESACS for patiently describing the estimation procedure. Dr. A.C. Kulshreshta (Deputy Director General) and Dr. Ramesh Kolli (Director) of CSO generously spared their time for providing clarifications subsequently.

Unlike the studies which had sought to further improve upon the official estimates by refining the paid-up capital estimates, the present study

attempted to generate fresh estimates from the first principles, as it were. Probably, because such an attempt was being made by an independent organisation for the first time, one had to chart one's own course. This, coupled with the desire to cover larger number of companies and provide estimates for the latest period, did push back the submission of the report. Keeping in view the time of submission, advance estimates have been provided for the year 2000-01 instead of for 1999-00 which was proposed initially.

For us at the Institute, the study has been a rewarding one in more than one sense. It helped us to look at the Indian private corporate sector in a somewhat different manner than what has been the experience so far. In the process, a number of insights have been obtained and leads have been thrown up which could be followed up. We believe that the findings of the study would help improve the understanding of the working of Indian private corporate sector. It also underlines the problems faced by the official agencies and emphasises the need to strengthen them so that more reliable estimates could emerge in future.

We do realise that there is scope for improving the study in multiple ways. These include: refining the classification of companies; better incorporation of the concepts keeping in mind the limitations of the database used; and relating the findings more directly to policy changes in the financial sector. We have, on our own, held back, for the time being, certain tabulations regarding contribution of internal savings to new investments tabulations based on more detailed ownership and use-based categorisation of companies. In spite of these limitations, the study has reached a stage where it could form the basis for discussions with official agencies as also independent policy analysts. Based on the feedback, the Institute endeavours to improve upon the present report and publish it after completion of the econometric investigation into the factors influencing savings and capital formation.

It is the research infrastructure that has been created at the Institute over the years with its emphasis on corporate sector in general and the individual company as the unit of observation in particular, that has provided the necessary

conditions for undertaking a study of this nature. Shri K. S. Chalapati Rao is the Principal Researcher of the project. He has been ably supported by Shri K.C. Sharma, Honorary Research Associate and Shri Sudhir Aggarwal, Programmer. Admirable support has been also extended by other faculty of the Institute, especially Dr. M.R. Murthy, Dr. K.V.K. Ranganathan and Ms. Shuchi Menon.

Besides the general support received from various units of the Institute, the project personnel wish to acknowledge the services of S/Shri Amitava Dey, Manoj Mehta and Rakesh Gupta for providing reference services; Umesh Kumar Singh and Sunil Kumar for carrying out data entry and word processing tasks; and Shri Vinod Kumar for undertaking the duplication work.

While the help extended by the officials of RBI and CSO and Dr. Vinish Kathuria who commented on the initial drafts, is gratefully acknowledged, the responsibility for the inaccuracies in analysis and presentation that remain rests with us.

New Delhi
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S. K. Goyal
Director

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Abbreviations

ASI	Annual Survey of Industries
CF	Company Finance Studies
CMIE	Centre for Monitoring Indian Economy
CSO	Central Statistical Organisation
DCA	Department of Company Affairs
ERS	Equity Research Station
FCCs	Foreign Controlled Companies
FERA	Foreign Exchange Regulation Act
GCF	Gross Capital Formation
GCFPC	Gross Capital Formation of Private Corporate Sector
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GFA	Gross Fixed Assets
GFCF	Gross Fixed Capital Formation
GVA	Gross Value Added
ICIL	Inter-Corporate Investments & Loans
IDBI	Industrial Development Bank of India
LTB	Long Term Borrowings
MAT	Minimum Alternative Tax
NAS	National Accounts Statistics
NBFCs	Non-banking Financial Companies
NFA	Net Fixed Assets
NGFPs	Non-government Non-financial Public Limited Companies
NOS	Non-operating Surplus
OCBs	Overseas Corporate Bodies
OI	Other Income
PAT	Profit After Tax/Post-Tax Profits
PBT	Profit Before Tax/Pre-Tax Profits
PCS	Private Corporate Sector
PLR	Prime Lending Rate
PUC	Paid-up Capital
RBI	Reserve Bank of India
ROC	Registrar of Companies
SCBs	Scheduled Commercial Banks
Sample-I	2,545 Companies: 1995-96 to 1999-00
Sample-II	3,441 Companies: 1997-98 to 1999-00
Sample-III	2,044 Companies: 1998-99 to 2000-01

Major Conclusions

Non-government non-financial public limited companies (NGFPs) are an important component of the private corporate sector as also of the economy. In the context of the ongoing process of structural adjustment, the progress of NGFPs acquires additional policy relevance. This study has made an attempt to analyse the performance of these companies at generating internal savings and capital formation since 1995-96 with the help of data of a relatively large number of companies and present the results at more disaggregated levels than what has been the practice hitherto.

Estimates of gross savings of all registered NGFPs, *i.e.*, the population of NGFPs, depend upon the characteristics of the samples studied as also the reliability of population PUC. In the absence of information on the possible adjustments being made to population PUC by official agencies to bring them as close to reality as possible and non-avilability of population PUC data for 2000-01, population estimates of gross savings and capital formation and the corresponding rates with respect to GDP, presented in the study, need to be taken in a comparative sense rather than at their absolute levels.

The main findings of the study are as follows:

Savings and Profitability in 2000-01

- The annual growth rate of gross savings of the sample NGFPs at 15.51 per cent during 2000-01 was higher than the 13.82 per cent achieved during the previous year.
- Retained profits contributed to gross savings relatively more during the period of 1998-99 to 2000-01. This was due to increase

in PBT and PAT on the one hand and decrease in the effective tax rate and the relatively lower share of dividends in profit after tax.

- Compared to the experience during 1995-96 to 1999-00, these developments suggest possible revival in corporate profits and retentions.
- Estimates of population gross savings, however, present a mixed pattern. While the savings rate of NGFPs in 2000-01 at 3.45 per cent suggests an improvement over that of the previous year 3.29 per cent, which itself was higher than the rate of 2.88 per cent of 1998-99, growth of gross savings at 16.69 per cent in 2000-01 turned out to be substantially lower than the growth rate of 27.10 per cent achieved in the previous year.
- Further, a disaggregated analysis of the gross savings data reveals some disturbing phenomenon. The overall growth in the profits of sample companies conceals the increase in the number of loss-making companies. Nearly one-third of the sample companies incurred losses in 2000-01. Correspondingly, the number of dissavers also increased.
- In contrast to the overall increase in profits and retentions, select profitability ratios either declined or increased only moderately in 2000-01 compared to the previous year. More importantly, in the case of manufacturing companies all the ratios studied declined in 2000-01.
- Gross savings of the manufacturing companies increased comparatively at a slower rate in 2000-01. On the other hand, the substantial increase in the savings of non-manufacturing companies was mainly due to the better performance of companies engaged in computer software development and related activities.

Capital Formation in 2000-01

- Gross fixed capital formation (GFCF) of the sample companies increased by 3.18 per cent from Rs. 29,330 crores in 1999-00 to Rs. 30,264 crores in 2000-01. On the other hand, due to substantial reduction in stocks, gross capital formation (GCF) declined from Rs. 27,262 crores to Rs. 20,116 crores, or by 26.21 per cent. In the manufacturing sector, all the main components of capital formation declined considerably in 2000-01.
- The estimate of population GFCF of NGFPs is higher by 4.52 per cent in 2000-01 compared to 1999-00. Their GCF in 2000-01, however, turns out to be lower by 25.26 per cent compared to the previous year's estimate. The results indicate a fall in the rates of capital formation of NGFPs from 4.61 per cent to 4.33 per cent in case of GFCF and 4.28 per cent to 2.88 per cent in case of GCF.
- A number of companies have experienced a decline in gross fixed assets. This phenomenon seems likely to be an outcome of the process of corporate restructuring. At the aggregate level the reduction turns out to be substantial and thus has significant implications for the estimation of capital formation.

Experience during 1995-96 to 1999-00: Some Insights

- The sudden jump in the savings rate of the private corporate sector in 1995-96 from 3.9 per cent to 4.5 per cent followed by continuous decline till 1999-00 when it reached 3.7 per cent has been a matter of concern.
- The sharp increase in 1995-96, however, appears to be due to (i) increased savings of the sample companies covered in the Company Finance studies (CF) conducted by the Reserve Bank of India and (ii) the substantial increase in population PUC. Given

the nature of expansion of India's private corporate sector during the 'nineties and that the substantial increase in PUC may not have immediately translated into savings, the official estimate for the year is likely to be on the higher side.

- Subsequent decline in the savings rate could be due to (i) slower growth or even decline in the gross savings of sample companies; (ii) deceleration in the growth of PUC; and (iii) underestimation of population PUC. On the whole, the nature and pattern of growth of the private corporate sector during the 'nineties casts serious doubts about the observed trends in the sector's savings.
- Estimates of savings of sample NGFPs for the period 1995-96 to 1999-00 fluctuated but did not record any overall increase.
- Gross savings to PUC ratio of the sample companies fell continuously during the period implying that population estimates would have declined but for an increase in the overall PUC of NGFPs. The finding thus confirms the decline in the savings rate at least as far as the NGFPs are concerned.
- Comparison of the sample results with those of CF studies indicate that estimates of population gross savings would have been on the lower side had the RBI access to data of larger number of companies.
- In spite of the lower effective tax rate, the combined effect of the decline in overall profitability, managements' unwillingness to reduce dividend payouts and the additional obligation to pay dividend tax has been the relative stagnation in gross savings of the sample companies.
- Since savings are dependent on profit retentions and despite the need to pay an additional tax in the form of dividend tax,

companies did not limit dividend payouts implies that dividend tax has had an adverse impact on corporate savings.

- Larger companies, in general, performed comparatively better as either the gross savings improved or the declines were relatively of smaller magnitude. Smaller companies, on the other hand, seem to have suffered appreciably in all the sectors. Overall, the number of dissavers increased during the period.
- Manufacturing companies experienced a continuous decline in gross savings. But for the better performance of diversified companies, both in absolute and relative terms, the decline in the savings of manufacturing companies would have been even steeper. Unlike the manufacturing sector, the services sector managed to regain the initial values. Within the services sector, savings of computer software related companies increased substantially.

Contribution of Non-Operating Surplus and Other Income to Corporate Profits

- 'Non-operating surplus' (NOS), two of the main components of which are gains from sale of assets and investments by the companies, and 'other income' (OI), comprising mainly of interest receipts and dividends, account for a substantial part of the PBT of NGFPs.
- The important role of NOS deserves a closer examination because in the short run this being a part of profits could be misinterpreted as improvement in business performance. Moreover, NOS, to a large extent, is related to the process of restructuring. It cannot, however, be sustained over longer periods by individual companies.
- 'Other income' acquired importance due to the heavy

deployment of funds in the form of investments in and loans to group and other enterprises (ICIL) by the sample companies. In fact, ICIL nearly doubled during 1995-96 to 1999-00.

- The pattern of investments suggests that the sample companies sought to gain and/or consolidate control over listed companies through inter-corporate investments and expand/diversify through unlisted companies.

Implications of ICIL for Savings and Capital Formation

- The average returns from investments and loans are lower than the average rate of interest paid by the companies. This should be seen in the context of the increasing share of investments in loans to group companies in ICIL. The lower returns, because they pull down gross profits, would have adverse implications for gross savings.
- Had the largest companies not increased their investments in other enterprises substantially, their profits and savings would have been considerably larger and their debt-equity ratios would have been substantially lower. In view of the topmost companies' importance for corporate savings, this phenomenon acquires additional significance for the overall savings of the sector.
- Heavy deployment of borrowed funds in other enterprises would mean that capital formation of the borrowers would not be commensurate with the size of borrowings. The importance of ICIL can be seen from the fact that the increase in investments almost matched the increase in net fixed assets of sample companies during 1998-99 to 2000-01.

- The ratio of interest payments to total costs being about 7 per cent, interest cost turns out to be important for the corporate sector. Given the extensive outside investments made by the sector, comparing gross interest costs with total costs, however, tends to overstress the importance of interest costs.
- While for loss-making companies the reasons for the losses could be many and need not have to be entirely related to interest costs, for the profitable ones and the sector in general, there appears to be scope for achieving higher returns and savings without unduly concerned about interest rates.
- Given the extensive practice of inter-corporate investments and loans by major borrowers, possibly reflects lack of opportunities for the investing companies in the context of the slowdown of the economy, it is debatable if lowered interest rates would lead to increased investments. The decisions with regard to administered interest rates may, to that extent, could be de-linked from the objective of promoting capital formation of the corporate sector.

General

- A common feature of the samples for the different sub-periods is that the growing concentration of savings at the top is accompanied by larger number of small companies becoming dissavers. By itself, heavy emphasis on the savings performance of large companies, purely from the point of estimating the savings and capital formation of the private corporate sector, may lead to an overestimation of the population savings and the savings rate. In the process, the problems faced by the smaller companies would not attract attention.

- Compared to the population, the samples whether the ones used for the present study or of the CF studies of public limited companies, are biased in favour of manufacturing companies and the listed ones. Given the distinctly different behaviour, noticed in this study, of unlisted companies which form the bulk of the left out companies and the relatively higher share of non-manufacturing companies in the population which performed better than the manufacturing companies, there is a need to base the estimates on more balanced samples.
- Private agencies, with their limited objective of serving the information needs of investors, cannot be expected to cover a wide variety of companies so that unlisted companies could be appropriately represented in the samples. Nor would these agencies find it commercially viable to make the necessary adjustments required for estimating savings and capital formation. The efforts should, therefore, be directed at strengthening the Department of Statistical Analysis and Computer Services (DESACS) and ensure the availability of company annual reports.

Summary of Observations

Section 1

1. In view of the private corporate sector's importance in the economy and the implications of measurement of its savings and investment for the household sector, considerable emphasis has been placed on the savings and investment trends in the sector.
2. Following the acceleration in the process of structural adjustment since the beginning of the 'nineties, official estimates indicate that savings and capital formation rates of the sector improved considerably during the 'nineties. However, after 1995-96, the rates started declining and as per the latest available official estimates, in 1999-00, both were at their lowest since 1995-96.
3. In the context of the Tenth Plan expectations of savings and capital formation rates of 5.8 and 12.2 per cent the sector's performance needed a closer look.
4. It is widely known that measurement of savings and capital formation of the sector suffers due to serious information gaps. Official agencies have been forced to make do with small samples and that too without the advantage of having a reliable sampling frame.
5. In this context, the present study seeks to examine the trends in the savings and capital formation of non-government non-financial public limited companies (NGFPs) at the disaggregated levels of size, industry and ownership with the help of relatively larger samples and over a longer period. The main reference point is 1995-96 after which the savings and capital formation rates experienced considerable decline.
6. In the context of the issue of high interest costs adversely affecting the private corporate sector's internal savings and investment, the study seeks to examine the impact of the pattern of deployment of funds by large NGFPs on retained earnings and gross savings.
7. The study makes a further attempt to provide advance indications of the trends in savings and capital formation of NGFPs during 2000-01.

Section 2

8. Unlike the estimates at the aggregate level for the sector, a somewhat disaggregated examination of the savings trends reveals that there was a marginal improvement in the savings rate of non-financial joint stock companies in 1999-00. (Table-2.1)
9. An examination of the Company Finance (CF) studies of RBI, which form the basis for the official estimates of the sector's savings and capital

formation, suggests that a combination of factors have led to the lower growth in private corporate sector's savings during the second half of the 'nineties. The possible factors include: (i) slower growth or even decline in the gross savings of sample companies; (ii) slower growth of PUC; and (iii) underestimation of population PUC.

10. The sudden jump in the sector's savings rate in 1995-96 appears to be due both to increased savings of the sample companies, on the basis of which the estimate has been made, and the substantial increase in population PUC.

11. The influence of PUC growth on corporate savings is reflected in the fact that while all the three CF studies namely, non-financial public limited companies, private limited companies and financial and investment companies showed a decline in gross savings in 1996-97, estimates of the sub-sectors, based on PUC-based blow-up factors, suggest an increase in gross savings.

12. Given the pattern of growth of the private corporate sector during the last two decades, especially in the context of the developments which manifested themselves in multiple problems of the stock market, the problems with NBFCs and the serious data gaps on the sector, questions arise regarding the realistic nature of the PUC estimates on one hand and the actual operations of the companies especially the financial and investment companies.

Section 3

13. An analysis of the savings pattern of 2,545 companies (Sample-I) for the period 1995-96 to 1999-00 brought out that at the aggregate level and at current prices, gross savings fluctuated but continued to remain lower than that of 1995-96. (Table-3.1)

14. Depreciation provision made by the companies claimed an increasing share of gross savings - from about 37 per cent to 77 per cent -- suggesting the declining contribution of retained earnings. Retained profits in 1999-00 were only 36 per cent of what it was in 1995-96. (Table-3.1)

15. There was a considerable decline in the PBT of the companies during 1996-97 to 1998-99. PBT recovered in 1999-00 but was still lower than that was in 1995-96. At the aggregate level, while corporate income tax claimed a larger share of PBT in the later years, retained profits were largely influenced by dividend payouts. The share of dividends excluding dividend tax in PAT increased from 25.52 per cent to 44.03 per cent during 1995-96 to 1999-00. Dividend tax too played an important role in lowering the retained profits. Overall, the share of retained earnings in PAT declined from a little less than three-fourths to just about half of the PAT. (Tables 3.3 & 3.4)

16. Examination of profit-making companies revealed that while the effective tax rate increased initially, it started declining thereafter. Equity dividend

rate increased. But as a proportion of PAT, dividends remained stable after 1995-96. Similar is the position with regard to the share of retained earnings in PAT. (Tables-3.5 and 3.6)

17. Confirming the general understanding, the largest companies, classified according to their total assets in 1999-00, accounted for an overwhelming share of gross savings of the sample companies. The share of the topmost 200 companies with Rs. 500 crores or more of assets increased from about 68 per cent in 1995-96 to 76 per cent in 1999-00. While the share of the smaller companies declined, the smallest *i.e.*, those having less than Rs. 25 crores of assets continued to be dissavers. (Table-3.7)

18. The number of dissavers increased from 355 to 755. Thus, in 1999-00, about 30 per cent of the sample companies were dissavers. (Table-3.8)

19. Similar to the aggregate position, savings of the companies in many activities experienced year-to-year fluctuations. The decline in savings was a little more continuous in case of the manufacturing sector. Within manufacturing, the contribution of foodstuffs, textiles, leather, paper, etc., declined steadily and did not pick up even in 1999-00. Diversified companies performed better both in absolute and relative terms. Services sector experienced mixed trends. However, unlike the manufacturing companies, it managed to regain the initial values. Within the services sector, savings of computer software related companies increased substantially. (Tables 3.9 and -3.10)

20. Larger companies with Rs. 100 crores or more of assets performed comparatively better as either the gross savings improved or the declines were relatively of smaller magnitude. Smaller companies, on the other hand, seem to have suffered appreciably in all the sectors. (Appendix-3.2)

21. The declining share of retained profits in gross savings and the increasing number of dissavers is mainly due to the declining overall profitability of the sample companies. The declines are sharper in case of manufacturing companies. (Table-3.13)

22. From the point of estimation of the gross savings of the population, the ratios of gross savings to PUC, the basis presently being used, as also the often-suggested bases of assets and income, are important. At the aggregate level, all the three ratios experienced a uniform declining trend. The decline was, however, slower in case of the PUC-based measure while it was the steepest in case of the asset-based measure. Thus, whatever be the basis adopted, population estimates would have declined but for an increase in the corresponding base itself. (Table-3.14).

23. A comparison of the ratios derived from a much larger sample of 3,341 companies for the three year period 1997-98 to 1999-00 (Sample-II) and the CF study of NGFPs for 1999-00 covering the same period, while confirming the recovery made in 1999-00 suggest that whichever be the criterion, the ratios obtained from Sample-II, are lower. It does appear that estimates of population gross savings would have been lesser had the RBI

access to data of larger number of companies. (Table-3.15 and Graphs 3.7 to 3.9)

24. The net sales-based ratios increased consistently with size. This was in general true with respect to the asset-based ratio also. The PUC-based measure, however, behaved differently in this respect. Leaving aside the smallest range, the ratio did not vary substantially across the size ranges. This basic difference between PUC ratio on one hand and sales and assets on the other would have important implications for estimation of population savings. (Table-3.15 and Graphs 3.7 to 3.9)

25. The population estimates of gross savings based on the ratio of gross savings to PUC ratios of Sample-I and the CF studies were quite close to each other for 1997-98 to 1999-00. However, the fact that both were either close to or even higher than the NAS estimates for the non-government non-financial companies (which also include gross savings of private limited companies) suggests the need for some methodological clarifications. (Table-3.16)

26. For the three years 1997-98 to 1999-00, the estimates thrown up by Sample-I and Sample-II differed substantially, the former being higher by almost 30 per cent. This once again, emphasises the need for larger samples and the possibility of smaller companies performing relatively poorer compared to the larger ones. (Table-3.17)

27. The estimates of population gross savings based on (i) average gross savings to PUC ratio for the sample as a whole and (ii) the aggregate of the estimates of individual sectors are close to each other for the year 1997-98. However, mainly due to the severe problems associated with the PUC of real estate and business services group, which also includes computer software companies, the estimates differ widely during the subsequent two years. (Table-3.18)

28. Thus, sectoral estimates of gross savings suffered from both non-availability of appropriate disaggregated estimates of population PUC and problems of classification of companies. Another factor which has a bearing on sectoral estimates is 'other income' in the form of returns from inter-corporate investments and loans (ICIL) which constitutes an important component of the corporate profits and consequently of gross savings. Other income is probably more related to size, and possibly age of the company, instead of a company's main activity. The major share of diversified companies in gross savings further undermines the relevance of sectoral estimates.

29. The attempts at generating population estimates with the help of net fixed assets (NFA) of the private corporate sector, as suggested by the Expert Group on Saving and Capital Formation (1996), on the basis of ASI factory sector data, yielded grossly distorted results and raised conceptual and coverage issues. (Table-3.19)

30. In view of the experience with generating population estimates through individual sectoral estimates, the above observation that the ratio of gross savings to PUC was more stable across different size ranges, and finally the more serious difficulties in getting the population estimates of income and assets, it does appear that larger samples with PUC as the blow-up factor are still the better alternative.

31. Overall, the results confirm the broad trends emerging from the CF studies and indicate the possibility of lower population savings than what the CF studies indicate.

32. Other income (OI) comprising mainly of dividends, interest receipts together with non-operating surplus (NOS) an outcome of sale of assets, investments, etc. had an increasing share of PBT. Starting from a little over one-third in 1995-96, the share increased to nearly 54 per cent by 1999-00. The increase was even sharper in case of manufacturing companies. (Table-3.20)

33. The substantial size of other income indicates large deployment of funds in the form of investments in and loans to other enterprises as also debt securities by the sample companies. Other income is a double-edged one. While on one hand, it may appear to augment the profits from the main operations and probably help companies minimise the impact of uncertainties, since the funds will no longer be under the direct supervision of the company's Board, there will be little control on fund utilization and the returns thereof by the investing company. The problem becomes more complicated if such investments are made out of borrowed funds.

34. The amount of investments in other enterprises and securities nearly doubled during the period. The increase was more prominent in case of group companies. Share of group companies in marketable securities increased from a little less than half to nearly 65 per cent. This may indicate the attempts at consolidating control over listed companies through inter-corporate investments. Indications are that the loans are also being advanced increasingly to group companies. (Table-3.22 and Graph-3.10)

Section 4

35. The official estimates of capital formation appear to be quite sensitive to the set of companies being studied. In case of population estimate of GCF of NGFPs the estimate generated from the CF study of 1999-00 was lower by 7.83 per cent compared to the corresponding study of 1998-99. The situation turns out to be even more serious in case of private limited companies. The estimate of GFCF based on the second study was higher by about 42 per cent than the estimate based on the first study. The second estimate of GCF in their case was almost one and half times more than the first estimate. This example may help illustrate the difficulties faced by the official agencies in getting nearly the same set of private limited companies

for study even for successive periods as also the differences in the estimates that can result from the differing samples. (Table-4.2)

36. At the aggregate level, at current prices, GCF of sample companies in each of the last three years was lower than that in the preceding year. The decline was sharper in case of manufacturing companies. GCF of manufacturing companies in 1999-00 was almost half of what it was in 1996-97. While non-manufacturing companies did show some improvement in 1997-98, in the last two years they too experienced a steep fall in GCF. One of the reasons for the steep fall in the GCF of manufacturing companies is the sharp decline in stocks, especially capital work-in-progress. (Table-4.3)

37. Steep declines in the ratio of GCF to PUC imply that to even sustain the overall level of GCF at current prices, the PUC of NGFPs should have increased by at least 159 per cent during the four years. Population PUC coverage ratios of the CF studies indicate that PUC of NGFPs increased between 1996-97 and 1999-00 by only about 70 per cent. NAS estimates of GCF for the entire private corporate sector, however, show an increase between the two years from Rs. 1,14,807 crores to Rs. 1,25,221 crores, or by 9.07 per cent. One is not sure whether this is due to better performance of the other components of the private corporate sector or to some adjustments having been made to the population PUC figures for making them closer approximates of the reality.

38. The exercise after excluding the companies affected by mergers further confirmed the lowering of capital formation both at the aggregate level as also of the manufacturing companies. (Table-4.4)

39. An increasing number of sample companies reported a decline in gross fixed assets (adjusted for changes in revaluation) in various years under study possibly due to sell-off or demerger of units/divisions by these companies as distinct from sale of individual fixed assets. The fact that NOS was an important component of the receipts, especially in 1999-00, may also be indicative of this development. The decline in GFA is relatively substantial as the total decline in a year on account of these companies worked to about 10 per cent of the total increase in case of the remaining companies. There is thus need for a detailed examination of the process to throw better light on the decline in GCF as observed above. (Table-4.5)

Section 5

40. There is a concern that the debt-equity ratios of the corporate sector are high due to low internal savings. Further, the problem of high real interest rates is seen to be inhibiting capital formation and in turn adversely affecting the economic growth.

41. The ratio of interest payments to total costs being about 7 per cent, interest cost turns out to be important for the corporate sector. But, given the

extensive outside investments made by the sector, comparing gross interest costs with total costs may amount to overstressing their importance. (Table-5.2)

42 Other things remaining the same, reduced interest rates would undoubtedly result in higher savings for the private corporate sector. This, however, amounts to taking a very simplistic view of the problem. There are also additional factors which influence profits and surpluses of the sector. Along with interest rates these need to be given careful consideration.

43. Despite the fact that the companies are now required to pay an additional tax in the form of dividend tax, the companies are not limiting payouts on account of dividends. Since savings are dependent on profit retentions, this factor has implications for corporate savings.

44. Further, other expenditure at 9-10 per cent forms a major component of total costs and, thus needs a closer examination for possible reduction in costs that could add to the surpluses. One also finds the need to examine selling costs as also wages & salaries.

45. Next in importance is the deployment of borrowed funds by the companies. Companies of sizes invested in and/or extended loans to other enterprises. The investment and loans activity is, however, more prevalent in profit-making companies.

46. Within the profit-making companies, those who increased their borrowings during the period, invested relatively more than the rest. This is true for the losing ones as well.

47. The average returns from inter-corporate investments and loans (ICIL) declined considerably during the five-year period. At the end of the period, the average return from ICIL is lower than the average rate of interest paid by the companies. In the context of the increasing share of investments in group companies and non-marketable securities and also advancement of loans to group companies this low return acquires significance.

48. In view of the increasing ICIL in spite of the declining returns from these, the main purpose of ICIL appears to be acquiring/retention and consolidation of control over other enterprises rather than gaining better financial returns from such investments.

49. One implication of increased investments and loans to group companies out of borrowed funds is that funds are being diverted to enterprises which might not be otherwise capable of raising resources themselves. This may indicate the possibility of undue benefits being passed on to companies in which managements have a major interest.

50. Once the investments and loans have been made, the shareholders and directors of the investing company would have no further control over the utilisation of the funds. This is irrespective of the setting up of Board's Audit Committees and other improvements in corporate governance mechanism.

51. Heavy deployment of borrowed funds in other enterprises would mean that the borrowings do not get reflected in the cap tal formation of the borrowers.

52. The case of large companies showed that had they not invested substantially in other enterprises, their financial position would have been considerably better. In view of the topmost companies' importance for corporate savings and the sector's savings rate, this phenomenon needs to be further examined.

53. While the role of inter-corporate investments in capital formation cannot be denied, this could not be at the cost of the investing company itself. Resorting to heavy investments & advancing loans from borrowed funds increases not only the cost of funds for the investing company but also exposes the company to default risk due to low returns from the funds so deployed. Further, the argument of inter-corporate investments helping capital formation would be relevant if the investments are made in new enterprises.

54. Further, the higher proportion of investments in non-tradable securities might also adversely affect the liquidity position of the companies.

55. The possible benefits in terms of capital appreciation could not be built into the present calculations. It is assumed that for understanding the current operations, current returns are more relevant.

56. While for loss-making companies, the reasons for the losses could be many and need not have to be related to interest costs alone, for the profitable ones and the sector in general there appears to be scope for achieving higher returns and savings without unduly concerned about interest rates.

57. Given the extensive practice of inter-corporate investments and loans by major borrowers, which possibly reflects lack of opportunities for the main companies in the context of the slow down of the economy, it is debatable if lowered interest rates lead to increased investments. The decisions with regard to administered interest rates may, to that extent, could be de-linked from corporate investments.

58. How far are these investments extension of the main activities of the companies and to what extent these enhance the companies' main objective is another question that needs to be studied further because only then one could fully comprehend the investment behavior of the corporate sector.

Section-6

59. To study the more recent trends in gross savings and capital formation of NGFPs, a set of 2,044 non-government non-financial public limited companies for which data are available for the three years 1998-99, 1999-00 and 2000-01 has been chosen. PUC of the sample companies formed about 33.66 per cent of the PUC of NGFPs at the end of 1999-00.

60. Retained earnings of the sample companies increased from Rs. 4,827 crores in 1998-99 to Rs. 6,767 crores in 2000-01, depreciation increased from Rs. 14,175 crores in 1998-99 to Rs. 18,216 crores in 2000-01, resulting in a substantial increase in gross savings from Rs. 19,002 crores in 1998-99 to Rs. 24,983 in 2000-01. (Table-6.1)

61. Overall, the rate of growth of gross savings of the sample companies during 2000-01 was higher at 15.51 per cent compared to 13.82 per cent during the previous year. Compared to the experience during 1995-96 to 1999-00, these developments suggest possible revival in corporate profits and retentions. (Table-6.1)

62. Estimates of gross savings of all registered NGFPs, *i.e.*, the population of NGFPs, depend upon the characteristics of the samples studied as also the reliability of population PUC. In the absence of information on the possible adjustments being made to population PUC by official agencies to bring them as close to reality as possible and non-avilability of population PUC data for 2000-01, population estimates of gross savings and capital formation and the corresponding rates with respect to GDP, presented in the study, need to be taken in a comparative sense rather than at their absolute levels.

63. The estimated savings rate of NGFPs in 2000-01 was 3.45 per cent. The corresponding rates for 1998-99 and 1999-00 were 2.88 per cent and 3.29 per cent respectively. However, growth in estimated population gross savings of NGFPs in 2000-01 at 16.69 per cent was substantially lower than the growth rate of 27.10 per cent achieved in the previous year. (Table-6.3)

64. Both PBT and PAT increased considerably during the period. With both effective tax rate and the share of dividends in PAT coming down, retained earnings increased substantially in 2000-01 over 1999-00. (Table-6.4)

65. The combined effect of lowering of corporate income tax rate, reduced dividend payout ratios and increased proportion of dividend tax has been an increase in the share of retained earnings in PAT from 51.10 per cent to 55.43 per cent. (Table-6.5)

66. The number of profit-making companies, however, declined in 2000-01 compared to the previous year - from 1,443 to 1,383. Put in alternatively, it can be said that nearly one-third of the companies incurred losses in 2000-01 (Table-6.6).

67. In contrast to increased profits and retentions, select profitability ratios either declined or increased only moderately in 2000-01 compared to the earlier years. More importantly, in the case of manufacturing companies all the ratios under consideration declined in 2000-01. (Table-6.8)

68. Changes in gross savings in different years and various asset sizes shows that the smallest companies in the sample, with assets of less than Rs. 10 crores, continued to be net dissavers. Also, shares of companies with assets between Rs. 50 -1000 crores declined in gross assets.

69. Continuing the earlier trend and following the increase in the number of loss-making companies, the number of dissavers increased in all the asset ranges. Notably, the number of dissavers in the topmost asset range doubled between 1999-00 and 2000-01. In spite of this, the largest companies *i.e.*, those having assets of Rs. 1,000 crores or more increased their share in gross savings from 65.20 per cent in 1998-99 to 68.95 per cent in 2000-01.

70. Gross savings of the manufacturing companies increased comparatively at a slower rate in 2000-01 (Table-6.7). In fact, the number of dissavers in the sector increased from 266 to 296. Within the manufacturing sector, the metals and chemicals group suffered the worst. On the other hand, the performance of foodstuffs and textiles group improved considerably.

71. Experience of the manufacturing sector is, however, in contrast to the growth in overall savings of the sample companies which actually increased faster in 2000-01. This was mainly due to substantial increase in the savings of companies engaged in computer software development and related activities whose share increased from 10.35 per cent in 1998-99 to 18.64 per cent in 2000-01.

72. The share of other income in PBT declined whereas that of NOS increased during the period. The two put together, however, continued to account for about half of the PBT. (Table-6.11)

73. Between 1998-99 and 2000-01, NOS almost doubled. Two of the main components of NOS are gains from sale of assets and investments. Both have implications for the process of restructuring. The process needs a closer examination because in the short run the addition to profits could be misinterpreted as improvement in business performance.

74. The share of net fixed assets in total assets of the sample companies declined during the period, that of investments increased. The increase in investments almost matches the increase in the net fixed assets. This further establishes the importance of deployment of funds in other enterprises by the sample companies. (Table-6.12)

75. The gross fixed capital formation of the sample companies (excluding merger cases) increased by 3.18 per cent from Rs. 29,330 crores in 1999-00 to Rs. 30,264 crores in 2000-01. On the other hand, due to substantial reduction in stocks, GCF declined from Rs. 27,262 crores to Rs. 20,116 crores, or by 26.21 per cent. In the manufacturing sector all the main components of capital formation declined considerably in 2000-01. (Table-6.14)

76. It appears that GFCF of the population of NGEPs would be higher by 4.52 per cent in 2000-01. Their GCF in 2000-01 would, however, be lower by 25.26 per cent compared to the previous year. The exercise indicates a fall in the rates of capital formation of NGEPs from 4.61 to 4.33 in case of GFCF and 4.28 to 2.88 in case of GCF. (Table-6.14)

77. As in the earlier years, during 2000-01 also, gross fixed assets of a number of companies decreased. The reduction in GFA of these companies is quite substantial as its ratio to the increase in GFA of the companies whose GFA increased during the year was 16.77 per cent. These cases once again highlight the need to clarify the position with regard to demergers and sale of units.

General

78. The improved savings rate in the recent years disguises the fact of growing concentration at the top on the one hand and large number of small companies in the sample turning dissavers, on the other. By itself, heavy emphasis on large companies may lead to an overestimation of the population savings and the savings rate. On the other hand, however, given the distinctly different behavior of unlisted companies which form the bulk of the left out companies, and foreign controlled companies which are likely to gain further importance in the coming years, it would be difficult to indicate the direction of the bias in estimation.

79. The findings underline the need to have regular disaggregated presentation of the trends in savings and capital formation instead of the present practice of providing only the broad aggregates.

80. Given the fact of relative easy availability of annual reports of listed companies (consequently of their subsidiaries), and the difficulties known to be encountered by the RBI in getting company annual reports, it is possible that the CF studies would be weighed in favour of the listed companies and their subsidiaries.

81. Since most large FCCs are unlikely to get listed on the stock exchanges and even some of the existing ones are seeking de-listing, inadequate representation of the unlisted segment would have important implications for the measurement of savings and capital formation of the private corporate sector.

82. Overall, the manufacturing sector appears to be facing a difficult situation while the services are improving their position. The samples considered for the present study cover the manufacturing sector better. It does appear that similar is the case with the CF studies. The CF study of NGFPs for 1999-00 suggests that about 80 per cent of the companies fall under the manufacturing sector. In terms of PUC share of manufacturing companies is higher at 85 per cent. This is far higher than the sector's share in the overall PUC of NGFPs. The many similarities observed between the results of CF studies and the present study can even be construed as a weakness rather than strength, as both cover the non-manufacturing sector inadequately. In view of this also more emphasis needs to be placed on the process of selection of companies.

83. Private agencies, with their limited objective of serving investor needs, cannot be expected to cover a wide variety of companies so that unlisted companies, which are going to gain importance in the coming years, could be appropriately represented in the samples. Nor would these organizations find it viable to make the necessary adjustments required for estimating savings and capital formation. The efforts should, therefore, be directed at strengthening the Department of Statistical Analysis and Computer Services (DESACS) and ensure the availability of company annual reports.

84. DCA had already helped a private agency to get access to the data of almost one and a half lakh companies; it could definitely extend its support to RBI particularly since huge success has been claimed in the implementation of Company Law Settlement Scheme.

Section 1

Introduction

In the process of economic growth capital accumulation occupies a strategic place. Development planning seeks to ensure mobilization of adequate resources and direction of such investments into channels that provide for the most rapid growth and productive capacity of the national economies.[1] A critical question, however, is how to mobilize resources to enable the investments. Indian planners were conscious of the significance of savings as a pre-requisite to new investments. For self-sustained development it was essential to have higher rate of domestic saving.[2] Since it was also understood that to support higher investments foreign capital could supplement the scarce and limited resources, the development models take savings and foreign capital as key to economic development. To encourage savings a number of incentives and concessions are offered to both individuals and enterprises. Given the importance attached to savings, performance of the Indian economy at generating savings has been a subject matter of debate for a long time. The debate concerned both the level and impact of savings as also the methodological issues surrounding its estimation.[3]

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1 O. Lange, "Planning Economic Development", in Henry Bernstein (ed.), *Underdevelopment and Development: The Third World Today*, Penguin Books Ltd., Hammondsworth, 1973, pp. 207-215.

2 For instance, evenwhile recognising the necessity for foreign exchange resources, the *Second Plan* emphasized that "... given the decision to invest a certain quantum of resources, the necessary savings have to be found, and bulk of them have to be found from within the economy". See: INDIA, Planning Commission, *Second Five Year Plan*, 1956, p. 77. The importance of domestic savings is further evidenced by the fact that the *Tenth Plan* envisages the domestic savings rate to reach 29.8 per cent in order to meet the investment rate of 32.6 per cent. See: INDIA, Planning Commission, *Approach Paper to the Tenth Five Year Plan (2002-2007)*, September 2001.

3 This was especially in the context of high rates of saving during the mid-'seventies and the failure to stimulate growth unlike the experience of East Asian countries. Among the studies on savings one may refer to N.A. Majumdar, T.R. Venkatachalam and M.V. Raghavachari, "The High Saving Phase of the Indian Economy: 1976-79 - An Exploratory Interpretation", *RBI Occasional Papers*, No. 1, June 1980, pp. 1-32; V.K.R.V. Rao, "Savings, Capital Formation and National Income", *Economic and Political Weekly (EPW)* 1980, Issue No. 22, pp. 965-977., K. Krishnamurty and P. Saibaba, *Savings Behaviour in India*, Institute of Economic Growth, Occasional Paper Series: New Series, No. 6, Hindustan Publishing Corp., Delhi, 1982; Mihir Rakshit, "Income, Saving and Capital Formation in India: A Step Towards a Solution of the Saving-Investment Puzzle", *EPW*, Annual Number 1982,pp. 561-572; Mihir Rakshit, "On Assessment and Interpretation of Saving-Investment

(Contd...)

Domestic savings of an economy is measured under three broad heads namely, (i) public sector, (ii) household sector, and (iii) private corporate sector. Savings in the administration, departmental enterprises and non-departmental enterprises (government companies, statutory corporations and port trusts) are covered under the public sector. Household sector comprises of savings of individuals, all non-government, non-corporate enterprises like sole proprietorships and partnerships and non-profit institutions which provide educational, health, cultural and other social and community services. Non-governmental financial and non-financial corporate enterprises and co-operative institutions constitute the private corporate sector (PCS). Non-governmental non-financial corporate enterprises include public and private limited companies registered under the *Companies Act, 1956*. Non-government financial institutions constitute commercial banks in the private sector, and financial and investment companies. Co-operative institutions comprise of co-operative banks, co-operative credit and non-credit institutions.

(Contd...)

Estimates in India", *EPW*, Annual Number May 1983, pp. 753-766; Uma Datta Roy Choudhury and Amaresh Bagchi, (eds.), *Domestic Savings in India: Trends and Issues*, Vikas Publishing House, New Delhi, 1990; B.L. Pandit, *Growth and Structure of Savings in India*, Oxford University Press, Delhi, 1991.

Among the recent ones one may refer to: EPW Research Foundation, "Economic Reform and Rate of Saving", *Economic and Political Weekly*, May 6-13, 1995, pp. 1021-1041; P. Athukorala and K. Sen, "Economic Reforms and the Rate of Saving in India", *EPW*, September 2, 1995, pp. 2184-2190; EPW Research Foundation, "Economic Reform and Rate of Saving", *EPW*, Special Number, September 1996, pp. 2507-2526; Pulapre Balakrishnan, "Savings Rate in Indian Economy since 1991", *EPW*, Special Number, September 1996, pp. 2527-2535; Tarlok Singh, "Saving and Investment in India - Trends, Structural Composition and Inter-relationships", *Journal of Indian School of Political Economy*, Vol. 8, January-March 1996, No.1, pp. 20-39; Martin Muhleisen, "Improving India's Saving Performance", IMF Working Paper, 1997; Mathew Joseph, "India's Saving Rate: Analysis and Policy Prescriptions", 1997; Norman Loayza and Rashmi Shankar, "Private Saving in India", a paper presented in the Conference *Savings Across the World*, World Bank, September 1998; and Benu Schneider, "Saving-Investment Correlations and Capital Mobility in Developing Countries with Special Reference to India", Indian Council for Research on International Economic Relations, New Delhi, Working Paper No. 48, 1999.

At another level, the methodological issues were dealt with extensively first by a Working Group on Savings in 1982 and later by an Expert Group in 1996. Both the Groups were set up by the Department of Statistics. See: INDIA, Ministry of Planning, Department of Statistics, *Capital Formation and Saving in India 1950-51 to 1979-80*, Report of the Working Group on Savings, Reserve Bank of India, February 1982 (Chairman: K.N. Raj) and INDIA, Ministry of Planning and Programme Implementation, Department of Statistics, *Saving and Capital Formation in India: 1950-51 to 1994-95*, Report of the Expert Group on Saving and Capital Formation, December 1996, (Chairman: Raja J. Chelliah). These shall be referred to in the following as the Working Group and the Expert Group respectively.

In the discussion on domestic savings, considerable emphasis has been placed on the contribution of the private corporate sector in general and the organised sector in particular.[4] Low share of the private corporate sector in gross domestic savings and its savings rate (measured as the ratio of gross savings of PCS to the GDP), which did not exceed 2 per cent till the late 'eighties, had been a matter of concern. Rapid growth of the Indian public sector and of the unincorporated private sector were seen to be responsible for the low saving rate of the private corporate sector. This low savings of the PCS was also attributed to high corporate tax rates and heavy dependence on borrowed funds, which meant a substantial part of the surplus flowing out as interest.[5] The savings of the PCS also came under discussion due to the practical problems faced in spite of the sector being a part of the organised segment of the economy. The Expert Group on Savings and Capital Formation (1996) noted: "... not withstanding the fact that the private corporate sector is organised, estimates of this sector are subject to errors".[6] The extent and the direction of error are, however, not stated.

The past two decades, especially the 'nineties, witnessed a wide variety of changes in India's economic policy environment with the private sector given greater operational freedom both in terms of making new investments and financing such investments. From the official estimates provided in the National Accounts Statistics (NAS) it is evident that these changes have been

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4 Among the studies one may mention K. Krishnamurty and D.U. Sastry, *Investment and Financing in the Corporate Sector in India*, Tata McGraw-Hill Publishing Co., New Delhi, 1975; Vinay D. Lall, *Fiscal Incentives and Corporate Tax Saving*, National Institute of Public Finance and Policy, New Delhi, 1983; N. Shanta, *Trends in Private Corporate Savings*, Occasional Paper Series, Centre for Development Studies, Trivandrum, 1991; and Uma Datta Roy Choudhury, "Finances of the Private Corporate Sector: 1955-56 to 1986-87", *Journal of Indian School of Political Economy*, Vol. 4, No. 4, Oct-December 1992, pp. 599-653.

5 Commenting on the contribution of the corporate sector to national savings during the first three decades, V.K.R.V. Rao noted that "(T)he performance of the (private) corporate sector has been disappointing as far as its contribution to raising the Indian savings rate is concerned." See: V.K.R.V. Rao, *India's National Income, 1950-1980: An Analysis of Economic Growth and Change*, Sage Publications, New Delhi, 1983, p. 137. See also Arvind Virmani, "Saving Performance and Prospects: A Historical Perspective", in Uma Datta Roy Choudhury and Amaresh Bagchi, (eds.), *op. cit.*, and N. Shanta, *op. cit.* It was also noted that a gloomy investment climate, in spite of the presence of investment incentives, was the underlying cause of stagnant corporate savings during the 'sixties and the 'seventies. See: Brijesh C Purohit, "Corporate Saving Behaviour in India: A Model", *Economic and Political Weekly*, 1990, Vol. 25, No. 7, pp. M2-M8.

6 Expert Group, *op. cit.*, para 2.0.7, p. 6.

Objectives of the Study

The study seeks to:

(a) analyse the trends and pattern of savings and investment of a sizeable number of non-government non-financial public limited companies (NGFPs) during 1995-96 to 1999-00 at the disaggregated levels of size, industry, ownership, etc.;

(b) examine the impact of the pattern of deployment of funds by large NGFPs on retained earnings and gross savings; and

(c) provide advance indications of savings and investment of NGFPs during 2000-01 of NGFPs.

Savings and Capital Formation: Estimation Procedure and Practical Problems

For purposes of national income estimation, non-government companies registered under the *Companies Act, 1956*, together with cooperative enterprises are treated as a part of the PCS. Gross savings of the non-government non-financial companies is derived from the company finance studies conducted separately for public and private limited companies by the Reserve Bank of India (RBI). The RBI takes gross savings as the sum of retained profits and the depreciation provision made by the companies. For arriving at gross savings, the surplus or deficit arising out of sale of fixed assets, investments, revaluation/devaluation of foreign currencies income/expenditure related to the previous year, etc., are, however, adjusted from the reported retained earnings. Net savings of the PCS is obtained after deducting the consumption of fixed capital estimated independently by the CSO, from the gross savings of the sector given by the RBI. A similar procedure is adopted in case of financial companies. While addition to reserve funds is taken as the savings of private commercial banks, in case of co-operative societies increases in statutory funds and other reserves/funds are taken as gross savings.

Estimates for all companies in each category are obtained by blowing up the sample results on the basis of coverage of paid-up capital (PUC) of sample companies to the PUC of all companies in the respective category.[7]

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7 For further details see: INDIA, Central Statistical Organisation, *National Accounts Statistics: Sources and Methods*, 1989, pp. 218-219 and Report of the Expert Group, *op. cit.*, para 2.2.7, p. 17.

accompanied by an increase in the savings rate of the private corporate sector. From the 2 per cent in 1988-89, the savings rate of the PCS moved up to 4.9 per cent by 1995-96. After 1995-96, however, the rate fell gradually to reach 3.7 per cent by 1999-00. (See Table-1.1 and Graph-1.1). In view of the problems associated with the estimation of savings and capital formation of the sector, it is proposed to identify the factors that explain this decline as also throw more light on the pattern of savings and investment of the sector with the help of alternative estimates.

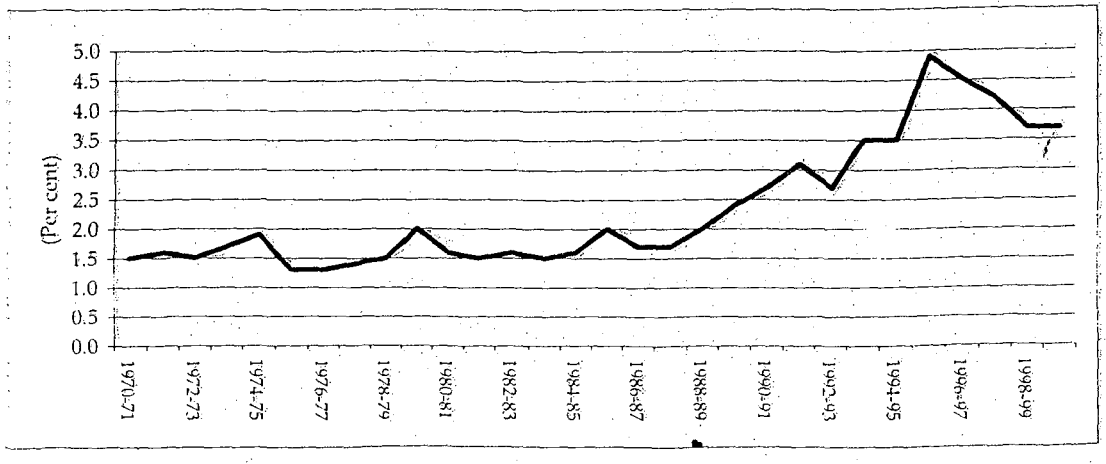
Table-1.1
Domestic Savings Rate and its Components

(Percentages)

Year	Household Sector	Public Sector	Private Corporate Sector (PCS)	Rate of Gross Domestic Savings (GDS)	Share of PCS in GDS
(1)	(2)	(3)	(4)	(5)	(6)
1950-51	6.2	1.8	0.9	8.9	10.48
1960-61	7.3	2.6	1.6	11.6	14.13
1970-71	10.1	2.9	1.5	14.6	10.11
1980-81	13.8	3.4	1.6	18.9	8.62
1990-91	19.3	1.1	2.7	23.1	11.55
1991-92	17.0	2.0	3.1	22.0	14.11
1992-93	17.5	1.6	2.7	21.8	12.26
1993-94	18.4	0.6	3.5	22.5	15.43
1994-95	19.7	1.7	3.5	24.8	14.02
1995-96	18.1	2.0	4.9	25.1	19.63
1996-97	17.0	1.7	4.5	23.2	19.28
1997-98	17.8	1.5	4.2	23.5	17.72
1998-99	19.1	-0.8	3.7	22.0	16.71
1999-00 Q	19.8	-1.2	3.7	22.3	16.50

Based on: INDIA, Ministry of Finance, *Economic Survey: 2000-2001*, Appendix Statement No. 1.5.
Q: Quick Estimates.

Graph-1.1
Savings Rate of the Private Corporate Sector



RBI also prepares the savings estimate of the household sector in the form of financial assets like currency, deposits with commercial banks, non-banking companies, shares, debentures and bonds, etc. CSO estimates savings of the public sector and that of household sector in the form of physical assets, life, provident and pension funds.

Gross investment (capital formation) is estimated by using a commodity flow method by the CSO. Investment of the household sector is derived as a residual by subtracting the investment of public sector and private corporate sector from the total investment. Gross national savings is estimated as the sum of foreign, public, private corporate and household savings. Gross domestic savings is equal to gross national savings minus foreign savings (See Diagram). Physical savings of the household sector is taken as equivalent to the household investment measured as a residual. Thus, the estimates of the investment of the private corporate sector and of public sector crucially affect the estimation of household savings and investment.[8]

The process of estimation of savings of the private corporate sector presently has a number of limitations. The main problems relate to non-government joint stock companies within the PCS.[9] The constraints include:

(a) small sample size compared to the size of the population;[10]

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8 The Expert Group noted:

> As the total frame is not authentically available and the sample is neither statistically drawn nor is in good proportion to the whole population PUC and the basis of the multiplier is also not satisfactory, the results based on such a procedure may not be reliable. This in turn affects the estimates for the household sector of the economy. The capital formation estimates in respect of the household sector which are derived as residual would, therefore, contain a part of the errors.

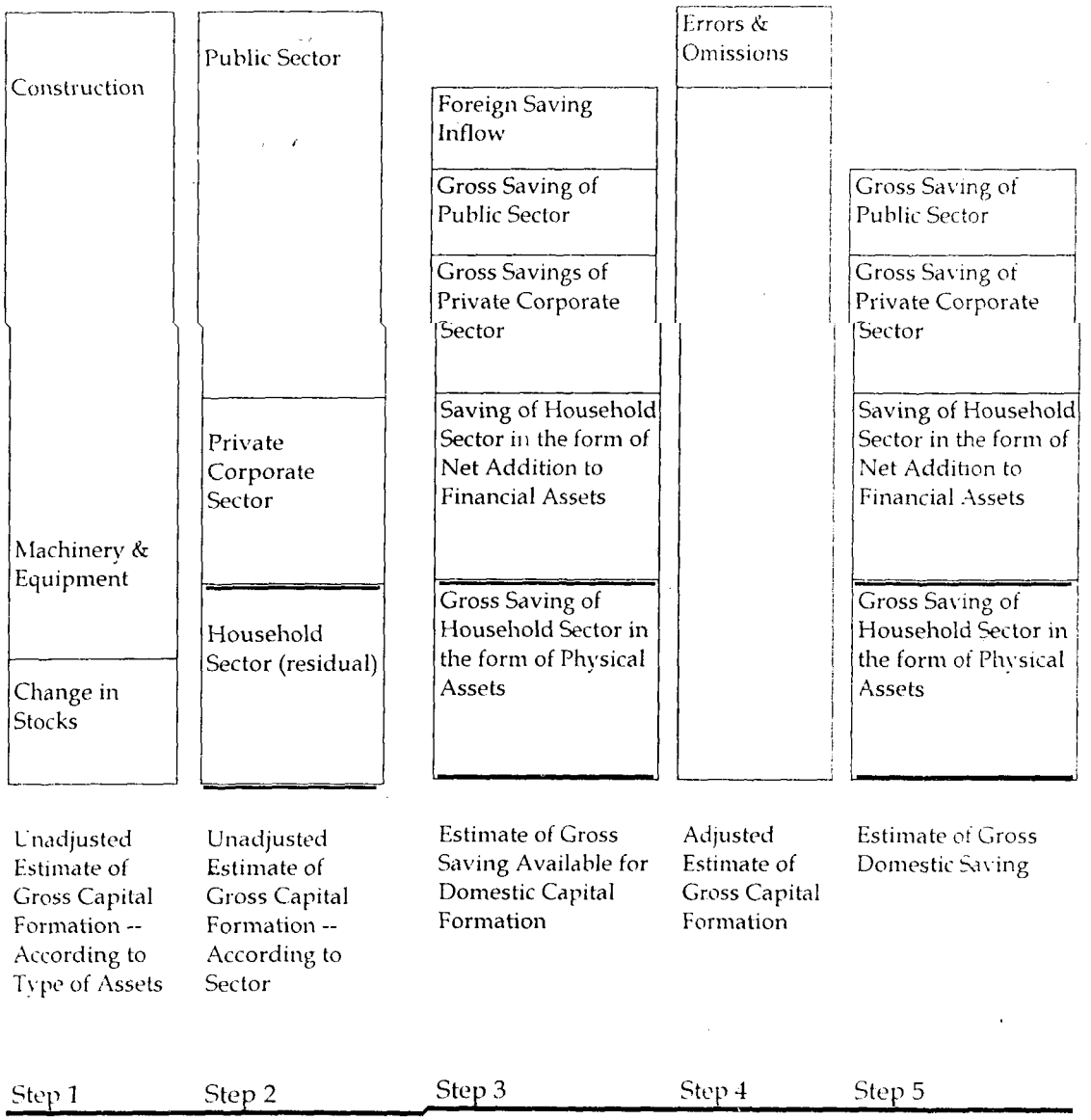
op. cit., para 2.0.10, pp. 6-7.

9 For instance, see the reports of the Working Group and the Expert Group. See also, RBI. "Issues for Consideration in the Seminar", Seminar on *Financial Statistics of the Private Corporate Business Sector*, Mumbai, March 4, 1985 and Martin Mühleisen, *op. cit.*.

10 There are three main series of Company Finance (CF) studies conducted by the RBI. These are: (i) non-government non-financial public limited companies (also separately for large public limited companies); (ii) private limited companies; and (iii) financial and investment companies. Of late, the first series of studies is covering about 1,900 companies, the second about 900 and the last 700 companies. The proportion of the sample is considerably small in case of private limited companies. The latest study for the year 1999-00 covers 2 per cent of the PUC of private limited companies. In terms of the number of companies the coverage would, however, be negligible.

Diagram

Steps in the Estimation of Gross Capital Formation and Savings



Source: INDIA, Ministry of Planning, Department of Statistics, *Capital Formation and Savings in India: 1950-51 to 1979-80*, Report of the Working Group on Savings, Reserve Bank of India, 1982. Shaded items are the responsibility of RBI.

(b) absence of a reliable sampling frame on the one hand and on the other poor response of companies in sending their annual reports due to which choice of sample companies for study gets determined by availability of annual reports and balance sheets;
(c) use of paid-up capital as the base for blowing up the sample estimates which need not bear a true relationship with the variables under consideration;[11]
(d) non-availability of reliable estimates even of the paid-up capital;
(e) leaving out the companies under construction in which substantial capital formation would be taking place; and
(f) changing composition of samples from year to year, which makes it difficult to have meaningful longer term comparisons (see Appendix - 1.1 for illustrations).[12]

In spite of the organised nature of the companies registered under the *Companies Act, 1956*, due to the absence of reliable information on a large number of its constituents, there are serious shortcomings of the data on the sector's critical characteristics like paid-up capital, assets, sales, profits, etc. While some registered companies never even start their operations, a good number do not file their annual returns regularly.[13] The uncertainty associated with the basic aggregates of the private corporate sector has been severely affecting the estimation of savings and investment of the sector and has been the focus of attempts at improving the statistical base of the Indian

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11 Since PUC may not be a good measure of the size of a company, it was suggested that alternatives in the form of assets and turnover could be used to measure the size for purposes of measuring concentration. See for instance, S.K. Goyal, "Concept and Measurement of Concentration of Economic Power", *Company News and Notes*, 1970, Vol. 8, No. 3-4,pp. 1-6. This argument is equally relevant in the present context. This point has also been discussed by the Expert Group.

12 It is not necessary that the latter samples are better representative of the overall situation in the private corporate sector. More importantly, changing composition of the samples makes year-to-year comparisons difficult as the extent of change between the two common years in respect of a specific attribute obtaining from the two successive studies can vary substantially.

13 Interestingly, in view of non-filing of returns by certain companies, the Ministry of Finance is reported to have proposed that companies should file their returns even if they incur losses. From the implementation of Company Law Settlement Scheme (CLSS) which provided onetime opportunity to the companies which defaulted in filing Balance Sheet and Profit & Loss Account and other documents with the Registrar of Companies, some interesting facts emerge. Out of the 4.96 lakh companies registered at the end of November 1998, 2.55 lakhs *i.e.*, a little more than half, were defaulters. As per the details provided by the DCA, out of these 2.55 lakh defaulters, 1.27 lakhs, or roughly half, availed the CLSS. Thus practically there is no information on at least one-fourth of the registered companies. One does not, however, know their aggregate PUC. Interestingly, Northern Region, which accounts for about one-fourth of the registered companies, accounted the largest number (also proportion) of defaulters. The proportion of companies availing the scheme was the lowest in the region.

economy. The need for setting up a proper agency for the corporate sector was first emphasized by the Mahalanobis Committee during mid-'sixties. The problem at that time was perceived as not of availability of data and information but of putting together such information in a readily accessible manner. The failure to set up such an official agency was held mainly responsible for the non-availability of critical aggregates for the PCS.[14]

The problems with regard to data on the Indian private corporate sector multiplied during the past more than a decade. In terms of number of companies, the sector expanded significantly during the 'eighties and the 'nineties. From about 56,000 at the end of 1979-80, the number of registered non-government companies reached a little more than 2,00,000 by the end of 1989-90. Their number increased further to 5,41,000 by the end of 1999-00. The *Directory of Joint Stock Companies, 1990* failed to give even the basic information on paid-up capital of nearly half of the 2,00,000 companies.[15] Possibly due to the sizeable expansion of the sector and poor response from the companies, the Department of Company Affairs (DCA) discontinued the quinquennial censuses which till then were helping to improve the data on population PUC. The Company Directory CD ROM released by the DCA in 1999 did not have information even on the paid-up capital of the companies. The present situation of the sector is summed up by the National Statistical Commission as:

> There are more than 5 lakh companies registered in the ROCs but the actual number of companies, which are operating, is not known. This situation seriously affects the reliability of various estimates. An exercise conducted in March 1999 indicated that about 47 per cent of the registered companies filed their balance sheet for the year 1997-98 with the ROCs. In the absence of a reliable population frame, the RBI is not in a position to apply suitable sampling techniques. Further, the RBI is also constrained by the poor

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14 See: S.K. Goyal, *Monopoly Capital and Public Policy*, Allied, New Delhi, 1979. Chapter II of the book deals in detail the absence of data and information on the Indian private corporate sector.

15 Expert Group, *op. cit.*, p. 15. For a detailed examination of the database and the extent of non-reporting, see: K.S. Chalapati Rao and K.V.K. Ranganathan, "Directory of Joint Stock Companies in India, 1990: A Review", Institute for Studies in Industrial Development, 1992. The directory failed to carry information on even some of the companies belonging to established business groups which are known to be functioning at that time. Apart from this one noticed duplicate entries and continuation of the already amalgamated ones.

response from companies and non-receipt of annual reports directly from the ROCs. RBI's findings are thus based on the data of responding companies and the Fact Sheets prepared by the DCA. The reliability of the estimates of gross savings and investment in the private corporate sector arrived at by blowing-up the sample results available from the RBI's studies in proportion to the coverage of the paid-up capital (PuC) of the sample companies to the PuC of all companies, has been questioned time and again. [16]

The enormous expansion of the PCS has been thus accompanied by a worsening of the information base of the sector leading to the limitations cited above. Realising the difficulties in getting the information on the private corporate sector and the relatively sizeable contribution of large companies to savings and investment, the Expert Group on Savings and Capital Formation (1996) suggested that efforts should be made to get the estimates for the total population of top 1,500 companies in terms of either net fixed assets or sales/turn over and for the remaining companies on a sample basis. [17]

The Present Study

Apart from the problems associated with estimation of the aggregates, there is a general lack of understanding of the trends and pattern of savings and capital formation of various categories of companies. From the NAS one only gets the trends in gross/net savings and capital formation. The disaggregation is restricted to joint stock companies (separately for non-financial and financial companies) and cooperatives in case of gross savings. Company Finance (CF) studies conducted by the RBI do not explicitly present or relate the trends in savings and capital formation with company characteristics. Till 1980-81, the CF studies were based on common sample for a period of five-years. Thereafter, RBI switched over to a moving triennial concept. While this has certain advantages, especially in terms of being able to cover newer companies better, it fails to offer trends over a relatively longer period. Attempts at the Institute for Studies in Industrial Development to

16 See: INDIA, National Statistical Commission, *Report of the National Statistical Commission*, Volume II, August 2001, p.339.

17 Expert Group, *op. cit.*, para 5.12.1, p. 40.

construct a consistent sample for the period 1995-96 to 1999-00, from the CF data provided by the RBI, resulted in a sample of only 1,113 companies.[18] In view of this and in the context of the objective to generate alternative estimates, it was hoped that data offered by private agencies might help in arriving at estimates for a relatively longer time period based on an analysis of data of a large number of companies.

Importance of the Non-government Joint Stock Companies

By virtue of its ability to pool large resources, the joint stock companies are capable of taking up projects of substantial size. Viewed against the backdrop of a vast number of small unorganised units, constituents of the PCS tend to be quite large. These own most modern and capital intensive sectors almost to the exclusion of others. Over the years, corporate form is also getting increasingly adopted by large service sector enterprises.[19] Most of the foreign direct investment is organised in the form of joint stock companies.[20] The joint stock companies registered under the Indian *Companies Act, 1956* are broadly classified into government and non-government companies. Due to the changing policy environment, the importance of non-government companies has been increased substantially. For instance, starting from 27 per cent of the PUC at the end of 1990-91, their share increased to two-thirds by 1999-00. Also, in 1998-99, the private corporate sector accounted for about 72 per cent of the fixed capital, 55 per cent of the workers employed and 65 per cent of the gross output of the

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18 It is, however, possible that the studies for the years 1997-98 and 1999-00 would have a few more in common.

19 Share of the service sector including finance, trade, business, consultancy and community services in paid-up capital of non-government companies doubled from a little less than 20.44 per cent in 1990-91 to 40.91 per cent in 1999-00. (This estimate is based on the data provided in INDIA, Department of Company Affairs, Annual Reports on the Working and Administration of the Companies Act, 1956 for the relevant years).

20 Two main forms of operation of foreign direct investment in India are: (i) companies incorporated in India; and (ii) branches of foreign companies. The *Foreign Exchange Regulation Act, 1973* caused the foreign branches to transfer their operations to companies incorporated in India. Exceptions were, however, made for airlines, shipping companies, etc. See: Sudip Chaudhuri, "FERA: Appearance and Reality", *Economic and Political Weekly*, April 21, 1979, pp. 734 - 744.

factory sector of Annual Survey of Industries (ASI).[21] The importance of non-government companies is bound to increase further in the coming years due to the throwing open of the sectors earlier reserved for the public sector and the process of dilution of government ownership of public enterprises.

It is evident from the NAS that out of the two main groups covered under the private corporate sector, non-government companies registered under the Indian *Companies Act, 1956* have an overwhelming share of the gross savings of the sector.[22] During the past seven years (1993-94 to 1999-00) the share of non-government companies has been close to 96 per cent. Within the non-government companies about 90 per cent of the gross savings is accounted for by non-financial companies. Looking in a slightly different way, within the non-government companies, public limited companies, by virtue of their ability to attract substantial amount of capital from sources other than the promoters, tend to be bigger and hence occupy a more important position. Being a public limited company is also a pre-requisite for seeking listing on the stock exchanges. At the end of 1999-00, the average paid-up capital of a public limited company was Rs. 1.96 crores. The corresponding value for private limited companies was only Rs. 11 lakhs. Public limited companies, though they are outnumbered by the private limited ones, being relatively quite large, account for a very high proportion of the paid-up capital of the sector. At the end of the year 1999-00, public limited companies formed 13.5 per cent of the non-government companies in terms of numbers and accounted for 73.3 per cent of the PUC.[23] NGFPs accounted for over 80 per cent of the paid-up capital of all non-government public limited companies.[24]

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21 Based on the data provided by the CSO. For arriving at the shares of non-government companies, which are not available directly from the published data, the methodology outlined in N. Shapta, *op. cit.* has been followed with appropriate modifications.

22 Based on the data provided in INDIA, Central Statistical Organisation, *National Accounts Statistics: 2001.*

23 Based on the data provided in INDIA, Department of Company Affairs, *Forty Fourth Annual Report on the Working and Administration of the Companies Act, 1956, Year Ended March 31, 2000.*

24 Since it was not possible to get the share of NGFPs directly from data provided by the DCA, the PUC of NGFPs was estimated from the coverage of population PUC by the corresponding CE study

(Contd...)

NGFPs, the focus of the present study, thus occupy an important position in the private corporate sector. Hence, an analysis of the behaviour of the companies based on a relatively larger sample may help in understanding the trends and patterns in the savings and capital formation of the private corporate sector better. It may be noted that the Expert Group held the view that the data provided by alternative sources namely the Annual Survey of Industries (ASI) and private agencies like the Centre for Monitoring Indian Economy (CMIE) do not fully meet the requirements for generating savings and capital formation estimates for the private corporate sector.[25] The Expert Group, however, also expressed the opinion that "as cross-check it may be useful to supplement efforts of RBI and DCA with the efforts of the private corporate sector ...".[26]

Selection of Companies

Three corporate databases namely, Prowess, Equity Research Station (ERS) and Capitaline are presently available. After comparing two out of these three, the Prowess database of CMIE has been chosen for the study, in view of its larger coverage.[27] It was, however, noticed that Prowess is not strictly comparable to the data generated by the CF studies in certain respects. The treatment given to different items and the extent of accessing and interpreting of the notes to accounts generally vary between different databases.[28] For the present exercise, however, the main difficulty arises in respect of estimation of capital formation. For estimating capital formation,

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(Contd...)

for the year 1999-00. This estimate was then compared with the total PUC of all non-government public limited companies reported by the DCA.

25 Expert Group, *op. cit.*, p. 40.

26 Expert Group, *op. cit.*, p. 19.

27 Equity Research Station (ERS) of Asian CERC is the other database that was considered for the purpose. Since Prowess offered reasonably large number of companies for the study period, the third database, Capital Market Group's Capitaline, was not considered to avoid conceptual problems.

28 For instance, Prowess treats internal transfers, wherein output of a division is used as input of other division of a company, as part of the net sales, while RBI takes out the same before arriving at net sales.

RBI follows Sources and Uses of Funds approach in which adjustments are made for mergers, amalgamations and revaluations. Prowess, however, does not make similar adjustments in case of mergers but takes note of revaluations. In the present context this could prove to be a major lacuna. It should also be noted that the ongoing process of corporate restructuring is not confined to mergers and amalgamations only. In the new policy regime, besides mergers and amalgamations, acquisition/hiving-off of divisions is also taking place. This process would have an effect of artificially showing higher or lower capital formation as the case may be, unless suitable adjustments are made.[29] One is, however, not sure of how this aspect is being taken note of in the CF studies.[30] Another possible source of difference between CF studies and Prowess is the former's practice of revising previous year's data, based on current year's annual reports. Informal enquiries reveal that revisions are not incorporated into Prowess in a consistent manner. While CF studies provide data on fixed assets separately for land and buildings, Prowess combines the two.

It should be underlined that studies on savings and capital formation of the Indian private corporate sector, including those using company level data provided by RBI, are based on data which are not adjusted for mergers

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29 Two are more distinct companies are involved in case of mergers/amalgamations at the end of which only one company remains. On the other hand, in case of unit transfers, both the companies remain but the ownership of one or more of the units changes hands. The acquiring company's gross fixed assets at the end of the financial year during which the unit was taken over, would include the assets of the acquired unit. A straightforward comparison with the company's fixed assets with that of the previous year would suggest that there was fresh capital formation. This, however, is not the case because the unit's assets were already in existence as a part of another company and as far as the economy is concerned, no addition to fixed capital has taken place.

30 There seems to be some ambiguity in this respect. For instance, it has been stated that:

> "(G)ross fixed capital formation in machinery and equipment by producers consists of the value of their acquisitions of new and existing machinery and equipment less the value of their disposals of their existing machinery and equipment."

(See: Uma Datta Roy Choudhury, "Measurement of Capital Formation and Savings and the System of National Accounts, 1993", in Expert Group Report, op. cit., p. 63.)

When a whole unit, along with the fixed assets, is acquired by an enterprise, the effect would be the same as acquiring the assets of another company through amalgamation. In both the cases, the assets are not extinguished. In the case of acquisition if both the seller and the buyer are in the sample, it makes not difference to the overall asset position. On the other hand, if one of them does not form part of the sample, there is a possibility of over or underestimation according to whether the buyer or the seller is included.

and unit transfers. This is because the basic balance sheet data relating to the study of non-government public limited companies, to which researchers are generally provided access, are not adjusted for mergers. One major advantage seen in the Prowess database is that it contains data on a relatively larger number of companies for a longer period during the 'nineties so that different categories of companies could be represented better in the analysis. Also, the database identifies each company by name.[31] This information allows introduction of more company characteristics in the analysis and provide a better perspective. Thus, in spite of its limitations, it is hoped that a detailed analysis of consistent samples selected from Prowess, covering larger number of companies and for a longer period, would throw better light on the trends and patterns at the levels of industry, size, ownership, etc. which receive very little emphasis now. Given the basic differences in the databases, the effort is, however, in no way a substitute to the CF studies.

In view of the objective of studying the trends in savings during 1995-96 to 1999-00, a set of 2,545 NGFPs, for which data are available for all the five years, have been identified from the Prowess database. To correspond with the RBI's practice of excluding non-operating companies and those under construction, the companies which did not report any income in the first year of the study have been excluded from the sample. Of the 2,545 companies, 306 are small and medium companies having a PUC of less than Rs. 1 crore in 1995-96. On the other extreme are 36 companies which had more than Rs. 100 crores PUC. Financial year classification is according to the month of closing the accounts of the companies between April and March of the relevant year.

All the companies were incorporated prior to 1994 and reported a positive total income in 1995-96. The companies are classified on the basis of their main activity that contributed more than half of the company's sales. Companies that could not be classified in this manner are placed under the 'Diversified' category. Out of the 2,545 companies, 2,011 are manufacturing companies and the remaining fall under the categories of agriculture and

31 RBI reportedly does not reveal the identity of the companies due to the restrictions placed by the *Collection of Statistics Act*.

allied activities, mining and quarrying, electricity generation, construction and services such as computer software, trade, hotels and restaurants, etc. The 2,011 companies include 41 diversified ones.

The total paid-up capital of the selected companies in 1995-96 was Rs. 28,794 crores and it formed nearly half (48.54 per cent) of the estimated population PUC of the corresponding companies.[32] The coverage falls gradually for the subsequent years and reaches 34.46 per cent by 1999-2000. Coverage of the sample has also been compared with the database of the DCA brought out in association with the CMIE. Companies common to the Sample and the database accounted for 42.88 per cent of PUC, 64.55 per cent of assets and 66.43 per cent of the total income of the latter.[33] Compared to the distribution of estimated population paid-up capital, the sample is weighed more in favour of the manufacturing sector; nearly 83 per cent against 65 per cent share in the population (Table-1.2). The sample's coverage of the manufacturing sector in 1999-00 is thus better at about 44 per cent. In the following, the sample of 2,545 companies shall be referred to as the Sample-I. In addition to this, another sample of 3,341 companies called Sample-II has been constructed for the three-year period 1997-98 to 1999-00. Sample-II accounts for 44.66 per cent of the estimated PUC of NGFPs in 1999-00 compared to the 34.46 per cent share of Sample-I. Similarly, Sample-II has a higher share of manufacturing companies in PUC at about 55 per cent. In order to bring out the trends in savings and capital formation in 2000-01, another sample consisting of 2,044 of NGFPs has been constructed. Selection of this set of companies, referred to as Sample-III, also follows Sample-I.

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32 The population PUC has been estimated by taking the coverage ratio of CF studies for the corresponding years. The relevant CF studies cover three years and include a little more than 1,900 companies. In terms of paid-up capital, coverage of the CF studies is about 30 per cent.

33 The database is known as **First Source**. While the database has financial information on 23,722 companies, the comparison was made with respect to non-government non-financial companies whose financial data were available for either 1997-98 or 1998-99. These companies numbered 15,752.

Table-1.2
Activity-wise Distribution of Sample-I Companies and their Coverage of PUC of NGFPs: 1999-00

(Amount in Rs. Crores)

Activity/Sector	Population PUC $	No. of Sample Cos.	PUC of Sample Cos.	Percentage Share in PUC of		Activity-wise Coverage of PUC (4)/(2) x 100
				Population (Col. 2)	Sample Cos. (Col. 4)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agriculture & Allied Activities	2,651	77	473	2.25	1.17	17.84
Mining & Quarrying	1,605	42	759	1.36	1.87	47.27
Manufacturing#	76,570	2,022	33,624	65.06	82.89	43.91
Of which, Foodstuffs, Textiles, Wood Products, Paper, Leather and Products, thereof	*19,610*	*581*	*7,282*	*16.66*	*17.95*	*37.13*
Metals & Chemicals and products thereof, Machinery & Equipment.	*56,961*	*1,400*	*23,022*	*48.40*	*56.76*	*40.42*
Diversified Companies	#	*41*	*3,320#*	#	*8.19#*	#
Electricity Generation	4,773	12	850	4.05	2.10	17.81
Construction	3,316	54	356	2.82	0.88	10.73
Computer Software & Allied Activities@		43	798		1.97	
Trade, Hotels & Restaurants	11,961	221	2,529	10.16	6.23	21.14
Transport, Storage & Communications	4,873	35	889	4.14	2.19	18.24
Real Estate & Business Services @	9,061	63	881	7.70	2.17	9.72
Community, Social & Personal Services	2,888	19	204	2.45	0.50	7.06
All Companies	1,17,698	2,545	40,565	100.00	100.00	34.46

$ Since the DCA clubs PUC of Real Estate and Business Services with that of financial and investment companies, it has been derived from the estimates of PUC of non-government non-financial private limited companies and financial companies which in turn were based on the coverage ratios reported in the relevant CF studies for 1999-00. The total, however, is lower than the population PUC of NGFPs derived directly from the PUC estimate based on the relevant CF study's coverage of population PUC.

Population PUC of diversified companies is not available separately. Therefore, PUC of diversified companies in the sample has been distributed between the two main categories of manufacturing in proportion to the latters' respective shares in total PUC.

@ PUC of computer software related companies has been included in Real Estate & Business Services.

Basic Steps in Estimation

Gross savings has been measured as the sum of retained earnings and depreciation provision and net of non-operating surplus/deficit (NOS).[34] NOS arises out of non-recurring transactions like sale of assets and investments, revaluation of foreign currencies, provisions written back, insurance claims realised, etc.[35] For estimating fixed capital formation, the

34 Since at the aggregate level there was surplus on this account, the item would be referred to as NOS through out the study.

35 Prowess terms this as NNRT (net non-recurring income or net extra ordinary income).

difference between each of the main types of fixed assets is adjusted for changes in revaluation reserves. Since the extent of revaluation of each of the assets is not known, the increase in revaluation reserves has been distributed among (i) land & buildings, (ii) plant & machinery and (iii) other fixed assets in proportion to their relative shares at the beginning of the year and then subtracted from the increase/decrease in each of the assets during the year. A reverse procedure has been adopted in case of decrease in revaluation reserves. Change in stocks have been arrived at as the difference between the current year-end figures of capital work-in-progress and inventories and the corresponding items at the end of previous the year after revaluing them for price changes.

Organisation of the Study

The present report is organised in six Sections. Section 2 presents the broad trends in the savings rates of different sub-groups of private corporate sector. Section 3 contains an analysis of the financial data of 2,545 companies for the five-year period 1995-96 to 1999-2000 and a much larger sample consisting of 3,341 companies for the three years 1997-98, 1998-99 and 1999-00. Results of the analysis are discussed, wherever feasible, in relation to the trends and patterns obtained from the CF studies. Trends in capital formation are presented in Section 4. An examination of the interest costs and their impact on retained earnings and gross savings is presented in Section 5 in the context of the importance of other income earned by the companies. Section 6 provides early indications of the savings and capital formation in 2000-01 based on an analysis of data of 2,044 NGFPs.

Showing wide variations in Estimates of Select Ratios for the Same Years but emerging from Different CF Studies

Sales Range@	Debt to equity				Debt to equity (adjusted for revaluation)			
	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Less than Rs. 25 crore	63.7	78.2	81.2	106.6	63.9	79.2	93.1	127.6
Rs. 25 crore - Rs. 50 crore	63.2	72.7	66.1	70.9	63.4	72.7	78.2	83.9
Rs. 50 crore - Rs. 100 crore	68.6	69.9	86.0	93.4	71.4	70.4	98.1	107.2
Rs. 100 crore - Rs. 500 crore	67.6	73.2	67.9	73.7	68.0	73.3	74.3	80.1
Rs. 500 crore - Rs. 1000 crore	71.0	79.8	56.9	64.4	72.3	80.0	63.2	68.0
Rs. 1000 crore and above	56.5	60.1	62.9	66.6	58.4	61.2	69.5	74.1
All Companies	***63.0***	***68.2***	***65.9***	***70.7***	***64.4***	***68.8***	***72.6***	***78.0***

Sales Range@	Gross profits to sales				Profits retained to profits after tax			
	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Less than Rs. 25 crore	6.2	3.8	3.3	1.6	141.1	117.3	#	#
Rs. 25 crore - Rs. 50 crore	7.7	5.6	6.9	6.7	-95.6	150.6	-	#
Rs. 50 crore - Rs. 100 crore	8.2	8.7	9.4	8.2	12.0	15.2	-	#
Rs. 100 crore - Rs. 500 crore	11.3	10.2	11.1	10.0	62.6	38.9	61.4	43.1
Rs. 500 crore - Rs. 1000 crore	11.5	10.1	12.0	10.7	58.9	54.8	63.0	68.1
Rs. 1000 crore and above	13.7	12.7	15.2	13.7	71.1	67.4	68.6	65.0
All Companies	***11.6***	***10.6***	***12.2***	***11.0***	***63.0***	52.3	***60.9***	***52.4***

Sales Range@	Dividends to Ordinary Paid-up Capital				Tax Provision to Profit Before Tax			
	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Less than Rs. 25 crore	3.5	3.0	2.7	2.2	-145.0	-29.9	#	#
Rs. 25 crore - Rs. 50 crore	7.0	6.1	6.1	5.3	68.7	-138.8	59.9	115.5
Rs. 50 crore - Rs. 100 crore	8.7	7.7	7.9	7.1	50.2	50.4	59.3	#
Rs. 100 crore - Rs. 500 crore	13.5	13.0	13.9	13.3	28.0	37.7	28.5	36.3
Rs. 500 crore - Rs. 1000 crore	20.1	17.8	24.8	20.4	26.9	31.7	23.4	24.2
Rs. 1000 crore and above	32.4	29.6	28.1	24.8	20.4	21.9	22.0	23.2
All Companies	***16.6***	***15.5***	***16.6***	***15.1***	***26.3***	***31.4***	***27.2***	***31.4***

Source: "Financial performance of public limited companies" published in the *RBI Bulletin* (August 2000 and June 2001 issues). The studies covered 1,848 and 1,914 companies respectively.

Note: @ Based on the study years 1998-99 and 1999-00 respectively.
'-' Numerator negative or nil or negligible.
Both numerator and denominator negative or nil or negligible.

Section 2

Savings Rates of Different Constituents of the Private Corporate Sector

Virtual abolition of the Industrial Licensing System under the *Industries (Development and Regulation) Act, 1951*, opening up of the areas reserved for the public sector, removal of restrictions on large houses and companies registered under the *Monopolies and Restrictive Trade Practices Act, 1969*, easing of the restrictions on foreign equity and enlarging the areas open for companies earlier covered under the *Foreign Exchange Regulation Act, 1973* (FERA) are the major changes introduced in India's industrial policy during the 'nineties.

In parallel, a number of changes having a bearing on the financing of investments were also initiated. The first major step was the repeal of *Capital Issues Control Act, 1947* which had placed restrictions on raising new equity and debt capital by companies. Interest rates have been deregulated and the prime lending rate has been brought down. Reserve requirements of banks have been lowered thereby releasing larger proportion of funds for lending to the borrowers. The development financial institutions have been allowed to raise capital from the stock market and augment their lending capacity while simultaneously removing the access to low cost funds from the government.

Permissions have been selectively accorded to companies to raise capital directly from the international capital markets. Foreign portfolio investors have been allowed to trade on the domestic stock exchanges. Income tax rates for companies are now much lower than those at the beginning of the 'nineties. Though the Union Budget 1991-92 raised the basic corporate income tax rates to 45 per cent and 50 per cent respectively for widely held and closely held companies,[1] since then the basic rate has been reduced to a uniform 35 per cent for both the types of companies. On the other hand, the Budget 1996-97 introduced a Minimum Alternate Tax (MAT)

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[1] Over and above these rates, a surcharge of 15 per cent was also applicable. The rates of surcharge however, varied afterwards.

of 12 per cent on book profits of companies.[2] Since 1996-97, an additional element came into operation in the form of dividend tax whereby the obligation of paying income tax on dividends received by the shareholders has been shifted to companies paying the dividends.

Savings Rate of PCS : NAS Estimates

In the process of extensive policy changes introduced since 1991, some of the main reasons cited for the low savings rate of the private corporate sector namely, (i) growing importance of the public sector, (ii) high rates of corporate income tax; and (iii) substantial outgo on account of interest due to Indian companies' extensive reliance on borrowed funds, have been addressed to. As noted earlier, the PCS seems to have responded to the policy changes as the savings rate of the sector increased from 2.1 per cent in 1990-91 to 3.5 per cent in 1994-95 and further to 4.9 in 1995-96. The subsequent fall to 3.7 by 1999-00 being more gradual may suggest that the sudden rise in 1995-96 did have some basis and was not abnormal. Since the focus of this exercise is on non-financial non-government public limited companies it would be more appropriate to look at the savings rate of such companies. However, since a break-up of savings data according to public and private limited companies is not available, the following Table-2.1 presents the combined rate for both the types of companies. The savings rates of the sub-components exhibit larger fluctuations compared to the aggregate for the sector. More notably, non-financial joint stock companies, the largest component, show a slight recovery in 1999-00. Their share in GDS also improved in 1999-00.

Estimate of savings rate is determined by the gross savings of individual category of sample companies, paid-up capital of each such sub-category (being the base for the blow-up factor) and finally the GDP. An analysis of the results of company finance studies conducted by the RBI, which form the basis for the estimates, and changes in population PUC may thus help in understanding the above developments better.

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[2] The rate subsequently came down to 7.5 per cent.

Table-2.1

Savings Rates of Different Constituents of the Private Corporate Sector

(Percentages)

Year	Private Corporate Sector			Joint Stock Companies, of which		Share of Non-Financial Companies in GDS (%)
	Joint Stock Companies	Cooperative Banks & Societies	Total	Non-Financial	Financial	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1993-94	3.31	0.17	3.48	2.98	0.33	13.22
1994-95	3.27	0.21	3.48	2.78	0.49	11.19
1995-96	4.73	0.20	4.93	4.05	0.68	16.12
1996-97	4.32	0.15	4.47	3.89	0.43	16.77
1997-98	4.00	0.17	4.17	3.56	0.44	15.12
1998-99	3.51	0.16	3.67	3.13	0.38	14.24
1999-00	3.52	0.15	3.67	3.18	0.34	14.28

Based on INDIA, Central Statistical Organisation, *National Accounts Statistics: 2001.*

To begin with, the focus will be on the period 1993-94 to 1996-97 during which the savings rate of the sector rose sharply from 3.5 per cent to 4.9 per cent and declined immediately thereafter to 4.5 per cent. Annual growth rates of gross savings of different sets of companies obtained from two successive company finance (CF) study series each for the period are presented in Table-2.2.[3] From the Table it can be seen that in case of the sample non-financial companies (both public and private limited) gross savings increased faster in 1994-95 compared to 1995-96. It was the other way round for the national estimate of the category. Since the blow-up factor is based on population paid-up capital, this might be due to a faster increase in the PUC of different segments of joint stock companies. In fact, while the gross savings declined for all the categories of companies in 1996-97 over 1995-96, the overall savings for the sector showed an increase of about 10 per cent. During 1996-97, PUC of all the categories of companies increased, especially of the financial & investment companies and private limited companies. The annual growth rate was, however, lower in each category compared to 1995-96.

The slowdown in the growth of gross savings of the sector after 1995-96 has been accompanied by a slower growth of PUC. Interestingly, PUC of the sector estimated on the basis of the reported coverage of different

3 This approach had to be resorted to because no single study offers a comparison over four years.

Table-2.2
Increase in Gross Savings of Non-Government Companies during 1994-95 to 1996-97
(at current prices)

(Percentages)

Change between the Years	NAS Estimates	Population PUC	Estimates from CF Studies#	
			Study One	Study Two
(1)	(2)	(3)	(4)	(5)
	Non-financial Companies	Public Limited Non-Financial Companies		
1994-95 over 1993-94	9.93	46.64	47.18	
1995-96 over 1994-95	70.84	33.15	31.54	33.49
1996-97 over 1995-96	10.58	16.12		-11.13
		Private Limited Non-Financial Companies		
1994-95 over 1993-94		n.a.	27.26	
1995-96 over 1994-95		56.92	26.95	34.13
1996-97 over 1995-96		34.42		-5.78
	Financial Companies		Financial & Investment Companies	
1994-95 over 1993-94	75.37	n.a	20.08	
1995-96 over 1994-95	62.68	57.83	22.54	20.37
1996-97 over 1995-96	-27.39	42.05		-35.74

Based on CSO, *National Accounts Statistics*, 2001 and RBI, *Private Corporate Business Sector in India: Selected Financial Statistics from 1950-51 to 1997-98 (All-Industries), 2000.*
The first study refers to 1993-94 to 1995-96 and the second corresponds to 1994-95 to 1996-97.
n.a. Not available.

CF studies, was very close to the most recently available PUC estimates released by the Department of Company Affairs (DCA) for all the corresponding years except for 1997-98 and 1998-99 when it was considerably lower than the corresponding DCA estimates (Table-2.3).[4] After 1995-96 and till 1998-99, the gross savings of the sector grew very slowly. It thus appears that a combination of factors have resulted in the lower growth in corporate savings during the second half of the 'nineties. These include: (i) possible slower growth or even decline in the gross savings of sample companies; (ii) slower growth of PUC; and (iii) underestimation of population PUC. On the other hand, the sudden jump in the sector's savings rate in 1995-96 was due both to increased savings of the sample companies on the basis of which the estimate has been made and the substantial increase in

4 The coverage ratios are based on the PUC data made available at that time by the DCA.

Table-2.3
Select Indicators of change in PUC of different Categories of Companies and Increase in Gross Savings of PCs

(Amount in Rs. Crores)

Year	Paid-up Capital			Increase in PUC over the Previous Year (%)			Gross Savings of PCS and its Savings Rate			Share of Financial Cos. in Gross Savings of PCS (%)
	Estimated	Actual	Difference (2)-(3)/(3) x 100	Public Limited	Private Limited	Financial & Investment Cos.	Gross Savings of PCS#	Increase over the previous year (%) Col. (8)	Savings Rate of PCS	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1992-93	32,850	32,892	-0.13	20.65	29.29	3.31	19,968	-	2.7	7.38
1993-94	n.e.	46,441	n.a	24.47	n.e.	n.e.	29,866	49.57	3.5	9.99
1994-95	61,755	62,719	-1.54	43.64	n.e.	n.e.	35,260	18.06	3.5	15.05
1995-96	86,385 *(2.63)*	87,126 *(2.65)*	-0.85	33.15 *(2.38)*	56.92 *(3.08)*	57.83 *(3.94)*	58,542 *(2.93)*	66.03	4.9	14.43
1996-97	1,06,174	1,06,201	-0.02	16.12	34.42	42.05	61,092	4.36	4.5	9.97
1997-98	1,24,576	1,28,690	-3.20	13.04	22.41	28.68	63,486	3.92	4.2	11.10
1998-99	1,54,114	1,67,441	-7.96	24.52	24.83	19.55	64,608	1.77	3.7	10.81
1999-00	1,96,319	1,95,973	0.18	21.73	41.73	31.32	71,879	11.25	3.7	9.65

Col. (2) and (5) to (7) are estimated on the basis of the reported coverage of different categories of companies by the respective RBI Company Finance studies for the corresponding year.
Col. (3) as reported in INDIA, Department of Company Affairs, *Forty Fourth Annual Report on the Working & Administration of the Companies Act, 1956, Year Ended March 31, 2000.*
Col. (8) to (11) based on INDIA, Central Statistical Organisation, *National Accounts Statistics: 2001* and INDIA, Ministry of Finance, *Economic Survey: 2000-2001.*
New Series having 1993-94 as the base.
n.a. Coverage details are not provided in the respective studies.;
n.e. Not estimated.
Figures in brackets for the year 1995-96 indicate ratio of PUC in 1995-96 to that in 1992-93.

population PUC. It may be noted that the PUC of public limited companies more than doubled between 1992-93 to 1995-96. PUC of private limited companies in 1994-95 was more than three times that in 1992-93. The increase in the PUC of financial and investment companies was even more spectacular. Their PUC in 1995-96 was almost four times that in 1992-93. But for the fast growth in PUC, it is evident that the gross savings of the sector would not have increased in such a remarkable manner. This raises a question whether such sudden addition to PUC could have immediately contributed to increased savings.[5] Further, the manner in which the sector grew during the

5 A similar doubt was expressed in a Seminar organised by the Indian Association for Research in National Income and Wealth. See: "IARNIW Seminar Report on the Inter-Sectoral Flows and Financing of Capital Formation in India: Structure and Changes Over Time", *Journal of Income and Wealth*, Vol. 3, Issue No. 2, 1979, pp. 83-88.

'eighties and early 'nineties raises even more pertinent questions and strengthens this doubt.

As noted earlier, from about 56,000 at the end of 1979-80, the number of registered non-government companies reached 5,41,000 by the end of 1999-00. The fast growth in the number of non-government companies was accompanied by concentration in a few states and cities, declining share of manufacturing companies, clustering at various places in different metropolitan cities, especially Calcutta, emergence of networks of companies involving stock brokers, auditors, and even large business houses. These point to "the make believe nature of the growth in number of companies and the distinct possibility of their (companies) being used for manipulative purposes".[6] As can be seen from Table-2.3 (Col. 11), the share of financial companies in gross savings was much higher in 1994-95 and 1995-96 than in the other years. Incidentally, many financial services companies entered the stock market during the first half of the 'nineties. These companies raised substantial amounts from the market and accounted for a significant proportion of the equity capital raised (Table-2.4). It is, however, uncertain to what extent the funds were used for the declared purpose.[7] In a good number of cases, the actual achievements were far below the projections made in the issue prospectuses. In fact, the problem of not utilization of funds raised from the market for the stated purpose and of 'vanishing companies' is not confined to financial companies only. It is relevant in this context to refer to the rejection of an overwhelming number of applications by non-banking

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6 See K.S. Chalapati Rao, "Indian Private Corporate Sector: Some Characteristics and Trends", *Company News & Notes*, a Journal of the Department of Company Affairs. August 1997, pp. 3-12. Also see K.S. Chalapati Rao and K.V.K. Ranganathan, *Directory of Joint Stock Companies in India: A Review*, a report presented to the Department of Company Affairs, Institute for Studies in Industrial Development, 1992. The studies at ISID of new company registrations, prospectuses and annual reports revealed networks of companies spanning different states and having nominal operations. The investments in other companies made by a good number of them were in the nature of cross and circular investments.

7 Interestingly, it has been observed that there was a positive association between equity capital and long-term investment during the pre-liberalisation period (1990-92). The situation almost reversed itself during 1993-95. See: Basudeb Guha-Khasnobis and Saumitra N Bhaduri, "A Critical Appraisal of the Effects of Financial Liberalization on Corporate Investment: India 1990-1995", *International Journal of Development Banking*, Vol. 17, No. 1, January 1999, pp. 3-11.

financial companies (NBFCs) for registration under Section 45 IA of *RBI Act, 1934* by the RBI. Against the 704 applications approved, as many as 18,427 cases were rejected as on September 30, 2001.[8] These include many stock exchange listed companies.

Table-2.4
Capital Raised through Public Issues by Financial Services Companies

(Amount in Rs. Crores)

Year	Equity Capital Raised	Of which , by Financial Services Cos. #	Share of Financial Services Cos. in Total (3)/(2) x 100
(1)	(2)	(3)	(4)
1991-92	5,976	3,610	60.41
1992-93	13,593	6,084	44.76
1993-94	18,759	5,073	27.04
1994-95	25,645	8,040	31.35
1995-96	18,213	6,761	37.12
1996-97	13,908	6,446	46.35

Based on Centre for Monitoring Indian Economy, *Capital Markets*, October 1998.
Excluding banks and financial institutions.

The PUC, and even the assets, of many companies, therefore, may not reflect their ability to generate savings at comparable rates of similarly placed companies. The tentative nature of the overall PUC estimates and the possible lack of genuineness of many new companies incorporated during the period together with the results of sample studies raise doubts about the extent of sudden increase in savings rate of the sector during 1995-96. The steep fall thereafter should therefore be seen in this light.

[8] As per the information provided by the RBI at the website www.rbi.org.in.

Section 3

Trends in Gross Savings of NGFPs

Gross savings is measured as retained profits inclusive of depreciation provision and net of non-operating surplus/deficit (NOS). Estimates of gross savings at current prices of the sample of 2,545 companies are presented for the years 1995-96 to 1999-00 in Table-3.1.[1] It can be seen that while gross savings of the companies experienced year-to-year fluctuations, the estimate for the year 1995-96 was never exceeded in the subsequent years. Since the estimates are at current prices, there is a distinct possibility of a substantial decline in the savings when measured at constant prices. It has been noted earlier that for estimation of net savings of PCS for national income purposes, instead of the depreciation provided for by individual corporates, CSO uses estimated consumption of fixed capital by the sector. For bringing out the experience of the sample companies in this regard, one has, however, to depend upon the depreciation provision made by the companies.

Table-3.1
Gross Savings of 2,545 Sample-I Companies
(at current prices)

(Amount in Rs. Crores

Year	Retained Profits (Net of NOS)#	Depreciation Provision	Gross Savings (2) + (3)		Share of Depreciation in Gross Savings (%) (Col. (3/4)*100)
			Amount	Annual Growth Rate (%)	
(1)	(2)	(3)	(4)	(5)	(6)
1995-96	14,043	8,204	22,247		36.88
1996-97	10,233	10,793	21,026	-5.49	51.33
1997-98	8,951	12,836	21,787	3.62	58.91
1998-99	5,559	14,928	20,487	-5.97	72.87
1999-00	5,082	17,115	22,197	8.35	77.11

If there was surplus on account of NOS, it has been subtracted from the retained profits and vice versa.

[1] Accounting periods of a few companies did not conform to the usual 12 month period. The gross savings and other figures taken from the profit & loss account, however, have not been annualised in the present study. At the aggregate level, in any of the five years, the difference between the gross savings estimated from the original data and that obtained from annualisation is quite low - the maximum absolute difference being 0.42 per cent in 1999-00.

It can be seen that net profit (inclusive of NOS) declined substantially during the period, though it recovered in 1999-00. On the other hand, dividend payments increased steadily resulting in a steeper decline in retained earnings. But for the sizeable increase in NOS during 1999-00, retained profits would have continued the declining trend. Indeed, during the year, corporate tax-adjusted NOS accounted for more than one-fourth of the retained profits. At the aggregate level, it appears that there is an overall increase in the effective corporate tax rate - from about 18 per cent in 1995-96 to nearly 26 per cent in 1999-00. Dividends claimed a larger share of net profits during the period. Since 1996-97, an additional element came into operation in the form of dividend tax. Along with the growing share of dividends, the share of dividend tax in PAT also increased. The combined result was that the share of retained earnings declined from about three-fourths to nearly half of the net profits.

While this is the picture that emerges at the aggregate level, it would be more appropriate to examine the effective tax rates and dividend rates for profit making companies because the base of PAT would shrink when losses are netted out and one is likely to observe a higher effective tax rate. On the other hand, dividends and corporates taxes are paid normally by profit-making companies only. Results of the exercise, corresponding to the above, for profit-making companies (positive pre-tax profits) out of the Sample-I are presented in Tables-3.5 and 3.6.

It can be seen from Table-3.6 that but for a sharp rise in 1996-97, the effective tax rate remained between 17.0-18.6 per cent of PBT. The increase in 1996-97 could be due to introduction of a Minimum Alternate Tax on book profits to prevent companies from managing zero tax liability. Profit-making companies seem to have gradually increased the dividend rate. It appears that companies have absorbed the newly introduced dividend tax as is reflected from the increasing equity dividend rate. Barring 1995-96 one also finds that dividends constituted about 27 per cent of PAT. Correspondingly about 70 per cent of PAT was retained.

Tables-3.5

Select Aggregates relating to Profits and Appropriation: Sample-I (Profit-making Companies)#

(Amount in Rs. crores)

Year	No. of Companies	Profit Before Tax (PBT)	Tax Provision	Profit After Tax (PAT)	Dividends excluding Dividend Tax	Dividend Tax	Retained Earnings	Equity Dividends (excluding Dividend Tax)	Equity Capital
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1995-96	2,146	27,143	4,633	22,510	5,382	Nil	17,128	5,312	23,836
1996-97	1,950	25,488	5,285	20,203	5,581	396	14,227	5,504	24,364
1997-98	1,829	25,972	4,827	21,145	5,623	584	14,938	5,516	24,310
1998-99	1,666	25,933	4,735	21,198	5,724	623	14,851	5,543	23,994
1999-00	1,657	30,675	5,471	25,204	6,846	826	17,531	6,574	24,003

Positive pre-tax profit (PBT)

Table-3.6

Select Ratios relating to Profits and Appropriation: Sample-I (Profit-making Companies)

(Percentages)

Year	Effective Tax Rate	Dividends (excl. Dividend Tax) as % of PAT	Ratio of Dividend Tax to PAT	Share of Retained Earnings in PAT	Equity Dividend Rate
(1)	(2)	(3)	(4)	(5)	(6)
1995-96	17.07	23.91	0.00	76.09	22.2[illegible]
1996-97	20.74	27.62	1.96	70.42	22.5[illegible]
1997-98	18.59	26.59	2.76	70.65	22.6[illegible]
1998-99	18.26	27.00	2.94	70.06	23.10
1999-00	17.84	27.16	3.28	69.56	27.3[illegible]

Company Size-wise Distribution of Savings

Measurement of savings is relevant for assessing individual company's ability to part-finance its investment as also from the point of estimating the contribution of the private corporate sector to the overall domestic savings. To find out the possible association between company size and savings, size-wise distribution of savings in different ranges of total assets of the sample companies in 1999-00 have been computed and presented in Table-3.7. When looked from the point of contribution to gross savings of the sample, it

becomes clear that the smaller companies, as a group, are dissavers. While in the initial year, only those with less than Rs. 5 crores assets were dissavers, by the end of the period, even the ones with less than Rs. 25 crores assets turned out to be dissavers.

Table-3.7
Share of Companies in Different Asset Ranges in Gross Savings and Average Gross Savings

Asset Range# (Rs. Crores)	No. of Cos.	Share in Gross Savings (%)					Average Gross Savings 1999-00 (Rs. Cr.)
		1995-96	1996-97	1997-98	1998-99	1999-00	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
< 5	205	-0.10	-0.12	-0.20	-0.25	-0.18	-0.19
5 - 10	288	0.22	-0.50	-0.56	-0.56	-0.34	-0.26
10 - 25	523	1.15	0.56	-0.12	-0.35	-0.54	-0.23
25 - 50	407	2.48	1.23	0.73	0.13	0.78	0.43
50 - 100	355	4.44	3.77	3.36	2.43	2.38	1.49
100 - 500	567	23.86	24.63	22.77	22.77	21.43	8.39
500 - 1000	111	13.41	13.07	13.47	12.51	12.96	25.91
1000 & above	89	54.54	57.35	60.57	63.31	63.51	158.39
All Companies	**2,545**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**8.72**

Total assets as in 1999-00.

From the Table it also emerges that savings is concentrated among the top few companies. The largest 200 companies with Rs. 500 crores or more of assets accounted for 68 per cent of gross savings of the sample companies in 1995-96. Their contribution increased gradually to 76 per cent by 1999-00 due to the increasing share of the topmost 89 companies with Rs. 1,000 crores and more of assets. In all, companies with Rs. 100 crores or more of assets, numbering 767, accounted for 98 per cent of gross savings in 1999-00. Further, from Table-3.8 it can be seen that practically in all the size ranges, the number of dissavers (companies whose gross savings are negative) increased over the period. It can be seen that at the end of the period nearly half of the companies with less than Rs. 5 crores assets were dissavers. A little more than two-fifths of the companies in the Rs. 5 - 10 crores asset range were also reporting dissavings. A high proportion of smaller companies were dissavers even at the beginning of the period.

Table-3.8
Number of Dissavers in Different Asset Ranges

Asset Range # (Rs. Cr.)	No. of Companies	1995-96	1996-97	1997-98	1998-99	1999-00
(1)	(2)	(3)	(4)	(5)	(6)	(7)
< 5	205	76	83	81	98	101
5 - 10	288	64	110	119	131	123
10 - 25	523	92	111	134	170	178
25 - 50	407	45	73	94	118	115
50 - 100	355	30	42	58	82	86
100 - 500	567	40	44	78	103	119
500 - 1000	111	7	14	14	21	25
1000 & above	89	1	2	4	7	8
All Companies	**2,545**	**355**	**479**	**582**	**730**	**755**

Total assets as in 1999-00.

Activity-wise Trends in Gross Savings

Having noted the changes in gross savings at the aggregate level, it would be useful to examine separately the experience of companies in manufacturing and other activities. For this purpose, the sample companies have been broadly classified according to the activity classification for which population estimates of PUC are available. Estimates of gross savings of companies engaged in different activities are presented in Table-3.9. Similar to the aggregate position, savings of the companies in many activities experienced year-to-year fluctuations. The decline in savings was a little more continuous in case of the manufacturing sector. Relatively speaking, the sector's savings recovered in 1999-00 compared to 1998-99. Within manufacturing, the contribution of foodstuffs, textiles, leather, paper, etc. declined steadily and did not pick up even in 1999-00 (Table-3.10). Diversified companies performed better as their position improved consistently from 1996-97 onwards. These companies improved their share from 15.57 to 22.80 per cent. Services sector experienced mixed trends and towards the end, managed to regain the initial values. Within the services sector, however, savings of computer software related companies increased substantially. Their share in gross savings of the sample increased from 2 per cent to nearly 11 per cent.

Table-3.9
Activity-wise Gross Savings of Sample-I Companies
(at current prices)

(Amount in Rs. Crores)

	Activity/Sector	No. of Cos.	1995-96	1996-97	1997-98	1998-99	1999-00
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Agriculture & Allied Activities	77	175	195	396	484	448
2	Mining & Quarrying	42	80	-63	63	74	81
3	Manufacturing	2,022	19,009	18,021	18,127	15,623	16,624
	Of which, Foodstuffs, Textiles, etc.@	*581*	*2,638*	*2,312*	*2,358*	*1,527*	*1,361*
	Metals, Chemicals, etc. $	1,400	12,906	12,361	11,713	9,910	10,202
	Diversified Companies	*41*	*3,465*	*3,347*	*4,056*	*4,185*	*5,061*
4	Electricity Generation	12	1,011	843	808	998	1,126
5	Construction	54	212	166	139	223	168
6	Computer Software & Allied Activities	43	461	580	976	1,791	2,422
7	Trade, Hotels & Restaurants	221	909	910	862	757	764
8	Transport, Storage & Communications	35	317	302	336	442	434
9	Real Estate & Business Services#	20	27	22	16	18	15
10	Community, Social & Personal Services	19	46	52	63	78	114
	All Companies	**2,545**	**22,247**	**21028**	**21,786**	**20,488**	**22,196**

@ Foodstuffs, Textiles, Wood Products, Paper, Leather and Products, etc.
$ Metals, Chemicals, Non-metallic Mineral Products, Petroleum Refining, Lubricants, Machinery, etc.
# Excluding computer software companies which are shown separately.

Table-3.10
Shares of Companies belonging to Different Activities in Gross Savings

(Percentages)

	Activity/Sector	No. of Companies	1995-96	1996-97	1997-98	1998-99	1999-00
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Agriculture & Allied Activities	*77*	0.79	0.93	1.82	2.36	2.02
2	Mining & Quarrying	42	0.36	-0.30	0.29	0.36	0.37
3	Manufacturing	2,022	85.45	85.70	83.20	76.26	74.89
	Of which Foodstuffs, Textiles, etc	*581*	*11.86*	*11.00*	*10.82*	*7.46*	*6.13*
	Metals & Chemicals, etc.	1,400	58.01	58.79	53.76	48.37	45.96
	Diversified Companies	*41*	*15.57*	*15.92*	*18.62*	*20.43*	*22.80*
4	Electricity Generation	12	4.54	4.01	3.71	4.87	5.07
5	Construction	54	0.95	0.79	0.64	1.09	0.76
6	Computer Software & Allied Activities	43	2.07	2.76	4.48	8.74	10.91
7	Trade, Hotels & Restaurants	221	4.09	4.33	3.96	3.69	3.44
8	Transport, Storage and Communication	35	1.43	1.44	1.54	2.16	1.96
9	Real Estate and Business Services	20	0.12	0.10	0.07	0.09	0.07
10	Community, Social & Personal Services	19	0.21	0.25	0.29	0.38	0.51
	All Companies	2,545	100.00	100.00	100.00	100.00	100.00

Companies engaged in agriculture and allied activities also fared better. This category includes plantation companies, processors and exporters of rice, etc. Due to these developments, share of manufacturing companies in gross savings declined steadily from 85.45 per cent to 74.83 per cent. If one excludes diversified companies, the decline is even sharper -- 69.69 per cent to 53.02 per cent.

From the more disaggregated picture presented in Appendix-3.1 it emerges that within the manufacturing sector, while the broad category of food, beverages & tobacco products improved their savings, the textiles group suffered seriously. Savings of the 308 companies in the textiles group declined from about Rs. 1,478 crores to about Rs. 200 crores. Those in the manmade filaments and fibres even turned dissavers. Paper and paper products group also experienced a decline in gross savings. The chemicals group fared somewhat better as they maintained the level of gross savings a little above Rs. 3,000 crores. Within the chemicals group, two categories of companies whose savings improved were the drugs and pharmaceuticals and the soaps, cosmetics and toiletries, etc. Though the plastics and rubber products group experienced a decline in savings, the extent of decline was not high compared to other industry groups. Gross savings of non-metallic mineral products which includes cement, glass and ceramics reduced to half of the initial value. Other losers include, metals and metal products, electrical and non-electrical machinery. On the other hand, gross savings improved in case of the electronics which includes consumer electronics and computers, parts and peripherals. Thus, barring a few product groups, gross savings declined in most branches of the industry. Over all, excluding computer software companies and the diversified ones, the gross savings declined substantially during the period.

Appendix-3.2 shows the size-wise distribution of gross savings in various broad activity groups. It can be seen that in case of agriculture and allied activities which experienced an improvement in gross savings, larger

companies performed generally better. In case of the food and textiles group, companies with less than Rs. 50 crores assets performed the poorest. Larger companies with Rs. 100 crores or more of assets performed comparatively better as either the gross savings improved or the declines were relatively of smaller magnitude. Similar is the case with the metals and chemicals group. Barring the smallest group having less than Rs. 5 crores assets, the computer software category improved its position in all the asset ranges. In the trade and hotels group also gross savings of smaller companies with less than Rs. 25 crores assets declined during the period. Thus smaller companies, measured in terms of total assets, seem to have suffered appreciably in all the sectors.

It can be seen from Table-3.11 that the number of dissavers increased gradually from 355 in 1995-96 to 755 in 1999-00. The pace of addition to the number of dissavers, however, slowed down in 1999-00. At the end of the period nearly thirty per cent of the companies were dissavers. Since gross savings includes growing amount of depreciation provision, the number of companies reporting losses (negative PBT) should be even larger. The last row of Table-3.11 confirms that their number had indeed increased from 378 to 864 during the period. The analysis of CF sample of 1,113 companies confirm these findings as both dissavers and loss makers increased substantially over the period (Table-3.12). The main difference, however, is that the Sample-I has a larger proportion of losers in 1999-00.

Profitability

It has been noted in the above that retained earnings declined substantially during the period as also the number of savers and profit-making companies decreased. It would be relevant in this context to examine the profitability of operations of the sample companies. Three profitability ratios namely, gross profits to net sales, gross profits to total assets and profit after tax (PAT) to net worth for the Sample-I are presented in Table-3.13. A common feature of the ratios presented is that all the three declined during the initial years but recovered somewhat in 1999-00. The companies

performed the poorest with respect to PAT to net worth ratio. By 1999-00 the ratio fell to less than half of its initial value. The declines are sharper in case of the manufacturing companies.

Table-3.11
Activity-wise Distribution of Dissavers

(Number of Companies)

	Activity/Sector	Total Number of Companies	1995-96	1996-97	1997-98	1998-99	1999-00
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Agriculture & Allied Activities	77	12	18	11	15	18
2	Mining & Quarrying	42	10	12	17	19	18
3	Manufacturing	2,022	292	379	486	618	635
	Of which, Foodstuffs, Textiles, etc	581	103	132	162	205	196
	Metals & Chemicals, etc.	1,400	184	245	322	409	428
	Diversified Companies	*41*	*5*	*2*	*2*	*4*	*11*
4	Electricity Generation	12	0	0	3	2	2
5	Construction	54	3	5	5	4	12
6	Computer Software & Allied Activities	43	5	5	1	4	1
7	Trade, Hotels & Restaurants	221	22	44	46	51	57
8	Transport, Storage and Communication	35	6	7	4	6	5
9	Real Estate and Business Services	20	3	5	5	6	4
10	Community, Social & Personal Services	19	2	4	4	5	3
	All Companies	2,545	355	479	582	730	755
	Companies with negative PAT #		378	568	694	852	864

PAT including NOS.

Table-3.12
Number of Dissavers and those Incurring Losses : CF Studies#

Year	Number of Dissaving Companies	Number of Companies reporting negative PBT
(1)	(2)	(3)
1994-95	113	118
1995-96	139	154
1996-97	159	198
1997-98	217	243
1998-99	280	323
1999-00	297	344

Among the 1,113 companies common to the RBI studies of NGFPs for the years 1996-97 and 1999-00.

Table-3.13
Select Profitability Ratios of Sample-1 Companies

(Percentages)

Year	Gross Profits# to Net Sales		Gross Profits# to Total Assets		Profit After Tax to Net Worth	
	All Sample Companies	Manufacturing Cos.	All Sample Companies	Manufacturing Cos.	All Sample Companies	Manufacturing Cos.
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1995-96	15.46	15.26	11.92	12.12	14.82	15.14
1996-97	14.05	13.74	10.69	10.77	10.80	10.86
1997-98	13.03	12.62	9.32	9.22	9.08	8.71
1998-99	11.78	11.26	8.38	8.13	6.84	5.93
1999-00	11.89	11.29	8.85	8.68	7.47	6.46

Profit before tax inclusive of interest (PBIT) but net of depreciation.

Relative Changes in Gross Savings with Respect to PUC, Assets and Sales

There has been considerable discussion over the choice among PUC, assets and turnover as the base for blowing up the sample estimates for arriving at more reliable estimates of gross savings of the PCS. The present practice of using PUC as the basis has been determined by the non-availability of population estimates of assets and turnover. It has also been noted that the choice of PUC was justified by its robustness.[3] Given the limitation of lack of other population estimates, one has to, for the time being, depend upon PUC-based estimates only. However, to see how gross savings would have changed, assuming that the bases had remained the same, ratios of gross savings with respect to PUC, total assets, gross fixed assets and total income of the sample companies have been calculated for the different years under study. It has been indicated in the above that the Expert Group suggested choosing of the top companies on the basis of net fixed assets or sales or turnover instead of PUC. In the following we present the results of an exercise based on a comparison of gross savings with PUC, total assets and total income of the sample companies.[4]

It can be seen from Table-3.14 that at the aggregate level, all the three ratios experienced a uniform declining trend. As in the case of profitability

3 Expert Group, op. cit.

4 Total assets exclude accumulated depreciation and include all assets. These are also referred to as Total Net Assets. Total assets has been preferred to net fixed assets, as it would represent the size of a company better, especially because the sample consists of non-manufacturing companies as well. Total income includes sales, other income and change in stocks of finished goods.

Table-3.14
Ratio of Gross Savings to PUC, Assets and Total Income

(Percentages)

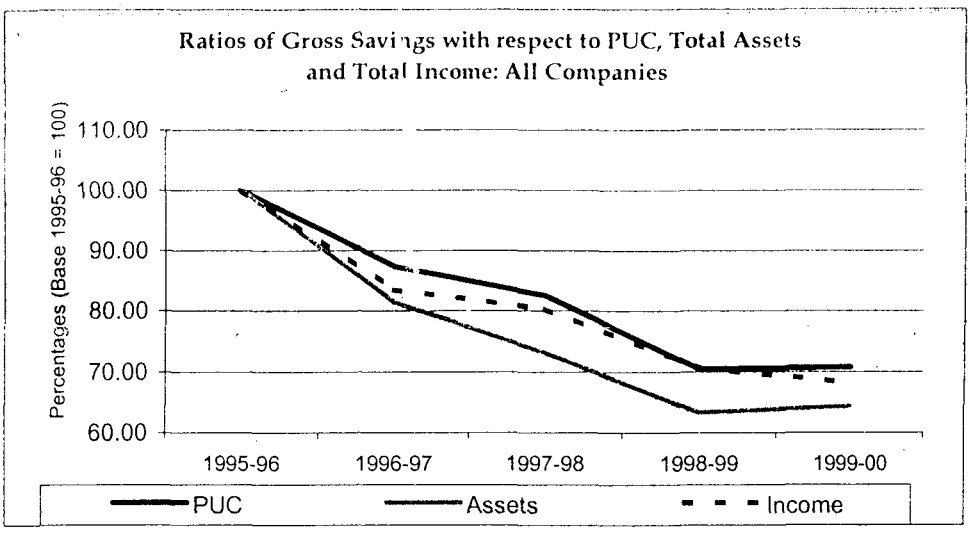
	Activity/Sector	1995-96	1996-97	1997-98	1998-99	1999-00
		Gross Savings to PUC Ratio				
	(1)	(2)	(3)	(4)	(5)	(6)
1	Agriculture & Allied Activities	44.03	47.85	92.99	109.23	94.86
2	Mining & Quarrying	15.63	-10.37	9.32	10.26	10.73
3	Foodstuffs, Textiles, etc.	48.11	39.58	37.03	22.64	18.69
4	Metals, Chemicals, etc.	77.71	68.67	61.45	46.52	44.31
5	Diversified Companies	162.97	162.71	134.72	133.88	152.42
6	Electricity Generation	170.10	128.05	124.45	117.31	132.44
7	Construction	69.16	50.24	41.11	63.98	47.26
8	Computer Software & Allied Services	116.27	124.03	185.97	284.03	303.66
9	Trade, Hotels & Restaurants	60.64	48.99	42.99	32.16	30.20
10	Transport Services	48.06	41.94	38.02	49.16	48.86
11	Real Estate & Business Services	33.38	26.87	19.18	21.56	17.67
12	Community, Social & Personal Services	34.83	38.38	44.92	56.71	56.03
	Manufacturing (3, 4 & 5)	78.49	69.58	63.74	50.11	49.44
	Others	70.75	57.09	63.86	75.25	80.31
	All Companies	77.26	67.47	63.76	54.43	54.72
		Gross Savings to Assets Ratio				
1	Agriculture & Allied Activities	3.55	3.69	6.77	7.33	5.99
2	Mining & Quarrying	2.68	-1.59	1.10	0.99	0.99
3	Foodstuffs, Textiles, etc.	4.81	3.90	3.52	2.17	1.86
4	Metals, Chemicals, etc.	6.74	5.48	4.51	3.56	3.44
5	Diversified Companies	7.11	5.72	5.91	5.49	6.87
6	Electricity Generation	7.09	5.13	4.26	4.71	5.01
7	Construction	4.76	3.34	2.44	3.55	2.49
8	Computer Software & Allied Services	12.17	11.35	15.56	20.51	18.78
9	Trade, Hotels & Restaurants	6.20	5.43	4.68	3.71	3.30
10	Transport Services	6.81	5.64	5.77	7.21	7.22
11	Real Estate & Business Services	4.23	3.16	2.90	3.04	2.33
12	Community, Social & Personal Services	7.62	7.45	7.11	8.07	2.33
	Manufacturing (3, 4 & 5)	6.44	5.25	4.58	3.68	3.75
	Others	6.35	5.07	5.37	6.21	6.02
	All Companies	6.43	5.23	4.70	4.07	4.14
		Gross Savings to Total Income Ratio				
1	Agriculture & Allied Activities	5.03	5.14	8.23	8.79	8.07
2	Mining & Quarrying	6.67	-5.59	5.33	5.97	6.47
3	Foodstuffs, Textiles, etc.	4.56	3.75	3.55	2.15	1.79
4	Metals, Chemicals, etc.	7.18	6.04	5.52	4.48	4.07
5	Diversified Companies	9.39	7.58	7.67	7.19	7.64
6	Electricity Generation	15.39	11.45	10.25	11.56	12.11
7	Construction	7.09	5.16	3.87	5.40	3.61
8	Computer Software & Allied Services	13.14	13.11	16.66	21.26	22.92
9	Trade, Hotels & Restaurants	5.82	4.95	4.20	3.21	2.86
10	Transport Services	14.94	12.43	12.34	15.65	14.63
11	Real Estate & Business Services	5.69	4.75	10.19	11.30	9.86
12	Community, Social & Personal Services	12.85	13.39	14.14	14.63	13.53
	Manufacturing (3, 4 & 5)	6.92	5.81	5.47	4.46	4.23
	Others	8.91	7.23	7.75	8.85	8.99
	All Companies	7.16	5.97	5.75	5.05	4.88

measures, the year-to-year fluctuations observed in case of gross savings of the sample, practically vanish. The decline was, however, slower in case of the PUC-based measure while it was the steepest in case of the asset-based measure. Thus, whatever be the basis adopted, population estimates would have declined but for an increase in the corresponding base itself.

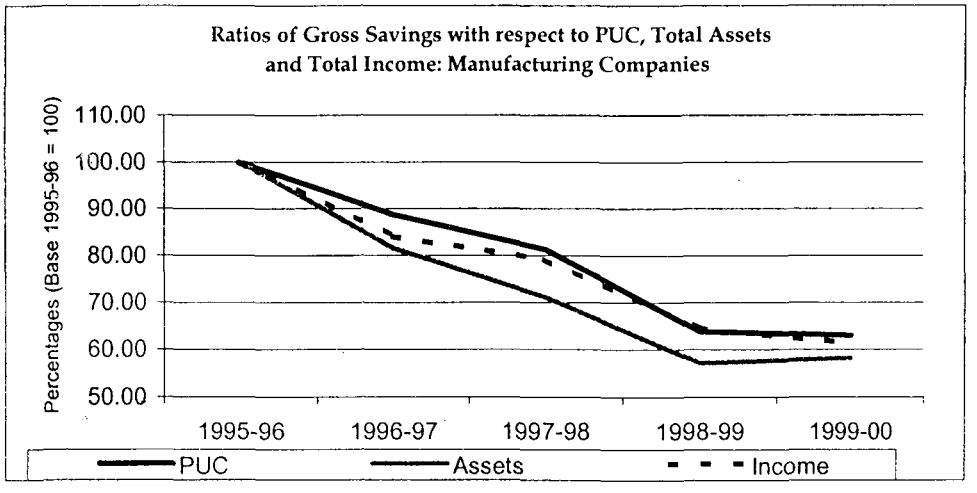
Manufacturing companies and the others display differing behaviour. While the ratios for the manufacturing sector declined in general, that of other companies either improved or recovered after an initial decline (Graphs 3.1 to 3.3). There is a high degree of similarity in the behaviour of the ratios in respect of the two main groups of manufacturing namely, foodstuffs, textiles, etc. and metals, chemicals, etc. (Graphs 3.4 and 3.5). In the case of manufacturing companies the asset-based ratio fell steeply compared to the other two ratios. In the case of the former group, the ratio reduced to just less than 40 per cent of the initial value. In case of the latter it was somewhat better as two of the ratios fell to about 55 per cent of the initial values. This means that in the first case, the base, whether it is PUC, assets or turnover, should have increased by 1.75 times by 1999-00 if the same level of gross savings were to be maintained. In the case of metals, chemicals, etc, the required increase was three-fourths for PUC. On the other hand, total income and the assets should have almost doubled to maintain the same level of gross savings. The group of diversified companies also suffered a twenty-point setback in 1996-97 similar to the other two manufacturing categories in respect of ratios of gross savings to assets and income (Graph-3.6). By 1999-00, however, their ratios with respect to PUC and assets recovered considerably. Due to a relatively faster increase in total income, the corresponding ratio did not recover as much.

To understand the possible impact of larger samples on the estimates of savings, another set of 3,341 NGFPs (hereinafter referred to as Sample-II) was constructed from the Prowess database for the three years 1997-98, 1998-99 and 1999-2000 on the lines similar to Sample-I. Ratios of gross savings to total assets, paid-up capital and net sales were calculated for different size

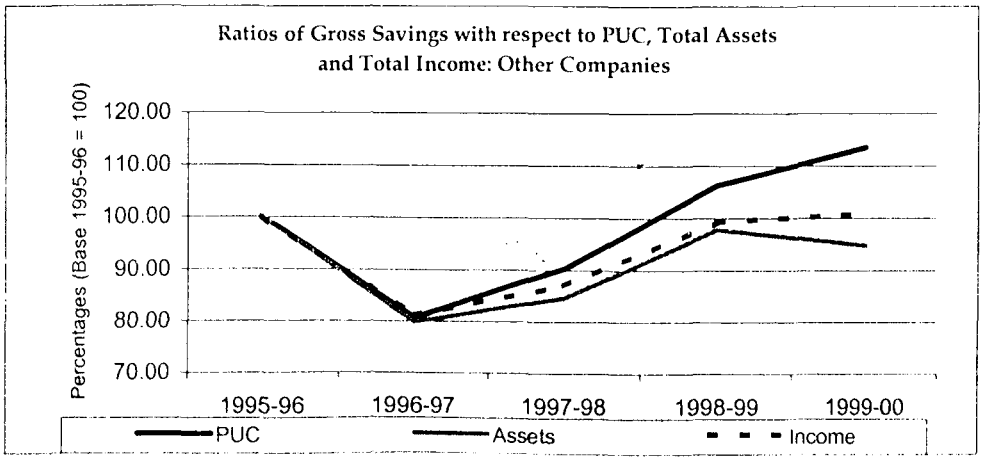
Graph-3.1



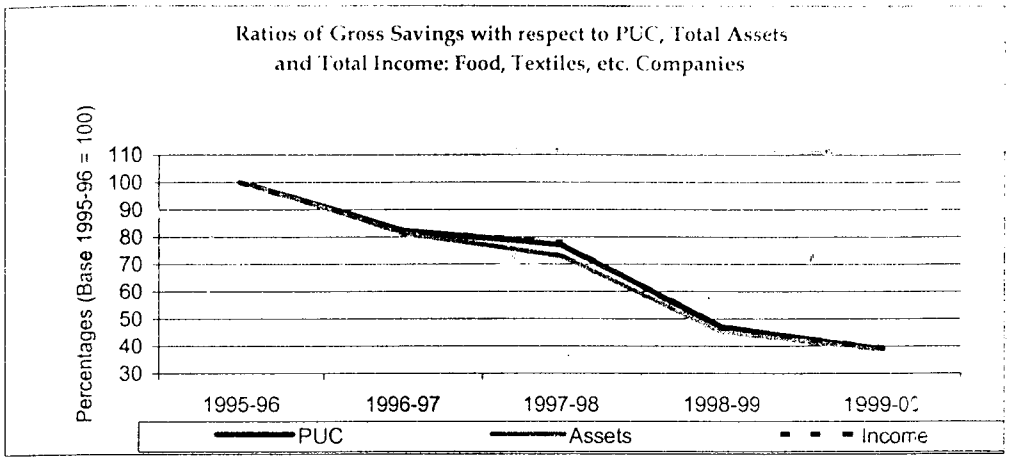
Graph-3.2



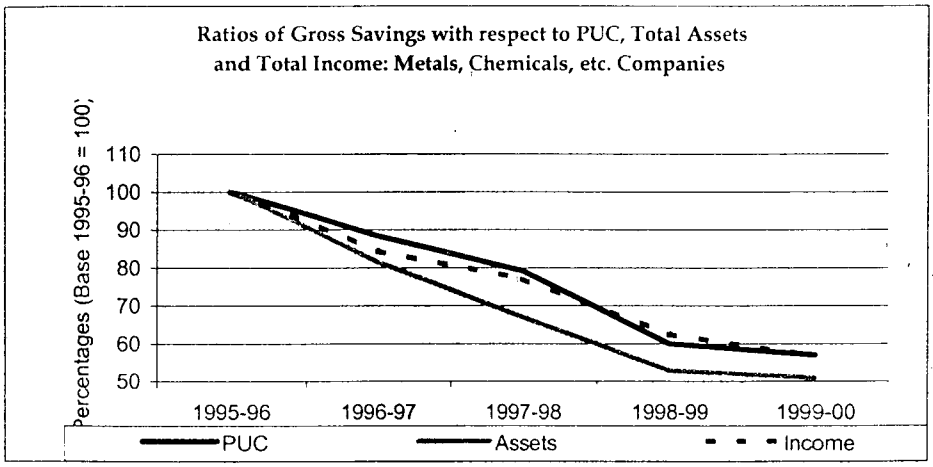
Graph-3.3



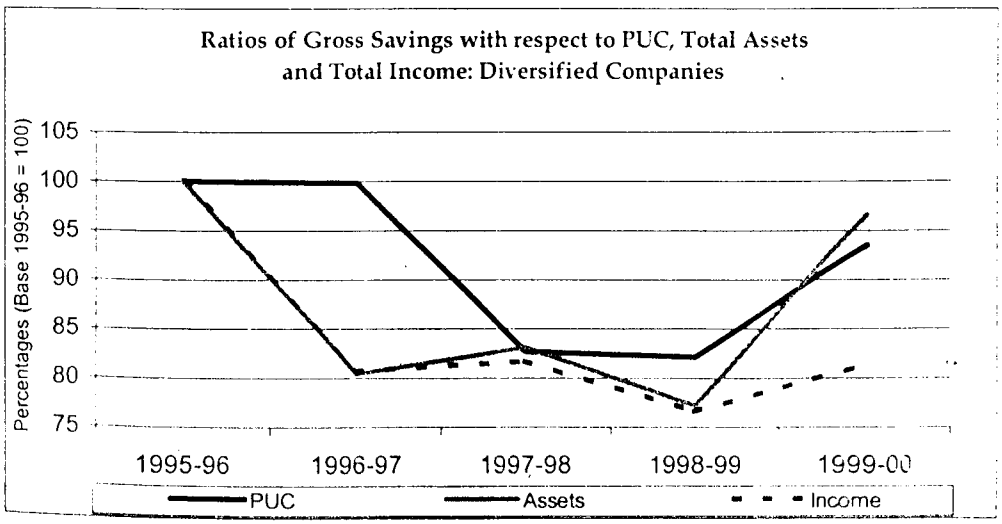
Graph-3.4



Graph-3.5



Graph-3.6



ranges for both Sample-II and the sample of 1,914 companies corresponding to the CF study of NGFPs for the year 1999-00. The results presented in Table-3.15 while confirming the recovery made in 1999-00 suggest that whichever criterion is used, the ratios obtained from Sample-II, which contains 77 per cent more companies than the CF sample, are lower (See Graphs - 3.7, 3.8 to 3.9). The net sales-based ratios increased consistently with size. This was in general true with respect to the asset-based ratio also. The PUC-based measure, however, behaved differently in this respect. Leaving aside the smallest range, the ratio did not vary much across the size ranges. This basic difference between PUC ratio on one hand and sales and assets on the other would have major implications for the estimation of population savings.

It is interesting to note that the general direction of change between two adjacent size ranges is similar for both the samples. For instance, CF study suggests that gross savings to assets ratio was lower for companies with assets in the range of Rs. 500 - 1000 crores compared to those having Rs. 100 - 500 crores assets or those with Rs. 1000 crores or more in all the three years. The ratios derived from Sample-II also follow the same pattern. It does appear that estimates of population gross savings would have been smaller by about 20 per cent had the RBI access to data of larger number of companies. The difference between the estimates based on total assets would have been narrower compared to the other two bases.

Comparative Estimates of Gross Savings

1. Based on Sample-I and CF data

One is not in a position to speculate on the total assets and income of the PCS. Even in the case of PUC, reliable information on the number of companies in operation and their PUC is lacking. Under the circumstances, there is no other option but to rely on the official projections of population PUC. Paid-up capital of NGFPs is, however, not available directly from the DCA publications. The various CF studies present the coverage ratios in

terms of the ratio of PUC of sample companies to the overall PUC of the respective

Table -3.15
Comparative Ratios of Gross Savings to Total Assets, PUC and Net Sales
(Sample-II and CF Study of NGFPs#)

Gross Savings to Total Assets

(Percentages)

Asset Range (Rs. Crores)	Number of Companies		1997-98		1998-99		1999-00	
	Sample -II	CF	Sample-II	CF	Sample-II	CF	Sample-II	CF
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<5	323	176	-2.37	2.83	-4.99	-3.01	-11.74	-16.73
5 - 10	408	190	-1.08	0.66	-2.20	-1.47	-1.90	0.53
10 - 50	1,252	689	1.84	3.66	0.44	2.64	0.26	1.93
50 - 100	465	275	3.55	3.98	2.97	3.82	2.37	3.12
100 - 500	662	440	4.31	4.54	3.82	3.89	3.43	4.01
500 - 1000	135	80	2.52	2.57	2.55	2.79	2.44	3.06
>1000	96	64	5.11	5.24	4.39	4.62	4.90	5.10
All Companies	3,341	1,914	4.15	4.57	3.61	4.04	3.74	4.31

Gross Savings to PUC

PUC Range (Rs. Crores)	Number of Companies		1997-98		1998-99		1999-00	
	Sample -II	CF	Sample-II	CF	Sample-II	CF	Sample-II	CF
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<1	360	331	95.70	220.45	153.38	246.83	107.58	254.98
1 - 5	1,165	654	45.56	68.95	34.00	59.62	33.67	52.28
5 - 10	828	363	36.82	59.79	32.97	52.23	33.51	55.02
10 - 25	588	324	43.87	54.53	34.16	42.07	33.27	44.16
25 - 50	216	127	39.39	42.64	43.00	47.32	45.85	56.37
50 - 100	103	53	47.24	54.50	48.33	59.59	56.08	59.80
> 100	81	62	64.47	70.94	46.75	54.24	45.58	55.95
All Companies	3,341	1,914	49.46	61.65	41.96	53.07	42.99	55.31

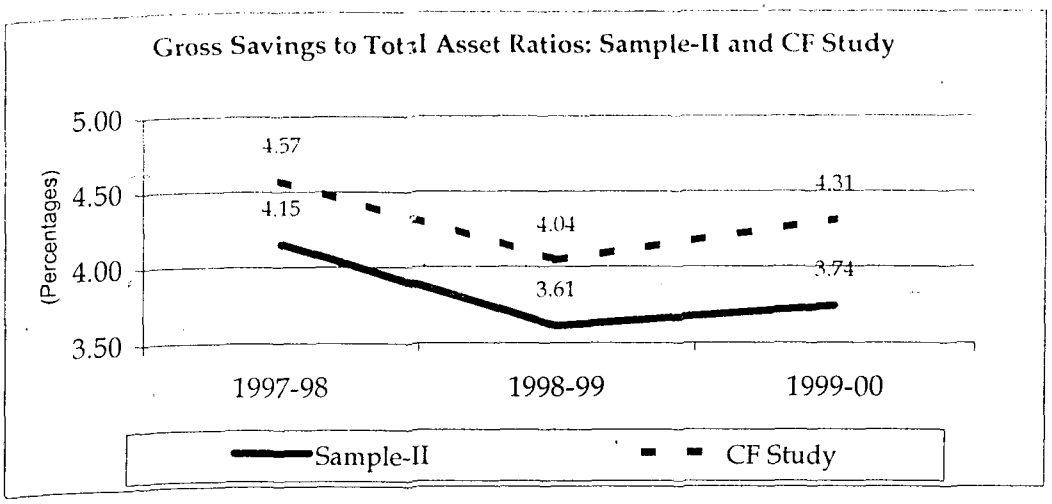
Gross Savings to Net Sales

Net Sales Range (Rs. Crores)	Number of Companies		1997-98		1998-99		1999-00	
	Sample-II	CF	Sample-II	CF	Sample-II	CF	Sample-II	CF
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<5	712	278	-26.14	-16.28	-42.46	-27.09	-64.35	-54.96
5 - 10	312	184	-3.57	1.11	-6.68	2.76	-6.00	-3.50
10 - 50	1,084	647	1.48	1.31	-1.04	-0.78	-0.15	0.47
50 - 100	447	290	2.58	3.88	1.80	2.53	2.03	1.71
100 - 500	610	403	5.34	5.69	4.73	4.80	3.87	5.00
500 - 1000	97	62	5.77	6.81	5.61	6.68	5.95	6.53
>1000	79	50	8.75	10.34	7.93	9.58	7.67	9.17
All Companies	3,341	1,914	5.86	6.88	5.17	6.17	5.10	6.27

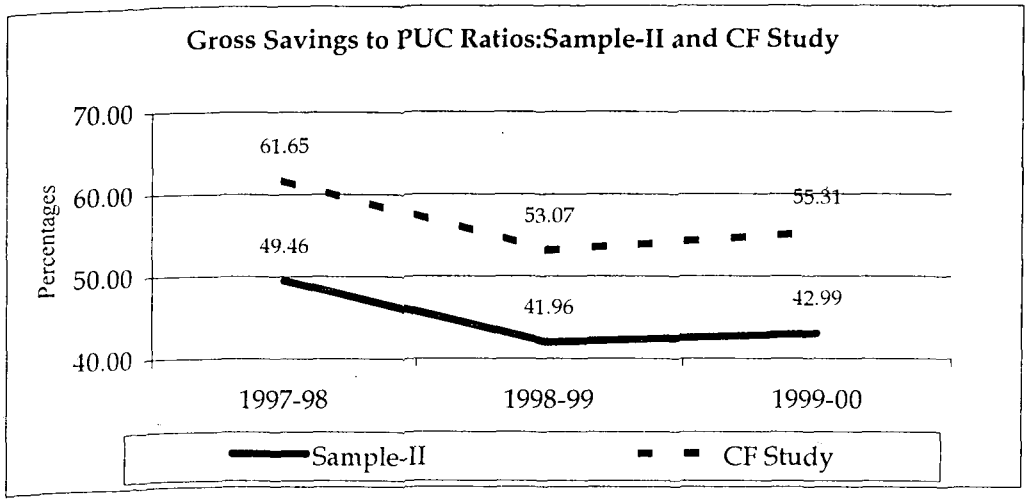
"Finances of Public Limited Companies 1999-2000" published in June 2001 issue of the *RBI Bulletin*.

Number of companies in Col. (2) and Col. (3) are based on the data for 1999-00.

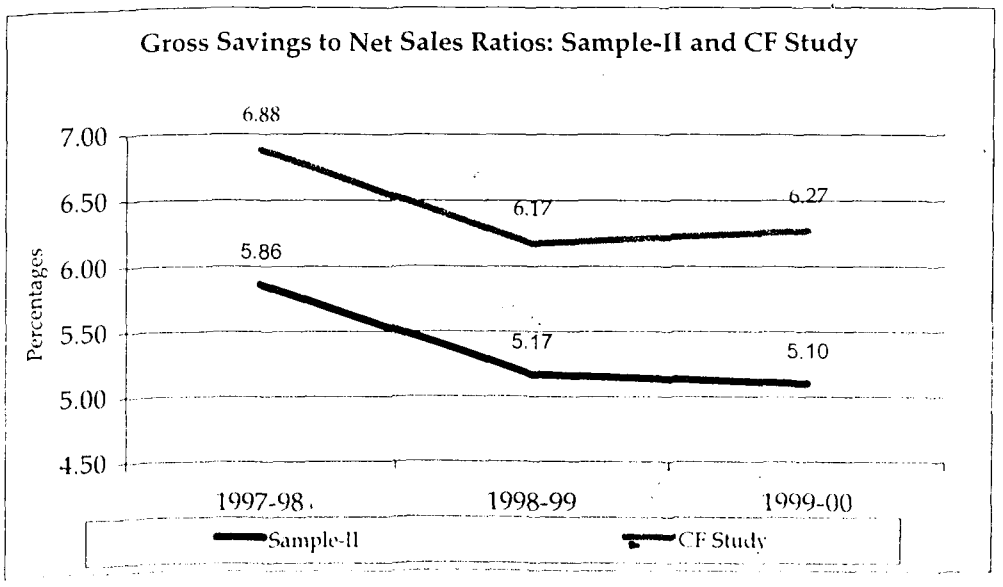
Graph-3.7



Graph-3.8



Graph-3.9



category of companies. Based on these coverage ratios, an attempt has been made to estimate the population PUC of NGFPs for each of the years since 1995-96. Taking the ratio of gross savings of the sample to its PUC as the basis, overall gross savings of NGFPs have been estimated and are given in Table-3.16.

Table-3.16
Comparative Estimates of Gross Savings of NGFPs : CF Studies and Sample-I

(Amount in Rs. Crores)

Year	CF Studies @				Sample-I of 2,545 Companies			Estimated Gross Savings of NGFPs		
	PUC	Coverage of Population PUC (%)	Estimated Total PUC of NGFPs: (3) / (4) x 100	Gross Savings of Sample Cos.	PUC	Coverage of Total PUC (7)/(5) x 100	Gross Savings of Sample Companies	National Accounts: Actuals #	Estimated from RBI Samples	Sample-I
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1995-96	17,086	28.8	59,326	15,178	28,748	48.46	22,247	48,070	52,701	45,908
1996-97	21,150	30.7	68,892	15,882	31,023	45.03	21,026	53,158	51,733	46,694
1997-98	23,596	30.3	77,874	15,555	33,867	43.49	21,787	54,178	51,337	50,098
1998-99	28,792	29.7	96,943	15,691	37,260	38.44	20,487	55,084	52,832	53,296
1999-00	32,226	27.3	1,18,044	17,810	39,906	33.81	22,197	62,207	65,238	65,652

@ Based on the studies of non-government non-financial public limited companies for the corresponding years.

Includes gross savings of non-government non-financial *private limited* companies also.

The estimates of gross savings obtained from the CF studies and Sample-I match very closely for the period 1997-98 to 1999-00 while for the earlier years estimates obtained from Sample-I are lower.[5] More importantly, however, these estimates are very close or even higher than the NAS estimates for *all* non-financial companies (including private limited companies). Since this happened even with the ratios obtained from the CF studies, it raises the possibilities of:

(i) the present study not being able to interpret RBI methodology properly;
(ii) possible revisions of PUC data since the time RBI generated the estimates;

[5] It is relevant to note here that the Expert Group noted that the estimates of savings put out by RBI and CSO differ on account of the time of release as RBI normally completes its Report on Currency & Finance a few months before the release of CSO's official estimates of national income and related aggregates. para 1.4, p. 2.

(iii) downward adjustments being made to the PUC data to account for defunct companies;

(iv) delays in the availability of estimates of private limited companies at the time of preparing the estimates of NGFPs due to which results of the earlier studies are carried on till the subsequent ones become available.[6]

These issued need to be followed up.

2a. Based on Samples I and II

While these points need to pursued further, given the fact that the official estimates are based on small sized samples and the purpose of Sample-I was to bring out the trends over the five-year period rather than providing absolute alternate estimates, another set of estimates have been obtained on the basis of Sample-II. The effect of larger coverage is immediately evident from the fact that the population estimates of gross savings of NGFPs based on Sample-I and Sample-II differ appreciably. The former are higher by almost 30 per cent (Table-3.17). In view of the inability to follow appropriate sampling techniques in choosing the samples by any organisation at present, for getting better estimates it does appear that there is a need to increase the sample size substantially.

Table-3.17
Comparative Estimates of Gross Savings of NGFPs : Sample-I and Sample-II

Year	Gross Savings to PUC Ratio (%)		Estimated Gross Savings of NGFPs (Rs. Crores)#		Estimate from Sample-I is higher by (%) [(4) - (5)] / (5) x 100
	Sample-I	Sample-II	Sample-I	Sample-II	
(1)	(2)	(3)	(4)	(5)	(6)
1997-98	0.64	0.49	50,098	38,982	28.52
1998-99	0.55	0.42	53,296	41,142	29.54
1999-00	0.56	0.43	65,652	51,133	28.39

Based on PUC estimates derived directly from the coverage of population PUC by the relevant CF studies.

2b. Sectoral Estimates of Gross Savings

Given the wide differences in the ratio of gross savings with respect to PUC, total assets and total income among the different sectors noticed above,

6 Generally studies of private limited companies are published after a gap of few months.

it might be appropriate to generate gross savings of NGFPs first at the individual sectoral level and then aggregate the sectoral estimates instead of taking the blow up factors for the sector as a whole. This, however, presupposes availability of appropriate paid-up capital estimates. The changing nature of activity composition of the constituents of the corporate sector is not adequately represented in the DCA aggregates.[7] Additionally, as has been seen in the above, a substantial portion of the gross savings is contributed by diversified companies which could not be categorised into any particular industry. The difficulties encountered in classification of certain companies is also recognised by the RBI. Out of the 1,914 NGFPs studied for 1999-00, 14 have been classified as diversified ones. These 14 are, however, highly important in terms of their contribution to gross savings of the sample as they contributed as much as 24.25 per cent of the total in 1999-00.[8] Even in other cases, the company classification is based on the composition of sales rather than the contribution to profits of each of the activities undertaken by the companies. Equally important is the substantial contribution made by 'other income' to the pre-tax profits and consequently to the retained earnings which may be more related to a company's size rather than its main activity.[9] Results of the exercises to estimate gross savings at the sectoral level need to be understood in this light.

For the present, an attempt has been made to arrive at sectoral estimates based on Sample-II due to its better coverage of the population PUC. Since estimates of population PUC of diversified companies are not available, the PUC of the diversified companies has been distributed between the foodstuffs group and the metals group in proportion to the PUC of the

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7 Though efforts are being made to improve upon this, given the magnitude of the task, it may take considerable time to be able to continually monitor the changes.

8 Estimated on the basis of data provided by the RBI.

9 It has occasionally been pointed out that 'other income' (OI) consisting of dividends from investments and interest earned on loans advanced and debentures purchased, and other receipts, contributes appreciably to the profits of Indian companies. See for instance, EPW Research Foundation, "Economic Reform and Rate of Saving", *Economic and Political Weekly*, May 6-13, 1995, pp. 1021-1041 and M.R. Anand, "Private Corporate Sector Investment and Deployment of Funds (Some Recent Trends)", *Journal of Indian School of Political Economy*", Issue No. 1 1997, pp. 37-64.

corresponding categories within the sample in different years. Also, since population PUC of computer software companies is not available independently, PUC of the sample of computer software companies has been clubbed with that of real estate and business services. However, since, direct estimates based on CF coverage ratios created a distortion in the PUC data of this group, these have been indirectly arrived at. Even so, the PUC estimate remained somewhat unrealistic.[10] These are the additional factors that would have a bearing on the sectoral estimates.

Gross savings of NGPFs for the three years are derived in two different ways namely, (i) as the aggregate of individual sectoral estimates which are equal to the product of sample gross savings to PUC ratios and the PUC of the corresponding sectors, and (ii) based on product of gross savings to PUC ratio for the entire Sample-II and the overall PUC of NGFPs. The results of the exercise are presented in Table-3.18. Both the estimates are quite close to each other in 1997-98. However, mainly due to the severe problems associated with the PUC of real estate and business services group which also includes computer software companies, the estimates differ widely during the subsequent two years.

In spite of the wide differences in the observed savings-to-PUC ratios of different sectors, given the problems associated with classification of companies and obtaining appropriate sectoral estimates of PUC, it does appear that aggregate ratios may be more suitable for the purpose of estimating the gross savings at the population level.

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10 It has been indicated earlier that for 1997-98 and 1998-99 population PUC derived from RBI coverage data, were lower than the figures reported by DCA by 3.20 and 7.96 per cent respectively. Indeed, attempt to derive the PUC of non-government public limited financial companies from the RBI coverage figures and then subtracting the same from the PUC of Finance, Real Estate and Business Services resulted in the PUC of Real Estate and Business Services companies behaving in an erratic manner. For 1997-98 it came out to be Rs. 1,772 crores and it turned negative in the next year (Rs. - 470 crores). In 1999-00 PUC of these companies jumped to Rs. 9,408 crores. On the other hand, as shown in the Table, one faces the situation of the PUC of the group declining substantially in 1999-00 compared to 1998-99.

Table-3.18

Sectoral Estimates of Gross Savings
(Based on Savings-to-PUC Ratios of Sample-II)

(Amount in Rs. Crores)

Activity/Sector	Estimated Sample Savings to PUC Ratio			Paid-up Capital $			Estimated Gross Savings		
	1997-98	1998-99	1999-00	1997-98	1998-99	1999-00	1997-98	1998-99	1999-00
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	9)	(10)
Agriculture & Allied Activities	0.74	0.86	0.72	2,057	2,520	2,650	1,527	2,176	1,911
Mining & Quarrying	0.10	0.10	0.11	891	1,343	1,605	93	131	176
Food-Stuffs, Textiles, etc.	0.30	0.17	0.13	15,565	18,348	19,610	4,675	3,170	2,507
Metals, Chemicals, etc	0.57	0.46	0.48	41,074	51,622	56,961	23,427	23,952	27,434
Electricity Generation	0.95	0.95	0.88	1,769	3,572	4,772	1,677	3,397	4,177
Construction	0.30	0.39	0.27	1,689	2,661	3,316	500	1,029	897
Trade, Hotels & Restaurants	0.36	0.24	0.23	8,069	10,645	11,960	2,945	2,606	2,753
Transport, Storage & Communication	0.18	0.20	0.23	2,995	4,371	4,873	530	885	1,116
Real Estate & Business Services	1.15	1.76	1.99	5,885	12,884	9,061	6,780	22,644	17,990
Community, Social and Personal Services	0.09	0.14	0.30	1,993	2,335	2,888	186	321	855
Total #				81,988	1,10,297	1,17,698	42,340	60,311	59,816
Total @	0.49	0.42	0.43	81,988	1,10,297	1,17,698	40,554	46,285	50,601

$ Different from the PUC data used in Table-3.17, the sectoral details of which are not available.
# Sum of the sectoral totals.
@ Based on the sample savings-to-PUC ratio.
Due to rounding-off of the ratios, estimates in Cols. (8) to (10) differ from the product of the ratios (in Cols. 2 to 4) and population PUC (in Cols. 5 to 7).

3. NFA-based Estimates

In the context of the Expert Group's suggestion that the choice of samples could be based on net fixed assets (NFA) for estimating gross savings and capital formation of the private corporate sector and to provide empirical basis for the debate on the choice between PUC, assets and sales/turnover, etc. an attempt has been made in the following to blow up the sample estimates of *manufacturing companies* using the net fixed assets of the private corporate sector obtained from the Annual Survey of Industries (ASI). At the first stage, the ratios of gross savings to NFA relating to the CF studies of NGFPs for 1999-00, Sample-I and Sample-II have been obtained for the years 1997-98 and 1998-99.[11] To correspond with the ASI classification, companies

11 ASI summary results of the factory sector for 1999-00 are not yet available.

in service sector, mining and agriculture, have been kept out of the sample. On the other hand companies engaged in electricity generation have been included in the sample. At the next stage, NFA of the private corporate sector has been estimated from the summary results for the ASI factory sector.[12] It needs to be kept in mind that ASI data includes private limited companies also while the samples under consideration comprise public limited companies only. The results of the exercise are presented in Table-3.19.

Table-3.19
NFA-based Estimates of Gross Savings of Manufacturing Companies

(Amount in Rs. Crores)

Year	Fixed Capital					Ratio of Gross Savings to Net Fixed Assets (%)			Estimated Gross Savings based on		
	ASI Factory Sector		CF NGFP Study 1999-00	Sample -I	Sample -II	CF Study	Sample -I	Sample -II	CF Study	Sample -I	Sample -II
	Total	Non-Government Cos.									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1997-98	4,21,522	2,18,008	1,59,065	1,99,517	2,22,622	9.19	9.49	8.35	20,035	20,689	18,204
1998-99	3,91,151	2,83,726	1,72,145	2,17,327	2,42,842	7.93	7.65	6.78	22,499	21,705	19,237

Estimates based on CF samples are generally higher than those thrown up by Samples I and II. In turn, estimates from Sample-II are lower than the estimates obtained on the basis of Sample-I. Since the larger samples offer greater scope for representing different industries and companies of different sizes better, one is likely to accept the lower estimates. However, a major problem arises. The estimates of gross savings are far lower than the national estimates for the non-financial joint stock companies.[13] Could the gap be explained by non-manufacturing companies or, do the PUC-based method generally over-estimates the gross savings of the sector are the points that

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12 The methodology for estimation is similar to the one followed in Shanta *op. cit.* From the ownership-wise aggregates excluding public sector and joint sector (public) the sum of corresponding values relating to individual proprietorships, joint families, partnerships, co-operatives and the unspecified ones have been subtracted to obtain the aggregates pertaining to private sector joint stock companies.

13 For instance, the corresponding NAS estimate for 1998-98 was Rs. 55,084 crores.

need a detailed examination. Incidentally, the population estimates are very close to the sample estimates.[14] This cannot obviously be true and is due to the NFA of sample companies being very close to or even greater than the NFA estimated from ASI. NFA of manufacturing companies in Sample-II even exceeded the estimated NFA of non-financial companies in 1997-98 and formed about 85 per cent of the latter in 1998-99. It does not appear logical that NFA of 2,542 companies (from among the Sample-II companies), even if some of these were quite large, exceeds that of the total population. Incidentally, the 2,542 companies accounted for a little more than half of the population PUC of the corresponding companies.[15] The results thus bring up even more conceptual and coverage problems. Is the methodology for obtaining NFA of private corporate sector from ASI faulty? Is the NFA at company level not amenable for comparison with fixed capital measured at the factory level?[16] Is NFA suitable for the purpose of estimating the corporate sector's savings and investment? Are there problems with the coverage of ASI itself?[17] Do the companies have large number of manufacturing units which do not fall under the purview of ASI? These questions can probably be better examined in consultation with CSO and RBI.

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14 For instance, in 1997-98, the estimate of Rs. 20,689 crores based on Sample-I is more than the corresponding sample estimate of Rs. 18,935 crores (sum of rows 3 and 4 of Col. 5 of Table 3.9).

15 Indeed, from Prowess it becomes evident that in 1998-99 the total NFA of 4,169 non-government manufacturing companies was Rs. 3,12,104 crores. When public sector manufacturing companies are also taken into account, the aggregate NFA of 4,356 companies works out to Rs. 4,95,293 crores, which is far higher than the total NFA reported by CSO for the year.

16 This does not appear to be the case because as per ASI, Fixed Capital represents the depreciated value of fixed assets owned by the factory as on the closing day of the accounting year and fixed assets are those which have a normal productive life of more than one year. ASI further explains:

> Fixed capital covers all types of assets, new or used or own constructed, deployed for production, transportation, living or recreational facilities, hospitals, schools etc. for factory personnel. *It includes the fixed assets of the head office allocable to the factory* and also the full value of assets taken on hire-purchase basis (whether fully paid or not) excluding interest element. It includes intangible assets and assets solely used for post manufacturing activities such as sale, storage, distribution, etc. (emphasis added)

See: INDIA, Central Statistical Organisation, *Annual Survey of Industries: 1990-91, Summary Results for the Factory Sector*, p. 82.

17 For instance, the possibility of severe under reporting has been pointed out in R. Nagaraj, "How good are India's Industrial Statistics?: An Explanatory Note", *EPW*, 1999, No. 6, pp. 350-355.

Role of Other Income and Contribution of NOS to PBT

Having noted the overall decline in gross savings, it would be relevant to examine the various components that go into it. It has been seen in the above that non-operating surplus (NOS) turned out to be an important contributor to PAT. Indian companies are also known to depend considerably on other income comprising of dividend and interest receipts. Engaging in investment and lending activities are the basic functions of financial and investment companies. If non-financial companies, especially the manufacturing ones, derive a substantial part of their profits from such 'other income', there could be many reasons. Some of the possible objectives are that the sample companies might be: (a) investing in other companies and mutual funds for earning capital gains and dividends; (b) seeking to takeover other enterprises or to consolidate control over group companies; (c) promoting new enterprises;[18] (d) deploying idle funds as loans to other companies; (e) providing funds to group companies who are not in a position to secure adequate funds on their own; (f) diverting funds to others in which the management has interests, etc.

While from the available data it is not possible to make a clear distinction between different types of investment, the data offer scope for assessing the importance of other income for the sample companies. For estimating gross savings it was necessary to deduct net receipts from non-recurring transactions. For determining the overall profits and profit retentions these receipts have to be taken into account. Table-3.20 brings out the contribution of these transactions to profit before tax (PBT) of the sample companies. PBT has been chosen for comparison instead of PAT because companies would have to pay corporate tax on other earnings also.[19] It is evident that other income (OI) earned by the sample companies increased

18 Promotion of new companies can be prompted by different objectives like (i) setting up of joint ventures and subsidiaries to take up unrelated activities or to hive-off existing divisions; and (ii) to access the capital market repeatedly for mobilising funds in multiple forms by the same group.

19 For the present exercise, the fact that dividends are already taxed in the hands of the company making the dividend payment has not been taken note of.

over the period. NOS also increased after an initial fall. Together, however, the two had an increasing share of PBT. Starting from a little over one-third, the share increased to nearly 54 per cent by 1999-00. The increase was even sharper in case of manufacturing companies. OI is much larger than NOS.

Table-3.20
Share of Other Income and NOS in PBT

(Amount in Rs. Crores)

Year	Profit Before Tax (PBT)	Other Income (OI)	Non-Operating Surplus (NOS)	Other Income + NOS (3) + (4)	Share of Other Income and NOS in PBT	
					All Companies (5)/(2) x 100	*Manufacturing Companies*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1995-96	25,759	6,998	1,689	8,687	33.72	*34.33*
1996-97	22,666	7,473	1,157	8,630	38.08	*38.37*
1997-98	21,054	7,516	1,035	8,551	40.61	*42.72*
1998-99	17,789	8,045	1,087	9,132	51.33	*60.83*
1999-00	21,174	8,532	2,862	11,394	53.81	*60.75*

Note: Working details of Col. (7) are not shown here.

Interest receipts and dividend income are the two main components of the other income (Table-3.21). In spite of a decline in their share during the period, the two accounted for a substantial part of the other income -- nearly 70 per cent or more in all the years. Dividend income showed a general decline over the period. On the other hand, interest income increased. The decline in dividend receipts may be due to the overall fall in the profitability of the investee companies or some of them are new and yet to stabilise their operations. The substantial size of interest receipts indicates the deployment of funds in the form of loans to other enterprises and debt securities.

Table-3.21

Major Components of Other Income

(Amount in Rs. Crores)

Year	Total Other Income	Of which			Share of Interest and Dividend in Other Income	
		Dividend Income	Interest Receipts	Dividend + Interest (3) + (4)	All Companies (5)/(2) x 100	*Manufacturing Companies#*
(1)	(2)	(3)	(4)	(5)	(6)	*(7)*
1995-96	6,998	1,559	3,686	5,245	74.96	*75.04*
1996-97	7,473	1,161	4,205	5,366	71.80	*72.06*
1997-98	7,516	1,090	4,323	5,413	72.02	*72.68*
1998-99	8,045	1,131	4,678	5,809	72.21	*72.69*
1999-00	8,532	1,397	4,555	5,952	69.77	*69.55*

Working details of Col. (7) are not shown here.

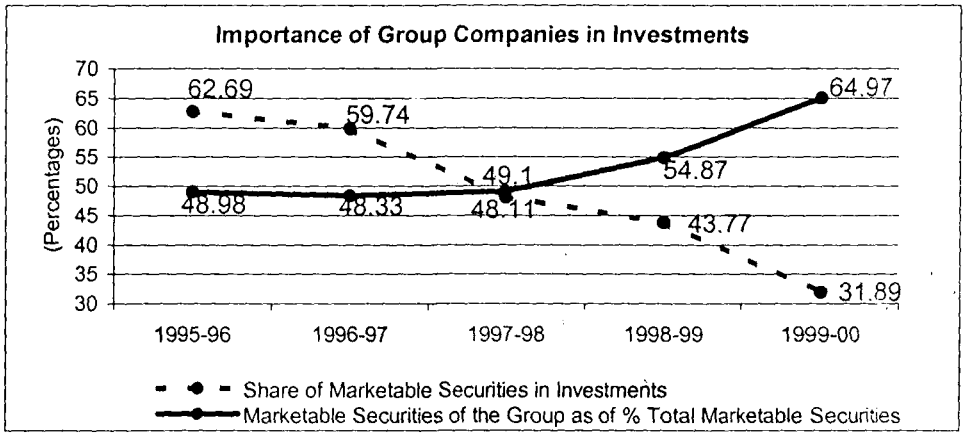
It can be seen from Table-3.22 (Graph-3.10) that the amount of investments in other enterprises and securities nearly doubled during the period. The increase was more prominent in case of group companies. Share of group companies in total investments increased from a little above 58 per cent in 1995-96 to nearly 65 per cent in 1999-2000. Share of mutual funds declined to almost half of the initial share. A decline in the share of quoted investments indicates possible expansion of the business groups through companies which are not listed on the stock exchanges. Equally important is that share of group companies in marketable securities[20] increased from a little less than half to nearly 65 per cent. This may indicate the attempts at consolidating control over listed companies through inter-corporate investments.

[20] Marketable securities include, apart from quoted investments which are tradable, those that are liquid in nature such as mutual fund schemes.

Table-3.22
Pattern of Investments by the Sample-I Companies

Year	Total Investments (Rs. Crores)	Of which, percentage share of			Marketable Securities of Group Cos. as a % of Total Marketable Securities
		Group Companies	Mutual Funds	Marketable Securities	
(1)	(2)	(3)	(4)	(6)	(7)
1995-96	27,419	58.53	17.27	62.69	48.98
1996-97	31,546	58.68	9.88	59.74	48.33
1997-98	39,082	56.39	7.74	48.11	49.10
1998-99	41,776	64.16	7.93	43.77	54.87
1999-00	53,655	64.91	9.86	31.89	64.97

Graph-3.10



Company size-wise pattern of investments is shown in Appendix-3.3. Nearly 70 per cent of the investments are accounted by the largest 89 companies with Rs. 1,000 crore or more of assets. The evidence indicates that the investments are being used by large companies for (i) expansion through affiliated companies and (ii) takeover of / consolidating control over listed group companies. The corresponding percentages are substantially lower for companies with less than Rs. 100 crores assets. It was found earlier that during the late 'eighties investments accounted for between 2 to 3 per cent of total assets of public limited companies.[21] An extension of this exercise for the 'nineties revealed that by the end of the 'nineties, the share of investments in total assets exceeded 10 per cent (See Table-3.23). Loans and advances were

[21] See M.R. Anand, "Private Corporate Investment and Deployment of Funds: (Some Recent Trends)", *Journal of Indian School of Political Economy*, January - March 1997, pp. 37-64.

maintaining a stable share of 23 to 20 per cent. Overall, investments and loans and advances accounted for a little above one-third of the total assets.

Table-3.23
Relative Shares of Major Components in Total Assets of NGFPs: CF Studies

Year	Net Fixed Assets	Inventories	Investments	Loans & Advances, etc.	Others	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1988-89	43.52	24.41	3.81	24.51	3.75	100.00
1989-90	40.80	24.27	5.49	25.39	4.06	100.00
1990-91	41.30	24.26	5.12	25.35	3.97	100.00
1991-92	42.23	22.44	4.96	26.21	4.16	100.00
1992-93	43.48	21.75	4.27	26.20	4.30	100.00
1993-94	44.87	17.19	7.41	25.88	4.66	100.00
1994-95	43.98	16.88	8.34	26.48	4.33	100.00
1995-96	44.73	16.79	7.61	26.83	4.04	100.00
1996-97	47.32	15.15	8.33	25.98	3.21	100.00
1997-98	49.28	13.83	7.86	23.81	5.22	100.00
1998-99	48.84	12.23	8.37	23.46	7.10	100.00
1999-00	48.74	12.50	10.52	23.38	4.86	100.00

Source: Studies of finances of public limited companies published in various issues of *RBI Bulletin*.

Further evidence of the increasing importance of investments and loans is available from the CF studies. According to the CF study of NGFPs for 1999-00 investments increased from Rs. 28,900 crores in 1997-98 to Rs. 43,300 crores in 1999-00 (Table-3.24). It is important to note that in 1999-00 the 1,914 NGFPs invested Rs. 43,300 crores in other companies and securities. In all, while investments grew by over 50 per cent, total assets increased by only 14 per cent. The investments together with loans and advances worked out to nearly Rs. 1,40,000 crores and constituted about 85 per cent of the total outstanding borrowings of the companies at the end of the year. It needs to be further examined as to how the increase in importance of this form of deployments of funds simultaneous with increased borrowings affected corporate savings. This aspect is examined in Section 5 of the study.

Table-3.24
Proportion of Investments and Loans in Borrowings

(Amount in Rs. Crores)

Year	Investments	Loans & Advances, etc.	Investments + Loans and Advances, etc.	Total Assets (including others)	Total Borrowings	Ratio of Investments, etc. to Borrowings (4)/(6) x 100
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1997-98	28,884	83,857	1,14,198	3,57,119	1,43,349	79.66
1998-99	32,538	91,194	1,23,732	3,88,654	1,58,895	77.87
1999-00	43,314	96,294	1,39,608	4,11,855	1,65,411	84.40

Source: Reserve Bank of India, "Finances of Public Limited Companies, 1999-2000", *RBI Bulletin*, June 2001, pp. 631-671.

Ownership Category-wise Savings Trends

Having observed the trends in savings of companies according to their size and industry classification, it may be useful to consider the performance of different groups of companies classified according to their ownership and control and listing on the stock exchanges. Classification of companies posed a number of problems due to non-availability of the relevant shareholding data for a good number of companies. Even when the shareholding data were available, it was difficult to decide the nature of foreign investment in smaller and unlisted companies. In many cases it was not possible to ascertain whether the shares were held by non-resident Indians and Overseas Corporate Bodies (OCBs) predominantly owned by them, foreign institutional investors, foreign collaborators or foreign promotional agencies. The problem was less severe in case of well-known subsidiaries of foreign companies. For the present exercise, apart from these subsidiaries, companies in which a minimum of 25 per cent foreign investment is held by identifiable foreign collaborators have been classified as foreign-controlled companies (FCCs). Also included under the FCC category are subsidiaries and companies promoted by the FCCs. In case of change in status during the period under study, only those that qualified to be FCCs under the above criteria during the best part of the period have been taken as FCCs. In case of joint ventures with foreign companies, the ventures have been classified as FCCs if the

foreign partner's equity is 25 per cent or more. NRI-controlled companies, to the extent possible, have been kept out of the foreign-controlled category. Since only those whose shareholding and promotional details are available have been classified as FCCs, there could still be some lesser known FCCs among the left out ones.

One of the objectives was to examine whether companies listed on the stock exchanges differ substantially from that of unlisted ones in terms of their savings pattern. It was found that a very large proportion of the sample companies - 2,257 out of 2,545 -- are listed on one or the other stock exchange. However, a little less than half of the unlisted ones turned out to be subsidiaries of listed companies and a few others were promoted by the listed companies either by themselves or as joint ventures with other companies. The composition of the sample is probably on the expected lines because databases generated by private agencies basically cater to the needs of investors. The representative character of the unlisted ones thus becomes somewhat doubtful. Moreover, unlike the main listed company which is accountable to the investors, its subsidiaries have no such direct obligation.[22] The patterns displayed by the unlisted companies in the sample should be viewed in the light of these characteristics.

In view of the focus on FCCs, these have been separated first from the entire sample. Out of the remaining companies, unlisted ones have been grouped separately. The remaining companies, which are listed non-FCCs, have been grouped together for comparative purposes. The results of the exercise are presented in Table-3.25. It can be seen from the Table that

22 At times, functioning of subsidiary companies give an impression that they were not expected to operate on commercial lines. For instance, the turnover of Bon Ltd., a trading subsidiary of Hindustan Lever Ltd. with Rs. 1 lakh paid-up capital, increased from about Rs. 50 crores in 1995-96 to more than Rs. 180 crores in 1999-00. No expenditure on wages and salaries were, however, reported for the company. Equally important is the fact that the PBT for 1999-00 was only Rs. 15 lakhs. Similar is the case with VST Distribution, Storage and Leasing Co. Ltd., a subsidiary of VST Industries Ltd. and also having Rs. 1 lakh PUC. While not reporting any wages and salaries, on a turnover of nearly Rs. 500 crores, the company had a PBT of Rs. 5 lakhs in 1999-00. Even a trading company cannot survive on such margins unless the purpose of operations is quite different from the generally accepted business principles. Size of operations would obviously be misleading in their case. The subsidiaries are more likely to respond to the needs of controlling interests of the parent company rather than those the latter's shareholders in general.

savings of FCCs increased during the initial years but declined in the final year. Savings of unlisted companies increased continuously. On the other hand, savings of listed non-FCCs experienced fluctuations. It thus appears that the savings of the foreign-controlled as also unlisted companies moved differently compared to the other companies in the sample. That FCCs and listed companies fared better is also reflected in the increase in relative shares.

Table-3.25
Trends in Gross Savings of Foreign-Controlled and Unlisted Companies

(Amount in Rs. Crores)

Year	Foreign Controlled Cos.	Unlisted Non-FCCs	Listed Non-FCCs	All Companies	Share in Gross Savings (%)	
	(271)	(237)	(2037)	(2,545)	FCCs	Unlisted non-FCCs
(1)	(2)	(4)	(5)	(6)	(7)	(8)
1995-96	2,999	548	18,700	22,247	13.48	2.46
1996-97	3,810	605	16,611	21,026	18.12	2.88
1997-98	4,420	795	16,572	21,787	20.29	3.65
1998-99	4,625	1,093	14,770	20,487	22.57	5.33
1999-00	4,443	1,179	16,575	22,197	20.01	5.31

Figures in brackets are number of companies in the respective categories.

The differences between the performance of the three categories of companies is further evident from Tables-3.26 and 3.27. Foreign-controlled companies started off at a similar level of gross savings to PUC ratio as that of listed non-FCCs. The ratio of the former fluctuated and in spite of a decline during the final two years, it remained higher than the ratio of 1995-96. On the other hand, the ratio of the latter declined almost continuously. Unlisted companies have generally a much higher ratio compared to the listed non-FCCs and in some years the ratio was higher than even that of FCCs. While the contribution of depreciation provision to gross savings increased in case of FCCs also its share was much lower than the corresponding ratio of listed non-FCCs. In the case of unlisted companies share of depreciation provision fluctuated within a range.

Table-3.26
Ratio of Gross Savings to PUC: Foreign-Controlled and Unlisted Companies

(Percentages)

Year	Foreign-Controlled Cos.	Unlisted Non-FCCs	Listed non-FCCS	All Companies
(1)	(2)	(3)	(4)	(5)
1995-96	78.76	81.43	76.91	77.26
1996-97	85.41	69.46	64.30	67.47
1997-98	91.88	73.32	58.61	63.76
1998-99	89.97	92.29	47.16	54.43
1999-00	81.28	93.13	48.99	54.72

Table-3.27
Share of Depreciation in Gross Savings: FCCs and Unlisted Companies

(Percentages)

Year	Foreign-Controlled Cos.	Unlisted Non-FCCs	Listed Non-FCCs	All Companies
(1)	(2)	(3)	(4)	(5)
1995-96	40.68	36.30	36.29	36.88
1996-97	38.99	44.13	54.42	51.33
1997-98	39.62	38.78	65.03	58.91
1998-99	43.26	34.92	84.95	72.87
1999-00	56.00	37.48	85.58	77.11

The differing behaviour of the three categories of companies would have implications for the estimation of gross savings. Generally there will be much less difficulty in getting the annual reports of listed companies compared to those of private limited and unlisted ones. Unlisted foreign companies are also unlikely to be forthcoming to provide information. Given the fact of relative easy availability of annual reports of listed companies and the difficulties known to be encountered by the RBI in getting company annual reports, it is possible that the CF studies also would be weighed in favour of the listed companies and their subsidiaries. The present study has been no exception.

Distribution of Gross Value Added

Another way of examining the trends in corporate savings could be in terms of the share of savings in value added from operations. CF studies estimate gross value added (GVA) as the sum of (a) salaries, wages, bonus,

provident fund and employees' welfare expenses, and managerial remuneration, (b) total net rent interest and dividend payments, (c) tax provision, (d) retained profits net of NOS and (e) depreciation provision.[23] Following this approach, GVA was calculated for each of the companies in the sample. The results for the total sample are presented in Table-3.28. Also shown are select ratios for the manufacturing companies in the sample.

Table-3.28
Gross Value Added and its Distribution of Sample-I Companies
(at current prices)

Year	Gross Value Added	Wages, Salaries, etc.	Depreciation Provision	Net Interest Paid	Tax Provision	Net Dividend Paid	Retained Earnings#	Gross Savings (8) + (4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(Amount Rs. Crores)								
1995-96	60,879	18,250	8,204	11,794	4,635	3,832	14,043	22,247
1996-97	68,801	21,194	10,793	16,157	5,290	4,826	10,233	21,026
1997-98	74,043	23,904	12,836	17,827	4,834	5,145	8,951	21,787
1998-99	77,240	26,529	14,928	19,677	4,748	5,264	5,559	20,487
1999-00	84,823	28,916	17,115	21,659	5,490	6,342	5,082	22,197
(Percentages)								
1995-96	100.00	29.98	13.48	19.37	7.61	6.30	23.07 *(22.73)*	36.55 *(36.38)*
1996-97	100.00	30.80	15.69	23.48	7.69	7.01	14.87 *(14.56)*	30.56 *(30.48)*
1997-98	100.00	32.28	17.34	24.08	6.53	6.95	12.09 *(11.18)*	29.43 *(28.89)*
1998-99	100.00	34.35	19.33	25.48	6.15	6.82	7.20 *(4.41)*	26.52 *(24.47)*
1999-00	100.00	34.09	20.18	25.53	6.47	7.48	5.99 *(5.38)*	26.17 *(24.47)*

Note: (i) Figures in brackets in Cols. (8) and (9) refer to 2,011 manufacturing companies.
(ii) The percentages in Cols. (3) to (8) add up approximately to 100.
Net of NOS.

Along with the increase in GVA from Rs. 60,878 crores in 1995-96 to Rs. 84,822 crores in 1999-00, the shares of various claimants changed substantially. Interest payments claimed an increasing share of GVA at the aggregate level. It is possible that the debt which was contracted in anticipation of fast growth in operations was responsible for this situation or the practice of investing in other enterprises and advancing loans to others

[23] See 'Explanatory Notes to Various Statements' in Reserve Bank of India, "Finances of Public Limited Companies, 1999-2000", *RBI Bulletin*, June 2001, p. 670.

(which in turn were not adequately rewarding) might have been responsible for the increasing share of interest payments. Next in importance is the expenditure on account of wages and salaries. Payment of salaries, etc., and annual increments thereof are fixed obligations. To gain a better understanding of the increase in salary bill, one, however, needs to examine the roles of lump sum payments to those opting for voluntary retirement and the possible faster increase in salaries, etc. paid to senior managerial personnel and qualified staff.

The overall share of tax provision in GVA declined from 7.61 per cent to 6.47 per cent. On the other hand, dividend payments claimed a slightly larger share of GVA. An important feature is that the share of depreciation provision increased from 13.48 per cent to 20.18 per cent. The cumulative impact of all this was reflected in a steep decline in the share of retained earnings -- from 23.07 per cent in 1995-96 to 5.99 per cent in 1999-00. The net effect is that the share of gross savings declined from 36.55 per cent to 26.17 per cent. The declines are sharper in case of manufacturing companies (See percentages within brackets in Columns 8 and 9 of Table-3.28).

Debt-Equity Ratios

In the foregoing it was seen that interest payments claimed an increasing share in gross value added during the period. This fact should also have been evident from the debt-equity ratios of the companies. From Table-3.29 it can be seen that there was a general increase in the debt-equity (D-E) ratios of the companies till 1998-99. There was, however, a slight decline in 1999-00. For the relatively smaller companies with less than Rs. 5 crores assets, however, there has been a continuous increase in the ratio. In the final year, networth got eroded to such an extent that in spite of a marginal decrease in the borrowings, the D-E ratios increased manifold. In general, for companies with less than Rs. 100 crores assets, there was either a drop or slow growth in borrowings. On the other hand, net worth had either declined or increased at a slower pace resulting in substantial increases in the D-E ratios.

Table - 3.29
Debt-Equity Ratios of Sample-I Companies

Asset Range (Rs. Cr.) and Year	Total Borrowings (Rs. Cr.)	Networth (Rs. Cr.)	Networth adj. for Revaluation Reserves	Debt-Equity Ratio (%) (2)/(3) x 100	Debt-Equity Ratio adj.for Revaluation Reserves (%) (2)/(4) x 100
1	2	3	4	5	6
Less than 5 (No. of Companies 205)					
1995-96	360	234	218	153.72	165.11
1996-97	352	214	198	164.40	178.10
1997-98	330	151	140	217.93	236.00
1998-99	300	73	62	409.44	483.05
1999-00	290	22	13	1,294.03	2,317.48
5-10 (No. of Companies 288)					
1995-96	784	978	952	80.14	82.38
1996-97	801	923	898	86.76	89.18
1997-98	829	772	750	107.44	110.63
1998-99	799	600	572	133.26	139.68
1999-00	784	548	522	143.12	150.23
10- 25 (No. of Companies 523)					
1995-96	3,038	3,362	3,080	90.36	98.64
1996-97	3,166	3,450	3,172	91.76	99.83
1997-98	3,197	3,201	2,946	99.87	108.50
1998-99	3,255	2,893	2,631	112.50	123.72
1999-00	3,402	2,634	2,380	129.18	142.97
25 - 50 (No. of Companies 407)					
1995-96	4,511	4,364	4,047	103.36	111.45
1996-97	4,847	4,459	4,165	108.70	116.39
1997-98	5,237	4,394	4,102	119.18	127.65
1998-99	5,698	4,114	3,804	138.50	149.78
1999-00	5,928	4,147	3,815	142.95	155.37
50 - 100 (No. of Companies 355)					
1995-96	7,055	6,647	6,033	106.14	116.94
1996-97	7,860	7,454	6,833	105.45	115.04
1997-98	8,758	7,877	7,277	111.19	120.36
1998-99	9,393	7,931	7,329	118.44	128.15
1999-00	10,041	8,060	7,447	124.58	134.83
100 - 500 (No. of Companies 567)					
1995-96	30,441	34,099	30,627	89.27	99.39
1996-97	34,939	38,526	34,981	90.69	99.88
1997-98	40,591	43,159	39,277	94.05	103.34
1998-99	43,698	44,907	41,099	97.31	106.33
1999-00	46,098	48,501	44,457	95.05	103.69
500 - 1000 (No. of Companies 111)					
1995-96	17,523	20,514	19,144	85.42	91.53
1996-97	21,815	22,966	21,431	94.99	101.79
1997-98	26,916	25,621	23,991	105.05	112.19
1998-99	29,510	26,462	24,840	111.52	118.80
1999-00	30,547	29,082	27,364	105.04	111.63
1000 & above (No. of Companies 89)					
1995-96	58,748	72,370	66,998	81.18	87.69
1996-97	77,384	82,900	77,408	93.35	99.97
1997-98	97,012	93,418	86,839	103.85	111.71
1998-99	1,09,792	1,03,757	94,800	105.82	115.81
1999-00	1,12,112	1,16,939	1,07,690	95.87	104.11
All Companies (2545)					
1995-96	1,22,459	1,42,569	1,31,099	85.89	93.41
1996-97	1,51,165	1,60,895	1,49,085	93.95	101.40
1997-98	1,82,868	1,78,593	1,65,322	102.39	110.61
1998-99	2,02,445	1,90,737	1,75,137	106.14	115.59
1999-00	2,09,203	2,09,934	1,93,687	99.65	108.01

For the larger companies while borrowings increased, net worth also grew though at a slower pace. Consequently, their D-E ratios experienced moderate increases. The fast deteriorating debt-equity ratios of smaller companies may severely affect their capacity to generate profits and contribute to savings of the sector.

Appendix-3.1

Activity-wise Gross Savings: Sample-I

(Amount in Rs. Crores)

	Activity/Sector	No. of Cos.	1995-96	1996-97	1997-98	1998-99	1999-00
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Agricultural & Animal Products	77	175.25	194.73	395.80	484.26	448.46
	Tea and Coffee Plantations & Processing	48	80.40	125.34	299.20	357.09	294.41
	Animal Products	4	33.66	29.25	34.49	41.57	23.90
2	Mineral Products	42	79.72	-63.11	63.33	73.93	81.39
3	Fats, Oils & Derived Products	62	101.59	30.47	35.53	-7.48	-26.66
4	Food, Beverages, Tobacco, etc.	113	641.33	709.26	933.6	991.94	975.86
	Of which, Sugar & Allied Products	27	90.63	65.24	83.95	84.07	33.88
	Beverages, Spirits & Vinegar	27	91.17	80.44	67.12	56.55	-24.79
	Tobacco Products	6	345.28	410.70	588.01	625.83	690.52
5	Textiles	308	1,478.61	1,248.72	1,111.51	406.15	199.26
	Of which, Cotton Textiles	179	972.43	996.48	949.43	606.52	318.35
	Manmade Filaments & Fibres	59	316.42	132.58	22.79	-211.57	-190.13
6	Leather and Leather Products	17	-46.44	19.05	29.74	66.62	51.00
7	Wood Products	11	37.65	35.93	36.80	28.20	23.29
8	Pulp, Paper and Paper Products	70	425.22	268.60	211.19	42.04	138.11
9	Chemicals & Chemical Products	365	2,983.61	3,197.92	3,044.18	3,086.34	3,283.23
	Of which, Drugs & Pharmaceuticals	120	636.08	950.97	969.04	1,055.77	1,296.17
	Fertilisers	28	1,031.35	1,022.43	925.66	1,090.71	1,001.64
	Soaps, Cosmetics, Detergents, etc.	22	116.87	214.19	324.13	338.77	419.82
10	Plastics, Rubber and Products	165	875.98	601.93	578.24	413.21	594.85
	Of which, Plastic & Plastic Products	130	573.02	376.95	332.17	146.75	189.77
	Rubber	35	302.96	224.98	246.07	266.46	405.08
11	Non-Metallic Mineral Products	107	1,169.59	872.84	637.93	625.79	592.31
	Of which, Cement & Asbestos, Products	41	926.11	767.06	492.74	463.40	421.80
	Glass & Ceramic Products	44	153.28	74.06	54.02	58.49	58.33
	Gems & Jewellery	22	90.20	31.72	91.17	103.90	112.18
12	Metals & Metal Products	237	3,058.18	2,353.02	2,154.72	1,199.18	1,738.33
13	Non-Electrical Machinery	158	949.16	974.18	962.24	797.74	758.98
14	Electrical Machinery excl. Electronics	110	626.09	576.63	455.59	499.99	365.45
	Of which, Elect. M/c. Other than Electronics	88	551.73	572.22	486.32	414.47	265.59
	Electric Appliances	22	74.36	4.41	-30.73	85.52	99.86
15	Electronics	109	468.23	331.29	406.57	502.95	800.12
	Of which, Consumer Electronics	18	228.77	202.95	262.72	315.24	416.24
	Data Processing & Office Equipment	20	72.64	31.41	39.22	91.56	147.37
16	Transport Equipment	119	2,686.12	3,158.55	3,166.46	2,509.59	2,256.97
	Of which, Automobiles & Ancillaries.	108	2,640.44	3,113.68	3,122.86	2,471.34	2,182.45
17	Petroleum Refining & Lubricants	11	40.57	269.33	272.52	244.93	-205.58
18	Misc. Manufactured Articles	19	48.64	25.48	34.28	30.62	17.31
19	Construction & Allied Activities	54	212.44	166.08	138.93	222.50	168.12
20	Electricity Generation	12	1,010.73	843.07	807.88	998.10	1,125.95
21	Computer Software & Allied Activities	43	460.85	579.76	976.32	1,791.45	2,421.99
22	Services	295	1,298.96	1,285.22	1,277.78	1,294.33	1,327.09
	Of which, Trading Cos.	182	443.64	412.90	425.43	378.79	452.65
	Hotels & Restaurants	39	465.71	496.60	436.58	377.94	311.04
23	Diversified Companies	41	3,464.92	3,347.32	4,056.33	4,184.69	5,060.96
	All Companies	2,545	22,247.00	21,026.27	21,787.47	20,487.07	22,196.79

Appendix – 3.2

Asset Size and Broad-Activity-wise Distribution of Gross Savings

(Amount in Rs. Crores)

Asset Range (Rs. Cr.)	Year	Agriculture & Allied Activities	Mining & Quarrying	Foodstuffs, Textiles, etc.	Metals, Chemicals, etc.	Diversified Companies	Electricity, Generation	Construction & Allied Activities	Computer Software & Allied Services	Trade, Hotels & Restaurants	Transport, Storage & Communications	Real Estate & Business Services	Community, Social & Personal Services	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Less than 5	1995-96	-3.15	0.08	-7.19	-7.47	0.38		-0.25	-0.48	-4.20	-0.16	-0.02	0.96	-21.50
	1996-97	-1.91	0.14	-11.30	-14.68	0.15		-0.39	-0.63	2.78	-0.04	-0.60	1.03	-25.45
	1997-98	0.59	0.14	-20.32	-23.98	0.20		-2.20	0.10	1.71	0.27	-1.94	1.00	-44.43
	1998-99	-0.84	0.25	-23.66	-28.14	0.08		0.20	-0.36	1.53	0.15	0.03	0.82	-49.94
	1999-00	-0.45	-0.90	-13.23	-26.65	-0.14		0.01	0.68	0.08	0.12	0.19	0.52	-39.77
5 - 10	1995-96	4.86	1.08	-7.68	33.61			1.25	-0.56	19.90	-4.49	1.11	0.50	49.58
	1996-97	-0.27	-1.43	-16.51	-36.43			0.52	1.30	-43.32	-8.16	-0.25	-0.09	-104.64
	1997-98	6.98	-1.90	-21.64	-82.69			0.73	1.49	-13.96	-9.54	-2.21	-0.17	-122.91
	1998-99	3.94	-4.40	-25.96	-70.31			0.88	1.48	-13.64	-4.59	-3.15	1.38	-114.37
	1999-00	2.13	-1.37	-13.79	-58.51			0.39	2.88	-8.94	0.58	0.10	1.88	-74.65
10 - 25	1995-96	1.91	1.74	30.29	177.51	1.22	0.12	0.89	6.13	25.64	5.90	5.37	-1.42	255.30
	1996-97	4.97	-8.52	-2.63	98.09	0.81	0.28	1.25	6.05	14.95	6.97	-4.10	-0.77	117.35
	1997-98	4.93	-14.27	-15.51	-25.01	0.27	-1.74	2.30	5.85	9.45	6.91	1.44	-0.92	-26.30
	1998-99	3.64	-7.70	-72.64	-16.75	0.61	-0.01	2.64	9.74	8.66	4.49	1.35	-4.76	-70.73
	1999-00	0.08	-23.23	-80.73	-38.99	-0.61	0.89	2.62	20.30	-2.87	5.39	1.79	-5.32	-120.68
25 - 50	1995-96	12.19	23.94	125.29	297.17	1.21		10.53	1.42	62.01	4.42	7.29	5.24	550.71
	1996-97	5.56	11.25	16.56	174.85	3.71		8.50	-0.24	48.92	5.40	4.28	2.88	259.17
	1997-98	9.06	1.33	10.69	65.67	3.20		-4.42	6.17	56.99	5.38	3.84	0.52	158.43
	1998-99	10.49	5.94	-22.21	-29.82	3.46		3.07	11.30	37.53	5.95	2.68	-1.31	27.08
	1999-00	5.50	-1.84	3.20	104.28	1.30		4.30	17.60	34.68	8.30	-0.69	-2.40	174.23

set ge Cr.)	Year	Agriculture & Allied Activities	Mining & Quarrying	Foodstuffs, Textiles, etc.	Metals, Chemicals, etc.	Diversified Companies	Electricity, Gas & Water	Construction & Allied Activities	Computer Software & Allied Services	Trade, Hotels & Restaurants	Transport, Storage & Communications	Real Estate & Business Services	Community, Social & Personal Services	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
-100	1995-96	23.22	5.60	183.51	624.01	11.44	28.23	4.88	17.39	53.68	22.20	10.28	3.73	988.17
	1996-97	16.20	5.78	139.05	470.93	10.76	23.76	4.86	31.81	47.99	16.48	21.39	4.33	793.34
	1997-98	31.64	6.59	154.70	504.10	16.22	-55.31	7.34	39.86	11.78	-6.42	12.61	7.89	731.00
	1998-99	40.25	4.28	-63.27	451.74	13.47	-52.20	8.99	58.89	18.37	-0.75	15.15	3.54	498.46
	1999-00	43.06	3.09	-131.37	460.97	13.45	-10.76	10.08	93.44	57.32	-27.17	10.76	5.32	528.19
500	1995-96	103.35	14.86	973.79	3,502.86	23.88	12.58	148.18	83.30	299.81	121.76	2.48	20.50	5,307.35
	1996-97	127.69	7.39	976.76	3,293.77	95.93	16.40	109.65	115.23	294.31	116.83	1.27	24.08	5,179.31
	1997-98	257.07	30.74	990.24	2,803.43	81.27	22.24	106.69	175.94	290.56	178.15	2.05	21.69	4,960.07
	1998-99	313.47	32.42	714.09	2,521.48	51.02	25.54	183.00	282.03	285.87	226.56	1.69	26.89	4,664.06
	1999-00	300.86	50.62	551.00	2,835.97	-37.08	32.83	122.26	343.02	255.71	251.09	2.56	48.52	4,757.36
0 -)00	1995-96	6.33	0.00	711.91	1,703.54	303.19		46.96	100.50	111.18				2,983.61
	1996-97	5.77	0.00	573.57	1,616.38	263.88		41.69	122.81	123.67				2,747.77
	1997-98	23.63	0.00	529.20	1,792.50	262.09		28.49	170.85	128.39				2,935.15
	1998-99	27.53	0.00	381.55	1,506.39	233.48		23.72	316.05	73.32				2,562.04
	1999-00	19.72	0.00	401.53	1,641.93	147.17		28.46	560.78	76.15				2,875.74
or 'e	1995-96	26.54	32.42	628.04	6,574.94	3,123.60	969.80		253.15	341.33	167.56		16.40	12,133.78
	1996-97	36.72	-55.22	636.53	6,758.26	2,972.08	802.63		303.43	420.20	164.53		20.26	12,059.42
	1997-98	61.90	40.70	731.01	6,678.71	3,693.08	842.69		576.06	377.09	161.74		33.48	13,196.46
	1998-99	85.78	43.14	639.57	5,575.75	3,882.57	1,024.77		1,112.32	345.09	209.74		51.74	12,970.47
	1999-00	77.56	55.02	644.25	5,282.97	4,936.87	1,102.99		1,383.29	351.56	196.09		65.77	14,096.37
	1995-96	175.25	79.72	2,637.96	12,906.17	3,464.92	1,010.73	212.44	460.85	909.35	317.19	26.51	45.91	22,247.00
	1996-97	194.73	-63.11	2,312.03	12,361.17	3,347.32	843.07	166.08	579.76	909.50	302.01	21.99	51.72	21,026.27
	1997-98	395.80	63.33	2,358.37	11,712.73	4,056.33	807.88	138.93	976.32	862.01	336.49	15.79	63.49	21,787.47
	1998-99	484.26	73.93	1,527.47	9,910.34	4,184.69	998.10	222.50	1,791.45	756.73	441.55	17.75	78.30	20,487.07
	1999-00	448.46	81.39	1,360.86	10,201.97	5,060.96	1,125.95	168.12	2,421.99	763.69	434.40	14.71	114.29	22,196.79

Appendix-3.3

Size-wise Pattern of Investments by the Sample Companies

(Amount in Rs. Crores)

Asset Range (Rs. Cr.)	Year	No. of Companies	Total Investments	Of which,					Share in Total investments of (%)				Share of Group Cos. in Marketable Securities (%)
				Group Companies	Mutual Funds	Quoted Investments	Marketable Securities	Marketable Securities of Group Cos.	Group Companies	Mutual Funds	Quoted Investments	Marketable Securities	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Less than RS. 5 cr.	1995-96	205	20.03	7.87	1.70	12.00	12.14	4.99	39.29	8.49	59.91	60.61	41.10
	1996-97	205	20.84	8.14	1.55	14.44	14.18	6.22	39.06	7.44	69.29	68.04	43.86
	1997-98	205	18.00	6.00	2.00	11.00	11.00	5.00	33.33	11.11	61.11	61.11	45.45
	1998-99	205	19.00	7.00	3.00	12.00	11.00	4.00	36.84	15.79	63.16	57.89	36.36
	1999-00	205	24.13	9.09	3.93	14.58	13.69	5.63	37.67	16.29	60.42	56.73	41.12
5 - 10	1995-96	289	52.94	17.40	4.14	25.80	25.51	7.09	32.87	7.82	48.73	48.19	27.79
	1996-97	289	76.87	31.83	3.95	29.53	28.41	11.22	41.41	5.14	38.42	36.96	39.49
	1997-98	289	68.00	27.00	5.00	25.00	23.00	9.00	39.71	7.35	36.76	33.82	39.13
	1998-99	289	80.00	18.00	9.00	21.00	21.00	5.00	22.50	11.25	26.25	26.25	23.81
	1999-00	289	94.72	16.50	27.71	34.34	32.93	4.12	17.42	29.25	36.25	34.77	12.51
10 - 25	1995-96	521	180.82	93.86	10.74	93.44	96.15	44.66	51.91	5.94	51.68	53.17	46.45
	1996-97	521	216.25	114.92	7.75	86.29	90.32	39.82	53.14	3.58	39.90	41.77	44.09
	1997-98	521	214.00	112.00	12.00	78.00	84.00	36.00	52.34	5.61	36.45	39.25	42.86
	1998-99	521	261.00	129.00	17.00	80.00	81.00	36.00	49.43	6.51	30.65	31.03	44.44
	1999-00	521	357.43	149.43	69.22	120.13	115.45	33.87	41.81	19.37	33.61	32.30	29.34
25 - 50	1995-96	407	246.67	140.88	32.11	113.64	119.70	59.18	57.11	13.02	46.07	48.53	49.44
	1996-97	407	296.48	189.59	17.63	117.01	122.38	74.49	63.95	5.95	39.47	41.28	60.87
	1997-98	407	320.00	204.00	24.00	116.00	120.00	83.00	63.75	7.50	36.25	37.50	69.17
	1998-99	407	360.00	213.00	27.00	119.00	124.00	78.00	59.17	7.50	33.06	34.44	62.90
	1999-00	407	512.20	271.34	70.31	155.25	146.88	67.64	52.98	13.73	30.31	28.68	46.05
50 - 100	1995-96	355	479.63	289.27	49.64	181.05	210.06	98.89	60.31	10.35	37.75	43.80	47.08
	1996-97	355	531.36	318.55	51.95	206.28	225.42	115.07	59.95	9.78	38.82	42.42	51.05
	1997-98	355	614.00	339.00	53.00	209.00	230.00	112.00	55.21	8.63	34.04	37.46	48.70
	1998-99	355	709.00	382.00	63.00	233.00	257.00	114.00	53.88	8.89	32.86	36.25	44.36
	1999-00	355	984.50	434.61	233.25	282.39	293.56	99.98	44.15	23.69	28.68	29.82	34.06

Contd..

Asset Range (Rs. Cr.)	Year	No. of Companies	Total Investments	Of which,					Share in Total investments of (%)				Share of Group Cos. in Marketable Securities (%)
				Group Companies	Mutual Funds	Quoted Investments	Marketable Securities	Marketable Securities of Group Cos.	Group Companies	Mutual Funds	Quoted Investments	Marketable Securities	
1		2	3	4	5	6	7	8	9	10	11	12	13	14
100 - 250	1995-96	383	1,604.50	866.25	210.46	705.00	859.60	375.78	53.99	13.12	43.94	53.57	43.72
	1996-97	383	1,871.38	1,174.77	134.28	760.16	868.98	469.82	62.78	7.18	40.62	46.44	54.07
	1997-98	383	2,077.00	1,336.00	128.00	830.00	861.00	508.00	64.32	6.16	39.96	41.45	59.00
	1998-99	383	2,471.00	1,539.00	135.00	860.00	893.00	557.00	62.28	5.46	34.80	36.14	62.37
	1999-00	383	3,026.80	1,550.82	363.38	1,112.38	950.83	508.98	51.24	12.01	36.75	31.41	53.53
250 - 500	1995-96	185	2,549.32	1,846.71	300.47	1,178.11	1,366.42	833.94	72.44	11.79	46.21	53.60	61.03
	1996-97	185	2,879.13	2,057.28	194.71	1,224.92	1,415.85	986.53	71.45	6.76	42.54	49.18	69.68
	1997-98	185	3,391.00	2,404.00	211.00	1,416.00	1,628.00	1,127.00	70.89	6.22	41.76	48.01	69.23
	1998-99	185	3,804.00	2,480.00	254.00	1,523.00	1,655.00	1,190.00	65.19	6.68	40.04	43.51	71.90
	1999-00	185	4,608.53	3,073.64	629.82	1,808.30	1,599.82	1,002.83	66.69	13.67	39.24	34.71	62.68
500 - 1000	1995-96	110	4,123.75	2,483.25	519.68	2,023.35	2,607.12	1,300.20	60.22	12.60	49.07	63.22	49.87
	1996-97	110	4,028.11	2,896.59	240.87	2,013.79	2,129.83	1,496.43	71.91	5.98	49.99	52.87	70.26
	1997-98	110	6,395.00	3,685.00	274.00	1,839.00	2,005.00	1,371.00	57.62	4.28	28.76	31.35	68.38
	1998-99	110	5,754.00	3,997.00	472.00	1,953.00	2,097.00	1,339.00	69.46	8.20	33.94	36.44	63.85
	1999-00	110	6,501.89	4,248.53	891.44	1,704.81	1,792.68	1,022.88	65.34	13.71	26.22	27.57	57.06
Rs. 1000 cr. and above	1995-96	89	18,161.17	10,301.53	3,606.76	8,762.06	11,891.79	5,693.95	56.72	19.86	48.25	65.48	47.88
	1996-97	89	21,625.52	11,720.04	2,465.51	9,597.86	13,950.10	5,908.38	54.20	11.40	44.38	64.51	42.35
	1997-98	89	25,938.00	13,903.00	2,282.00	9,666.00	13,784.00	5,969.00	53.60	8.80	37.27	53.14	43.30
	1998-99	89	28,248.00	18,018.00	2,307.00	11,113.00	13,090.00	6,705.00	63.79	8.17	39.34	46.34	51.22
	1999-00	89	37,545.09	25,072.14	3,001.47	14,762.38	12,163.58	8,369.75	66.78	7.99	39.32	32.40	68.81
All Companies	1995-96	2,544	27,418.83	16,047.02	4,735.70	13,094.45	17,188.49	8,418.68	58.53	17.27	47.76	62.69	48.98
	1996-97	2,544	31,545.94	18,511.71	3,118.20	14,050.28	18,845.47	9,107.98	58.68	9.88	44.54	59.74	48.33
	1997-98	2,544	39,035.00	22,016.00	2,991.00	14,190.00	18,746.00	9,220.00	56.40	7.66	36.35	48.02	49.18
	1998-99	2,544	41,706.00	26,783.00	3,287.00	15,914.00	18,229.00	10,028.00	64.22	7.88	38.16	43.71	55.01
	1999-00	2,544	53,655.29	34,826.10	5,290.53	19,994.56	17,109.42	11,115.68	64.91	9.86	37.26	31.89	64.97

Section 4

Trends in Capital Formation

Corresponding to the movement in its savings rate, NAS estimates of the ratio of gross capital formation (GCF) of the private corporate sector to GDP peaked in 1995-96 (See Table 4.1 and Graph 4.1). Thereafter it declined gradually to reach 6.40 per cent by 1999-00. During the last three years in particular it performed consistently inferior relative to the aggregate position. Not only the ratio to GDP, even the sector's share in GCF declined substantially after 1996-97. At current prices, GCF of the sector in 1998-99 and 1999-00 was lower than that in 1997-98. In the light of this experience, an exercise similar to the estimation of gross savings has been conducted using the data of Sample-I.

Following the introduction of new economic policies, the Indian private corporate sector has been passing through a restructuring phase. The process, which gets reflected in the mergers, takeovers and hiving-off of units, has major implications for the measurement of capital formation. In case of merger, the merged entity would no longer exist. Hence, there is no possibility

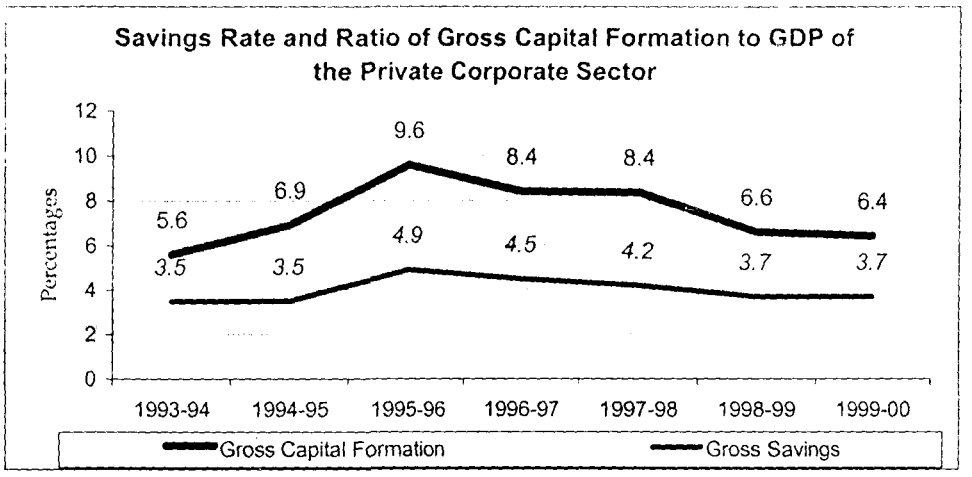
Table 4.1
Gross Capital Formation of the Private Corporate Sector
(at current prices)

(Amount in Rs. Crores)

Year	GCF of Private Corporate Sector		Total GCF		GDP at Market Prices	GCF of Private Corporate Sector in Total GCF (%)	Ratio of GCF of Private Corporate Sector to GDP (%)
	Amount	Annual Growth Rate (%)	Amount	Annual Growth Rate (%)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1993-94	48,213	-	1,82,619	-	859,220	26.40	5.61
1994-95	69,953	45.09	2,36,784	29.66	10,12,770	29.54	6.91
1995-96	1,13,781	62.65	3,15,179	33.11	11,88,012	36.10	9.58
1996-97	1,14,807	0.90	3,02,781	-3.93	13,68,208	37.92	8.39
1997-98	1,27,304	10.89	3,49,142	15.31	15,22,441	36.46	8.36
1998-99	1,15,991	-8.89	3,72,018	6.55	17,58,276	31.18	6.60
1999-00	1,25,221	7.96	4,44,423	19.46	19,56,997	28.18	6.40

Source: INDIA, Central Statistical Organisation, *National Accounts Statistics*.

Graph-4.1



of its entering into a consistent sample covering a relatively longer period. On the other hand, the company with which it got merged would show a sudden increase in its fixed assets. A direct comparison of fixed assets in two years without taking note of the merger, would lead to the conclusion that there was capital formation. A development more difficult to follow is the transfer of units to other companies through sale or demerger and acquisition from others. As long as both the seller and buyer are within the sample, it would not affect the overall GFA. If, however, at least one of them is outside the sample, sample GFA would be influenced depending upon the nature of the transaction. Accurate details relevant for taking out the impact of such transfers on capital formation would not generally be available to analysts unless obtained directly from the companies. Due to the limitations of the database used in the present exercise adjustments could not be made for mergers, divestments and acquisitions. An attempt has been, however, made to account for changes in the revaluation reserves. To partially overcome the problem of mergers, the exercise has been repeated with a subset of Sample-I by keeping out the companies which were involved in a merger in any of the years 1996-97 to 1999-00.

Due to the major limitation relating to merger, sample estimates would not be strictly comparable with the official ones. Also, unlike the data on savings, estimates of GCF are available at the aggregate level of the entire private corporate sector only. In view of this also, one cannot directly compare the estimates obtained for the sample NGFPs with the corresponding NAS estimates for non-government non-financial public limited companies. These problems are in addition to the uncertainty surrounding the treatment of acquisition/hiving-off of divisions by official agencies. Nevertheless, the results of the exercise provide certain insights having important implications for the capital formation of the sector.

Basic Ratios from the Company Finance Studies

Before presenting the results of the analysis of Sample-I, it may be worthwhile to further highlight the practical problems involved in the estimation process. This is because the official estimates appear to be quite sensitive to the set of companies being studied. From Table-4.2 it can be seen that for the same year *i.e.*, 1998-99, two sets of public limited companies would have given different estimates for GFCF and GCF. While there is very little difference between the two estimates of GFCF, in case of population estimate of GCF the latter was lower by 7.83 per cent compared to the former. The situation turns out to be even more serious in case of private limited companies. The estimate of GFCF based on the second study would have been higher by about 42 per cent than the estimate based on the first study. The second estimate of GCF in their case is almost one and half times more than the first estimate. This example may illustrate the difficulties faced by the official agencies in getting nearly the same set of private limited companies even for successive periods.[1] Such wide differences in the estimates for the

1 The large differences in estimates in case of private limited companies may not be entirely due to the increase in the larger sample size of the second set. For instance, the two studies covered almost equal number of companies namely, 50 and 51 companies respectively in case of the Electrical machinery, apparatus, appliances industry group. Gross capital formation to total uses of *(Contd...)*

Table-4.2
Estimates of GFCF and GCF of Non-Government Non-Financial Companies from CF Studies

(Amount in Rs. Crores)

Item	Public Limited Companies				Private Limited Companies			
	Study I (1848) a		Study II (1914) b		Study I (890) c		Study II (947) d	
	1997-98	1998-99	1998-99	1999-00	1997-98	1998-99	1998-99	1999-00
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Gross Fixed Capital Formation (A)	30,133	25,792	26,710	25,458	195	189	296	271
Change in Stocks (B)	3,521	-4,725	-6,729	-1,120	43	-97	-47	97
GCF (A+B)	33,654	21,067	19,981	24,338	238	92	250	368
Paid-up Capital	25,725	28,800	29,693	32,226	539	621	685	880
Estimated Population PUC	77,875	96,790	96,970	118,044	24,882	31,059	31,059	44,021
Ratio of (%)								
(i) GFCF to PUC	117.14	89.56	89.95	79.00	36.18	30.48	43.27	30.75
(ii) GCF to PUC	130.82	73.15	67.29	75.52	44.14	14.82	36.45	41.78
Estimated GFCF	91,219	86,681	87,228 (0.63)	93,253	9,003	9,468	13,441 (41.96)	13,538
Estimated GCF	1,01,877	70,801	65,255 (-7.83)	89,150	10,983	4,603	11,322 (145.97)	18,393

Published in the a. August 2000; b. June 2001; c. January 2001; & d. September 2001 issues of the *RBI Bulletin*.
Figures in brackets in column headings indicate the number of companies covered in each study.
Figures in brackets in the last two rows indicate the expected deviation (%) in the estimates had the earlier study's ratios been used.

private limited companies would have been less important had the PUC of these companies been relatively quite small. The fact, however, is that PUC of non-financial private limited companies is not inconsequential and is equal to one-third of the PUC of NGFPs.

The combined estimate of GFCF of both public and private limited companies for 1998-99 based on the second set of studies turns out to be higher by 4.70 per cent compared to the estimate resulting from the first set. In case of GCF, the difference is somewhat narrow as the estimate from the second set would have been higher by only 1.55 per cent. This was because, the ratios of capital formation with respect to PUC for private limited companies were comparatively small compared to those of public limited

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(*Contd...*)

funds of the group during the year 1998-99 turned out to be 33.6 per cent in case of the former and 70.2 per cent in case of the latter study.

companies. Secondly, while in the case of public limited companies the first set yielded a higher estimate of GCF, in case of the private limited companies, estimate emerging from the first study was considerably lower than that of the second one thereby canceling out some of the difference. Obviously, such coincidence cannot be relied upon in other years. This is more so because the selection of one type of companies for one study is independent of the other.

Estimates based on Sample-I

The Uses of Funds module of the Prowess database provides only the aggregate changes in total gross fixed assets (GFA) after adjusting for revaluations. Consequently, it does not allow a distinction between investment in plant and machinery on the one hand and land and buildings on the other. The assets module, however, provides details of gross fixed assets separately for (i) land and buildings; (ii) plant and machinery; (iii) capital work-in-progress; and (iv) other fixed assets. Secondly, to arrive at the changes in stocks, one needs to revalue the previous year's capital work-in-progress and inventories of raw materials, finished goods, etc. for price changes. This means that to obtain the estimates for 1995-96 one needs to have data of 1994-95. The sample data having been assembled only for the five years 1995-96 to 1999-00, the estimates of GFCF and GCF could not be obtained for 1995-96. Since the database does not give fixed assets separately for land and buildings, estimates for buildings have been generated by taking the ratio of buildings to the totals of land and buildings in the corresponding CF studies.[2]

GFCF has been measured as the addition to buildings, plant and machinery and other fixed assets. The estimate of change in stocks has been arrived at as the difference between the capital work-in-progress and inventories of raw materials, finished goods, etc. at the end of the year and that at the beginning of the year valued at current year prices. For purposes

2 Uses of Funds data of the CF studies indicate that buildings constituted about 81 per cent of land and buildings in 1996-97 and 88 per cent in 1999-00.

of this exercise wholesale price indices (average of weeks) of all commodities with base 1993-94 = 100 have been taken. GCF is the sum of GFCF and the changes in stocks.

GFCF	= Additions to Buildings, Plant & Machinery and Other Fixed Assets during the year
Change in Stocks	= Year-end Work-in-Progress + Inventories - Revalued Work-in-Progress and Inventories at the beginning of the year
GCF	= GFCF + Change in Stocks

Table-4.3 presents the results based on Sample-I for the years 1996-97 to 1999-00. At the aggregate level, at current prices, both GFCF and GCF declined in each of the last three years. The decline was sharper in case of manufacturing companies. GCF of manufacturing companies reduced in 1999-00 to almost half of what it was in 1996-97. While non-manufacturing companies did show some improvement in 1997-98, in the last two years they too experienced a steep fall in GCF. One of the reasons for the steep fall in the GCF of manufacturing companies is the sharp decline in stocks, especially capital work-in-progress. Diversified companies, in whose case GCF declined from Rs. 8,061 crores in 1996-97 to a negative Rs. 1,740 crores in 1999-00, has been affected severely. This is due to the sharp fall in stocks as also work-in-progress during the final year. Developments in specific industry groups are shown in Appendix-4.1.

From the point of estimation of capital formation of the private corporate sector, the ratios with regard to PUC are specifically relevant. From Table-4.3 it becomes further clear that the ratios decreased both for manufacturing companies and others. The reduction is sharper in respect of the manufacturing companies - from 114.00 to 80.85 in case of GFCF and from 149.77 to 57.86 in case of GCF. Such steep declines imply that to even sustain the overall level of GCF at current prices, the PUC of NGFPs should have increased by at least 159 per cent during the four years. Population PUC coverage ratios of the CF studies indicate that PUC of NGFPs increased between 1996-97 and 1999-00 by only about 70 per cent. NAS estimates of

Table-4.3
Capital Formation of Sample-I Companies
(at current prices)

(Amount in Rs. Crores)

Type of Companies/ Year	GFCF		Change in Stocks	GCF		Ratio to PUC (%)	
	Amount	Annual Growth Rate (%)		Amount	Annual Growth Rate (%)	GFCF	GCF
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Manufacturing Companies (2022)							
1996-97	29,526		9,264	38,791		114.00	149.77
1997-98	32,121	8.79	4,519	36,640	-5.54	112.95	128.84
1998-99	28,979	-9.78	-6,315	22,664	-38.14	92.96	72.70
1999-00	27,186	-6.19	-7,733	19,453	-14.17	80.85	57.86
Other Companies (523)							
1996-97	3,491		2,994	6,484		66.30	123.16
1997-98	6,324	81.15	771	7,095	9.41	110.34	123.80
1998-99	3,661	-42.11	2,479	6,140	-13.47	56.63	94.97
1999-00	4,752	29.81	69	4,822	-21.47	68.48	69.48
All Companies (2545)							
1996-97	33,017		12,258	45,275		105.94	145.27
1997-98	38,445	16.44	5,290	43,735	-3.40	112.51	127.99
1998-99	32,640	-15.10	-3,836	28,804	-34.14	86.72	76.53
1999-00	31,938	-2.15	-7,663	24,275	-15.72	78.74	59.84

GCF for the entire private corporate sector, however, show an increase between the two years from Rs. 1,14,807 crores to Rs. 1,25,221 crores, or by 9.07 per cent.[3] One is not sure whether this is due to better performance of the other components of the private corporate sector or to some adjustments having been made to the population PUC figures for making them closer approximates of the reality.

It has been indicated earlier that the present study could not adjust capital formation data for mergers and amalgamations. To circumvent this problem, it has been decided to keep the companies which were involved in mergers out of the estimation process. From the capital structure changes reported in Prowess it appears that 96 of the 2,545 companies were involved in a merger at least once during 1996-97 to 1999-00. To examine the trends in capital formation by eliminating the impact of mergers, the above exercise was repeated after keeping these 96 companies out of the sample. Results of

[3] Based on NAS 2001, *op. cit.*

the study of the remaining 2,449 companies are presented in Table-4.4 (Graphs 4.2 and 4.3). It may be noted that keeping out the merger cases has not lowered the sample size appreciably. A comparison of Tables 4.3 and 4.4 reveals that while the magnitudes declined expectedly, the broad pattern remained the same. The extent of decline in the ratios of GFCF and GCF with respect to PUC is also nearly equal. The ratios for the subset are, generally, lower compared to the total sample.

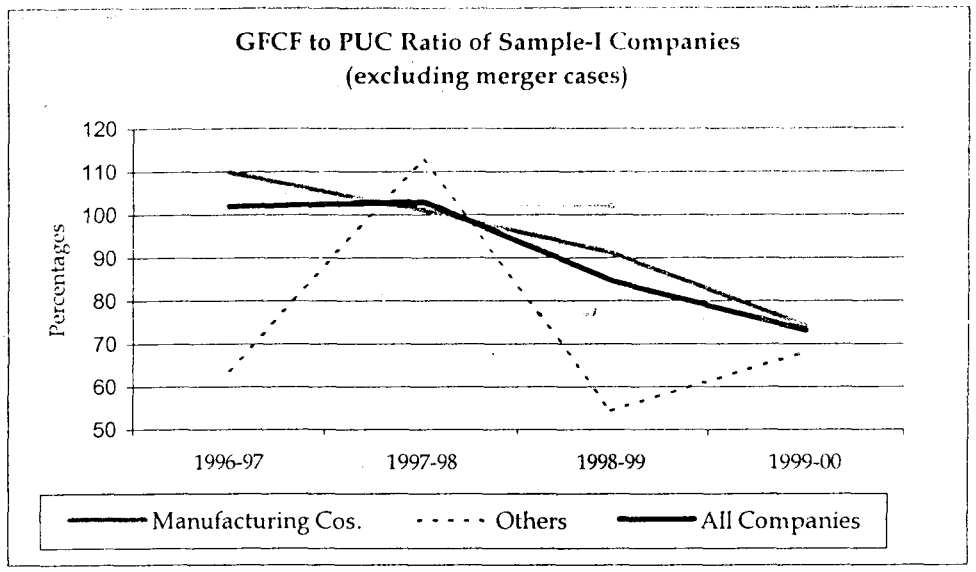
The results of the subset confirm the decline in the capital formation at the overall sample level. Given the slower growth of PUC than the required increase to maintain the same level of GCF at current prices, it does appear that there was a decline in capital formation of NGFPs during the period even at current prices.

Table-4.4
Capital Formation of Sample-I Companies
(at current prices and excluding merger cases)

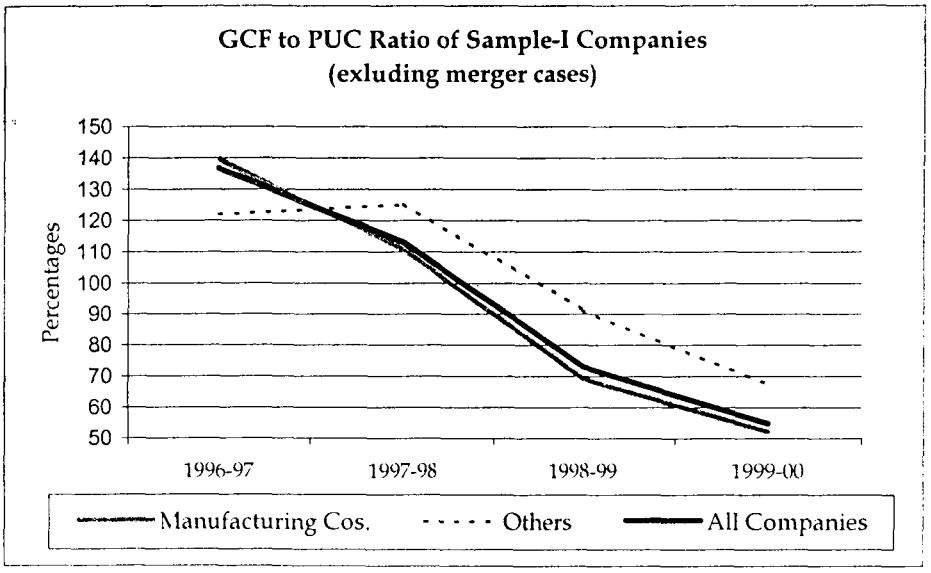
(Amount in Rs. Crores)

Type of Companies/ Year	GFCF		Change in Stocks	GCF		Ratio to PUC (%)	
	Amount	Annual Rate of Growth (%)		Amount	Annual Rate of Growth (%)	GFCF	GCF
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Manufacturing Companies (1,943)							
1996-97	26,821		7,280	34,101		109.73	139.51
1997-98	26,942	0.45	2,567	29,508	-13.47	101.01	110.63
1998-99	26,506	-1.62	-6,346	20,160	-31.68	91.08	69.27
1999-00	23,228	-12.37	-6,909	16,319	-19.05	74.27	52.18
Other Companies (506)							
1996-97	3,203		2,919	6,122		63.78	121.92
1997-98	6,182	93.03	700	6,882	12.41	112.49	125.21
1998-99	3,373	-45.44	2,291	5,664	-17.70	54.39	91.32
1999-00	4,538	34.52	-48	4,490	-20.73	68.11	67.39
All Companies (2,449)							
1996-97	30,024		10,199	40,223		101.90	136.51
1997-98	33,124	10.32	3,266	36,390	-9.53	102.97	113.12
1998-99	29,880	-9.80	-4,055	25,824	-29.04	84.63	73.15
1999-00	27,766	-7.07	-6,957	20,809	-19.42	73.19	54.85

Graph-4.2



Graph-4.3



In the absence of disaggregated data on capital formation of various constituents of the private corporate sector, another way of comparing different possible estimates is to compare the ratio of the sample estimates with respect to PUC of the corresponding sample companies. To make the ratios better comparable, merger cases have been excluded from both Sample-I and Sample-II. The ratios obtained from the CF study of NGFPs for 1999-00 and Sample-I and Sample-II are shown in Table-4.5. It is evident from the

Table that larger samples would have given lower estimates of capital formation. Compared to the CF study, GFCF estimated from Sample-II would have been lower by 26 per cent. In case of GCF the Sample-II based estimate would have been almost half of the estimate generated from the CF study. CF study and the samples differ in another respect too. While the CF study indicates an increase in GCF over 1998-99 for a given size of population PUC, both the samples suggest a decline.

Table-4.5

Comparative Ratios of GFCF and GCF to PUC: CF Study#, Sample-I and Sample-II

(Percentages)

Year	1998-99			1999-00		
	CF (1,914)	Sample-I (2,449)	Sample-II (3,286)	CF (1,914)	Sample-I (2,449)	Sample-II (3,286)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
GFCF	89.95	84.63	65.63	79.00	73.19	59.05
GCF	67.29	73.15	47.98	75.52	54.85	39.30
Change over the previous year (%)						
GFCF				-12.17	-13.52	-10.03
GCF				12.23	-25.02	-18.09

Published in the June 2001 issue of the *RBI Bulletin*.
Merger cases have been excluded from both Sample-I and Sample-II.
Figures in brackets indicate the number of companies covered in the respective samples.

Declining Gross Fixed Assets

The slowing down of capital formation could be partly due to an increasing number of sample companies reporting a decrease in gross fixed assets in different years. In the ordinary course, net fixed assets could decline if adequate increase in fixed assets does not take place to compensate for the depreciation provision. Gross fixed assets could, however, decrease if transfer of divisions/units takes place or certain assets are sold or revalued downwards or are written-off due to closure of plants.

To form an idea of such occurrences, changes in GFA as reported in the database have been taken note of. These changes are adjusted for revaluation/devaluation of assets and can be taken to represent the actual

changes in GFA. It is evident from Table-4.6 that in an increasing number of companies gross fixed assets declined in certain years. Even if one takes 10 per cent reduction in GFA in a year as substantial decline, the number of such companies have grown over the period. The overall importance of the reduction in GFA can be gauged from the fact that during 1998-99 and 1999-00 the total decrease in GFA on account of these companies was equal to, in absolute terms, close to 10 per cent of the total increase in GFA of companies which recorded a net addition to GFA.

Table-4.6
Incidence of Decline in Gross Fixed Assets: Sample-I

Year	From among the Total Sample		Decline in GFA of Companies in Col. (2) (Rs. Crores)	Out of the Manufacturing Companies	
	No. of Companies	Of which, GFA declined by 10% or more		No. of Companies	Of which, GFA declined by 10% or more
(1)	(2)	(3)	(4)	(5)	(6)
1995-96	114	34	1,711	75	16
1996-97	212	64	708	146	36
1997-98	252	67	1,323	173	37
1998-99	324	88	3,794	222	57
1999-00	378	114	2,942	282	71

An illustrative list of companies in whose case the gross fixed assets declined in 1998-99 and 1999-00 is given in Table 4.7. It can be seen that in value terms the reduction in GFA is considerable. Some of the transfers have taken place between sample companies (e.g. Indian Rayon and Grasim) while in case of some others the assets have been demerged and transferred to either subsidiaries (e.g. Essar Steel) or joint ventures (e.g. Kalyani Steels) which do not form part of the sample. In some cases, the assets involved are so large, that their impact in terms of addition to assets of the receiving company would be greater than even some mergers. The fact that NOS was an important component of the receipts, especially in 1999-00, may also be indicative of this development. There are two sides to the process of transfer

Table-4.7
Illustrative List of Companies with substantial reduction in Gross Fixed Assets during 1998-99 and 1999-00

Name of the Company	Decrease in Gross Fixed Assets (Rs. Cr.)	Remarks
		1998-99
Indian Rayon & Inds. Ltd.	795.66	The cement business of the company was demerged and transferred to Grasim Industries Ltd. (Grasim). Consequently from the 1st of September 1998, all assets, liabilities and debts relating to the cement business of the Company vest in Grasim.
Essar Steel Ltd.	573.17	the Company has hived off its pellet division to Essar Minerals Ltd. (EML) – its subsidiary -- with effect from close of business hours on March 31, 1999.
Chemplast Sanmar Ltd.	381.53	Effective 1st April, 1998, the company's Shipping Undertaking has been vested with Sanmar Shipping Ltd..
Nicholas Piramal India Ltd.	351.96	Flaconnage and Bulk Drugs businesses have been spun-off in two separate subsidiary companies effective 1st April, 1998.
Jindal Strips Ltd.	336.49	The Scheme of Arrangement between Jindal Strips Ltd. (JSL) and Jindal Steel & Power Ltd. (JSPL) to hive off Raigarh and Raipur Divisions to JSPL w.e.f. 2.4.98 was approved by the Hon'ble Punjab and Haryana High Court.
		1999-00
Emami Ltd.	264.48	The company has demerged its investment undertaking to Pan Emami Cosmed Ltd..
Uniworth Ltd.	199.56	Nagpur Unit was hived off as a separate Company on March 31, 2000.
Pentamedia Graphics Ltd.	185.20	During the year ended March 31, 2000, the business software division including three overseas subsidiaries viz., Pentafour Software Solutions Inc., USA, Pentafour Software (UK) Ltd., UK and Pentafour International (Singapore) Pte. Ltd., Singapore were transferred to Pentasoft Technologies Ltd. with effect from April 1, 1999.
Kalyani Steels Ltd.	160.92	The Company's Mundhwa Undertaking was transferred to the Joint venture Company,. Kalyani Carpenter Special Steels Ltd., (KCSSL) on 1st April, 1999.
Arvind Mills Ltd.	107.61	The Branded Garments Business of the Company along with its shareholding in subsidiaries Arvind Clothing Ltd. and Arvind Fashions Ltd. was sold by way of spin-off to Arvind Brands Ltd., a subsidiary. The sale has resulted in a one time profit of Rs. 80.53 crores for the Company.
Asea Brown Boveri Ltd.	82.16	Power Generation business of the Company was demerged and transferred to Asea Brown Boveri Management Ltd. (since renamed as ABB ALSTOM POWER India Ltd..) with effect from 1 April, 1999.
Goa Carbon Ltd.	79.55	Iron and Steel Division of the Company was transferred together with all assets and liabilities at cost to a separate company Aparant Iron and Steel Private Ltd..
Indo Gulf Corpn. Ltd.	77.52	License for the company's captive jetty has been transferred in favour of Dahej Harbour and Infrastructure Ltd. (DHIL), a wholly owned subsidiary of the Company. .
Modern Syntex (India) Ltd.	70.79	The Yarn Division of the Company at Alwar continued to be under lockout since year 1996. Since the efforts to revamp the division have not succeeded, it had been decided to dispose off the assets The fixed assets of the division have been valued at their realisable value and diminution thereof and the revaluation reserve has been adjusted accordingly.
Premier Mills Ltd.	53.14	Pulankinar Unit of the Company was transferred to the wholly owned subsidiary, Premier Fine Yarns Ltd..
Ramco Industries Ltd.	51.18	The assets and liabilities of the software business undertaking were transferred and vested with Ramco Systems Ltd. with effect from 1st April 1999.
I C I India Ltd.	50.63	Surplus residential properties at Mumbai, Kolkata and Chennai have been disposed off during the year. This resulted in a profit of Rs. 21 crores.

Source: Directors' Report and other write-ups on the companies given in Prowess and ERS.

of units. While in the foregoing hiving-off of divisions has been discussed, the other side *i.e.*, the sample companies acquiring units from others, has not been dealt with. It is also possible that in some cases, the decline in fixed assets due to hiving-off and demerger might have been compensated by the additions and hence, these could not be identified from a simple decline in GFA. A detailed examination of the process may throw better light on the decline in GCF as observed above.

Appendix- 4.1

Activity-wise Trends in Gross Capital Formation
(Excluding Merger Cases)

(Amount in Rs. Crores)

	Activity/Industry	No. of Com-panies	Gross Fixed Capital Formation				Change in Stocks				Gross Capital Formation			
			1996-97	1997-98	1998-99	1999-00	1996-97	1997-98	1998-99	1999-00	1996-97	1997-98	1998-99	1999-00
1	Animal Products	4	59.07	11.44	95.79	16.48	-23.26	41.56	-39.93	5.90	35.81	53.00	55.86	22.38
2	Agricultural Products	70	167.78	207.69	235.03	252.17	82.01	111.40	47.49	23.03	249.79	319.09	282.52	275.20
3	Mineral Products	41	37.62	171.19	119.67	109.51	808.04	1361.81	946.62	610.94	845.66	1533.00	1066.29	720.45
4	Fats, Oils & Derived Products	60	-19.25	101.29	84.26	111.80	-40.67	-83.47	-97.87	123.92	-59.92	17.82	-13.61	235.72
5	Food, Beverages, Tobacco Prod. Etc.	110	822.40	639.90	780.17	849.98	194.51	33.53	26.97	417.72	1016.91	673.43	807.14	1267.70
	Sugar & Allied Products	26	240.42	172.45	286.05	240.77	233.88	-200.59	-214.47	261.78	474.30	-28.14	71.58	502.55
	Beverages, Spirits & Vinegar	27	139.36	16.43	37.30	148.10	14.85	31.87	74.55	24.18	154.21	48.30	111.85	172.28
	Tobacco & Tobacco Products	6	315.43	161.06	266.13	269.08	-76.05	226.88	189.62	124.74	239.38	387.94	455.75	393.82
6	Textiles	296	3042.85	2718.00	2458.24	1611.43	-216.44	176.34	-800.63	-551.95	2826.41	2894.34	1657.61	1059.48
	Cotton Textiles	171	1453.86	1507.53	1639.35	1195.80	-68.12	568.17	-282.64	-422.62	1385.74	2075.70	1356.71	773.18
	Manmade Filaments & Fibres	56	1344.47	1008.33	565.43	431.56	-70.44	-428.59	-326.87	-69.03	1274.03	579.74	238.56	362.53
7	Leather & Leather Products	16	42.08	10.47	43.15	48.68	-45.20	-21.96	-12.76	28.69	-3.12	-11.49	30.39	77.37
8	Wood Products	11	56.41	94.53	43.94	18.21	21.03	20.84	13.23	-12.31	77.44	115.37	57.17	5.90
9	Pulp, Paper & Paper Products	68	370.82	531.67	817.22	344.20	224.87	79.91	-599.59	12.72	595.69	611.58	217.63	356.92
10	Chemicals & Chemical Products	346	2356.57	3915.06	3973.30	3585.69	2097.25	151.01	-140.39	227.58	4453.82	4066.07	3832.91	3813.27
	Drugs & Pharmaceuticals	114	642.91	749.29	811.46	913.15	268.55	178.93	-106.72	-40.26	911.46	928.22	704.74	872.89
	Fertilizers	25	339.16	1629.37	383.67	1638.14	1183.78	-340.71	1753.41	21.31	1522.94	1288.66	2137.08	1659.45
	Soaps, Detergents, Cosmetics, etc.	20	140.89	244.32	252.64	83.59	50.04	55.51	-174.30	-10.70	190.93	299.83	78.34	72.89
1	Plastics, Rubber & Products	161	1933.03	1509.51	481.23	877.88	55.25	-81.18	-172.43	-6.10	1988.28	1428.33	308.80	871.78
	Plastics & Plastic Products	34	703.44	540.27	407.56	559.25	-156.72	-42.13	-132.73	-87.93	546.72	498.14	274.83	471.32
	Rubber & Rubber Products	127	1229.59	969.24	73.67	318.63	211.97	-39.05	-39.70	81.83	1441.56	930.19	33.97	400.46
2	Non-Metallic Mineral Products	105	1809.98	1670.88	1524.09	1390.86	420.80	-18.07	-507.69	-128.61	2230.78	1652.81	1016.40	1262.25
	Cement, Asbestos & Products	40	1547.57	1322.80	1410.13	1148.30	323.66	74.91	-574.33	-207.43	1871.23	1397.71	835.80	940.87
	Glass, Ceramics & Products	43	246.11	331.39	96.72	233.56	65.20	-53.00	-13.82	2.11	311.31	278.39	82.90	235.67
	Gems & Jewellery	22	16.30	16.69	17.24	9.00	31.94	-39.98	80.46	76.71	48.24	-23.29	97.70	85.71

Appendix-5.1 continued...

Year	Asset Range (Rs. Cr.)	Number of Cos.	Borrowings		Bank Borrowings	Financial Institutions	Fixed Deposits	Loans from			Debentures	Commer-cial Paper	Foreign Borrowings	Others
			Amount	Increase Over the Previous Year (%)				Group Cos.	Other Cos.	All Cos.				
(1)	(2)	(3)	(4)	(5)	(6)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
			Amount (Rs. Cr.)		Percentage Shares in Total Borrowings									
1995-96	50 - 100	355	7,055		42.57	34.50	2.19	0.95	3.50	4.45	5.27	0.00	0.29	10.72
1996-97		355	7,860	11.41	43.13	32.72	2.19	1.03	3.54	4.57	5.46	0.11	0.18	11.63
1997-98		355	8,758	11.42	42.61	32.40	2.46	1.23	3.62	4.85	5.32	0.27	0.72	11.38
1998-99		355	9,393	7.25	42.71	32.58	2.67	1.19	4.03	5.22	5.28	0.44	0.79	10.32
1999-00		355	10,041	6.90	42.97	32.05	2.59	0.99	3.96	4.95	5.49	0.31	0.68	10.96
1995-96	100 - 500	567	30,441		41.65	31.28	3.16	0.42	3.04	3.46	11.60	0.09	1.30	7.46
1996-97		567	34,939	14.78	40.54	30.75	3.21	0.77	2.86	3.63	11.52	0.32	1.77	8.27
1997-98		567	40,591	16.18	40.45	29.84	3.55	0.53	2.06	2.59	12.00	0.86	3.12	7.60
1998-99		567	43,698	7.65	38.95	29.72	3.73	0.49	2.21	2.70	12.30	2.00	3.02	7.60
1999-00		567	46,098	5.49	39.59	30.93	3.68	0.41	1.95	2.36	11.32	1.35	2.62	8.16
1995-96	500 or more	200	76,271		31.20	23.54	2.81	0.08	2.32	2.39	23.02	0.02	10.93	6.08
1996-97		200	99,198	30.06	28.38	25.50	2.64	0.26	2.32	2.58	21.53	0.28	13.16	5.92
1997-98		200	1,23,927	24.93	26.40	24.53	2.69	0.10	1.37	1.47	22.67	0.94	14.38	6.93
1998-99		200	1,39,302	12.41	27.11	24.71	2.64	0.11	1.57	1.68	21.29	2.02	12.28	8.28
1999-00		200	1,42,659	2.41	28.37	25.45	2.64	0.20	1.75	1.94	21.73	2.15	10.59	7.13
1995-96	All Companies	2,545	1,22,459		35.55	26.67	2.79	0.42	2.73	3.15	17.72	0.04	7.17	6.92
1996-97		2,545	1,51,164	23.44	33.07	27.36	2.69	0.57	2.69	3.26	17.26	0.27	9.08	7.01
1997-98		2,545	1,82,868	20.97	31.50	26.25	2.81	0.39	1.83	2.22	18.43	0.84	10.49	7.46
1998-99		2,545	2,02,445	10.71	31.55	26.21	2.82	0.41	1.99	2.40	17.68	1.84	9.16	8.33
1999-00		2,545	2,09,202	3.34	32.67	26.93	2.81	0.42	2.10	2.52	17.71	1.77	7.86	7.73

Section 5

Borrowings, Interest Costs and Gross Savings

Following the acceleration in the adoption of structural adjustment policies during the 'nineties, the Indian industrial sector has been exposed to increased competition from within and outside. In view of the corporate sector's reliance on external funds, one of the suggestions for making industry competitive and meet the demands of the new situation was to reduce interest rates. The process of deregulation of interest rates in India gained momentum with the recommendations of the Narasimham Committee (1991). By now, most of the interest rates relating to banks and financial institutions and debt market have been deregulated and hence are flexible. During the recent past, the nominal interest rates have come down noticeably. However, a concern has been expressed that due to the downward trend in inflation rate, the real interest rate for borrowers continues to be high.[1]

Apart from causing heavy debt service burden on the government, the problem of high real interest rates is seen in terms of high cost of capital for the borrowers which in turn inhibits economic growth.[2] The concern for corporate investment and growth is further evident from the observations of the Expert Committee set up to review the system of administered interest rates that the internal savings of the corporate sector is low due to which the debt-equity ratio tends to be high.[3] The Committee further noted that since the interest rates relating to small savings and Provident Fund continue to be administered by the Government, interest rates in this segment become floor rates and cause distortion in the interest rate structure. It is thus implied that

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1 While nominal prime lending rate (PLR) of scheduled commercial banks has come down from 16.50 in 1995-96 to 12.50 in 1999-00, the real PLR fluctuated and is higher at 9.2 in 1999-00 compared to 8.50 in 1995-96. See: INDIA, Ministry of Finance, *Economic Survey: 2000-2001*, p, 58.

2 Union Budget Speech 2001-02, para 84.

3 *Report of the Expert Committee to Review the System of Administered Interest Rates and Other Related Issues*, September 2001, issued as supplement to the ***RBI Bulletin***, November 2001. (Chairman: Y. Venugopal Reddy).

freeing the administered interest rates is necessary to bring down the interest rates for the borrowers.

The justification for reducing the interest burden for the borrowers is further seen in the slowing down of the economy which is reported to be causing severe pressure on sales and margins despite efforts to cut costs.[4] It is also pointed out that after the primary market started experiencing problems since the mid-'nineties, companies had to necessarily depend upon borrowings to meet their investment and working capital needs. Lowering the effective interest rates for the borrowers is thus necessary to increase the surpluses with the corporate sector to facilitate new investments. These arguments are indeed compelling and merit a detailed study.

In the light of the perceived interest burden on the industry and its affect on savings and debt-equity ratios, an attempt has been made in the following to examine the effective rates of interest for the corporate sector and the interest payments during the recent past. Any cut in interest rate would add to corporate profits as long as the corporate tax rates remain the same. To have a realistic assessment of the interest burden on the companies it is necessary to examine the pattern of deployment of borrowed funds. Such an analysis is relevant more in the context of the importance of 'other income' for corporate profits noticed earlier. This has been attempted by analysing the data of the Sample-I companies. As noted earlier, the period covered, namely 1995-96 to 1999-00, witnessed the decline in the savings rate of the PCS from 4.9 to 3.7 per cent. Also, 1995-96 was the first full year after the lending rates of banks were deregulated.

Average Interest Rate

An examination of the data of the sample companies reveals that total borrowings of the 2,545 companies increased rapidly first and moderately thereafter from Rs. 1.22 lakh crores to 2.09 lakh crores during 1995-96 to

4 See for instance, Tushar K. Mahanti, "Interest costs of India Inc rises in III of 2001-02 despite rate cuts," *Economic Times*, December 19, 2001.

1999-00 (See Table-5.1). Correspondingly, the debt-equity ratio increased from 93.41 per cent to 108.01 per cent. Simultaneously, interest payments increased from about Rs. 15,500 crores to nearly Rs. 26,200 crores. The average interest rate ranged between 12.0-13.5 per cent per annum. Overall, it thus appears that there was no definite pattern in the average rate of interest. If the average interest rate is calculated with respect to the average level of borrowings at the beginning and end of a specific year, it does appear that the effective rate decreased by two percentage points -- from 14.88 per cent in 1996-97 to 12.74 per cent in 1999-00. Whichever way one looks at, towards the end of the period, the average rate is thus quite close to the nominal prime lending rate (PLR) of commercial banks and lower than the rate charged by the leading term lending institution namely, Industrial Development Bank of India (See Graph-5.1).

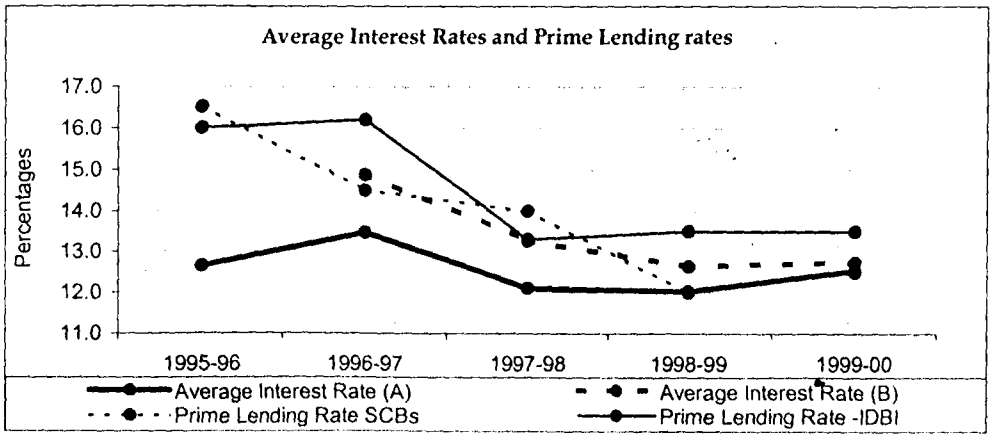
Table-5.1
Total Borrowings and Interest Payments of 2,545 NGFPs

(Amount in Rs. Crores)

Year	Total Borrowings	Debt-Equity Ratio (%)#	Interest Payments	Average Interest Rate (%)	
				A	B
(1)	(2)	(3)	(4)	(5)	(6)
1995-96	1,22,459	93.41	15,480	12.64	-
1996-97	1,51,164	101.40	20,362	13.47	14.88
1997-98	1,82,868	110.61	22,150	12.11	13.26
1998-99	2,02,445	115.59	24,355	12.03	12.64
1999-00	2,09,202	108.01	26,214	12.53	12.74

Note: A: Ratio of interest payments during the year to total outstanding borrowings at the end of the year. B: Ratio of interest payments during the year to average of the outstanding borrowings at the beginning and end of the year.
After adjusting for revaluation reserves.

Graph-5.1



Total Costs

For a given level of sales, besides lowering of interest payments, reduction in manufacturing, administrative and other costs could help enlarge profit before tax. Over the initial four years, for the sample as a whole, the ratio of total costs to value of output as also net sales increased - from 86.48 to 90.97 with respect to value of output and 88.21 per cent to 91.26 per cent in case of net sales. It was only in 1999-00 a slight decline could be noticed. Given the relative increase in the costs, it may be relevant to examine the composition of total costs as also the comparative position of interest payments vis-à-vis total costs.

It can be seen from Table-5.2 that together with power & fuel, raw material costs initially accounted for three-fourths of the total costs. This share came down slightly to about 71 per cent by the end of the period. On the other hand, the gainers are depreciation, selling costs and wages and salaries. The maximum gain has, however, been recorded in the 'Other Expenses' category. Barring the initial year, the ratio of interest payments to total costs remained stable between 7.2 and 7.5 per cent. In terms of relative importance, interest costs are comparable to wages & salaries and selling costs.

Table-5.2
Relative Importance of Different Cost Components in Total Costs

(Percentages)

Year	Total Cost (Rs. Cr.)	Raw materials, Power & Fuel	Wages & Salaries	Selling Costs	Depre-ciation	Others	Total Cost	Ratio of Interest to Total Cost (%)	
								A	B
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1995-96	2,35,266	74.37	7.76	5.91	3.49	8.47	100.00	6.58	5.80
1996-97	2,73,261	72.69	7.76	6.08	3.95	9.52	100.00	7.45	6.62
1997-98	2,98,492	71.23	8.01	6.51	4.30	9.95	100.00	7.42	6.50
1998-99	3,26,342	69.95	8.13	6.77	4.57	10.59	100.00	7.46	6.53
1999-00	3,63,769	70.58	7.95	6.89	4.70	9.88	100.00	7.21	6.34

Note: A: Ratio of actual interest payments shown in Col. (4) of Table-5.1 to Total Costs given in Col. (2) of Table-5.2. B: Ratio that would have been obtained had the average interest rate been lower by 1.5 per cent.

The increasing share of selling costs is seen as inevitable due to the enhanced competition the companies are facing in the new policy

environment.[5] What is interesting, however, is that each of the main components of selling costs namely, advertisement, marketing, and distribution costs almost doubled during the period. A question arises whether all the three necessarily increase in the same proportion. This calls for a closer examination of the selling costs. Next in importance are the developments in the wages & salaries account. The general perception is that the private corporate sector is reducing the workforce through offering voluntary retirement schemes. Seen in this light, the trends in wages & salaries do suggest the need for studying the relative changes in the remuneration received by top managerial personnel and those in senior positions on the one hand and the lower strata of employees on the other. Faster increase in the remuneration of top managerial personnel compared to the increase in the overall salary bill of a few companies, for which payment details of top employees are available, does suggest the possibility of the former improving their relative position.[6] Is it that competitive conditions improved the bargaining power of the top employees as also the managements started rewarding themselves? In the context of cost reduction, this question acquires importance.

Possibly even more important is the substantial share of other items in total costs which increased further during the period. The increase is also the maximum in their case. The other expenses include, apart from administrative expenses, a substantial category called 'miscellaneous' expenses. From CF studies also it emerges that 'Other Expenses' account for 9-10 per cent of total expenditure. Indeed, the other expenses are important

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5 See for instance, Mathew Joseph, Madan Sabnavis, Rupa R, Nitsure and L. Bhagirathi, "India's Economic Reforms: Private Corporate Sector Response", a paper presented at the International Conference on Emerging Economies at Budapest University of Economic Sciences during July 13-15, 1998.

6 For instance, it has been noticed in the case of Bajaj Auto that while payments to top managerial personnel who were with the company in 1999-00 and 2000-01, and whose details are available in the Company's annual reports, increased by 20.6 per cent while the overall increase was only 4.2 per cent. Similarly, in case of Cummins India overall payments increased by nearly 3.5 per cent between 1999-00 and 2000-01. The corresponding increase in payments to five top managerial personnel was about 47 per cent.

next only to the raw material expenses.[7] Apart from administrative expenses such as auditor's remuneration, maintenance of vehicles, postal, stationery & printing expenses, donations, legal expenses, travel and conveyance, other expenses include items like R&D expenditure. However, from other modules of the database it is evident that only about one-fourth of the companies reported R&D expenditure and the total R&D expenditure accounted for only 0.4 per cent of the total cost. There is thus a case for closer examination of the other expenses.

Given the fact that interest payments averaged between 12.0 - 13.5 per cent of the borrowings, an average interest rate lower by about 1.5 per cent[8] from the existing levels, would have resulted in a reduction in the ratio of interest to total costs by a little less than 1 per cent. The point then is whether such a reduction would make substantial difference to the fortunes of the companies especially when interest payments are eligible as deductions for tax purposes and thus offer companies an advantage in terms of lower tax liabilities.[9] On the other hand, the above discussion suggests the need to examine miscellaneous expenses, selling costs and wages & salaries a little more closely to see if cost reduction could be effected without counting on the interest rates to come down further so as to improve the profitability of the corporate sector.

Corporate Savings

There is a view that lowered interest rates would help the corporate sector increase its savings and thus its internal resources. The expectation is that for profitable companies reduced interest charges would add to after tax profits. There is nothing striking in this suggestion because as long as the

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7 Schedule VI of the *Companies Act, 1956* stipulates that "any item under which expenses exceed 1 per cent of the total revenue of the company or Rs. 5,000 whichever is higher, shall be shown as a separate distinct item against an appropriate account head in the Profit and Loss Account and shall not be combined with any other item to be shown under 'Miscellaneous expenses'".

8 CII recently suggested a reduction of 1 to 1.5 per cent in the interest rates. See: "CII calls for 1-1.5% rate cut", *Business Standard*, October 8, 2001.

9 In case of capitalisation of interest expenses, they offer the double advantage of enhanced depreciation provision which in turn is tax deductible.

effective corporate tax rate remains the same, for given amounts of owned and borrowed funds, lower interest rates are bound to result in higher profit after tax. For the sample companies, it has been noticed that during the past five years, had the interest rate been lower by 1.5 per cent, gross savings would have been higher by 6-7 per cent. Savings, however, is determined by other factors as well. While post-tax profits (PAT) are affected by tax rates, how much of the post-tax profits have to be retained within the enterprise and how much has to be distributed as dividends is at the discretion of the managements. Higher the dividend outgo, lower would be the retained profits and their contribution to gross savings.

It has been seen in Table-3.6 that equity dividend rate of profit-making companies increased steadily from 22.29 per cent to 27.39 per cent. Even if only those companies that made profits in all the years are taken into account one finds that the dividend rate increased. Retention ratio also declined first sharply and then gradually from 75.70 per cent to 69.00 per cent. That is, in spite of the imposition of dividend tax, which transferred the onus of tax liability to the companies instead of shareholders, companies were not inclined to reduce their dividend payouts possibly due to capital market pressure. Since the introduction of dividend tax did not result in decreased dividend rates, if the objective is to increase corporate savings, it appears that the role of dividend tax cannot be ignored.

Deployment of Borrowed Funds in Inter-corporate Investments & Loans (ICIL)

Since the interest payments turned out to be important for the sample companies, it would be relevant to know as to how the borrowed funds are being used by them. Companies generally use both owned and borrowed funds in their operations. The funds can be employed in the companies' own businesses for creation of new assets or to meet working capital needs. These may also be invested in other companies' risk capital and debentures, government securities, mutual funds, etc. or lent to other enterprises. While for companies specialising in financing activities, the latter form of fund

utilisation forms the main business, for non-financial companies, however, such operations cannot be termed as integral to their primary objective.

It has been seen in Section 3 (Table-3.20) that other income and NOS constituted a substantial part of PBT and that OI accounted for about 47 per cent of PBT (excluding NOS) in 1999-00. Even when only the companies which made pre-tax profits in all the years are considered, the corresponding share works out to 25.75 per cent. It has also been seen that interest receipts and dividends accounted for a substantial part of the other income - a minimum of 70 per cent in all the years (Table-3.21).[10] Such importance of interest and dividend payments could only result from a substantial deployment of funds in other enterprises by the companies. Since the Indian private corporate sector depends upon borrowings to a large extent, this phenomenon would have major implications for the interest payments. While it could be argued that inter-corporate investments and loans (ICIL)[11] might have been financed from owned funds, namely PUC and reserves, and borrowed funds utilised for internal use, the point remains that had the owned funds not been invested in other enterprises, borrowed funds would have been required to a lesser extent. It may, therefore, be appropriate to compare ICIL with the borrowings.

ICIL of the sample companies increased from nearly Rs. 37,000 crores in 1995-96 to about Rs.69,000 crores in 1999-00 or an increase of Rs. 32,000 crores (Table-5.3) At Rs. 69,000 crores, ICIL far exceeds the paid-up capital of the sample companies, which was of the order of Rs. 40,500 crores, and accounts for about one-third of their networth. Interestingly, during 1999-00 there was an addition of more than Rs. 13,000 crores to ICIL. Incidentally, the *Companies (Amendment) Act, 1999* relaxed the ceiling on the aggregate loans and investments that could be made by a company. From 30 per cent of the paid-up capital and free reserves of the investing company, the ceiling was

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10 The remaining is reported to include rent, bills discounting charges, etc.

11 For the purposes of the present study, ICIL includes investments in other companies' shares and debentures, mutual funds, government securities and loans to other companies.

increased to 60 per cent or 100 per cent of the free reserves whichever is more.[12]

Table-5.3
Relative Importance of ICIL in Long Term Borrowings

(Amount in Rs. Crores)

Year	Investments in outside Securities and Loans to corporate bodies	Long Term Borrowings	Ratio of Loans and Investments in Long Term Borrowings (%)	Interest and Dividend Earnings	Ratio of Interest and Dividend Earnings to Loans and Investments (%)
(1)	(2)	(3)	(4)	(5)	(6)
1995-96	36,897	74,754	48.71	5,245	14.20
1996-97	40,806	95,156	42.88	5,366	13.15
1997-98	49,150	1,18,856	41.35	5,413	11.01
1998-99	55,473	1,30,670	42.45	5,809	10.47
1999-00	68,958	1,33,018	51.84	5,952	8.63

It was seen in Table-5.1 that the total borrowings of the companies increased from Rs. 1.22 lakh crores to Rs. 2.09 lakh crores. Thus investments and loans account for a little less than one-third of the total borrowings in 1999-00. It is, however, more reasonable to assume that long term borrowings would have been used for ICIL, rather than short term ones. For the purpose of the present exercise, borrowings from banks (excluding short term), financial institutions, debentures and foreign borrowings are taken as long term borrowings (LTB). The important sources left out are fixed deposits, commercial paper and loans from other corporate bodies. LTB increased from about Rs. 75,000 crores to Rs. 1,33,000 crores. *i.e.*, an increase of Rs. 58,000 crores. Additions to ICIL thus constitute a little more than half of the additional long-term borrowings. Alternatively speaking, investments and loans constituted nearly half of the long-term borrowings in 1999-00. It is relevant to note from CF studies that during 1999-00, while additional borrowings were of the order of Rs. 6,516 crores, increase in investments in others' securities alone were Rs. 10,775 crores.[13]

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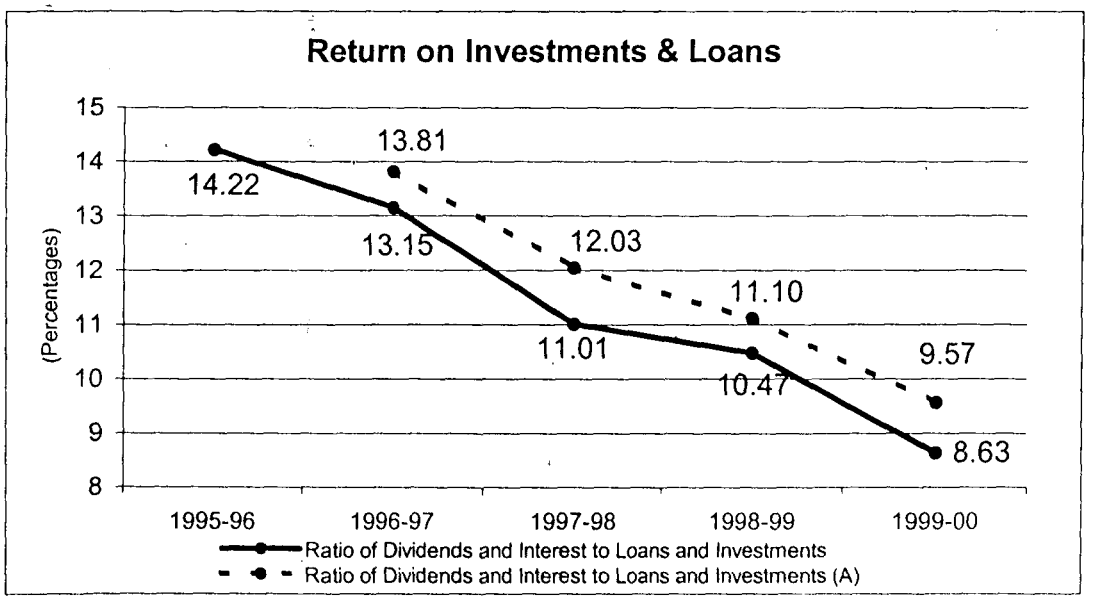
12 See: Vijay Krishnamurthy, "Section 372A: An Evaluation and Comparative Analysis with Sections 370 and 372", *Chartered Secretary*, May 1999, pp. 520-525.

13 These results refer to sources and uses of funds of 1914 non-government public limited companies. See: RBI, "Finances of Public Limited Companies, 1999-2000", *Reserve Bank of India Bulletin*, June 2001, pp. 631-671.

Though other income turned out to be important in relation to PBT, there arises the need to look into the current returns from ICIL, the main source of the other income. It was indicated earlier that companies were taking advantage of the favourable conditions in the stock market to gain better returns by investing in other companies' shares.[14] It would be useful to see whether a similar objective continues to guide investments and whether the investing companies are able to augment their profits through stock market operations. In 1995-96, the average return from ICIL worked out to be 14.20 per cent (Col. 6 of Table-5.3) and was apparently higher than the average interest of 12.64 per cent worked out for the sample companies (Table-5.1 Col. 5). Direct comparisons between dividends and investments as also interest and loans are not possible because while debentures are classified under investments, interest from the debentures gets added to the total interest earnings. In any case, the average return from ICIL declined gradually to 8.63 per cent by 1999-00 (Graph-5.2). It is, therefore, pertinent to examine the pattern of investments on the one hand and the parties to whom the loans were advanced, on the other.

Graph-5.2



(A): Based on average of the outstanding investments & loans at the beginning and end of the year.

14 M.R. Anand, op. cit.

From Table-3.22 it emerged that share of marketable securities reduced to half of the initial value. Within the marketable securities, once again, the share of group companies increased substantially suggesting that the companies are increasingly deploying funds in unlisted group companies. Even the investments in marketable securities are increasingly confined to group companies. Thus substantial amounts are being deployed by the sample companies to expand through subsidiaries and other group companies, and possibly to increase control over group companies as also to acquire control over others. There is also the possibility of certain companies de-merging part of their operations to separate companies which in turn issue shares to the divesting company in lieu of cash payment for taking over the business. In the context of corporate restructuring, this aspect needs a deeper scrutiny. At times, the amount of investment may not reflect the true extent of funds flow to other companies because cross and circular investments could bring back the funds to the investing company.[15]

A broad classification of loans between group companies and others suggested that the share of group companies increased during the period. From 42.33, the share of group companies declined slightly during 1996-97 but increased gradually thereafter to reach 67.87 per cent by 1999-00. The summary data offered by the CF study of public limited companies for 1999-00 also points to the increasing share of group companies in loans. From the Uses of Funds data of the study, it emerges that out of the Rs. 4,848 crores advanced additionally during 1998-99 by 1,914 public limited companies share of the group companies (including subsidiaries) was 36 per cent. While the total amount of loans and advances declined to Rs. 3,014 crores in 1999-00,

15 In this manner, managements could increase their control without increasing their own risk. To the extent this type of investments are made by the sample companies, the share of inter-corporate investments in borrowings observed in the foregoing could be an overestimate. If, however, the companies acquired the share sof group companies from the secondary market or other shareholders, there would be outflow of funds. The present data set, however, does not facilitate a disaggregated analysis of the investments. For an extensive discussion on the manner in which inter-corporate investments are deployed to minimise risk of the managements groups on the one hand and to acquire and maintain control over other companies, see S.K. Goyal, "Nature and Growth of the Indian Corporate Sector", Brij Narain Memorial Lecture delivered at Panjab University, Chandigarh during January 12-14, 1987.

the amounts advanced to group companies increased substantially, taking their share to as much as 93 per cent.[16] In this context it must be emphasised that while there is no ambiguity with regard to the identification of subsidiaries, the concept of group companies defined as "Companies under the same management" under Section 370(1)B of the Companies Act, 1956 is extremely weak.[17] In view of this, the composition of group companies as perceived in case of investments and followed here may also not be comparable. One cannot, therefore, rule out the possibility of even larger shares of group companies in loans and advances.

Company Size and Deployment of Borrowed Funds

Aggregate data are likely to conceal important differences between different categories of companies. All the companies need not necessarily engage in outside investments and advancement of loans. The issue then is to find out the extent of such outside deployment of resources by different types of companies. In the present study, this has been attempted by relating company size, measured in terms of its assets in 1999-00, with ICIL activity. From Table-5.4 it emerges that only a few large companies account for substantial part of the long-term borrowings. These are also the ones which have an overwhelming share of investments and loans and indeed account for a much higher share of ICIL. The table also reflects the fact that companies in all the asset ranges were investing in other enterprises. Assuming that companies would utilise long term funds for investment purposes it turns out that the ratio of ICIL to LTB increased for all the size groups (Table-5.5 and Graph-5.3). In 1999-00, for the largest sized companies and the smallest ones,

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16 These results refer to sources and uses of funds of 1914 non-government public limited companies. See: RBI, "Finances of Public Limited Companies, 1999-2000", *Reserve Bank of India Bulletin*, June 2001, pp. 631-671.

17 See for instance, K.S. Chalapati Rao and Alok Puranik, "Concept of Companies under the same Management under Section 370(1-B) of the Companies Act, 1956: A Study of its Operation", *Company News & Notes*, March 1996, pp. 3-12. The study identified many large companies including those registered under the *Monopolies & Restrictive Trade Practices Act, 1969* as constituents of 'Group of Inter-connected Undertakings' and subsidiaries and affiliates of Transnational corporations claimed (or the auditors certified) that there were no companies under the same management of the respective company. Some of the well-known ones are: Tata Sons, Grasim, JK Industries, Kirloskar Brothers, Bombay Dyeing, Glaxo India, ITC and Nestle India.

Table-5.4
Size-wise Distribution of Long Term Borrowings & ICIL

(Percentages)

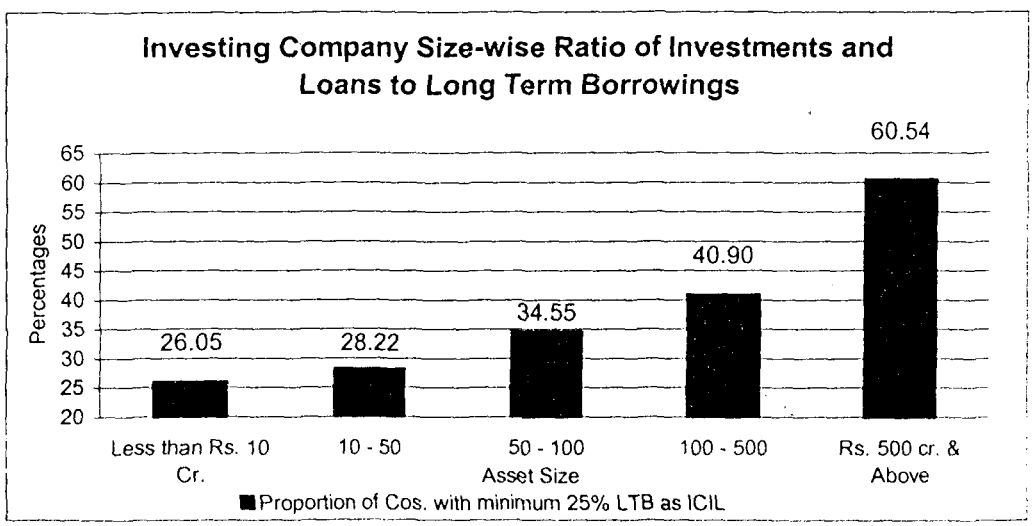
Asset Range (Rs. Cr.)	No. of Companies	Long Term Borrowings		Investments		Loans to Corporate Bodies	
		1995-96	1999-00	1995-96	1999-00	1995-96	1999-00
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Less than 10	493	0.59	0.24	0.27	0.22	0.55	0.36
10 - 50	930	4.43	2.59	1.56	1.62	3.80	2.64
50 - 100	355	4.44	3.40	1.75	1.82	2.13	2.33
100 - 500	567	21.72	19.14	15.14	14.21	20.80	14.07
500 & above	200	68.82	74.63	81.29	82.12	72.74	80.61
All Companies	2,545	100.00	100.00	100.00	100.00	100.00	100.00

Table-5.5
Ratio of ICIL to Long Term Borrowings in Different Size Ranges

Asset Range (Rs. Cr.)	No. of Companies	Ratio of Loans to Corporate Bodies & Investments to Long Term Borrowings (%)		Proportion of Companies with at least 25 % of LTB in ICIL#
		1995-96	1999-00	1999-00
(1)	(2)	(3)	(4)	(5)
Less than 10	493	28.23	54.76	26.05
10 - 50	930	23.76	37.03	28.22
50 - 100	355	20.57	29.59	34.55
100 - 500	567	37.70	38.41	40.90
500 & above	200	56.72	56.80	60.54
All Companies	2,545	49.36	51.84	35.35

Out of the ones having long- term borrowings.

Graph-5.3



more than half of the borrowings were reflected in loans and investments. At the minimum, 30 per cent of the long-term borrowings were deployed in investments and loans by the companies in 1999-00. If one restricts the comparison to those having long-term borrowings only, the proportion of those investing at least 25 per cent of the LTB in the form of ICIL increases with the size (Col. 5 of Table-5.5). Sixty per cent of the largest companies with assets of Rs. 500 crores or more deployed a minimum of one-fourth of the borrowings in ICIL.

Sources of Borrowings

Given the fact that in spite of the increasing debt-equity ratios, the sample companies deployed substantial funds in other enterprises is a matter that needs a careful scrutiny. The general expectation is that borrowed funds would be utilised for furthering the main activities of the borrower company instead of using them for other purposes. At one level, it may imply lack of monitoring by the lending agencies. The next question, therefore, would be about the sources of borrowed funds.

The borrowers have been grouped under (i) banks, (ii) financial institutions, (iii) fixed deposits, (iv) loans from other companies, (v) debentures, (vi) commercial paper, and (vii) foreign borrowings. At the aggregate level, there does not appear to be major shifts in the distribution of borrowings, according to lender category, during the past five years (Table-5.6). Banks, financial institutions, money raised through debentures and foreign borrowings remained the main sources. The few changes that could be discerned are: (i) a slight decline in the share of banks; (ii) improved share of commercial paper; and (iii) an initial increase followed by a decline in the share of foreign borrowings. In any case, banks and financial institutions together account for about 60 per cent of the total borrowings.

Table-5.6
Sources of Borrowings

(Percentages)

Year	Bank Borrow-ings	Financial Institu-tions	Fixed Deposits	Loans from Other Companies	Deben-tures	Commer-cial Paper	Foreign Borrow-ings	Total incl. Others
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1995-96	35.55	26.67	2.79	3.15	17.72	0.04	7.17	100.00
1996-97	33.07	27.36	2.69	3.26	17.26	0.27	9.08	100.00
1997-98	31.50	26.25	2.81	2.22	18.43	0.84	10.49	100.00
1998-99	31.55	26.21	2.82	2.40	17.68	1.84	9.16	100.00
1999-00	32.67	26.93	2.81	2.52	17.71	1.77	7.86	100.00

From the distribution of borrowings according to company size and borrower category shown in Appendix-5.1, it becomes evident that for the smallest group of companies (with less than Rs. 5 crores assets), total borrowings declined over the five years in absolute terms. In their case, the shares of both banks and financial institutions declined considerably. Their place was partly taken by other companies (both group and non-group ones). Understandably, being small, they cannot attract fixed deposits nor could they float debentures. In the case of companies with Rs. 5- 10 crores of assets there was virtually no change in the borrowings position. In their case, while the share of banks increased, that of financial institutions declined bringing the combined share down by about 4 percentage points. As in the case of the smallest group, the gap was filled by loans from other companies, notably those belonging to other companies belonging to the group. Companies in the Rs. 10-25 crores of assets also follow a similar pattern. However, the combined share of banks and financial institutions was quite high and ranged between 75 to 80 per cent. There was very little change in the shares of other lenders.

Overall, borrowings of the larger companies increased substantially during the period. In their case debentures turned out to be an important source of external funds. The share of debentures was in between that of financial institutions and banks. Understandably, the largest group has foreign borrowings as an important source of finance. The relative shares of different types of lenders did not change in a substantial manner for the larger

companies. An interesting fact is that from 1997-98 onwards, yearly net addition to borrowings fell sharply for the larger companies (See Col. 5). The largest companies who are major borrowers as also investors, have the alternative sources of finance in the form of debentures and foreign borrowings. This freedom could have helped the large companies to effectively evade the restrictions on fund use that could possibly have been imposed by the institutions.

Profitability and ICIL

The ratio of deployment of borrowed funds in ICIL may represent the risk involved in the process on the one hand and the extent of 'diversion' of funds on the other. Table-5.7 shows the loss-making and profitable companies separately in different ranges of the ratio. It can be seen that relatively larger number of loss-making companies did not have ICIL. Similar is the case with investments up to 5 per cent of LTB. Even so, about 29 per cent of loss-making ones invested to the extent of at least one-fourth of the LTB in other companies. In the case of profitable companies the corresponding share was a little more than half. Thus one finds important differences between profit-making and loss making-companies in their external investments behaviour.

Table-5.7
Distribution of Companies according to the extent of LTB Invested in ICIL : 1999-00

Ratio of ICIL to LTB (%)	Loss-Making companies#		Profit-Making companies	
	No. of Companies	Per cent to Total	No. of Companies	Per cent to Total
(1)	(2)	(3)	(4)	(5)
Nil	322	29.40	232	13.80
0 - 5	184	21.30	237	14.10
5 - 10	49	5.67	78	4.64
10 - 25	58	6.71	139	8.27
25 & above	251	29.05	871	51.81
All Companies	864	100.00	1,681	100.00

PBT is negative.

Adding up the increases in borrowings and ICIL according to loss-making companies and profit-making ones further brings out the differences between the two sets of companies. Table-5.8 presents the increase in (i) total borrowings, (ii) total borrowings excluding short-term bank borrowings, (iii) long term borrowings, and (iv) loans and investments between 1995-96 and 1999-00 separately for companies making pre-tax profits and the losing ones. From the Table it emerges that the extent of additional ICIL by loss-making ones is minimal. Profit-making ones account for practically the entire new ICIL. In the case of profit-making ones, which account for two-thirds of the total borrowings, new ICIL constitutes 54 per cent of total additional borrowings (Table-5.9). More importantly, as much as 81 per cent of the additional long term borrowings during 1995-96 to 1999-00 are lent out or invested in other enterprises by these companies (Graph-5.4). Looking in a slightly different way, one finds that among the profitable ones those who increased long-term borrowings had more than doubled (121 per cent) their investments & loans during the five years (Table-5.10 and Graph-5.5). On the other hand, those who reduced their debt burden, invested in other enterprises to a far lesser extent compared to the ones who went for increased borrowings. Similar is the behaviour of loss-making ones.

Table-5.8
Increase in Borrowings and ICIL during 1995-96 to 1999-00

(Amount in Rs. Crores)

Type of Companies	No. of Companies	Total Borrowings		Long Term Borrowings #	Loans & Investments
			Excluding Short Term Bank Borrowings		
(1)	(2)	(3)	(4)	(5)	(6)
Incremental borrowings and Investments between 1995-96 and 1999-2000					
Profit-making Companies	1,681	57,949	47,611	38,853	31,385
Loss-making Ones	864	28,794	22,234	19,411	676
All Companies	2,545	86,743	69,845	58,264	32,061
Share in Total (%)					
Profit-making Companies	66.05	66.81	68.17	66.68	97.89
Loss-making Ones	33.95	33.19	31.83	33.32	2.11
All Companies	100.00	100.00	100.00	100.00	100.00

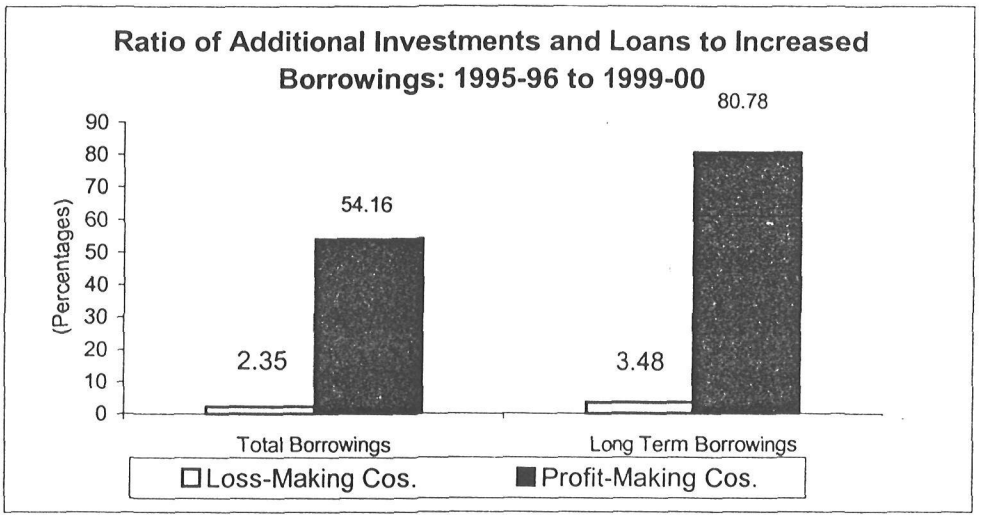
Sum of long term bank borrowings, loans from financial institutions, debentures and foreign borrowings.

Table-5.9
Ratio of ICIL to Borrowings

(Percentages)

Company Category	Ratio of Investments & Loans to		
	Total Borrowings		Long Term Borrowings
		Excluding Short Term Bank Borrowings	
(1)	(2)	(3)	(4)
Profit-making Companies	54.16	65.92	80.78
Loss-making Ones	2.35	3.04	3.48
All Companies	36.96	45.90	55.03

Graph-5.4



Graph-5.5

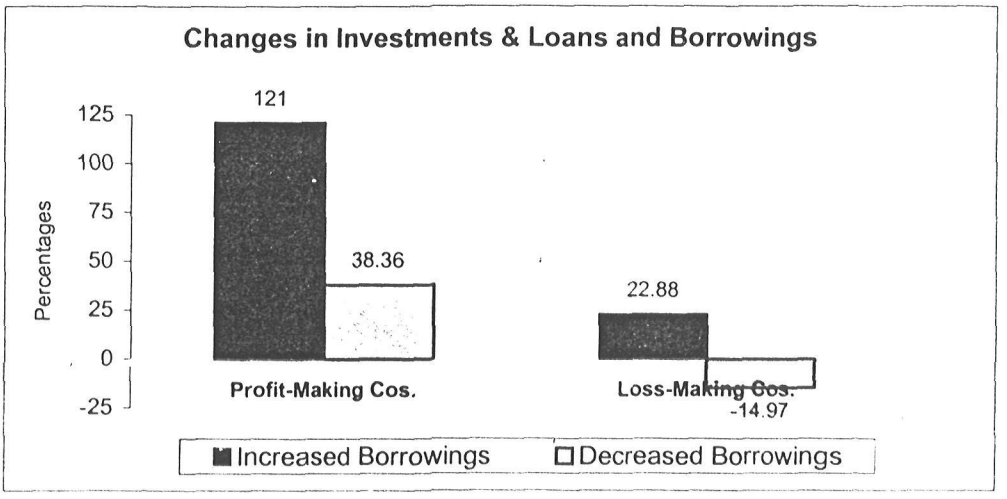


Table-5.10
Changes in Total Borrowings and ICIL during 1995-96 to 1999-00

(Amount in Rs. Crores)

Company Type	No. of Companies	Increase in Total Borrowings	Increase in ICIL		Ratio of Additional Loans & Investments to Increased Borrowings (%)
			Amount	(%)	
(1)	(2)	(3)	(4)	(5)	(6)
I. Profit-making Companies					
Increased Borrowings	1,064	65,184	28,333	121.00	43.47
Reduced Borrowings	617	-7,235	3,052	38.36	#
Sub-Total	1,681	57,949	31,385	100.05	54.16
II. Loss-making Companies					
Increased Borrowings	594	30,421	909	22.88	2.99
Reduced Borrowings	270	-1,627	-233	-14.97	#
Sub-Total	*864*	*28,794*	*676*	12.24	2.35
All Companies	2,545	86,743	32,061	86.89	36.96

Either the denominator or both numerator and denominator are negative.

Net Interest Payments

Since it emerged that the inter-corporate investments and loans are being financed to a large extent, even if indirectly, from borrowed funds, it would be more appropriate to compare, instead of the total interest outgo, net interest payments (by netting out the interest and dividend receipts) with the total costs. It may be seen from Table-5.11 that the ratio of interest costs to total costs comes down substantially -- more than 2 per cent and 1.5 per cent respectively in 1995-96 and 1999-00. The narrowing down of the difference is due to the falling returns from the investments. The difference, however, is still far higher than what a 1.5 per cent decline in average interest rate would have helped the companies in terms of lower ratio of interest cost to total costs.

Table-5.11
Ratio of Net Interest Payments to Total Costs

(Amount in Rs. Crores)

Year	Total Cost	Interest Payments	Dividend & Interest Earnings	Net Interest Payments (3) - (4)	Ratio to Total Costs (%)		
					Interest Payments (3)/(2) x 100	Net Interest Payments (5)/(2) x 100	Difference in the Ratio (6) - (7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1995-96	2,35,266	15,480	5,245	10,235	6.58	4.35	2.23
1996-97	2,73,261	20,362	5,366	14,996	7.45	5.49	1.96
1997-98	2,98,492	22,150	5,413	16,737	7.42	5.61	1.81
1998-99	3,26,342	24,355	5,809	18,546	7.46	5.68	1.78
1999-00	3,63,769	26,214	5,952	20,262	7.21	5.57	1.64

Effect of Increased Borrowings on Savings

To come back to corporate savings, a focal point of the discussion on interest rates. In the foregoing discussion it has been seen that large companies account for a substantial part of the borrowings, as also ICIL. In Section 3 it was identified that these are also the ones which account for a substantial part of the savings of the sample companies. Companies in the two topmost groups *i.e.*, those with Rs. 500 crores or more of assets, numbering 200, accounted for a little more than two-thirds of gross savings of the sample companies. Their share increased further to more than three-fourths by 1999-00. Importance of the two largest groups is further evident from the fact that average gross savings in their case works out to about Rs. 158 crores; and Rs. 26 crores, compared to Rs. 8 crores of the immediately preceding range (Table-3.7).

It may, therefore, be relevant to examine the effect of increased investments being financed through additional borrowings by these largest companies of the sample, on their retained profits and gross savings. This has been carried out for the year 1999-00. Two scenarios are presented in Table-5.12 given on the previous page. The first one is based on the actual financial data of the 200 companies. The second represents a situation which would have been the case had these companies not made any additional ICIL after 1995-96. Since a high proportion of the increased borrowings are reflected in the additional ICIL, it was further assumed that the borrowings would have been lower to the extent of actual increase in ICIL. Both the scenarios are based on common effective interest and tax rates. It can be seen that had the companies not invested additionally during the period, retained profits would have been higher by about 9 per cent and gross savings by a little more than 4 per cent (rows 23 and 24 respectively). Similarly, the ratio of interest payments to total costs too would have been lower at 6.12 per cent instead of the observed 7.56 per cent (row 26). The debt-equity ratio would have been lower by as much as 20 percentage points (rows 27 and 28). Thus refraining from making additional investments and loans would have made substantial difference to the financial position of the largest 200 companies.

Table-5.12
Actual and Expected Retained Earnings and Gross Savings of Top 200 Companies: 1999-00

(Amount in Rs. Crores)

S.No.	Item		Actuals	Expected#
	(1)		(2)	(3)
1	Total Investments & Loans: 1999-00		56,393	29,181
2	Dividend & Interest Receipts: 1999-00		4,504	2,332
3	Total Borrowings: 1999-00		1,42,659	1,15,447
4	Interest Payments: 1999-00		16,050	12,988
5	Interest Saved			3,062
6	Income foregone on the additional ICIL			2,174
7	Tax on the Interest Saved			651
8	Profit Before Tax (PBT)		16,696	17,586
9	Tax Provision		3,550	3,738
10	Profit After Tax (PAT)	(8 - 9)	13,146	13,848
11	Dividends		5,312	5,312
12	Retained Profits	(10 - 11)	7,833	8,536
13	Non-operating Surplus		2,141	2,141
14	Depreciation		11,280	11,280
15	Gross Savings	(12-13+14)	16,972	17,675
16	Average Return on Investments & Loans	(2/1 x 100)	7.99	
17	Average Interest Rate on the Borrowings	(4/3 x 100)	11.25	
18	Effective Tax Rate	(9/8 x 100)	21.26	
19	Total Investments & Loans: 1995-96		29,181	
20	Total Borrowings: 1995-96		76,271	
21	Increase in Investments & Loans	(1 - 19)	27,212	
22	Increase in Total Borrowings	(3 - 20)	66,388	
23	Expected increase in Retained Profits (%)			8.97
24	Expected increase in Gross Savings (%)			4.14
25	Total Costs: 1999-00		2,12,242	
26	Ratio of Interest to Total Costs (%)	(4/25 x 100)	7.56	6.12
27	Debt-Equity Ratio (%)		97.70	77.71
28	Debt-Equity Ratio (%) (adjusted for revaluation)		105.63	84.02

#: 1. Had there been no increase in Investments and Loans (ICIL) during 1995-96 to 1999-00 borrowings would have been lower to the extent ICIL had *actually* increased during the period.
2. Interest saved is calculated on the basis of the average interest rate obtained by dividing interest payments during the year by the total borrowings at the end of the year.
3. Additional tax payment on the interest saved is calculated on the basis of the effective tax rate shown in row 18.
4. Dividend payments are assumed to remain the same after increase in PAT.
5. The fact that dividends are not taxed in the hands of the recipient are not taken into account in these calculations.

Composition of Borrowings of Companies in Different Size Ranges

Year	Asset Range (Rs. Cr.)	Number of Cos.	Borrowings		Bank Borrowings	Financial Institutions	Fixed Deposits	Loans from Group Cos	Loans from Other Cos	Loans from Cos. (8) + (9)	Debentures	Commercial Paper	Foreign Borrowings	Others
			Amount	Increase Over the Previous Year (%)										
(1)	(2)	(3)	(4)	(5)	(6)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
			Amount (Rs. Cr.)		Percentage Shares in Total Borrowings									
1995-96	Less than 5	205	360		50.57	20.86	0.60	9.48	9.64	19.12	1.47	0.00	0.00	7.39
1996-97		205	352	-2.22	51.50	15.29	0.76	10.99	10.40	21.40	1.50	0.00	0.00	9.55
1997-98		205	330	-6.25	50.13	13.86	0.85	13.18	10.54	23.72	1.60	0.00	0.00	9.84
1998-99		205	300	-9.09	48.02	13.08	0.99	13.88	11.79	25.67	1.71	0.00	0.00	10.52
1999-00		205	290	-3.33	44.31	11.34	2.32	14.25	15.09	29.34	1.49	0.00	0.09	11.10
1995-96	5 - 10	288	784		44.32	28.62	1.76	3.97	6.10	10.07	2.10	0.00	0.00	13.12
1996-97		288	801	2.17	45.86	24.54	1.73	4.52	7.89	12.41	3.22	0.00	0.00	12.25
1997-98		288	829	3.50	47.87	22.71	1.31	3.57	7.35	10.92	3.69	0.00	0.24	13.25
1998-99		288	799	-3.62	48.37	20.32	0.75	4.93	9.59	14.52	2.29	0.00	0.27	13.49
1999-00		288	784	-1.88	49.19	19.38	0.59	5.53	9.53	15.06	1.92	0.00	0.27	13.59
1995-96	10 - 25	523	3,038		46.67	33.03	2.71	1.82	4.31	6.13	1.83	0.00	0.20	9.43
1996-97		523	3,166	4.21	47.10	31.51	1.95	2.06	4.63	6.68	1.64	0.00	0.65	10.46
1997-98		523	3,197	0.98	48.88	29.05	1.66	2.04	5.46	7.50	1.76	0.00	0.24	10.91
1998-99		523	3,255	1.81	50.53	26.49	1.76	2.60	5.44	8.03	1.85	0.00	0.31	11.03
1999-00		523	3,402	4.52	50.51	24.37	1.85	3.66	6.06	9.71	1.59	0.00	0.34	11.61
1995-96	25 - 50	407	4,511		46.58	32.08	1.37	3.08	4.22	7.30	3.62	0.00	0.29	8.77
1996-97		407	4,847	7.45	46.38	31.07	1.35	2.40	4.93	7.33	3.93	0.00	0.32	9.62
1997-98		407	5,237	8.05	49.90	28.48	1.52	2.47	4.44	6.92	3.46	0.00	0.40	9.32
1998-99		407	5,698	8.80	50.64	26.93	1.72	3.19	3.89	7.08	3.34	0.00	0.73	9.57
1999-00		407	5,928	4.04	51.79	25.89	1.72	1.86	4.64	6.51	3.33	0.00	0.78	9.97

Continued...

(Contd...)

	Activity/Industry	No. of Compa-nies	Gross Fixed Capital Formation				Change in Stocks				Gross Capital Formation			
			1996-97	1997-98	1998-99	1999-00	1996-97	1997-98	1998-99	1999-00	1996-97	1997-98	1998-99	1999-00
13	Metals & Metal Products	227	3514.65	3738.62	5348.09	2108.94	1806.31	2219.53	-2750.49	878.19	5320.96	5958.15	2597.60	2987.13
	Iron & Steel and Products	189	2580.16	2254.35	3984.26	1517.38	729.63	2587.01	-2319.15	823.10	3309.79	4841.36	1665.11	2340.48
14	Non-Electrical M/c.	152	715.82	654.37	638.56	519.12	203.39	8.33	-346.60	-29.95	919.21	662.70	291.96	489.17
	Machinery & Machine Tools	73	191.99	172.92	171.30	135.23	62.57	-28.90	-180.34	-11.82	254.56	144.02	-9.04	123.41
15	Electrical M/c. excl. Electronics	100	905.50	722.31	667.10	477.63	116.92	-198.09	-150.73	-9.71	1022.42	524.22	516.37	467.92
	ACs, Refrigerators & Domestic Elect. Appliances	20	253.78	227.91	312.59	151.24	124.14	-81.38	-120.26	70.42	377.92	146.53	192.33	221.66
16	Electronics	107	455.18	570.12	497.06	577.92	55.17	-316.14	94.19	-50.79	510.35	253.98	591.25	527.13
	Consumer Electronics	17	202.02	113.28	290.61	22.43	-126.69	-128.77	68.53	-56.75	75.33	-15.49	359.14	-34.32
	Computer Systems, Peripherals, etc.	20	28.25	48.15	35.04	38.11	0.30	-21.44	2.63	8.13	28.55	26.71	37.67	46.24
17	Transport Equipment	116	2695.32	2641.18	6462.91	3927.81	2800.07	526.05	-3542.00	-352.95	5495.39	3167.23	2920.91	3574.86
	Automobiles & Ancillaries	105	2615.17	2566.91	6394.13	3889.12	2802.51	548.33	-3467.60	-412.58	5417.68	3115.24	2926.53	3476.54
18	Misc. Manufactured Articles	19	62.49	50.00	29.52	26.83	73.57	-76.10	-5.94	-13.89	136.06	-26.10	23.58	12.94
19	Construction & Allied Activities	53	132.56	214.41	175.43	227.76	213.24	298.62	11.41	47.12	345.80	513.03	186.84	274.88
20	Electricity Generation	11	1056.66	2589.82	751.35	2161.57	832.65	-1161.89	951.37	-1137.42	1889.31	1427.93	1702.72	1024.15
21	Services	285	1336.10	2326.96	1436.11	1143.67	912.85	70.96	244.35	416.84	2248.95	2397.92	1680.46	1560.51
	Trading	176	264.78	1329.67	147.15	184.64	688.95	-126.95	233.67	400.97	953.73	1202.72	380.82	585.61
	Hotels & Restaurants	36	383.33	446.04	579.68	398.33	140.15	238.83	-46.93	135.65	523.48	684.87	532.75	533.98
22	Diversified Companies	39	6933.46	7256.64	2514.07	6588.15	345.80	-494.89	1113.56	-8574.55	7279.26	6761.75	3627.63	-1986.40
23	Computer Software Development & Allied Activities	42	413.06	660.91	560.01	626.60	93.68	-22.82	129.29	-14.44	506.74	638.09	689.30	612.16
24	Petroleum & Lubricants	10	1124.09	117.21	143.34	163.04	-833.05	640.88	1533.12	1132.86	291.04	758.09	1676.46	1295.90
	All Companies	2,449	30024.25	33124.18	29879.64	27765.93	10198.79	3266.16	-4055.45	-6957.16	40223.04	36390.34	25824.19	20808.77

Section 6

Savings and Capital Formation of NGFPs in 2000-01

It has been seen in Section 3 that, measured at current prices, savings of the sample NGFPs increased in 1999-00 compared to 1998-99. The ratios of gross savings of PUC, total assets and net sales too increased in 1999-00 marking a reversal of the experience of previous year recovery compared to the experience of 1998-99. It would be relevant to know whether the improvement continued in 2000-01 especially in the context of slow rate of GDP growth in general and of the industrial sector in particular, during the year.[1] Given the fact of concentration of savings in a few large companies, samples consisting of relatively small number of companies, but including large-sized ones, may help provide advance indications of the final estimates that would be brought out by the RBI.[2] Keeping this in view, a set of 2,044 non-government non-financial public limited companies for which data are available for the three years 1998-99, 1999-00 and 2000-01 has been chosen on the lines similar to Sample-I. The total PUC of the 2,044 companies, referred to as Sample-III, was Rs. 39,617 crores in 1999-00 and formed 33.66 per cent of the PUC of NGFPs at the end of the year.

Gross Savings of Sample-III and Estimates for NGFPs

Estimates of gross savings of all registered NGFPs, i.e., the population of NGFPs, depend upon the characteristics of the samples studied as also the reliability of population PUC. In the absence of information on the possible adjustments being made to population PUC by official agencies to bring them

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1 While the growth rate of GDP in 2000-01 fell from 6.4 to 5.2 per cent, that of the industrial sector declined from 6.1 per cent to 5.3 per cent. Even though the service sector's growth rate decreased it continued to be high and was 7.5 per cent in 2000-01. See: *Reserve Bank of India, Annual Report* 2000-2001.

2 The data on a good number of companies covered in Sample-II are not yet available for 2000-01. There are 1,684 companies common to both Sample-II and Sample-III. The common companies account for 65 per cent of the paid-up capital of Sample-II. Having observed how sample size can affect the overall size of the estimate of savings one should expect certain deviations from the observations made earlier in respect of 1998-99 and 1999-00.

as close to reality as possible and non-availability of population PLC data for 2000-01, population estimates of gross savings and capital formation and the corresponding rates with respect to GDP, presented in the study, need to be taken in a comparative sense rather than at their absolute levels.

Gross savings and related aggregates of the sample companies for the three years are shown in Table-6.1. It can be seen that while retained earnings increased from Rs. 4,827 crores in 1998-99 to Rs. 6,767 crores in 2000-01, depreciation increased from Rs. 14,175 crores in 1998-99 to Rs. 18,216 crores resulting in a substantial increase in gross savings from Rs. 19,002 crores in 1998-99 to Rs. 24,983 in 2000-01. The increase in gross savings, when calculated on year-to-year basis works out to 13.82 per cent in 1999-00 and 15.51 per cent in 2000-01. In aggregate terms depreciation continues to the a major component of gross savings. Its share, however, declined marginally during the three years from 74.60 per cent to 72.75 per cent (Table-6.2). In relative terms, the role of retained profits has been more prominent in savings enhancement. Overall, the rate of growth of gross savings of the sample companies during 2000-01 was higher than that in 1999-00. Compared to the experience during 1995-96 to 1999-00, these developments do suggest possible revival in corporate profits and retentions.

Table-6.1
Gross savings of 2,044 Sample-III companies

(Rs. Cr.)

Year	Retained Profits (Net of NOS)	Depreciation	Gross Savings	Annual Rate of Growth of Gross Savings (%)
(1)	(2)	(3)	(4)	(5)
1998-99	4,827	14,175	19,002	-
1999-00	5,613	16,014	21,627	13.82
2000-01	6,767	18,216	24,983	15.51

Table-6.2
Share of different Constituents in Gross Savings

(Percentages)

Year	Retained Profits	Depreciation	Gross savings
1998-99	25.40	74.60	100
1999-00	25.95	74.05	100
2000-01	27.25	72.75	100

From the point of estimation of the gross savings of NGFPs, it would be relevant to compare the ratio of gross savings of the sample companies with their PUC, assets, net fixed assets and total income. The ratios computed for the different years are presented in Table-6.3. It is evident from the Table that both in 1999-00 and in 2000-01 all the four ratios increased over their corresponding values of the earlier years. The Sample-III thus yielded results similar to the ones observed in Sample-II in respect of 1999-00 and confirm the continuation of the recovery in 2000-01.

Table-6.3
Ratio of Gross Savings to PUC, Total Income and Total Assets

Year	Ratio of Gross Savings to (%)				PUC of NGFPs (Rs. Crores)	Gross Savings of NGFPs Estimated on the basis of Cols. 2 & 6		Savings Rate of NGFPs $
	PUC	Total Income	Total Assets	Net Fixed Assets		Amount (Rs. Crores)	Annual Growth Rate (%)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1998-99	52.30	5.11	4.05	8.38	96,943 @	50,701	-	2.88
1999-00	54.59	5.18	4.26	9.05	1,18,044 @	64,440	27.10	3.29
2000-01	58.96	5.43	4.55	10.04	1,27,538 #	75,196	16.69	3.45

@ Based on the coverage of population PUC by the CF studies of NGFPs for the corresponding years.
# Projected on the basis of the population PUC at the end of December 2000.
$ Based on the estimated GDP at current market prices of Rs. 17,58,276, Rs. 19,56,997 and Rs. 21,80,000 for the respective years.

Latest available PUC data refer to December 2000. Assuming that population PUC of NGFPs would have increased at the same rate in the remaining three months of 2000-01 and that the PUC of NGFPs would be in the same proportion to all non-government public limited companies as in the previous year, estimates of gross savings of population NGFPs have been obtained and shown in Col. (7) of Table-6.3. The estimates for 1998-99 and 1999-00 seem to be consistent with those obtained from Sample-I and the CF study of NGFPs for 1999-00. While the estimates from Sample III suggest that gross savings of NGFPs in 1999-00 increased by 27.10 per cent, the estimates based on CF study and Sample-I presented in Table-3.16 show that gross savings increased by 23.48 and 23.18 respectively. It does appear that the gross savings grew by 16.69 per cent in 2000-01, considerably lower than the

previous year's growth rate. Correspondingly, the savings rate of NGFPs increased from 2.88 in 1998-99 to 3.29 in 1999-00 and finally to 3.45.

Profitability and Retentions

To understand the contribution of retained earnings to gross savings better, select aggregates relating to profits, their appropriation and corresponding ratios have been calculated and presented in Tables 6.4 and 6.5. It can be seen that both PBT and PAT increased considerably during the period. However, the growth of PBT and PBT was slower in 2000-01 compared to 1999-00. With both effective tax rate and the share of dividends in PAT coming down, retained earnings (gross of NOS) grew faster in 2000-01 compared to the growth in 1999-00.

Table-6.4
Select Aggregates relating to Profits and Appropriation

(Amount in Rs. Crores)

Year	PBT (Gross of NOS)	Tax Provision	PAT (Gross of NOS)	Dividends + Dividend Tax	Dividend Tax	Dividends excl. Dividend Tax	Retained Profits (Gross of NOS)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1998-99	16,544	4,236	12,309	6,018	588	5,430	6,291
1999-00	20,080	5,097	14,983	7,353	780	6,574	7,629
2000-01	22,712	5,391	17,321	7,720	884	6,836	9,601

Table-6.5
Select Ratios relating to Profits and their Appropriation

(Percentages)

Year	Effective tax rate	Share of dividends (incl. dividend tax) in PAT	Share of Dividend Tax in PAT	Share of Retained Profits in PAT	Annual Growth Rate of PBT	Annual Growth Rate of Retained Profits (incl. NOS)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1998-99	25.60	48.90	4.78	51.10	-	-
1999-00	25.38	49.08	5.20	50.92	21.37	21.27
2000-01	23.73	44.57	5.11	55.43	13.11	25.85

Since payment of taxes and dividends are more relevant for profitable companies, to provide a better picture of the changes in different components that go into retained profits, the exercise has been repeated for companies

reporting pre-tax profits. The results are presented in Tables 6.6 and 6.7. The combined effect of lowering of corporate income tax rate[3], lowered dividend payments and increased proportion of dividend tax has been an increase in the share of retained earnings in PAT from 69.71 per cent in 1998-99 to 72.21 per cent in 2000-01. In the overall, retained earnings increased from 51.10 per cent to 55.43 per cent of PAT.

While the above results suggest a continuing improvement in the aggregate profits and retentions, it is important to note that, as in the earlier years, the number of profit-making companies declined in 2000-01 compared with the previous year - from 1,443 to 1,383. Put in an alternative way, it emerges that nearly one-third of the companies incurred losses in 2000-01.

Table-6.6
Select Aggregates relating to Profits and their Appropriation
(Profit-making companies)#

(Amount in Rs. Crores)

Year	No. of Cos.	PBT	Tax Provision	PAT	Dividends incl. Dividend Tax	Dividend Tax	Retained Profit	Equity Dividends	Equity Capital
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1998-99	1,451	23,884	4,223	19,660	5,955	582	13,706	5,767	21,784
1999-00	1,443	29,038	5,084	23,954	7,292	773	16,662	7,055	22,544
2000-01	1,383	32,935	5,366	27,569	7,663	878	19,906	7,457	22,559

Positive pre-tax profit (PBT)

Table-6.7
Select ratios relating to Profits and their Appropriation
(Profit-making companies)#

(Percentages)

Year	Effective Tax Rate	Dividends inl. Dividend Tax as % of PAT	Dividend Tax as % of PAT	Share of Retained Earnings in PAT	Equity Dividend Rate
(1)	(2)	(3)	(4)	(5)	(6)
1998-99	17.68	30.29	2.96	69.71	26.47
1999-00	17.51	30.44	3.23	69.56	31.29
2000-01	16.29	27.79	3.19	72.21	33.06

Positive pre-tax profit (PBT)

3 In the Union Budget 1997-98 corporate tax rate was lowered from 40 per cent to 35 per cent and the surcharge was also reduced from 15 per cent to 7.5 per cent.

To explain the trends in savings and retained profits, one has to look into the profitability of the sample companies. In contrast to the picture of increased profits and retentions that emerged in the above, Table-6.8 shows that the select profitability ratios either declined or increased only moderately in 2000-01 compared to the earlier year's experience. While there was no appreciable change in the sales margins during the period, there was only a moderate improvement in asset profitability. Return on net worth, however, improved substantially. It is equally important to note that all the four ratios declined in the case of manufacturing companies in 2000-01.

Table-6.8
Select Profitability Ratios : Sample-III

Year	Gross Profits# to Net Sales		Gross Profits to Total Assets		Profit After Tax to Net Worth		Gross Profits (excl. NOS and OI) to Net Sales	
	All Sample Cos.	Manufa-cturing Cos.	All Sample Cos.	Manufa-cturing Cos.	All Sample Cos.	Manufa-cturing Cos.	All Sample Cos.	Manufa-cturing Cos.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1998-99	12.15	11.66	8.48	8.23	7.81	6.85	9.48	8.92
1999-00	12.18	11.80	8.75	8.76	8.42	7.94	9.44	9.17
2000-01	12.01	11.25	8.86	8.70	8.85	7.71	9.20	8.61

PBIT: Profits before tax inclusive of interest and net of depreciation provision.

Size-wise and Industry-wise Distribution of Gross Savings

Distribution of gross savings of the sample companies according to different asset sizes is presented in Table-6.9. The smallest set of companies in the sample, namely those with assets of less than Rs. 10 crores, continued to be net dissavers. The shares of smaller companies, however, generally improved during the period. On the other hand, shares of companies with assets between Rs. 50-1000 crores declined. The largest companies *i.e.*, those having assets of Rs. 1000 crores and more increased their shares from 65.20 per cent in 1998-99 to 68.95 per cent in 2000-01. Continuing the earlier trend and following the increase in the number of loss-making companies, the number of dissavers increased in all the asset ranges. Interestingly, the number of dissavers in the topmost asset range doubled between 1999-00

and 2000-01. Overall, a little more than one-fourth of the sample companies are dissavers in 2000-01.

Table-6.9
Size-wise Distribution of Gross Savings

(Percentages)

Range (Rs. Cr.)	No. of Companies	Share in the Total		
		1998-99	1999-00	2000-01
(1)	(2)	(3)	(4)	(5)
Less than 5	119	-0.19	-0.19	-0.16
5 - 10	182	-0.17	-0.08	-0.12
10 - 25	359	-0.02	-0.04	0.11
25 - 50	301	0.35	0.55	0.80
50 - 100	333	3.23	3.12	2.62
100 - 500	534	20.30	19.33	17.10
500 - 1000	119	11.30	11.61	10.71
1000 & above	97	65.20	65.70	68.95
All Companies	2,044	100.00	100.00	100.00

After equalling the average growth in 1999-00, gross savings of manufacturing companies increased comparatively at a far slower rate in 2000-01 (Table-6.10). This appears to be in line with the macro-economic trends where the rate of growth of the manufacturing sector declined in 2000-01 compared to the earlier year. Within the manufacturing sector, the metals and chemicals group suffered the worst. On the other hand, the performance of foodstuffs and textiles group improved considerably. The number of dissavers in the manufacturing group increased from 266 to 296. Interestingly, savings of even the diversified companies grew at a slower pace in 2000-01. Experience of the manufacturing sector is in contrast to the growth in over all savings which actually increased faster in 2000-01. This was mainly due to substantial increase in the savings of companies engaged in computer software development and related activities. Their share increased from 10.35 per cent in 1998-99 to 18.64 per cent in 2000-01.

Contribution of Other Income and Non-operating Surplus

Given the experience of the earlier years when other income (OI) and non-operating surplus (NOS) contributed substantially to corporate profits, a similar exercise was conducted to examine whether these two forms of receipts continued to provide considerable support to the pre-tax profits. It

emerges from Table-6.11 that while the share of OI declined during the period, that of NOS increased. The two, however, continued to account for about half of the PBT. Thus these two types of receipts continue to be important for the sample companies.

Table-6.10
Activity-wise Trends in Gross Savings

	Activity/Sector	No. of Cos.	Gross Savings (Rs. Crores)			Annual Growth Rate (%)	
			1998-99	1999-00	2000-01	1999-00	2000-01
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Agriculture & Allied Activities	68	412	320	178	-22.38	-44.22
2	Mining & Quarrying	36	349	-109	49	#	#
3	Manufacturing	1,538	14,396	16,877	17,504	17.23	3.71
	Of which, Foodstuffs, Textiles, etc.	435	1,344	1,448	1,957	7.74	35.21
	Metals, Chemicals, etc.	1,066	8,962	10,442	10,089	16.51	-3.38
	Diversified Companies	37	4,091	4,988	5,458	21.93	9.43
4	Electricity Generation	5	775	796	1,069	2.67	34.36
5	Construction	43	195	240	253	23.32	5.17
6	Computer Software & Allied Activities	83	1,967	2,645	4,657	34.46	76.07
7	Trade, Hotels & Restaurants	183	488	497	480	1.71	-3.33
8	Transport Service	34	269	171	514	-36.46	201.07
9	Real Estate& Business Services	33	36	24	59	-33.34	141.48
10	Commercial, Social& Personal Services	21	114	168	220	47.65	31.29
	All Activities	2,044	19,002	21,628	24,983	13.82	15.51

Either numerator or denominator is negative.

Table-6.11
Share of Other Income and NOS in PBT

(Amount in Rs. Crores)

Year	PBT	Other Income (OI)	Non-Operating Surplus (NOS)	PBT excluding OI and NOS	Share of OI in PBT	Share of NOS in PBT
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1998-99	16,544	7,270	1,464	7,811	43.94	8.85
1999-00	20,080	7,989	2,016	10,075	39.78	10.04
2000-01	22,712	8,531	2,834	11,347	37.56	12.48

The fact that the share of NOS increased substantially during 2000-01 deserves a closer look because of its implications for the estimation of capital formation. Between 1998-99 and 2000-01, NOS almost doubled. Two of the main components of NOS are gains from sale of assets and investments. Both

have implications for the process of restructuring. The companies might be divesting fixed assets as also unrelated investments in companies which are not in their main line of operation. Another possibility, however, could be the increasing operations on the stock market to secure capital gains. The process needs a closer examination because in the short run the addition to profits could be misinterpreted as improvement in business performance. It is, however, difficult to sustain such income over longer periods by individual companies unless the restructuring exercises yield tangible results.

The declining share of OI in PBT might be seen as a positive development as it reflects increased reliance by companies on their main operations. It could also be, however, a result of the falling returns from the inter-corporate investments and loans (ICIL) made by the companies as has been brought out in the previous section. In such a situation, the deployment of resources and especially their utilization becomes more relevant. The fact that the sample companies increased their ICIL during the period becomes evident from Table-6.12. It can be seen that while the share of net fixed assets in total assets declined during the period, that of investments increased. Out of the increase in total assets between 1998-99 and 2000-01, increase in investments nearly matches the increase in the net fixed assets.

Table-6.12
Composition of Total Assets of Sample-III Companies

Year	Total Assets (Rs. Cr.)	Percentage Share in Total Assets							
		Net Fixed Assets	Inven-tories	Invest-ments	Loans to Corporate bodies	Sundry Debtors	Cash and Bank Balances	Other Receiva-bles	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1998-99	4,68,881	48.34	13.77	8.12	2.72	12.10	4.28	9.00	1.67
1999-00	5,08,257	47.04	13.79	9.81	2.44	12.35	3.60	9.16	1.81
2000-01	5,48,734	45.37	13.72	10.98	2.65	12.64	3.45	9.08	2.11
	(79,853)	*(27.92)*	*(13.44)*	*(27.76)*	*(2.24)*	*(15.81)*	*(-1.41)*	*(9.55)*	*(4.69)*

The last row of Col. 2 indicates the increase in total assets between 1998-99 and 2000-01. Figures in the other columns of the row indicate the shares of respective items in the increase.

Capital Formation

The substantial deployment of funds by the sample companies in ICIL, one expects, would have implications for their capital formation. Measured at current prices, gross fixed capital formation (GFCF) at the aggregate level increased from Rs. 30,892 crores to Rs. 34,194 crores (Table-6.13). On the other hand, due to considerable reduction in stocks, GCF declined from Rs. 29,538 crores to Rs. 24,426 crores, or by 17.31 per cent. Both GFCF and GCF in the manufacturing sector declined considerably. Surprisingly, capital formation of diversified companies declined sharply. At Rs. 1,200 crores, GCF of these companies was less than 40 per cent of the GCF during the previous year. The major contributors to increase in the GCF of other companies are: (i) electricity generation; and (ii) computer software and allied activities. The substantial addition to fixed assets of the sample companies in the electricity generation group is, however, due to the merger of Andhra Valley Power and Tata Hydro Power with Tata Power.

Table-6.13
Activity-wise Capital Formation: 2000-01
(at current prices)

(Amount in Rs. Crores)

	Activity/Sector	No. of Cos.	Gross Fixed Capital Formation		Change in Stocks		Gross Capital Formation	
			1999-00	2000-01	1999-00	2000-01	1999-00	2000-01
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Agriculture & Allied Activities	68	335	340	106	-232	440	108
2	Mining & Quarrying	36	276	4,167	1,778	-2,894	2053	1 273
3	Manufacturing	1,538	26,587	21,260	-3,865	-4,557	22,722	16 703
	Of which, Foodstuffs, Textiles, etc.	435	3,678	3,931	-109	35	3,569	3 965
	Metals, Chemicals, etc.	1,066	15,946	15,544	162	-4,007	16,108	11 538
	Diversified Companies	37	6,963	1,785	-3,918	-585	3,045	1 200
4	Electricity Generation	5	444	4,414	256	-777	700	3 636
5	Construction	43	207	162	-108	-302	99	-140
6	Computer Software & Allied activities	83	1,124	2,002	8	409	1,132	2 411
7	Trade, Hotels & Restaurants	183	894	474	562	-31	1,456	443
8	Transport Service	34	839	1,151	-154	-1,392	685	-241
9	Real Estate& Business Services	33	1	50	-4	-173	-4	-123
10	Commercial, Social& Personal Services	21	184	174	69	180	254	354
	Manufacturing	1,538	26,587	21,260	-3,865	-4,557	22,722	16 703
	Others	506	4,305	12,934	2,511	-5,211	6,816	7 723
	All Companies	2,044	30,892	34,194	-1,354	-9,768	29,538	24 426

population estimates of manufacturing companies have not been provided, sample estimates excluding the merger cases suggest a fall in capital formation of each of the main components. The exercise also suggests a fall in the rates of capital formation of NGFPs from 4.61 to 4.33 in case of GFCF and 4.28 to 2.88 in case of GCF.

As in the earlier years, 2000-01 also witnessed reduction in gross fixed assets (adjusted for revaluation reserves) of a number of companies. At 272, the number of such companies in 2000-01 almost equalled the 276 cases in the previous year. The absolute reduction in GFA compared to the increase in GFA was relatively quite high at 16.77 per cent. During the previous year it was 9.7 per cent. These cases once again highlight the problems in measurement of capital formation of the private corporate sector.

Table-6.14
Estimated Capital Formation
(at current prices)

(Amount in Rs. Crores)

	Item	All Sample-III Companies (2044)		Sample-III Mfg. Cos. (excluding merger cases)			Sample-III (excluding Merger Cases)		
		1999-00	2000-01	1999-00	2000-01	Annual Growth Rate	1999-00	2000-01	Annual Growth Rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
a	Buildings	3,955	4,012	2,815	2,614	-7.14	3,676	3,611	-1.77
b	Plant & Machinery	23,172	27,604	21,010	20,465	-2.59	22,215	24,696	11.17
c	Other Fixed assets	3,765	2,578	1,785	1,234	-30.87	3,439	1,957	-43.09
d	Gross Fixed Capital Formation (a+b+c)	30,892	34,194	25,610	24,313	-5.06	29,330	30,264	3.18
e	Capital Work in Progress	-4,771	-9,924	-5,705	-8,385	#	-4,943	-10,470	#
f	Inventories	3,417	156	2,288	523	-77.14	2,876	322	-88.80
g	Change in Stocks (e+f)	-1,354	-9,768	-3,418	-7,862	#	-2,067	-10,148	#
h	Gross Capital Formation (d+g)	29,538	24,426	22,193	16,451	-25.87	27,262	20,116	-26.21
i	PUC of Sample Companies	39,617	42,375	31,031	32,254		38,371	40,927	
j	Ratio of GFCF to PUC (d/i) x 100	77.98	80.69	82.53	71.52		76.44	73.95	
k	Ratio of GCF to PUC (h/i) x 100	74.56	57.64	75.38	51.00		71.05	49.15	
l	Population PUC	1,18,044	1,27,539				1,18,044	1,27,539	8.04
m	Estimated GFCF of NGFPs	92,046	1,02,917				90,233	94,315	4.52
n	Estimated GCF of NGFPs	88,012	73,517				83,870	62,685	-25.26
	GDP at Current Market Prices $						19,56,997	21,80,000	
	Ratio of GFCF to GDP						4.61	4.33	
	Ratio of GCF to GDP						4.28	2.88	

INDIA, Central Statistical Organisation, *National Accounts Statistics: 2001* and CMIE, *Monthly Review of the Indian Economy*, December 2001.

Having noted how a merger influenced the increase in assets of electricity generation group, in order to generate the estimates of capital formation of NGFPs as a whole, the 41 cases which were involved in at least one merger either in 1999-00 or 2000-01, have been kept out of the sample (Table-6.14). For comparative purposes, results from the full sample have also been shown alongside. While in the case of the full sample, the ratio of GFCF to PUC increased, in case of the latter, the ratio had in fact declined. In case of GCF, however, both the sets yield a reduced ratio with respect to PUC. Going by the results of the subset, it appears that GFCF of the population would be higher by 4.52 per cent in 2000-01. GCF of NGFPs in 2000-01 would, however, be lower by 25.26 per cent compared to the previous year. Though