

## INDUSTRIAL POLICIES AND PERFORMANCE

*Industrial production in 1991-92 was almost the same as in the previous year. Manufacturing output declined marginally. Growth of the mining sector decelerated sharply. Growth of electricity generation accelerated. A number of factors, acting on both the demand and supply sides, constrained the growth of manufacturing. On the demand side, there was a fall in the effective demand owing to a slowdown in the overall growth of the economy, a reduction in public expenditure and public investment in real terms, a deceleration in private investment because of social disturbances and economic uncertainties, and inadequate growth of manufactured exports. The major supply-side factors were shortage of imported inputs because of import compression, a rise in their cost and low availability and high cost of credit.*

*Many of the fiscal and monetary restraints which had a dampening effect on industrial production in 1991-92 were removed or relaxed in 1992-93. The downtrend in industrial production was reversed. Industrial growth of 4-4.5 per cent is expected in the current financial year.*

*Industrial policy reforms were carried further in 1992-93. The capital market was freed from Government control and the office of the Controller of Capital Issues was abolished. Foreign Exchange Regulation Act was amended and investment restrictions on FERA companies were substantially removed. Foreign investment was further liberalised by removing the conditionality of dividend balancing for the non-consumer goods. Private investment in exploration and refining was allowed in the hydrocarbon sector. The Textile Control Order was repealed. Investment activity has picked up as evidenced by the substantial increase in investment proposals from both domestic and foreign investors. There was a quantum jump in new capital issues after the decontrol of the capital market.*

Industrial production in 1991-92 was almost stagnant. Manufacturing industries, the major segment of the industrial sector suffered a decline in production for the first time in the past decade. The severe import compression which resulted in a decline of nearly 20 per cent in value of imports in dollar terms combined with a tightening of credit availability was one of the principal supply-side factors responsible for the decline in manufacturing output during 1991-92. Widespread social disturbances and economic uncertainties which prevailed during the year contributed to this decline and to a weakening of investment demand as investment intentions suffered from the uncertain conditions which prevailed. On the demand side, the slowing down of overall rate of growth and a decline in agricultural output, especially foodgrain output, acted as a dampener on manufacturing

growth. The year also saw the collapse of exports to markets in the erstwhile Soviet Union.

6.2 The recent policy measures including the substantial deregulation of the industrial sector and liberalisation of trade policies will take time to yield results. There are, however, already some signs of a turnaround with industrial production showing a modest recovery in the first seven months of 1992-93. In April-October 1992, the IIP registered an increase of 3.8 per cent over the same period of 1991. It can be expected that this recovery will be further strengthened during the remaining months of 1992-93 in view of an exceptionally good kharif harvest. The increase in exports to the General Currency Area (GCA) as also the resurgence of domestic demand both for investment goods and consumer products may be expected to contribute to sustaining the rate of growth in industrial production in the second half of 1992-93.

### **Industrial Policy Reforms**

#### **BOX 6.1**

##### **Industrial Licensing**

- Manufacture of industrial alcohol was delicensed and veneers were brought under the compulsory licensing list.

##### **De-regulation**

- Most of the conditions stipulated in the letters of intent and industrial licences issued earlier to firms in industries now delicensed were waived.
- The system of endorsement of capacity expansion under modernisation/renovation was discontinued except in the case of industries which are still under compulsory licensing or are located in restricted areas.
- Small-scale industries engaged in the manufacture of delicensed items were exempted from obtaining Carry On Business (COB) licences on their graduation to medium-scale industries.
- The private sector has been invited to invest in oil exploration and refining which is otherwise reserved for the public sector.
- The power sector is now open to both domestic and foreign private investment.

##### **Procedural Reforms**

- The Chief Inspector of Factories has been designated as the Appropriate Government Authority under the stipulations regarding conversion of letters of intent to industrial licences in the case of hazardous industries.
- An Investment Promotion and Project Monitoring Cell has been set up in the Department of Industrial Development to provide information and guidance to entrepreneurs regarding licensing policy, tariffs, corporate laws, current status of applications pending with the Department, infrastructure facilities and incentives available at State levels for setting up industries etc.

6.3 With the announcement of the New Industrial Policy in July 1991, a large number of Government-induced entry restrictions, licensing requirements and controls on corporate behaviour were eliminated. The thrust of the policy measures undertaken in 1992-93 has been to deepen these reforms and extend them to other sectors of industry. Further, the industrial and trade policy changes introduced since the presentation of the previous Economic Survey have made imported inputs cheaper and more accessible for industry and have, at the same time, exposed a larger segment of the Indian industry to international competition. Fiscal policy initiatives have sought to improve the incentives for investment in the industrial sector and encourage a shift towards exports and away from domestic markets.

6.4 The process of industrial de-regulation and structural reforms has been carried further during 1992-93, and the direction for future policy action has been firmly established. As experience is gained and the economy begins to respond to the policy changes, the reforms will be extended to other sectors. Consolidation of these reforms by way of ensuring their implementation and removing anomalies will be focussed upon. The role of state governments is critical in this regard.

#### **Fiscal and Monetary Policy Measures**

6.5 A number of measures were initiated in the Budget and the monetary policies to revive industrial growth.

- (i) The Budget for 1992-93 announced LERMS under which 60 per cent of foreign exchange earnings are allowed to be converted at market rate of exchange. Consequent to this, import of all raw materials, components and capital goods for use in the manufacturing sector, barring a few in a small restricted list, would be freely allowed as long as the importer obtained the required foreign exchange from the market. This has greatly facilitated access to imported capital goods, technology and raw materials. Trade policy was liberalised and the restricted list of imports pruned substantially. All intermediate goods, industrial raw materials, components and spare parts are now on the Open General Licence (i.e., importable without licence).
- (ii) The peak import tariff was brought down from a maximum of 150 per cent to 110 per cent, thereby reducing costs of imported industrial inputs. Rates of import duties on project imports, capital goods and general machinery were substantially reduced. The Export Promotion Capital Goods (EPCG) Scheme made capital goods importable at 25 per cent and 15 per cent duty as long as the importers agreed to fulfil a stipulated export commitment.
- (iii) The floor level of interest rate on commercial bank advances was reduced by 2 percentage points in two stages in March and October 1992.
- (iv) The Capital market was liberalised and Government control over capital issues withdrawn. The office of the Controller of Capital Issues was abolished. The Securities and Exchange Board of India (SEBI) has been converted into a statutorily empowered Board to regulate the functioning of capital market and stock exchanges. Companies are now free to price their equity issues at their own risk and at self-determined premia, within the guidelines laid down by SEBI for investor protection.
- (v) Taxation of capital gains was restructured to allow for inflation accounting. Double taxation of partnership firms was abolished and financial assets such as equities and debentures were exempted from wealth tax. These fiscal measures have improved the incentives for industrial investment and encouraged flow of resources towards industry.

## Foreign Investment

6.6 A number of measures have been put in place to attract foreign investment.

- (i) Under the new Industrial Policy, approvals for foreign direct investment up to 51 per cent of equity in specified high-priority industries were to be given automatically subject to the condition that the dividend payments should be balanced by export earnings over a specified period of time. This condition of dividend balancing was withdrawn in respect of all foreign investment approvals except for some notified consumer goods industries. The list of high-priority (Annex III) industries where foreign investments up to 51 per cent were allowed automatically was revised, rationalising the earlier grouping and adding new items. The software industry is now included in the list.
- (ii) Automatic approval of RBI for raising foreign equity up to 51 per cent will be available to : i) companies wishing to raise foreign equity as part of an expansion programme in the high-priority (Annex III) industries and ii) companies predominantly engaged in high-priority industries to raise the equity base without an expansion programme. Such companies can issue equity abroad at prices determined by the shareholders by a special resolution.
- (iii) Approvals for foreign investment and foreign technology agreements had a condition earlier prohibiting the use of foreign brand name or trade mark in goods sold in the domestic market. This restriction has since been withdrawn.
- (iv) Foreign Exchange Regulation Act 1973 (FERA) was substantially liberalised through an Ordinance promulgated by the President on 8 January, 1993. All restrictions on FERA companies in the matter of borrowing funds or raising deposits in India as well as taking over or creating any interest in business in Indian companies have been removed. Indian companies and Indian nationals are now allowed to start joint ventures abroad and accept directorships in overseas companies. FERA companies are also exempted from restrictions on the establishment of branches liaison offices and acquisition of the whole or a part of any undertaking or company in India carrying on business in trade, commerce or industry excepting agriculture and plantations.
- (v) Non-Resident Indians (NRI) and Overseas Corporate Bodies (OCB) predominantly owned by them are allowed to invest up to 100 per cent foreign equity in high-priority and other industries with full benefits of repatriation of capital invested and income accruing thereon. Investment by NRIs up to 100 per cent on full repatriation basis is also allowed in export houses, trading houses, hotels and tourism-related industries.

## National Renewal Fund

6.7 The National Renewal Fund (NRF) has been operationalised. A sum of Rs. 200 crore had been earmarked for the fund in the 1991-92 budget. This has been supplemented by a substantial input of IDA resources, at concessional interest rates to the tune of Rs 500 crore in 1992-93. The first tranche of these resources has been received. Another Rs. 500 crore will be available from IDA during 1993-94. The objectives of the NRF are:

- (i) to provide assistance to firms to cover the costs of retraining and redeployment of employees arising as a result of modernisation and technological upgradation of existing capacities and from industrial restructuring.

- (ii) to provide funds for compensation to employees affected by restructuring or closure of industrial units, both in the public and private sectors.
- (iii) to provide funds for employment generation schemes in the organised and unorganised sectors in order to provide a social safety net for labour. The Department of Industrial Development, which administers NRF, has now taken up the first set of cases relating to the National Textile Corporation units.

#### Industrial Production 1991-92

6.8 Industrial production in 1991-92 was almost stagnant at the previous year's level with the General Index of Industrial Production (IIP) showing a nominal decline of 0.1 per cent. (Table 6.1). The stagnation was due to the poor performance of the mining and manufacturing sectors. The manufacturing sector, the major segment in the IIP, showed a decline in production of 1.6 per cent as against an average annual growth of 8.9 per cent between 1985-86 and 1990-91. The mining sector grew by only 0.3 per cent in 1991-92 while the electricity sector showed a growth of 8.5 per cent over the previous year.

TABLE 6.1  
Annual Growth Rates in Major Sectors of Industry

(Per cent)				
Year	Mining	Manufac- turing	Electri- city	General
(Weight)	(11.46)	(77.11)	(11.43)	(100.00)
1	2	3	4	5
1981-82	17.7	7.9	10.2	9.3
1982-83	12.4	1.3	5.7	3.2
1983-84	11.8	5.7	7.6	6.7
1984-85	8.8	8.0	12.0	8.6
1985-86	4.1	9.7	8.5	8.7
1986-87	6.2	9.4	10.3	9.2
1987-88	3.8	7.9	7.6	7.3
1988-89	7.9	8.7	9.5	8.7
1989-90	6.3	8.6	10.8	8.6
1990-91	4.5	9.0	7.8	8.3
1991-92	0.3	-1.6	8.5	-0.1
April-October				
1990-91	1.7	12.7	7.4	10.6
1991-92	-0.2	-2.5	9.7	-0.6
1992-93	3.9	3.7	4.2	3.8

6.9 The IIP began the year in April 1991 at a level marginally lower than that of April 1990 and remained subdued until the third quarter of the year (Table 6.2). The index started picking up in December 1991; the average IIP for the last quarter of 1991-92 recorded a growth of 1.2 per cent over the corresponding quarter of the previous year. The Index for the manufacturing sector also showed a similar trend.

6.10 An analysis of the IIP at disaggregated level shows that seven of the 17 major industry groups, with a combined weight of 47.75 per cent in the total weight of 77.11 per cent for the manufacturing sector, recorded positive growth rates during 1991-92. The other ten groups (Table 6.3) suffered a decline in their output. Specific industries in which

TABLE 6.2

## Recent Trends in Month-wise and Quarter-wise Growth in IIP(1980-81=100)

Month/Period	Manufacturing				Change over previous year (per cent)			General Index				Change over previous year (per cent)		
	1989-90	1990-91	1991-92	1992-93	1990-91	1991-92	1992-93	1989-90	1990-91	1991-92	1992-93	1990-91	1991-92	1992-93
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
April	168.5	190.0	185.7	197.3	12.8	-2.3	6.2	177.5	197.0	194.9	208.6	11.0	-1.1	7.0
May	166.3	195.9	186.4	192.7	17.8	-4.8	3.4	175.7	201.4	195.9	205.1	14.6	-2.7	4.7
June	176.1	198.9	191.0	197.4	12.9	-4.0	3.4	181.4	203.2	196.8	203.4	12.0	-3.1	3.4
July	172.3	196.2	197.4	192.8	13.9	0.6	-2.3	178.5	201.6	203.8	200.1	12.9	1.1	-1.8
August	174.4	196.8	189.2	195.8	12.8	-3.9	3.5	181.3	200.7	196.9	202.8	10.7	-1.9	3.0
September	176.9	195.6	195.0	208.7	10.6	-0.3	7.0	183.4	197.8	200.8	213.4	7.9	1.5	6.3
October	177.6	193.0	187.3	196.8	8.7	-3.0	5.1	186.0	196.2	199.8	208.3	5.5	1.8	4.3
November	192.7	197.8	194.9	-	2.6	-1.5	-	198.6	204.2	204.3	-	2.8	0.0	-
December	205.9	218.1	212.0	-	5.9	-2.8	-	211.9	224.6	221.9	-	6.0	-1.2	-
January	211.1	218.7	225.8	-	3.6	3.2	-	216.6	226.9	234.4	-	4.8	3.3	-
February	204.2	216.0	223.0	-	5.8	3.2	-	207.6	221.5	230.8	-	6.7	4.2	-
March	262.5	276.3	265.0	-	5.3	-4.1	-	258.5	276.4	268.2	-	6.9	-3.0	-
April-October	173.2	195.2	190.3	197.4	12.7	-2.5	3.7	180.5	199.7	198.4	206.0	10.6	-0.6	3.8
April-March	190.7	207.8	204.4	-	9.0	-1.6	-	196.4	212.6	212.4	-	8.3	-0.1	-
Quarterly Averages														
I. April-June	170.3	194.9	187.7	195.8	14.5	-3.7	4.3	178.2	200.5	195.9	205.7	12.5	-2.3	5.0
II. July-Sept.	174.5	196.2	193.9	199.1	12.4	-1.2	2.7	181.1	200.0	200.5	205.4	10.5	0.2	2.5
III. Oct.-Dec.	192.1	203.0	198.1	-	5.7	-2.4	-	198.8	208.3	208.7	-	4.8	0.2	-
IV. Jan.-March	225.9	237.0	237.9	-	4.9	0.4	-	227.6	241.6	244.5	-	6.2	1.2	-

Figure 6.1

# RATES OF CHANGE OF INDUSTRIAL PRODUCTION

1980-81=100

PER CENT

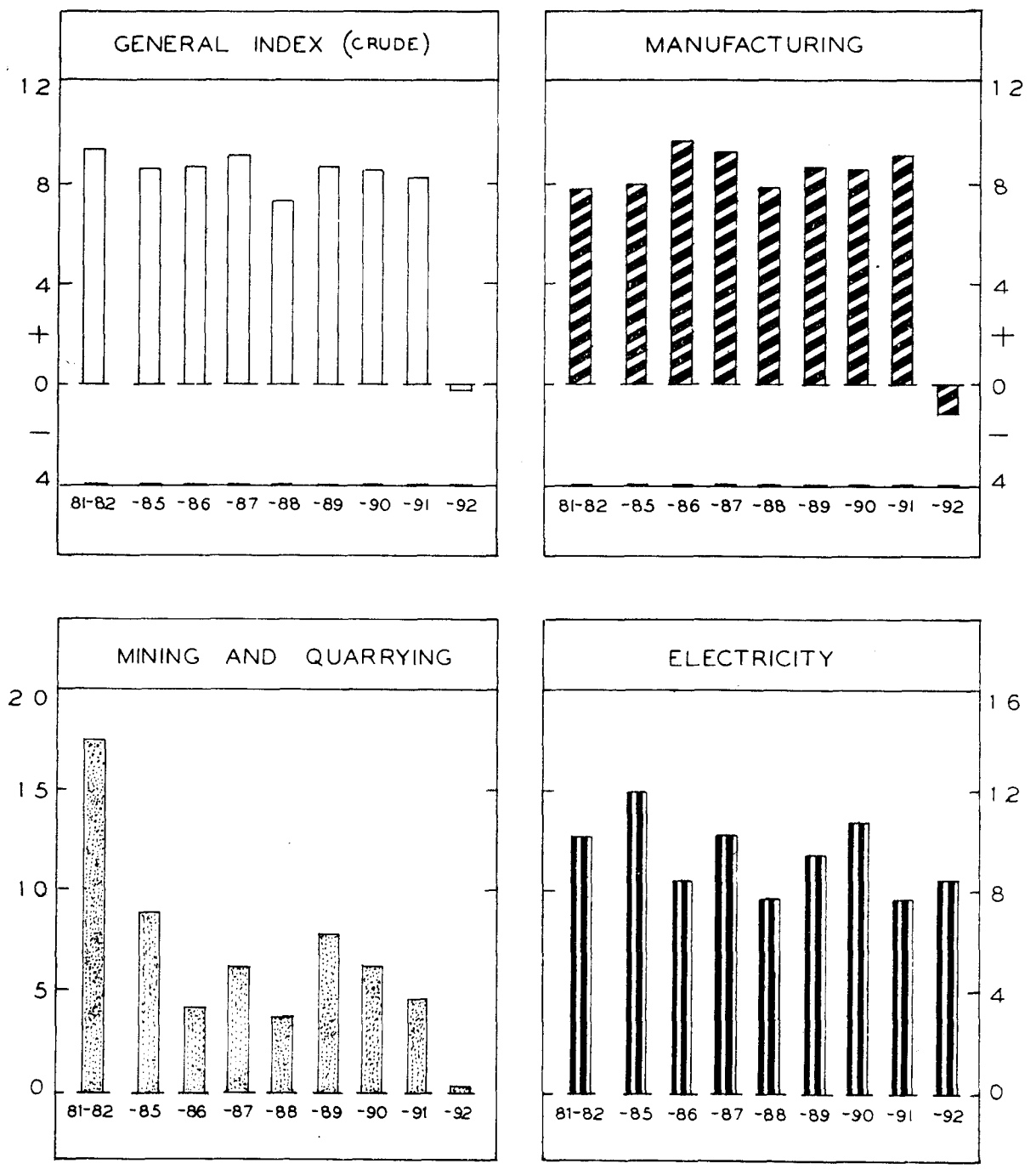
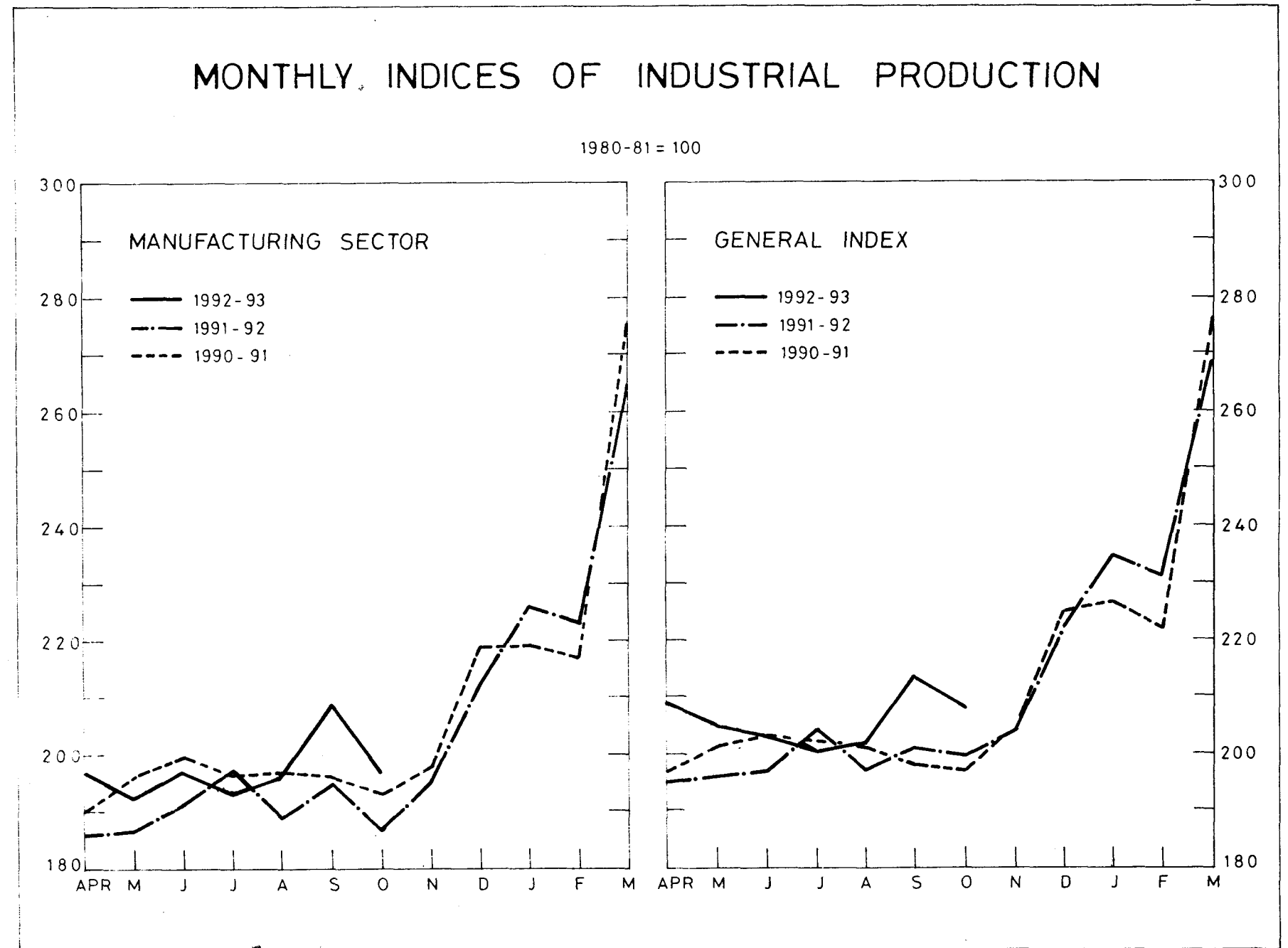


Figure 6-2





output declined during 1991-92 included crude petroleum (-7.9 per cent), newsprint (-44.1 per cent), cement machinery (-37 per cent), cars and jeeps (-28.2 per cent), power transformers (-6.3 per cent), vitamin A (-53.8 per cent), jute textiles (-3.6 per cent), cotton cloth (-14.5 per cent), mixed & blended cloth (-5.8 per cent), telephone instruments (-24.6 per cent) and computer systems and peripherals (-20.3 per cent).

6.11 The negative growth rate of 1.6 per cent in the output of the manufacturing sector during 1991-92 is in sharp contrast to a steady growth of about 8.9 per cent during the previous six years. The fall in the growth of manufacturing have been caused largely by the severe import compression which resulted in a sharp reduction in imports by 20 per cent in Dollar terms during 1991-92. Consequently, the availability of imported raw materials and components for a number of industries were adversely affected. The cost of imports also increased both on account of higher cash margins on imports and the 25 per cent interest surcharge on import credit imposed by the RBI. The downward adjustment in the exchange value of Rupee in July 1991 further raised the import costs and forced the firms to develop alternative domestic sources for these supplies. This may have caused a degree of dislocation in production. Control on the expansion of credit and hike in the lending rates of commercial banks undertaken as part of a package of anti-inflationary monetary policy measures curtailed credit availability. They also pushed up the cost of credit. These supply-side factors led to cost escalations and supply disruptions in many industries forcing them to cut back production and run down inventories.

6.12 On the demand side, there was a fall in the effective demand for manufactured goods on account of a number of factors:

- (i) The slowdown in the rate of growth of agricultural output reduced the demand for manufactured products.
- (ii) The collapse of export markets in the erstwhile Soviet Union resulted in a decline of export demand for a large range of manufactured products such as hosiery, textiles, light engineering goods, toiletries & cosmetics, drugs & pharmaceuticals and inorganic chemicals. Exports to the Rupee payment area (RPA) declined by more than 50 per cent during the year.
- (iii) Overall exports to major OECD markets and GCA also showed a slow-down in growth during this year, partly reflecting supply problems but in part also reflecting weaker external demand for our manufactured items.
- (iv) The increase in food grain prices combined with a low growth in overall incomes reduced the demand for industrial products in fixed-income groups within the urban population.
- (v) Investment demand was also adversely affected both on account of socio-political uncertainty as also the delay in launching the Eighth Five Year Plan. All these factors together resulted in a substantial weakening of overall demand for manufactured products during 1991-92.

6.13 The adverse supply-side factors contributing to the contraction of industrial output during 1991-92 were largely removed by the end of the year. Credit controls on imports were relaxed, access to imports was substantially improved with the abolition of import licencing for most items and import duties on raw materials, intermediates and capital goods were brought down substantially. These measures, while reinforcing seasonal improvement in the industrial performance during the last quarter of 1991-92, enabled the manufacturing sector to show a small positive growth in the last quarter of 1991-92 after three consecutive quarters of negative growth.

TABLE 6.3

## Annual Growth Rates of the Output of Manufacturing Sector

		(Per cent)						
		Weight	April-October					
Industry group			1988-89	1989-90	1990-91	1991-92	1991-92	1992-93
1		2	3	4	5	6	7	8
20-21	Food Products	5.33	6.80	1.60	12.60	4.10	0.20	5.70
22	Beverages, tobacco and products	1.57	8.40	11.90	1.70	13.60	10.50	-0.20
23	Cotton textiles	12.31	-3.10	4.20	12.80	1.20	1.70	2.40
25	Jute, hemp and mesta products	2.00	12.00	-4.40	4.30	-11.00	2.80	-15.40
26	Textile products (including wearing apparel other than footwear)	0.82	46.30	13.00	-32.00	-5.80	-1.30	-17.00
27	Wood and wood products	0.45	6.20	2.50	12.10	-6.20	0.10	-0.40
28	Paper and paper products	3.23	3.00	6.00	9.00	3.60	5.80	2.70
29	Leather and fur products	0.50	-4.40	6.20	3.20	-6.60	-4.60	2.40
30	Rubber, plastic, petroleum and coal products	4.00	8.50	3.10	0.30	-1.00	-2.40	2.10
31	Chemicals and chemical products	12.51	16.10	6.10	2.60	2.80	0.60	6.00
32	Non-metallic mineral products	3.00	16.80	2.80	1.70	6.20	9.40	1.50
	Basic metals and alloys	9.80	6.90	-0.80	10.50	5.80	9.10	-1.30
34	Metal products and parts	2.29	3.00	6.80	0.40	-7.00	-7.10	-5.90
35	Non-electrical machinery and machine tools	6.24	15.80	6.60	8.70	-2.90	-1.30	0.70
36	Electrical machinery and appliance	5.78	3.20	32.70	22.70	-12.50	-18.70	13.30
37	Transport equipment	6.39	12.80	5.70	6.30	-1.70	-2.40	0.50
38	Other manufacturing	0.90	12.50	8.80	-3.40	-16.10	-17.60	-1.80
Div.2-3	Manufacturing	77.11	8.70	8.60	9.00	-1.60	-2.50	3.70
Div.1	Mining and Quarrying	11.46	7.90	6.30	4.50	0.30	-0.20	3.90
Div.4	Electricity	11.43	9.50	10.90	7.80	8.50	9.70	4.20
	GENERAL INDEX	100.00	8.70	8.60	8.30	-0.10	-0.60	3.80

## Industrial Production 1992-93

6.14 IIP for the first seven months of the year 1992-93 (April-October) showed continued improvement compared with the situation in 1991-92. Industrial output has increased by 3.8 per cent over 1991-92 and the manufacturing sector has recorded a growth of 3.7 per cent. These positive growth rates are with reference to the depressed conditions of 1991-92 but it is important to note that when compared to the output levels during the first seven months of 1990-91, the overall industrial production and manufacturing production in the first seven months of 1992-93 show positive growth of 3.2 and 1.1 per cent respectively.

6.15 An analysis of the production data for April-September, 1992 in respect of 172 selected industries accounting for a weight of 88.1 per cent in the IIP shows that 86 industries with a combined weight of 54.7 per cent recorded positive rates of growth and 47 of them with a weight of 13.7 per cent showed a rise of over 10 per cent. Some of the important industries which recorded a growth of over 10 per cent include cement machinery, wrist watches, L.D. polythylene, shipbuilding and repairs, sugar, cloth (decentralised sector), polyester fibre and railway wagons.

6.16 An examination of 172 industries by use-based classification for the period April-September 1992 reveals that during this period intermediate goods, capital goods, consumer durables and basic industries recorded positive growth rates (Table 6.4). The only industry segment to record a negative growth rate was consumer non-durables where also the growth rate has declined only marginally. The slowdown in industrial and manufacturing sector growth rates during July and August 1992 had generated apprehensions of Indian industry being in the grip of strong recessionary conditions. These apprehensions have been somewhat allayed as a result of industrial growth having registered a substantial increase during September. Industrial growth as yet is far from robust but the higher growth rate during September could mark the beginning of an upturn which could be sustained during the remaining part of the year on account of better demand and supply conditions. The year 1992-93 may record a 4 per cent rate of growth in the manufacturing sector and a similar growth for the industry as a whole.

TABLE 6.4  
**Growth Rates of 172 Manufacturing Industries**  
(Use-based classification)

Industry groups	Weight in IIP	(per cent)		
		Change over previous year 1991-92	April - September 1991	September 1992
1	2	3	4	5
Basic industries	36.36	6.2	6.2	2.2
Consumer durables	2.30	-12.5	-10.6	2.4
Consumer non-durables	20.09	1.2	2.7	-1.5
Capital goods	12.02	-12.8	-16.9	8.8
Intermediate goods	17.34	-0.7	-0.6	7.2
All manufacturing industries	88.11	-0.5	-0.9	4.1

Note: The growth rate for 1991-92 (full year) relates to 155 industries with a total weight of 85.54 per cent in the IIP.

6.17 An analysis of weighted rates of growth for a more detailed classification of use based industries further reveals that the decline in manufacturing growth rates in the first half of 1992-93 was confined only to consumer non-durables, fertilizers and mining and quarrying sector. This decline had not affected capital goods, intermediate goods, heavy

chemicals and basic metals. The positive growth rate in these sectors reflects the strengthening of investment demand in the economy and points towards an impending recovery. They certainly do not reflect strong recessionary conditions. Moreover, these sectors have been exposed since July 1991 to greater import competition at lower import duties. A positive growth rate during the first half of 1992-93 is noteworthy because it signifies that these industries may have been able to withstand import competition and may now be internationally more competitive as a result of modernisation and upgradation of their capacities undertaken during the last two years. This represents a significant change from the past.

### **Performance of Selected Industries**

#### **Steel**

6.18 Consequent to the removal of price and distribution controls on iron and steel on 16 January 1992, the integrated steel plants increased their prices by an average of 15 per cent on 18/19 May 1992 to offset the increase in input costs. After some increase in market prices following the price revision by integrated steel plants, the prices of various items of steel have stabilised throughout the country. The import of all items of steel is now freely allowed. Along with the deregulation of iron and steel, import duty on steel melting scrap was reduced from 35 per cent to 10 per cent, on pig iron from 55 per cent to 35 per cent and on billet and HR coils from 65 per cent to 45 per cent. This will also have a moderating effect on market prices.

6.19 Production of saleable steel by the integrated steel plants (main producers) in 1991-92 at 10.57 million tonnes recorded a growth of 13.3 per cent over 9.33 million tonnes in 1990-91 (Table 6.5). Output of finished steel in the secondary sector declined by 1.6 per cent in 1991-92 both because of the inadequate availability of imported melting steel scrap and a fall in demand. There was also a deceleration in the growth of production of saleable pig iron by the main plants from 12.1 per cent in 1990-91 to 6.5 per cent in 1991-92 which reflected the slowdown in forging and casting industry.

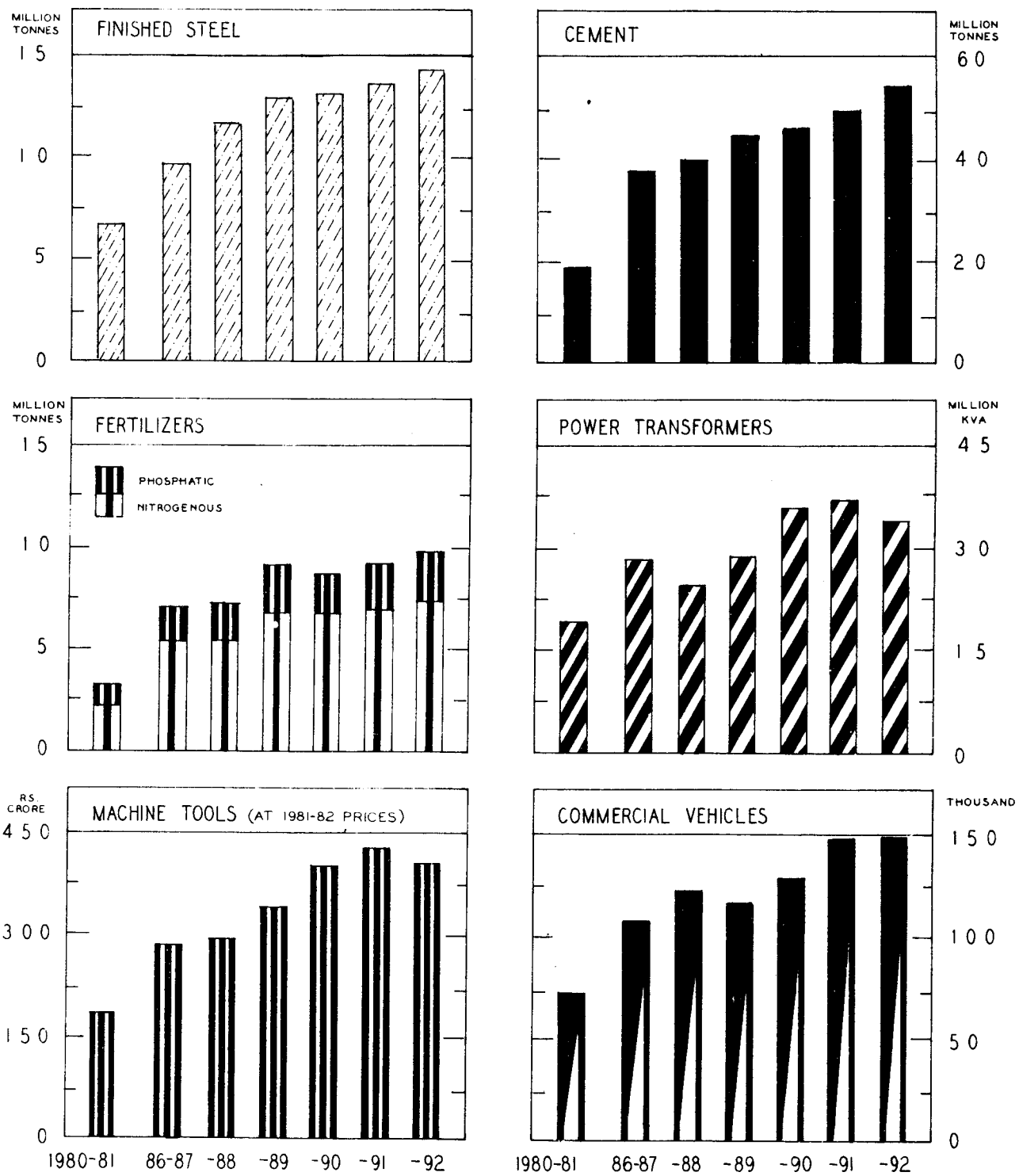
6.20 Production of saleable steel in April-December 1992 has gone up by 8 per cent over the corresponding period of 1991. Production of finished steel has increased by 5.2 per cent and that of saleable pig iron by the main plants, by 13.9 per cent. Production of finished steel in 1992-93 is expected to be 16.1 million tonnes as against 14.2 million tonnes in 1991-92. This perhaps reflects the beginning of a recovery in capital goods and engineering industries. Further, it also demonstrates that the Indian iron and steel industry has stood up to the more liberalised import regime.

#### **Fertilizers**

6.21 The mounting burden of subsidy on fertilizers as a result of steep increases in input costs and non-adjustment of these cost escalations in the sale prices of fertilizers have been causing severe strain on the budgetary resources of the Government. These subsidies amounted to Rs.4800 crore in 1991-92 and would have gone up at unrevised rates to Rs.6577 crore in 1992-93. These issues were examined by a Joint Parliamentary Committee (JPC). Based on its recommendations, the Government announced major changes in the fertilizer pricing policy in August 1992. All price and distribution controls on phosphatic and potassic fertilizers were removed and the consumer price of urea was reduced by 10 per cent from Rs.3060/tonne to Rs.2760/tonne. Low-analysis nitrogenous fertilizers were brought back under the retention price scheme.

6.22 Prices of phosphatic and potassic fertilizers which were heavily subsidised earlier increased sharply after decontrol. A decline in the offtake of these fertilizers has also been reported. A number of measures were taken by the Government to mitigate the adverse effects of price rise on the production and consumption of phosphatic and complex fertilizers. These include: an outright special subsidy of Rs. 1000 per tonne on DAP and

# PRODUCTION OF SELECTED INDUSTRIES-I



## PRODUCTION OF SELECTED INDUSTRIES-II

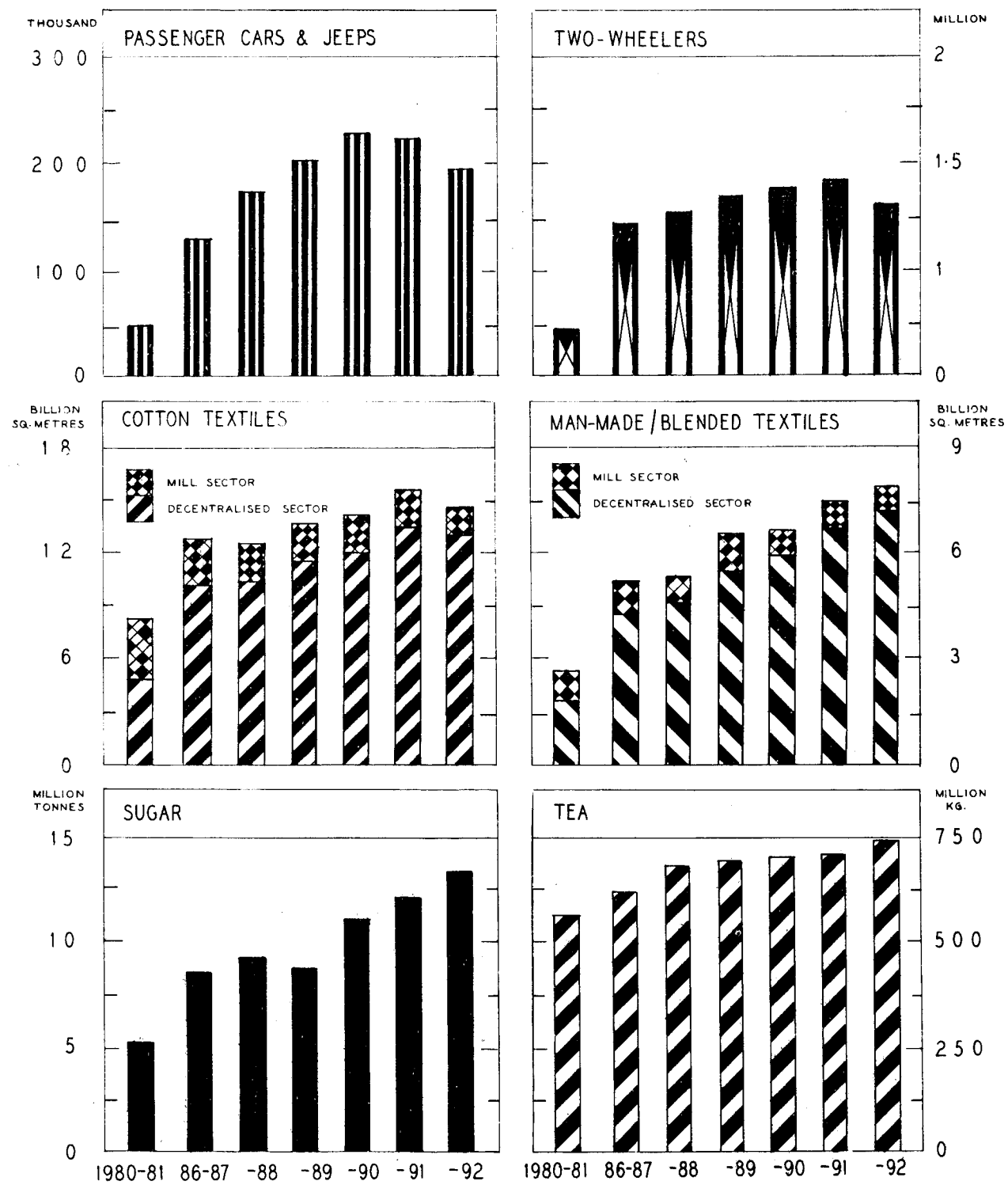


TABLE 6.5

**Output of Iron and Steel**

1	1988-89	1989-90	1990-91	1991-92	April-December		Change over previous year			
	2	3	4	5	1991-92	1992-93*	1989-90	1990-91	1991-92	1992-93@
	Million tonnes						Per cent			
1 Production of saleable steel by main main producers										
(a) SAIL & VSP	7.26	7.06	7.39	8.53	6.11	6.64	-2.75	4.67	15.43	8.67
(b) TISCO	1.95	1.97	1.94	2.04	1.48	1.56	1.03	-1.52	5.15	5.41
Total	9.21	9.03	9.33	10.57	7.59	8.20	-1.95	3.32	13.29	8.04
2 Production of finished steel										
(a) Main producers	7.09	7.00	7.19	7.96	5.75	6.12	-1.27	2.71	10.71	6.43
(b) Secondary producers	5.75	6.00	6.34	6.37	4.70	4.87	4.35	5.67	0.47	3.62
Total	12.84	13.00	13.53	14.33	10.45	10.99	1.25	4.08	5.91	5.17
3 Production of saleable pig iron by main producers	1.01	1.24	1.39	1.48	1.08	1.23	22.77	12.10	6.47	13.89
4 Production of ingot/crude steel by electric arc furnaces	N A	3.43	3.83	3.24	N A	N A	N A	11.70	-15.40	N A
5 Production of sponge iron by secondary producers	0.19	0.32	0.84	1.28	N A	N A	68.40	162.50	52.40	N A

\* Provisional

@ Relates to April-December

MOP and a corresponding subsidy on complex fertilizers purchased by the farmers during the rabi season of 1992-93; decanalisation of imports of DAP; abolition of import duty on phosphoric acid, a basic raw material for phosphatic fertilizers; allocation of foreign exchange at the official exchange rate for import of raw materials for the manufacture of DAP and complex fertilizers and lowering of railway freight for phosphatic and potassic fertilizers to the level applicable for essential commodities.

6.23 Production of fertilizers increased by 9.1 per cent in 1991-92. During April-December, 1992 fertilizer output showed a marginal growth of 0.3 per cent. Production of nitrogenous fertilizers increased by 2.4 per cent and that of phosphatic fertilizers declined by 7.6 per cent compared to the corresponding period of the preceding year. (Table 6.6). The targets set for indigenous production of fertilizers for the current financial year are 7.7 million tonnes of nitrogen and 2.75 million tonnes of phosphate. Production of fertilizers, particularly that of phosphates, is likely to fall short of the targets set for the year. Capacity utilisation which had improved from about 86 per cent to 88 per cent for N and from 75 per cent to 93 per cent for P<sub>2</sub>O<sub>5</sub> during 1991-92 slipped back to around 86 per cent both for N and P<sub>2</sub>O<sub>5</sub> during April-December 1992. Consumption of fertilizers in the current year has been projected at 14.3 million tonnes (including 1.5 million tonnes of potassic fertilizers). A shortfall in domestic production is, however, not likely to create any supply shortages in fertilizers in view of the liberalisation of imports. Recent policy changes in fertilizer pricing and distribution regime have created an imbalance in the relative price structure. This may distort the consumption pattern over time and will, therefore, have to be rectified urgently.

## **Leather**

6.24 The leather industry, with its substantial contribution to the employment and export growth, occupies a pre-eminent place in the Indian economy. Total employment in the industry is estimated to be about 1.4 million. Since the 1970s there has been a steady structural change taking place in leather industry. On the export front, there was a gradual switchover from semi-finished hides and skins to finished leather and leather manufactures which account for over 70 per cent of leather exports now.

6.25 A number of policy initiatives have been taken by the Government in recent years to encourage value-added exports of leather products. Export of raw hides and skins and semi-finished leather has been banned. To discourage the export of finished leather, a 5 per cent export duty was levied on it in the Budget for 1992-93. Duty-free imports of raw hides and skins, chrome tanned, crust and finished bovine leather have been allowed without any import licences. The liberalised import policy now allows easy access to the machinery and raw materials needed by the leather industry. A comprehensive Leather Development Programme has been launched this year with UNDP assistance.

6.26 Small-scale units engaged in manufacture in all areas of leather industry still dominate the production base of leather industry. The cottage sector, with its traditional rural artisans, dominates in leather finishing. The Indian leather industry is characterised by several inherent advantages. A large raw material base of about 166 million pieces of hides and skins available annually is the main strength of the industry. This will go up to 185 million pieces in 1994-95 and 218 million pieces in 2000 A.D. Some of the goat/calf/sheep-skins of India are regarded as speciality products commanding a good market. Abundance of traditional skills in tanning, finishing and manufacturing downstream products and relatively low wage rates are the two other factors of comparative advantage for India. Yet, further skill and capacity upgradation is constrained to some extent by entry barriers against large-scale units in major segments of the industry. Another constraint is the excessive import dependence of the industry for many critical components, raw materials, chemicals and machinery. Lack of a steady growth in export market shares, absence of a good brand image and weakness in export marketing strategies are the other factors which have limited the growth of leather industry.



TABLE 6.6

**Output of Fertilizers**

		1988-89	1989-90	1990-91	1991-92	April-December		Change over previous year			
						1991-92	1992-93	1989-90	1990-91	1991-92	1992-93*
	1	2	3	4	5	6	7	8	9	10	11
		Million tonnes of nutrients						Per cent			
133	I Nitrogenous(N)	6.71	6.74	6.99	7.30	5.33	5.46	0.45	3.71	4.43	2.44
	Public sector	3.08	2.88	2.87	3.02	2.16	2.22	-6.49	-0.35	5.23	2.78
	Pvt. sector	2.04	2.21	2.40	2.55	1.88	1.96	8.33	8.60	6.25	4.26
	Coop. sector	1.59	1.65	1.72	1.73	1.29	1.28	3.77	4.24	0.58	-0.78
	II Phosphatic(P)	2.25	1.79	2.05	2.56	1.97	1.82	-20.44	14.53	24.88	-7.61
	Public sector	0.67	0.44	0.51	0.73	0.56	0.51	-34.33	15.91	43.14	-8.93
	Pvt. sector	1.28	1.13	1.31	1.48	1.15	1.06	-11.72	15.93	12.98	-7.83
	Coop. sector	0.30	0.22	0.23	0.35	0.26	0.25	-26.67	4.55	52.17	-3.85
	TOTAL (N+P)	8.96	8.53	9.04	9.86	7.30	7.28	-4.80	5.98	9.07	-0.27

\* Relates to April-December

6.27 Exports of leather in value terms at current prices increased from Rs.2578 crore in 1990-91 to Rs.3076 crore in 1991-92 recording an increase of about 19 per cent. In dollar terms, there was a decline of 13 per cent. India is still a small player with a meagre 3 per cent share in the global exports of leather and leather products. Germany (32 per cent), USA (20 per cent), USSR (17 per cent), UK (17 per cent) and Italy (14 per cent) were the five leading buyers of our leather and leather goods in 1991-92. Leather industry has been identified as one of the thrust areas of export and an export target of Rs.4253 crore has been set for 1992-93.

### **Sugar**

6.28 The sugar industry has maintained a high growth in the past three years. Production in the sugar year (October-September) 1991-92 is provisionally estimated at 13.28 million tonnes, 10.2 per cent more than the previous year's production of 12.05 million tonnes (Table 6.7). Average annual growth in sugarcane output during the past 3 years was 7.1 per cent; that of sugarcane crushed by sugar factories, 16.7 per cent; and that of sugar production, 15.1 per cent. The share of sugarcane going into sugar production has also been increasing. Domestic consumption has lagged behind the increase in production and thus leading to rising stocks of sugar. These stocks at the close of the sugar year 1991-92 was over 4.8 million tonnes.

6.29 The sugar economy continues to be a highly controlled one. Sugar factories are under compulsory licensing. There is a Statutory Minimum Price (SMP) for sugarcane fixed by the Central Government and State Advised Prices (SAP), over and above the SMP, fixed by the State Governments. The SMP fixed for sugarcane for the sugar season October-September 1991-92 was Rs. 26 per quintal linked to a sugar recovery of 8.5 per cent. The SAP varied from Rs. 27.50/ql. to 48.00/ql. in different States. A certain portion (normally 45 per cent with lower rates for new units) of sugar production is allotted to the State governments and Union Territories as levy, at prices below the open market prices, for distribution through the Public Distribution System. Prices of levy sugar are fixed zone-wise on the basis of the SMP of sugarcane plus conversion costs as recommended by the BICP. There is no price control on free sale sugar. Market supplies of free-sale sugar are regulated by the Government by fixing monthly release quotas so that market prices also get indirectly controlled or supported. Export quotas are determined by the Government and a nominated agency handles sugar exports. There are price and distribution controls on molasses, the major by-product of sugar factories. This policy regime in the industry needs review with the objective of making the industry globally competitive, and generating export surpluses while ensuring adequate domestic availability. The Government is actively considering a package of structural reforms in this sector.

### **Electronics**

6.30 The electronics industry has maintained a high growth rate for almost three decades. Starting from a mere Rs. 15 crore in 1960, the production of this sector today stands at over Rs.10,000 crore (Table 6.8). In the 1960s, the annual growth rate averaged about 25 per cent, which dropped to 17 per cent in the 1970s, and then picked up to over 30 per cent in the 1980s.

6.31 The electronics industry stands substantially deregulated under the new industrial policy. No licence is now required for establishing production capacities except for consumer durables and defence equipment. There are no locational restrictions other than environmental clearance and local zoning and land-use regulations. Automatic approval up to 51 per cent foreign equity and 100 per cent NRI equity is given for a wide range of electronic products. Approval for foreign technology agreements is also automatic for all electronic products except aerospace and defence equipment.

TABLE 6.7

## Profile of the Sugar Industry

1	Unit	1988-89	1989-90	1990-91	1991-92	Change over previous year		
						1989-90	1990-91	1991-92
						7	8 (per cent)	9
1. Production of sugarcane	Million tonnes	203.04	225.57	241.05	249.26	11.1	6.9	3.4
2. Cane crushed in sugar factories	"	85.67	111.12	122.29	134.89	29.7	10.1	10.3
3. Cane crushed/cane production	Per cent	42.20	49.30	50.70	54.12	16.8	2.8	6.7
4. Production of sugar	Million tonnes	8.75	10.99	12.05	13.28	25.6	9.6	10.2
5. Recovery of sugar	Per cent	10.23	9.90	9.86	9.86	-3.2	-0.4	0.0
6. Releases (total)	Million tonnes	10.20	11.13	11.29	11.42	9.1	1.4	1.2
i) Levy	"	4.08	4.14	4.09	4.31	1.5	-1.2	5.4
ii) Free-sale	"	6.12	6.99	7.20	7.11	14.2	3.0	-1.3
7. Internal consumption	"	9.92	10.28	10.72	11.16	3.6	4.3	4.1
8. Exports	"	0.03	0.04	0.21	0.58	33.3	425.0	176.2
9. Imports	"	0.00	0.24	0.00	0.00	-	-100.0	-
10. Stocks (year-end)	"	1.27	2.18	3.30	4.83	71.7	51.4	46.4
11. Per capita consumption	Kg./annum	12.10	12.30	12.50	12.90	1.7	1.6	3.2

Note: Data pertain to the sugar year (i.e., October-September).

TABLE 6.8  
Production of Electronics (Sectoral Breakup):1988-89 to 1991-92

Item/sector	( Rs. crore )			
	1988-89	1989-90	1990-91	1991-92
1	2	3	4	5
1 Consumer electronics	2650	2850	3000	3100
2 Industrial electronics	1000	1360	1370	1500
3 Computer systems (including microprocessor systems)	560	835	820	870
4 Communication & broadcasting equipment	1010	1560	1710	2130
5 Strategic electronics	410	505	635	430
6 Components	1125	1520	1510	1900
7 Free trade zones (hardware)	160	215	275	275
8 Software for exports (including EPZ, 100% EOU)	115	165	220	385
TOTAL	7030	9010	9540	10590

6.32 The rate of growth during 1991-92 was 11 per cent in nominal and 6 per cent in real terms. This was low by past standards but higher than the all-industry average for 1991-92. The sub-sectors which performed relatively well were software, communication & broadcasting equipment and components. Consumer electronics and strategic electronics fared poorly.

6.33 Exports of the electronics sector have risen steadily over the past five years from 6.5 per cent of production in 1987-88 to 10.2 per cent in 1991-92. Aggregate exports have risen from Rs.910 crore in 1990-91 to Rs. 1090 crore in 1991-92 (i.e. by 19.8 per cent). About 77 per cent of the electronics exports in 1991-92 went to the General Currency Areas as against 53 per cent in 1990-91.

6.34 The two sub-sectors which have performed particularly well in exports are software and consumer electronics. The spectacular performances of these two sub-sectors of the industry were driven by certain policy initiatives. In the case of software, two major steps were taken. First, the income tax exemption on export profits which had earlier been granted only to goods was extended to software. Second, the Department of Electronics announced the creation of the Software Technology Park (STP) scheme, whereby software exporters were allowed a considerably more flexible policy environment and were provided certain key infrastructural amenities, especially core computers and high speed data links, that were lacking earlier. In the case of consumer electronics, in 1990-91 the Government decided to allow exporters to import certain restricted items against the REP licences issued to them. List of restricted items was further curtailed and their imports were liberalised in 1992-93.

#### Textiles

6.35 The textile industry was one of the industries delicensed in August 1991 under the new industrial policy. The Textile Control Order, 1986 was repealed in December, 1992 and replaced by the Textile(Development and Regulation) Order, 1992. Under the new policy no prior approval of the Government is required to set up textile units, including powerlooms, except locational clearance as laid down in the Industries(Development and Regulation) Act, 1951 in the case of non-SSI units. New textile units have only to file an Information Memorandum with the Textile Commissioner, Government of India.

6.36 The textile industry is the largest industry in the country, accounting for about 20 per cent of the total industrial output, providing employment to about 15 million people and contributing nearly 25 per cent of the total value of exports. The structure of the industry is extremely complex with the hand-spinning and hand-weaving (handloom) sectors at the one end and the modern, sophisticated and highly mechanised mill sector at the other. In between falls the decentralised small-scale powerloom sector. The present policy regime will result in more rapid and harmonious growth of the three segments (mill, powerloom and handloom) and also give a thrust to exports.

6.37 India's textile industry continues to be predominantly cotton based, 73 per cent of fabric consumption in the country being accounted for by cotton. Total fabric production in 1991-92 at 22588 million square metres was marginally lower than the production in 1990-91. The shares of the mill, powerlooms and the handloom sectors in this output were 10.5, 71.2 and 18.3 per cent respectively in 1991-92 (Table 6.9). Production during April-December, 1992-93 has increased by 2.2 per cent over April-December 1991-92. The powerloom sector has increased its share marginally to 72.8 per cent at the expense of both the mill and the handloom sectors whose shares have declined.

6.38 The textile sector has been undergoing a major restructuring. The mills are modernising their plant and machinery and devoting greater attention to exports. A number of 100 per cent EOUs have also come up which is considered to be a healthy development. This trend is expected to be accelerated and the textile exports are poised for a substantial growth. The powerloom sector is likely to further increase its share. The number of registered powerlooms increased from 10.44 lakh in 1990 to 12.92 lakh as at the end of August, 1992. The handloom sector, which is being priced out by powerlooms in the production of cheap and ordinary cloth, may have to switch a greater share of its capacities to high-value and specialised products and cater increasingly to the sophisticated domestic niche and export markets.

6.39 Yarn production which is almost entirely in the organised sector, was steadily increasing until 1990-91. There was a marginal setback in yarn production during 1991-92 and there has been a slight improvement in the first nine months of 1992-93 (Table 6.10).

TABLE 6.9  
Production of Fabrics

Sector	1988-89	1989-90	1990-91	1991-92	April-December	
					1991-92	1992-93
1	2	3	4	5	6	7
Million square metres						
Mills	2902	2667	2589	2376	1716	1541
Powerlooms*	13123	14007	16044	16089	11864	12359
Handlooms	3993	3924	4295	4123	3039	3079
TOTAL	20018	20598	22928	22588	16619	16979
Share in output (per cent)						
Mills	14.50	12.95	11.29	10.52	10.33	9.08
Powerlooms*	65.56	68.00	69.98	71.23	71.39	72.79
Handlooms	19.95	19.05	18.73	18.25	18.29	18.13
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

\* Including hosiery.

TABLE 6.10  
Production of Spun Yarn

	(Million kg.)			
	Cotton yarn	Blended yarn	Non-cotton yarn	Total
1	2	3	4	5
1987-88	1321	152	82	1555
1988-89	1310	185	92	1587
1989-90	1372	173	107	1652
1990-91	1510	207	107	1824
1991-92	1450	234	122	1806
(April-December)				
1991-92	1072	175	89	1336
1992-93	1086	186	99	1371

6.40 Textile exports (yarn, fabrics, made-ups and ready made garments; excluding jute goods and handicrafts) accounted for about 23 per cent of India's total exports in 1991-92. It is also the largest net foreign exchange earner as the import content in textile goods is very low. During 1991-92 textile exports amounted to Rs. 10106 crore, an increase of 46 per cent over the previous year. In Dollar terms, the increase was 6.2 per cent. Exports of textiles in the first six months (April-September) of the current fiscal year are estimated at Rs. 5080 crore, an increase of 43 per cent (15.3 per cent in Dollar terms) over 1991-92. Most of the exports go to the General Currency Area. This sharp increase in export growth in textiles is one of the highlights of the industrial performance during 1992-93.

6.41 Under the Uruguay Round of Multilateral Trade Negotiations on textiles and clothing, India's objective is to obtain an early phasing out of the restrictions under the Multi-fibre Arrangement (MFA) and full integration of the sector into GATT. India proposes to seek improvements which would result in greater access for our textile exports in the near future. This will provide a further boost to textile exports.

6.42 Output of textile machinery and spare parts has witnessed a substantial growth during the last 5 years. Total value of production of textile machinery and spares increased from Rs. 447 crore in 1987-88, to Rs. 1009 crore during 1991-92, recording a growth of about 126 per cent. During the same period, exports of textile machinery have gone up by about 280 per cent, from Rs. 41 crore during 1987-88 to Rs. 156 crore in 1991-92. The target of production of textile machinery, fixed at Rs. 1210 crore for the year 1992-93, is likely to be achieved.

6.43 Several policy measures have been adopted to improve the health of the textile industry. These include:

- (i) The Textile Modernisation Fund set up in 1986 with a corpus of Rs. 750 crore has received an overwhelming response from the mills. Till the end of September 1992 financial institutions had sanctioned loans amounting to Rs. 1368 crore for 357 cases while disbursements aggregated to Rs. 858 crore.
- (ii) A turnaround strategy for the sick mills of NTC and BIC has been evolved by the Government. The package includes providing working capital finance to tide over the liquidity problems, capacity modernisation and shedding of surplus labour through a voluntary retirement scheme which will be handled through the recently established NRF.
- (iii) In the jute sector, which has been in the grip of a recession since 1991-92, a new package of revitalisation programme is being implemented with the help of UNDP

to cater to the needs of the sector from production to export stage. Major thrust of the programme is on diversification of product range and involvement of entrepreneurs.

- (iv) Other programmes relate to the technological upgradation of ginning and pressing operations and also of the handloom sector. Powerloom co-operative societies are being encouraged to upgrade capacities in this sector. It is expected that these policy measures will further encourage upgradation of capacities and a higher export orientation to the industry.

TABLE 6.11  
Results of SSI Census and ASI

Ratio/coefficient		SSI Census		ASI 1987-88
		1972	1987-88	Manufacturing
1		2	3	4
1	Fixed investment per unit(Rs.lakh)	0.76	1.60	44.80
2	Investment in plant and machinery per unit (original value) (Rs.lakh)	0.38	0.95	N.A.
3	Employment per unit (Number)	12.00	6.29	68.00
4	Value of output per unit (Rs.Lakhs)	1.86	7.38	139.97
5	Fixed investment per employee(Rs.000)	6.38	25.36	65.71
6	Value of output per employee(Rs.000)	15.74	117.22	205.28
7	Net value added per employee(Rs.000)	5.10	27.99	35.40
8	Wages paid per employee (Rs.000)	1.56	6.27	17.26
9	Value of output/investment in fixed assets	2.47	4.62	3.12
10	Net value added/investment in fixed assets	0.32	1.10	0.54

### Small-Scale and Village Industries

6.44 The number of small-scale units is provisionally estimated to have gone up from 19.48 lakh in 1990-91 to 20.80 lakh in 1991-92 - 14.96 lakh registered units on the rolls of the State Industries Departments and 5.84 lakh unregistered units - registering an increase of about 6.8 per cent. However, if the results of the census of SSI units 1987-88 are any guide, about 30 to 40 per cent of these registered units might be non-functional. The value of output of the SSI sector in 1991-92 at current prices, is estimated at Rs.178700 crore, about 15 per cent higher than the output of Rs.155340 crore in 1990-91. Adjusted for inflation, the real growth of output of the sector in 1991-92 might be less than 2 per cent. Estimated employment in the sector has also increased from 125.3 lakh in 1990-91 to 128.8 lakh in 1991-92, an increase of about 3 per cent. The growth of the sector in 1991-92 was in spite of a number of constraints like import restrictions affecting the availability of requisite raw materials and credit squeeze and a rise in the interest rates leading to severe erosion of the liquidity position of the SSI units.

6.45 The second all-India census of registered small scale industrial units, was conducted by the Small Industries Development Organisation (SIDO) in 1987-88, and its results have been published. They show that out of 9.87 lakh registered SSI units as on 31.3.1988 included in the frame, 3.05 lakh units which constituted about 31 per cent of total registered units were closed and another 57000 units were not traceable. Out of 5.82 lakh working units for which data were tabulated, 96.2 per cent were SSI units, 3.2 per cent small service establishments and 0.5 per cent ancillary units. Some of the important structural ratios and coefficients derived from the results of the two SSI censuses of 1972 and 1987-88 are contrasted with the corresponding ratios and coefficients derived from the summary results of the Annual Survey of Industries (ASI) 1987-88, in table 6.11. The ASI covers factory sector SSI units also and is therefore not strictly comparable.

6.46 The census results provide the much needed data base for the SSI sector. Findings of the census also give added empirical support to the generally accepted hypotheses about the distinct characteristics of the SSI sector compared with those of the large and medium sector, namely lower capital base, lower capital/labour ratio, lower productivity of labour and higher productivity of capital and lower wage rates.

6.47 Government have taken a number of steps for the promotion of small-scale industries pursuant to the policy measures announced on 6 August 1991.

- (i) There were restrictions on registering new SSI units for the manufacture of certain products although the products are reserved for the small scale sector. The list of such restricted products was disbanded.
- (ii) Industry-related service and business enterprises with investment up to Rs.5 lakh in fixed assets (excluding land & building) irrespective of their location are now treated on par with small-scale industries.
- (iii) Steps have been taken to alleviate the credit bottlenecks of this sector. The eligibility limit of projects under the National Equity Fund Scheme has been doubled from Rs.5 lakh to Rs.10 lakh.
- (iv) The Single Window Scheme was extended to be operated by scheduled banks also in addition to State Financial Institutions.
- (v) An Ordinance was promulgated on 23 September 1992 making payment of interest obligatory on delayed payments to small scale and ancillary industrial undertakings. It has been re-promulgated in January 1993.

#### **Khadi and Village Industries**

6.48 The Khadi and Village Industries Commission (KVIC) covers about 2.1 lakh villages throughout the country through 30 State KVI Boards, 2320 registered institutions, 29813 cooperatives and over 5 lakh individuals. Over the years, the main thrust of KVIC activities has been to provide a larger share of employment to SC/STs and women. At present SC/ST comprise nearly 30 per cent of workers and women nearly 46 per cent.

6.49 It is provisionally estimated that during 1991-92 the KVI sector produced goods worth Rs. 2458 crore and provided employment to 49.7 lakh persons. During 1992-93 the production level is expected to go up to Rs.2670 crore and employment to 51.05 lakh persons.

#### **Industrial Sickness**

6.50 As at the end of March 1991, there were 2.24 lakh sick or weak industrial units on the rolls of commercial banks. A little over 2.21 lakh (99 per cent) of them were in the small scale sector. Outstanding bank credit of Rs. 10768 crore, which constituted about 17.5 per cent of total industrial credit, was locked in these 2.24 lakh sick or weak industrial units (excluding 127575 non-existent and non-traceable SSI units with an outstanding bank credit of Rs. 284 crore) (Table 6.12). A slight abatement in the increasing incidence of sickness due to early detection and preventive measures taken by the banking system is in evidence. Total outstanding bank credit locked in sick or weak industrial units which had increased by 23.2 per cent between December 1987 and December 1988 and by 21.4 per cent between December 1988 and March 1990 (17.1 per cent on an annualised basis) showed a much lower increase of 15.1 per cent during the year ended March 1991. Although small-scale industries accounted for 99 per cent of the total sick or weak units at



TABLE 6.12  
Industrial Sickness

	Number of units			Amount outstanding		
	End- December 1988	End- March 1990*	End- March 1991*	End- December 1988	End- March 1990* (Rs. crore)	End- March 1991*
1	2	3	4	5	6	7
1 SSI sick units	240573	218828	221472	2141.00	2426.94	2792.04
2 Non-SSI sick units	1241	1455	1461	3387.30	4538.82	5105.57
3 Non-SSI weak units	770	814	876	2177.00	2386.77	2870.21
TOTAL	242534	221097	223809	7705.30	9352.53	10767.82
Change over previous year - per cent						
1 SSI sick units	17.80	-9.04	1.21	19.10	13.36	15.04
2 Non-SSI sick units	10.90	17.24	0.41	20.90	34.00	12.49
3 Non-SSI weak units	3.90	5.71	7.62	31.40	9.64	20.25
TOTAL	17.70	-8.84	1.23	23.20	21.38	15.13

\* The figures for 1990 and 1991 do not include sick SSI units which are not traceable or not in existence.

the end of March 1991, their share in the aggregate locked-in bank credit was only 25.9 per cent, same as at the end of March 1990. The bank credit outstanding in respect of sick SSI units at the end of March 1991, accounted for about 16.2 per cent of total credit to small scale industries. For sick or weak large and medium scale industrial units, the ratio was 17.9 per cent. Out of the 2337 non-SSI sick or weak units, 1896 (81.1 per cent) were in the private sector which accounted for 72.7 per cent of the total outstanding bank credit to the non-SSI sick or weak units. Industry-group-wise, the incidence of sickness and weakness in the non-SSI sector in terms of credit outstanding was the highest in textiles (25.0 per cent) followed by engineering (18.3 per cent), chemicals (7.0 per cent), iron & steel (6.2 per cent), electricals (5.5 per cent) and paper (4.5 per cent).

6.51 Table 6.13 gives the viability status of the identified sick and weak industrial units as at the end of March 1991. The viability of sick units was lower in the SSI sector (7.3 per cent) than in the non-SSI sector (40.3 per cent). However, the coverage of the nursing programme at about 82 per cent in the SSI sector was significantly higher than 61.4 per cent in the non-SSI sector.

6.52 The Board for Industrial and Financial Reconstruction (BIFR) was set up in January 1987 under the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) to revive potentially viable sick industrial companies or recommend the closure of totally non-viable companies. The Board became operational from 15.5.1987. Public sector enterprises were brought within the purview of BIFR through an amendment of the SICA in December 1991. Since its inception, up to the end of December 1992, the BIFR has received 1772 references under Section 15 of SICA. 440 cases were rejected on scrutiny. Of the 1294 references registered, 234 cases were dismissed as not maintainable, revival

TABLE 6.13  
Viability Status of Sick or Weak Units: End-March 1991

1	SSI		Non-SSI		Total	
	Number	Outstanding bank credit (Rs. crore)	Number	Outstanding bank credit (Rs. crore)	Number	Outstanding bank credit (Rs. crore)
	2	3	4	5	6	7
1 Viable units	16140	693.10	941	3699.63	17081	4392.73
2 Non-viable units	202998	1997.13	974	2206.97	203972	4204.10
3 Viability not assessed	2334	101.81	422	2069.18	2756	2170.99
4 Total	221472	2792.04	2337	7975.78	223809	10767.82
5 (a) Units under nursing programme	13224	550.08	578	2336.07	13802	2886.15
(b) As per cent of viable units	81.93	79.37	61.42	63.14	80.80	65.70
Composition						
1 Viable units	7.29	24.82	40.27	46.39	7.60	40.79
2 Non-viable units	91.66	71.53	41.68	27.67	91.20	39.04
3 Viability not assessed	1.00	3.70	18.00	25.94	1.20	20.16
4 Total	100.00	100.00	100.00	100.00	100.00	100.00

schemes were sanctioned or approved in 394 cases and 191 cases were recommended to the concerned High Courts for winding up. Sale of one unit was also ordered. In addition, draft schemes were formulated and circulated in 39 cases and show cause notices were issued for winding up in respect of 68 cases. The proportion of cases effectively decided to those registered by the BIFR till the end of December 1992 was 71.4 per cent and the ratio of companies on the revival path to those on the road to liquidation works out to 2:1.

6.53 Based on the figures furnished by the companies in their references to the BIFR, the accumulated losses of 1018 companies (excluding cases not maintainable and a few cases where data are not complete) amounted to about Rs. 11629 crore. The extent of net worth erosion was over 10 times in 64 cases, 5 to 10 times in 63 cases, 2 to 5 times in 187 cases and less than 2 times in 704 cases. These losses were largely financed by non-payment of dues to financial institutions and banks or statutory dues.

#### Industrial Relations

6.54 The number of man-days lost due to strikes and lockouts over industrial disputes declined from 30.77 million in 1989-90 to 23.60 million in 1990-91. There was a sharp increase in man-days lost in 1991-92. According to the provisional data available, man-days lost in the last two quarters of 1991-92 was much higher than in the corresponding periods of 1989-90 and 1990-91. Full data on man-days lost due to industrial unrest during the current financial year are not yet available. There were quite a few bandhs and strikes both at national and State levels and widespread social unrest in the country towards the end of the year causing substantial losses in both man-days worked and production. However, industrial unrest in general has been confined to cotton and jute textiles and engineering industries in the States of Andhra Pradesh, Maharashtra, West Bengal and Tamil Nadu.

TABLE 6.14  
Man-days Lost on Account of Strikes and Lockouts

Quarter	1989-90*	1990-91*	1991-92*
1	2	3	4
I	11.31	5.84	5.11
II	7.72	5.98	5.56
III	6.50	7.02	11.00
IV	5.24	4.76	12.45
<b>Total</b>	<b>30.77</b>	<b>23.60</b>	<b>34.12</b>

\* Provisional.

### Investment Climate

6.55 With the abolition of industrial licensing for all but 18 industries in August 1991, the system of Industrial Entrepreneurs' Memoranda (IEM) has replaced the system of registration in the case of delicensed industries. The trend of investment intentions is now indicated largely by the number of IEMs filed. The encouraging response to the New Industrial Policy noticed last year continued unabated. After delicensing 4489 IEMs were filed in 1991-92. In April-December 1992, 3472 IEMs have been filed as against 3077 in the corresponding period last year, registering an increase of 12.8 per cent. Even in the licensed category, despite fewer industries under licensing, 454 Letters of Intent have been issued as against 434 in the corresponding period of 1991-92 (Table 6.15).

6.56 Financial assistance sanctioned by All-India and State financial institutions during April-December 1992 at Rs. 22960 crore was 62.4 per cent higher than the amount sanctioned during the corresponding period last year (Table 6.15). Disbursements at Rs. 14688 crore were also higher by 45 per cent. There has been a quantum jump in foreign technology agreements and foreign collaborations involving foreign equity. Foreign investment approvals by the Government and RBI during April-December, 1992 were Rs.3044 crore compared with Rs.484 crore in the corresponding period last year. On the whole, the setback in the growth of industrial production in 1991-92 notwithstanding, the emerging up-trend in the overall investment, both domestic and foreign, in the industrial sector signifies the positive aspects of the ongoing liberalisation measures adopted by the Government.

### Public Sector Enterprises

6.57 The Government of India announced a New Industrial Policy in July 1991 which contains the following four major decisions in respect of the Public sector

- (i) Reduction in the list of industries reserved for the public sector from 17 to 8 and introducing selective competition in the reserved area.
- (ii) Disinvestment of shares in PSEs to raise resources and encourage wider participation of general public and workers in the ownership of the PSEs.
- (iii) Policy for sick public enterprises to be same as that for the private sector; and

TABLE 6.15

## Selected Indicators on Industrial Approvals and Sanctions

Indicators	1989-90	1990-91	1991-92	April-December	
1	2	3	4	5	6
1 Approvals for setting up of new industrial capacities#					
(a) Letters of intent issued	1155 (550)	931 (399)	600 (269)	434 (190)	454 (242)
(b) Registrations issued by SIA under the scheme of delicensing	1328 (751)	1345 (800)	1022 (608)	478 (289)	0 (0)
(c) Registrations of industrial undertakings exempted from licensing	1008 (567)	1214 (639)	917 (490)	550 (305)	0 (0)
(d) Carry-on business licences issued	67 (16)	51 (9)	22 (3)	17 (2)	6 (0)
(e) DGTD registrations	543 (252)	404 (188)	92 (44)	92 (44)	0 (0)
(f) Industrial entrepreneurs' memoranda filed (since 24.7.1991)	0	0	4489	3077	3472
(g) Industrial licences issued by way of conversion of letters of intent/direct licences	334	325	173	148	104
2 a) No of technology import agreements	595	638	1223	794	1092
i With equity investment	N A	169	422	253	531
ii Without investment	N A	469	801	541	561
b) Foreign investment approved (Rs. crore)	N A	136.2	1327.5	484.1	3043.7
3 Approvals of new capital issues by CCI/SEBI (Rs. crore)	12076	12633	19402	736*	9111*
4 Total financial assistance by All-India and State financial institutions @ (Rs. crore)					
(a) Sanctions	15144	19036	23805	14137	22960
(b) Disbursements	9604	11976	15989	10130	14688

# Figures in parentheses relate to backward areas.

\* Pertains to April-October.

@ IDBI,IFCI,ICICI,UTI,GIC,LIC,TDICI,SIDBI,TFCI,SCICI,IRBI,RCTC,SFCs,SIDCs.

- (iv) Improving performance through the performance contract or Memorandum of Understanding (MOU) system by which managements are to be granted greater autonomy and held accountable for results.

6.58 The policy was further elaborated in the statement made by the Prime Minister in Parliament on 20 December 1991 in which he stated that while the mixed economy system will continue in the country no further nationalisation would be resorted to; that there will be reduced budgetary support to sick or potentially sick public enterprises with a view to eliminating it as early as possible; but that while dealing with sickness, human hardship would be avoided to the extent possible through the National Renewal Fund.

6.59 The Industrial Policy statement opened up nine of the 17 industries hitherto reserved for the public sector for private investment and participation. This step is expected to augment the flow of investible resources to priority sectors and at the same time enhance competitiveness and efficiency in these sectors. While the mixed character of our economy will remain, public sector units will focus more on strategic areas in keeping with the original intention.

6.60 The Eighth Plan visualises an important role for an autonomous and efficient public sector in providing essential infrastructural and strategic support for achieving the targeted rate of economic growth during the plan period (1992-97).

6.61 The Plan Document enumerates the following policy initiatives in this regard:

- (i) Restructuring involving modernisation, rationalisation of capacity, product-mix changes and selective exit and privatisation.
- (ii) Increase in autonomy and performance accountability through an effective system of MOUs between administrative ministries and public enterprises launched since the Seventh Five Year Plan.
- (iii) Changes in management in specific enterprises to promote leadership, resourcefulness and innovation.
- (iv) A major effort by the State Governments to streamline the working of their public sector enterprises which are beset with interference and adhoc investment and employment decisions.
- (v) Technological upgradation through an integrated R & D effort and import of technology.
- (vi) Re-orientation of approach in Ministries and other Government agencies corresponding to liberalisation and dismantling of regulations (price, distribution, investment and import controls) to develop a new institutional capability to facilitate operation of market forces, orchestration of integrated R & D effort and evolution of consensus and partnership among various stake-holders.

6.62 Public enterprises constitute a major national capability in terms of their scale of operations, coverage of the national economy, technological capabilities and stock of human capital. There are over a thousand public enterprises, about 700 of which are owned by the States. The rest are in the Central Sector. These include departmental undertakings (e.g., railways, post and telecommunications), financial institutions (e.g., the State Bank of India, the Industrial Finance Corporation of India, the Unit Trust of India and the Industrial Development Bank of India), and non-departmental enterprises or Government companies or corporations which are either incorporated under the Company Law (e.g., the Steel Authority of India and the Indian Petrochemical Corporation Ltd) or statutorily created by Acts of Parliament (e.g., Coal India, Air India, Indian Airlines and the National Thermal Power Corporation). Non-departmental enterprises account for 75 per

cent of value addition, more than 50 per cent of gross investment and about a third of the total employment in PSEs. PSEs contribute the entire output in the case of petroleum, lignite, copper and primary lead; about 98 per cent of zinc; well over 90 per cent of coal; more than half of steel and aluminium and about one-third of fertilizers.

TABLE 6.16  
Profitability Profile of Central PSEs

	1981-82	1990-91	1991-92
1	2	3	4
1 Operating enterprises	188	236	237
i Profitable enterprises	104	124	134
ii Loss-making enterprises	83	109	102
	Rs. crore		
2 Capital employed	21935	102083	118492
3 Gross margin	4012	18312	22435
4 Gross profit	2654	11102	13857
5 Net profit	445	2272	2475
6 Profits of profit-making enterprises	1293	5432	6149
7 Losses of loss-making enterprises	848	3064	3674
	Per cent		
8 Ratio of gross margin to capital employed	18.29	17.94	18.93
9 Percentage of gross profit to capital employed	12.10	10.88	11.69
10 Ratio of net profit to capital employed	2.03	2.23	2.09

6.63 Non-departmental PSEs have thus been an important sector of our economy and have dominated infrastructure and basic industries. Over the decades their production activity has become perhaps over-diversified and extends from steel-making and oil refining to manufacture of bread and footwear. This has been the result of a number of circumstances and has diluted the original strategic and commanding heights objectives of PSE activity. Infrastructural or producer services are dominated by public sector corporations in transport, energy and communications. PSEs also operate in diverse service sectors such as international trade, consultancy, contract and construction services, hotels and tourist facilities, etc. Since the beginning of 1950s, a phenomenal growth in investment in such enterprises has taken place (Table 6.16).

6.64 As on 31 March 1992, there were 246 central public sector enterprises (excluding 8 companies with Central Government investment but without direct responsibility for management, 6 insurance companies and 3 financial institutions). Of these, 9 were in the construction sector, 72 in services and 165 were engaged in manufacture.

#### Performance of Central Public Sector Enterprises

6.65 The financial performance of the public enterprises has been a matter of wide interest and concern. As may be seen from Table 6.16, profits of profit-making enterprises went up from Rs.1293 crore in 1981-82 to Rs.6149 crore in 1991-92; but the losses of loss-making enterprises also increased from Rs.848 crore to Rs.3674 crore over the same period. Thus, PSEs earned a rate of return of 2.23 per cent on capital employed in 1990-91, which declined to 2.09 per cent in 1991-92. During 1991-92, nine PSEs have shown improvement in their performance over 1990-91. The gross margin (i.e. before depreciation, interest and taxes) of PSEs as per cent of capital employed improved from

10.88 in 1990-91 to 11.69 in 1991-92. The heavy capital investment in the past combined with a massive interest burden eats into the gross margins of PSEs and results in an unsatisfactory financial performance overall.

6.66 The profitability of PSEs in 1991-92 in terms of ratios of gross margins, gross profits and net profits to capital employed at 18.93 per cent, 11.69 per cent and 2.09 per cent, respectively, has not improved over the last ten years and was, indeed, depressed in 1990-91 and only slightly improved in 1991-92 as compared to past several years. They are observed to be, on the whole, lower than those for private enterprises. However, the performance of public enterprises varies widely and some of them have profitability ratios comparable to private enterprises.

6.67 In view of the overall resource constraints and in the face of very large revenue, budgetary and fiscal deficits being experienced since 1979-80, accumulation of substantial losses by a large number of public enterprises cannot be allowed to continue. Hence, the serious concern with the loss-making enterprises which numbered 102 in 1991-92 and incurred a total net loss of Rs. 3674 crore.

6.68 The loss-making public enterprises also represent a variety of product or industry groups and market structures. There are 15 large enterprises which are monopolies and operate in the core sector, while the remaining ones function in a competitive environment producing a variety of goods and services. As between these categories, the monopolies account for about three-fourths of the capital employed and one-fourth of the accumulated losses; the competitive enterprises employing a quarter of the capital, make three-quarters of the losses. The share of monopolies and competitive PSEs in employment is nearly equal.

6.69 The loss-making monopolies mentioned above include Food Corporation of India, Indian Airlines Corporation, Delhi Transport Corporation, Coal India Ltd., Vayudoot, Bharat Gold Mines, National Film Development Corporation and North Eastern Regional Agricultural Marketing Corporation. In view of their large size and significance of operations, a case-by-case approach may be needed to resolve their problems.

6.70 The remaining loss-making enterprises, of which about half constitute sick units taken over by the Government from the private sector, account for the bulk (about three-fourths) of the losses of public enterprises. The loss per employee in these enterprises exceeds the average wage rate. The Government has also been borrowing at a high cost from the market to support them. They, therefore, deserve special attention in economic restructuring.

6.71 A variety of factors have been identified for the unsatisfactory performance of a large number of public enterprises. While the project formulation has improved over the years, huge cost and time over-runs continue to take place in project implementation. This is on account of problems of land acquisition, procurement of equipment, civil works and other imponderables. Further, the locational and investment decisions in some sectors and projects are observed to have adversely affected performance. It has been noticed that inappropriate location (e.g., Nagaland Paper Project), inappropriate technology (e.g., Surgical Instruments Plant of IDPL), irrational product-mix (e.g., Salem Steel Plant) and imposed marketing arrangements (e.g., Kundremukh Iron Ore Project) have critically affected the performance of some projects. In the fertilizer sector, choice of technology having been tied to availability of foreign financing has adversely affected their operations.

6.72 On the other hand, in power sector, excessive investment in generation capacities with incommensurate attention to transmission networks had created serious imbalances. Uneconomical pricing/tariff rates signifying large cross-subsidies have reduced the internal resource generation in this sector. This has direct implications for reinvestment on the one hand, and raises demand for power, on the other. These have also contributed, among other things, to the heavy losses incurred by most (about 18) of the State Electricity Boards

(estimated at Rs. 4535 crore in 1991-92 or 14.1 per cent of the total anticipated annual plan outlay of all States and Union Territories) which have continuously failed to realise the three per cent statutory rate of return on assets.

6.73 A number of other problems including allocation of resources, delays in the filling up of top-level posts, tight regulations and procedures for investment and restrictions on functional autonomy of the enterprises (e.g., in respect of labour and wage policy), etc. have for long been noticed as serious constraints on PSE operational efficiency.

#### Reorientation in policy and current measures

6.74 Governments in the past have undertaken organizational improvements in PSEs based on the recommendations of expert committees such as, establishment of Holding Companies and the system of MOU, and reference of sick units to the BIFR. Though these have resulted in some improvement, a comprehensive reform of public enterprises was considered necessary to bring PSE operations in consonance with the overall structural changes and the macro-economic stabilization programme initiated by the present Government. The desirability of public sector reforms has been emphasised by the need to raise the productivity of capital resources employed and to reduce PSE losses so as to reduce the size of the fiscal deficit in successive budgets. As is evident from Table 6.17, the budgetary support as percentage of the total plan outlay of the public enterprises has significantly come down. While their plan investment has gone up by about 25 per cent in 1992-93 (BE) over 1991-92 (RE), the share of budgetary support in their plan investment has come down from 23.52 per cent to 18.62 per cent. This trend may get strengthened in the coming years following the restructuring of public enterprises leading to higher internal resource generation and mobilisation of larger volumes of extra-budgetary resources.

TABLE 6.17  
Public Enterprises : Plan Investment and Budget Support

Year	Plan Investment	Equity	Loan	Budget Support	
				Total	Share of plan investment
1	2	3	4	5	6
			Rs. crore		per cent
1991-92(BE)	30783.10	4539.84	2289.35	6829.19	22.18
1991-92(RE)	29421.22	4185.02	2735.24	6920.26	23.52
1992-93(BE)	36750.15	4367.33	2476.74	6844.07	18.62

6.75 The key elements of the strategy for the reform of public sector include: strengthening managerial autonomy; promotion of private sector competition in areas where social considerations are paramount; reduction in budgetary support to public enterprises in view of severe budgetary constraints, and increasing dividend payments to ensure adequate return on Government's equity; partial divestment of equity in selected enterprises to mobilise non-inflationary resources and to widen public and private sector participation in public sector in order to introduce a greater sense of accountability; restructuring or closure of unviable enterprises and creation of a safety net to protect the interests of workers.

6.76 Several initiatives in pursuance of the above strategy have been taken. Besides delimitation of areas for industry reserved for the public sector announced in the Industrial Policy Statement of July 1991 from 17 to 8, measures for encouraging private investment (both domestic and foreign) have been announced, in power generation; in the exploration, drilling and refining of oil and in utilisation of natural gas. These would also be facilitated by the comprehensive amendments in the Foreign Exchange Regulation Act (FERA) and the signing by the Government of the Multilateral Investment Guarantee Agency (MIGA) convention.



## **Memoranda of Understanding (MOU)**

6.77 Strengthening of the existing system of monitoring public enterprises annually through MOUs is an important element of the present policy. The system of MOUs was introduced in 1988-89 on the recommendations of the Committee to Review the Policy for Public Enterprises (chaired by Arjun Sengupta) and was notified in 1989-90. The MOU is an effective interface between the Government and the public enterprise management for ensuring operational autonomy for the latter with corresponding accountability for results. It is designed to remove frequent interference by Government. The MOU spells out the mission, objectives and annual targets of an enterprise. Each target is assigned a weight corresponding to its priority : Target achievement is based on a five point scale ranging from 'excellent' to 'poor'. In addition, an MOU imposes certain obligations on both sides for progressive performance improvement financial, physical and qualitative. In order to impart fairness in evaluation, a High-Powered Committee was constituted in 1988 under the chairmanship of the Cabinet Secretary. An Ad hoc Task Force (ATF), comprising of experts with relevant experience, was also set up to help the Department of Public Enterprises in vetting MOUs at the commencement of the year and evaluating them at its close. Its assessment is placed before the High-Powered Committee.

6.78 During 1990-91, 23 public enterprises signed MOUs with their administrative ministries. Their performance evaluation categorised 14 of them as excellent, eight as very good and one as poor. In 1991-92, 71 enterprises (with 35 subsidiaries) signed MOUs; in 1992-93, 120 enterprises (with 44 subsidiaries) have been identified for this purpose. The weight of profit-related criteria for 1992-93 was raised to a minimum of 50 per cent. The performance budget and MOU targets are to be synchronised; MOU targets will have to reflect an improvement over the previous year's Plan or Budget targets in order to be rated as very good. The ATF has also been strengthened with the induction of two full-time members of the Public Enterprises Selection Board (PESB). A review of the existing delegation of powers to the public enterprises with a view to granting them greater operational autonomy was also taken up.

### **Disinvestment of PSE Shares**

6.79 Equity varying between 5 and 20 per cent in selected public enterprises was disinvested in two phases in December 1991 and February 1992 (Table 6.18). The 31 companies whose shares were selected for disinvestment were a mix of 8 very good, 12 good and 11 not so good companies with net asset value (NAV) of Rs.10 shares exceeding Rs.50, between Rs.20-50 and less than Rs.20, respectively. The shares were offered in bundles consisting of 9 PSEs as randomly structured portfolios each with a notional reserve price. The reserve price was an average of NAV and profit-earning capacity value (PECV). The shares were offered to selected financial institutions and mutual funds.

6.80 During the first phase of disinvestment in December 1991, bids were received from nine parties totalling Rs.1427 crore; 51.62 crore shares constituting 4.7 per cent of the equity were sold. The average realisation per share (with a face value of Rs. 10) was Rs.27.65. In the second phase in February 1992, bids were received from 19 parties for Rs.1611 crore; 35.59 crore shares constituting 3.3 per cent of the equity were sold. The average realisation per share was Rs. 45.25. The total shares disinvested during 1991-92 thus comprised 8 per cent of the total Government shareholding in the 31 PSEs, and the total amount realised was Rs.3038 crore.

**TABLE 6.18**  
**Disinvestment of PSE Shares**

	No. of shares sold (crore)	Total realisation (Rs. crore)	Average realisation (Rs.)
1	2	3	4
1991-92			
1st tranche	51.62	1427	27.65
2nd tranche	35.59	1611	45.25
1992-93			
1st tranche	12.87	682	53.00
2nd tranche	31.06	1184	38.10

6.81 For the year 1992-93, a target of Rs.3500 crore of PSE disinvestment was set. In October 1992, tenders were invited for 39.29 crore shares of 8 PSEs. Valid bids were received for 56.41 crore shares, amounting to Rs.2100.82 crore. The reserve price was fixed as an average of the price recommended by three merchant bankers. The bids eligible for acceptance amounted to Rs.681.95 crore for 12.87 crore shares as shown in Table 6.19.

**TABLE 6.19**  
**Disinvestment in October 1992**

Name of the Company	Shares sold (lakh)	Share of equity (per cent)	Realisation (Rs. crore)
1	2	3	4
Steel Authority of India	205.67	0.52	82.59
Bharat Petroleum Corporation	25.00	5.00	169.53
Hindustan Petroleum Corporation	31.92	5.00	178.10
Hindustan Zinc	104.61	2.58	44.33
Rashtriya Chemicals and Fertilizers	86.85	1.57	26.36
HMT	39.28	5.00	21.98
National Aluminium Company	644.31	5.00	124.13
Neyveli Lignite Corporation	149.69	1.04	35.03
<b>TOTAL</b>	<b>1286.88</b>		<b>681.95</b>

6.82 In the second phase of disinvestment in December 1992, Government offered 46.27 crore shares of 14 PSEs. In the auction 225 bids for Rs.1792 crore were received. Based on the reserve price fixed by the Government, 31.06 crore shares of 12 PSEs were sold for Rs. 1183.83 crore. No disinvestment was effected in the case of 2 PSEs as the bids received for their shares were below the reserve price (Table 6.20).

TABLE 6.20  
Disinvestment in December, 1992

Name of the Company	Shares sold (lakh)	Share of equity (per cent)	Realisation (Rs. crore)
1	2	3	4
Bharat Petroleum Corporation	25	5.00	161.65
Bongaigaon Refinery & Petrochemicals	100	5.00	42.18
Fertilizers & Chemicals, Travancore (FACT)	5	0.15	1.30
Hindustan Petroleum Corporation	32	5.00	153.75
Hindustan Zinc	103	2.54	36.47
Indian Telephone Industries	10	1.14	10.78
National Aluminium Company	644	5.00	118.19
National Fertilizers	3	0.06	0.72
Neyveli Lignite Corporation	173	1.20	34.94
Rashtriya Chemicals and Fertilizers	15	0.28	4.00
State Trading Corporation	3	0.10	2.25
Steel Authority of India	1993	5.00	617.60
<b>TOTAL</b>	<b>3106</b>		<b>1183.83</b>

6.83 In the initial phases in 1991-92, for the reason cited, it was not considered desirable to sell shares to the general public and only mutual funds and institutions were approached. During 1992-93, the shares were unbundled and the bidding was made open to the public and other institutions, as by now the public sector shares had been exposed to some extent to the market and people were better placed to assess their worth. Modalities for offering PSE shares to workers and for floating new scrip offerings on the stock market, are being worked out.

#### Reference of Sick Units to BIFR

6.84 In pursuance of the announcement made at the time of the presentation of the Union Government's Budget for 1991-92, the Sick Industrial Companies (Special Provisions) Act, 1985 was amended in December 1991 to enable chronically sick public enterprises to be referred to the Board for Industrial and Financial Reconstruction (BIFR) for rationalization. A detailed process of consultation with labour representatives at the national and state levels was also started so as to broaden and strengthen the consensus for rationalization of these enterprises.

6.85 The scheduled industries in the public sector which satisfy the conditions of sickness under the Act, namely, seven years of incorporation, complete erosion of net worth and two years of continuous cash losses, will be referred to the BIFR. As on 31 December 1992, 91 industrial companies in the public sector had been referred to BIFR. Out of these, 9 cases were rejected at the stage of registration and 11 were under scrutiny of the Board, leaving effective registration at 71. Of the registered companies, 38 belong to the Centre and 33 to the States.

6.86 An inter-ministerial committee has looked into various problems in the restructuring of the public sector and a programme of action is being drawn up in light of its report. This, inter alia, would envisage the desired legal changes to facilitate the process. The NRF will finance retraining and redeployment schemes and compensate the displaced workers. Sick public enterprises would be among the first users of this fund. In the Central Budget for 1991-92 a provision of Rs.200 crore was made for the NRF which will be supplemented by the sale of equity in public enterprises of up to Rs.1000 crore in 1992-

93. Additional funding of NRF with allocations from IDA to the tune of Rs. 500 crore in 1992-93 and a similar amount for 1993-94 has also been secured. Reforming of public sector along the above mentioned lines marks a major break in economic policy. The public sector, which in the past contributed vitally to the development of crucial infrastructure and basic industry, will continue to play a key role in our economy. But the problems of many of the loss-making enterprises, which absorb a very substantial amount of our resources, must be addressed too. The present approach imparts due selectivity in investment in the public sector in terms of economic and social desirability and promotion of competition and accountability to infuse efficiency in resource use by encouraging private sector to enter areas till recently reserved for the public sector. Closure of several chronically sick and loss-making enterprises is also essential. It would cause strains on some sections, but institutional mechanisms are being evolved to ensure that the social cost of such readjustment is minimised.

### **Outlook**

6.87 The index of industrial production has registered a rate of growth of 3.8 per cent during the first seven months of 1992-93. Manufacturing output has increased by 3.6 per cent. Some of the major industrial sectors like capital goods, intermediates and heavy chemicals which had not performed well in 1991-92 have registered positive growth. This upturn in industrial growth during the first half of the current financial year marks a beginning of recovery in industrial output.

6.88 This recovery should be sustained by improvement in effective demand for manufacturing goods as a result of higher agricultural growth especially in the kharif harvest. The pick-up in export growth will also improve the demand prospects. The recent trade policy liberalisation will facilitate access to imports. Recent policy measures which have been undertaken to relax credit controls, reduce marginal rates of interest and grant complete freedom to capital issues will contribute to the strengthening of industrial recovery.

6.89 There has been a considerable spurt in investment proposals filed and cleared since the introduction of the new industrial policy in August 1991. The overall investment climate remains buoyant and there has been a sharp increase in the mobilisation of capital from the primary stock market. Flow of institutional credit to industry has improved. All these point towards an industrial recovery. While the rate of growth in industrial output may be somewhat modest in 1992-93 at a level of 4-4.5 per cent, it may be expected to rise during the next financial year as both demand and supply side factors will be in place to achieve a higher rate of growth.