CHAPTER 4

INDUSTRIAL PRODUCTION

4.1 The increase in industrial production during 1981-82 is expected to be around 8 per cent compared with 4 per cent in 1980-81 and a decline of 1.4 per cent in 1979-80. Although a part of this improvement reflects the recovery from a depressed base, notable increases in production have taken place in a large number of important industries where production will exceed the earlier peak levels. The encouraging performance of the industrial sector has become possible due to a considerable easing of constraints imposed by uneven performance of the infrastructure in recent years. Further, the substantial recovery in agricultural output during 1980-81 and the good kharif crop during the current year have significantly improved the supply situation of agricultural inputs. There has also been a continuing improvement in the labour relations situation. Both the public sector and the private corporate sector have contributed to the improvement in industrial production. The decentralised sectors including small scale and village industries have also done well. The climate for industrial investment has been buoyant in the current year.

4.2 Industrial policy has been aimed at removal of constraints to capacity utilisation, reduction of industrial sickness, generation of exportable surpluses, correction of regional imbalances and creation of employment opportunities. To achieve these objectives, new incentives and fresh approaches were initiated during the year.

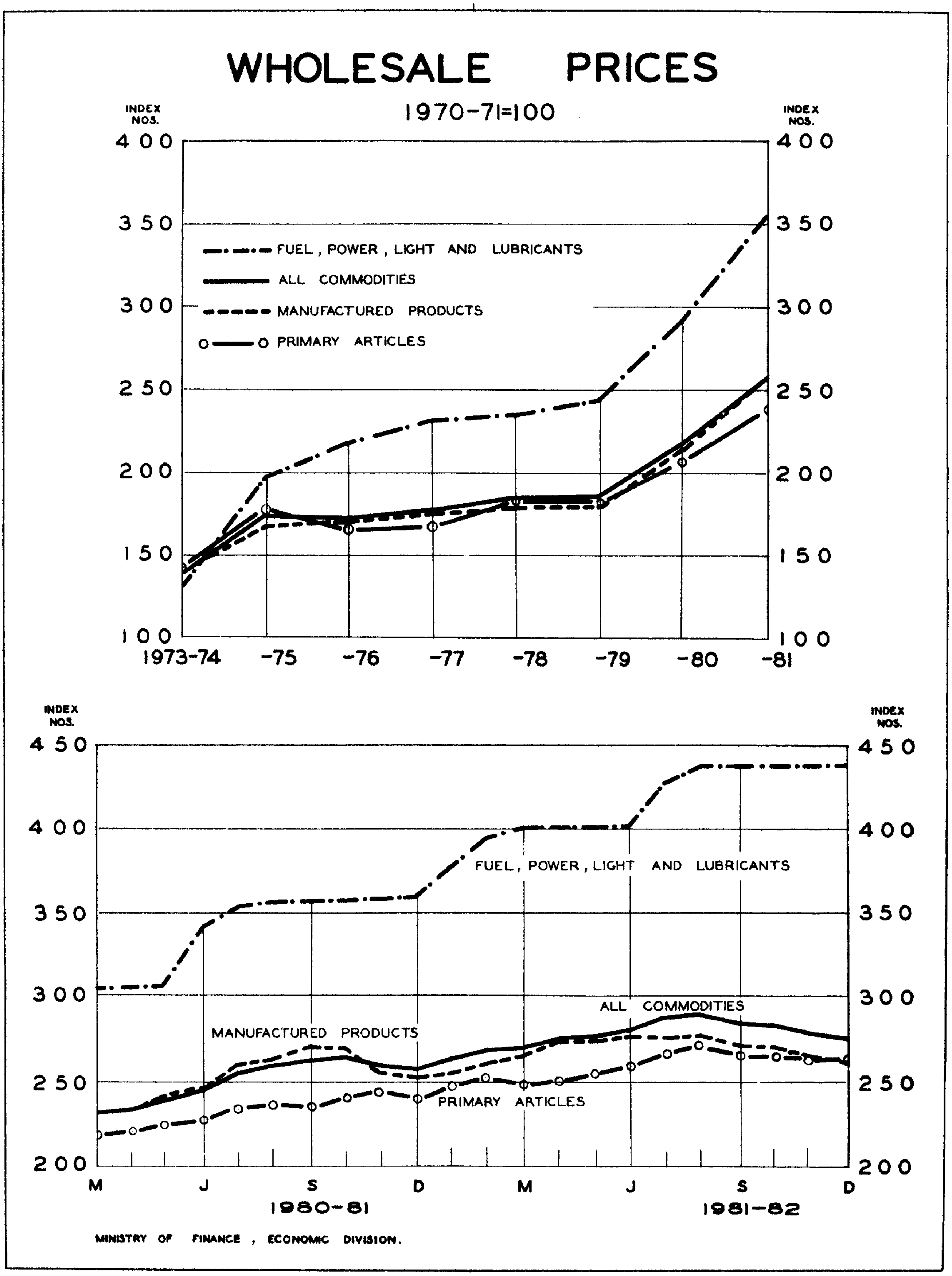
Industrial Production in 1980-81

4.3 Industrial production increased by 4.0 per cent in 1980-81 as against a decline of 1.4 per cent in 1979-80. This was made possible by concerted efforts which led to progressive revival from the second quarter onwards. In contrast to a decline of 2.4 per cent during the first quarter of 1980-81, the growth rates in subsequent three quarters were 2.1, 7.1 and 8.8 per cent respectively.

4.4 The recovery in industrial production during 1980-81 covered 12 out of 18 groups in the manufacturing sector, with a weight of 65.3 per cent in the index of industrial production. The increase in production ranged between 2.2 per cent and 23.7 per cent. Growth of 10 per cent or more was registered in three groups viz., beverages (+23.7 per cent), leather and fur products other than footwear (+18.2 per cent), electrical machinery, apparatus and appliances (+10.0 per cent). Growth rates between 5 and 10 per cent were achieved in paper and paper products (+8.7 per cent), food manufactures (+8.5 per cent), rubber products (+7.8 per cent) and machinery other than electrical machinery (+7.7 per cent). Growth was less than 5 per cent in textiles (+3.8 per cent), transport equipment (+3.2 per cent), tobacco products (+4.1 per cent), non-metallic mineral products other than products of petroleum and coal (+3.1 per cent) and manufacture of chemicals and chemical products (+2.2 per cent). The combined weight of the six groups where production in 1980-81 declined was 15.8 per cent. The rate of decline was nominal in basic metal industries (—0.1 per cent) but was quite high in the manufacture of wood and cork other than furniture (—29.6 per cent). The setback to production was also quite significant in petroleum and coal products (—6.6 per cent), metal products (—8.4 per cent) and miscellaneous manufactures (—10.2 per cent). These groups had achieved significant growth rate during 1979-80, except miscellaneous manufactures, whose production had declined in 1979-80 also.

4.5 The growth of 4.3 per cent in Mining and Quarrying was contributed largely by good performance in coal production (including lignite) which increased by 11.2 per cent over that of 1979-80 after stagnating during the preceeding four years. Iron ore production also increased by 4.4 per cent. However, the contribution of these industries to the overall positive performance of this group was significantly offset by the declines of 10.7 per cent in the production of crude petroleum and of 8.1 per cent in that of manganese ore during 1980-81. In electricity, the dominant share in the growth was that of thermal (including nuclear) generation which increased by 8.7 per cent. Hydel generation increased at a much lower rate of 2.3 per cent.

4.6 The turnaround in the performance of the industrial sector since the middle of 1980-81 was mainly due to substantial improvement in the availability of power and coal and better movement of goods traffic by the railways. Higher demand for industrial products consequent on the substantial recovery in agriculture and improved availability of agricultural inputs into industry also provided impetus to industrial production. There was also a notable improvement in labour relations. The impact of the specific measures adopted to revive industrial production also began to be felt. All these factors led to significant improvements in capacity utilisation, particularly during the latter half of 1980-81.



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Industrial Performance in 1981-82

4.7 The momentum of improvement in industrial production continued during the current financial year. The growth rate during the first and second quarters of the year have been 11.3 and 9.2 per cent respectively.

TABLE 4.1

Percentage change in Monthly Index of Industrial Production over the corresponding month of the previous year

Year	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1979-80	2.1	—1.7	—0.3	—1.3	1.4	—0.1	1.2	—0.7	—5.4	—2.9	—2.2	—5.
1980-81	—4.9	—2.0	—0.1	2.3	0.7	3.2	5.1	5.5	10.4	8.1	8.2	9.9
1981-82	12.8	8.8	12.5	10.5	8.8	8.6	7.5	9.6				

4.8 During April—November, 1981 the average index of industrial production showed a remarkable increase of 9.8 per cent compared with the average index in the corresponding period of the previous year. All the three major sectors in the index have contributed to the growth during the period. The manufacturing sector registered a growth of 8.6 per cent, mining and quarrying of 17.7 per cent, and electricity generation of 11.8 per cent.

4.9 The growth in electricity generation by 11.6 per cent during the first nine months of 1981-82 was contributed more by thermal (including nuclear) plants (+15.8 per cent) while hydel generation increased by 6.1 per cent. In the case of mining and quarrying, the significant improvement in performance was primarily the result of the 62.0 per cent growth in crude petroleum. Coal production (including lignite) also increased by 12.0 per cent in the first nine months of 1981-82.

4.10 In the manufacturing sector, all the twelve industry groups that registered positive rates of growth during 1980-81 have maintained progress, excluding leather and fur products other than footwear and rubber products. Groups where growth has accelerated during April-October, 1981 are: beverages (+38.3 per cent), tobacco products (+10.9 per cent), paper and paper products (+11.6 per cent), chemicals and chemical products (+14.7 per cent), machinery other than electrical machinery (+8.5 per cent), transport equipment (+14.8 per cent) and non-metallic mineral products except products of petroleum and coal (+5.2 per cent). Groups where negative growth rates during 1979-80 and 1980-81 have been reversed are : products of petroleum and coal (+17.4 per cent), basic metal products (+13.7 per cent), metal products other than machinery and transport equipment (+3.4 per cent), and foot-wear, other wearing apparel, etc. (+29.4 per cent). In three groups viz., food manufacturing, textiles and electrical machinery, apparnus and appliances the tempo of growth has not been sustained. The miscellaneous manufacturing group and wood and cork other than furniture continue to show negative growth, and there has been a setback in production of rubber products and leather and fur products.

4.11 On the basis of current trends new peak levels are expected to be achieved in seven of the eight groups where highest production was achieved in 1980-81. In addition, peaks are also likely to be reached in five other industry groups. These twelve industry groups taken together have 73.2 per cent weight in the index of industrial production. Notable gains in production have been registered in the key industries during April-December, 1981. Output of saleable steel (main plants) increased by 19.2 per cent, aluminium by 8.5 per cent, cement by 16.4 per cent, nitrogenous fertilisers by 55.4 per cent, newsprint by 18.2 per cent, agricultural tractors by 26.0 per cent and diesel engines (veh.) by 58.5 per cent. Output of railway wagons increased by 39.5 per cent during April-November, 1981.

TABLE 4.2

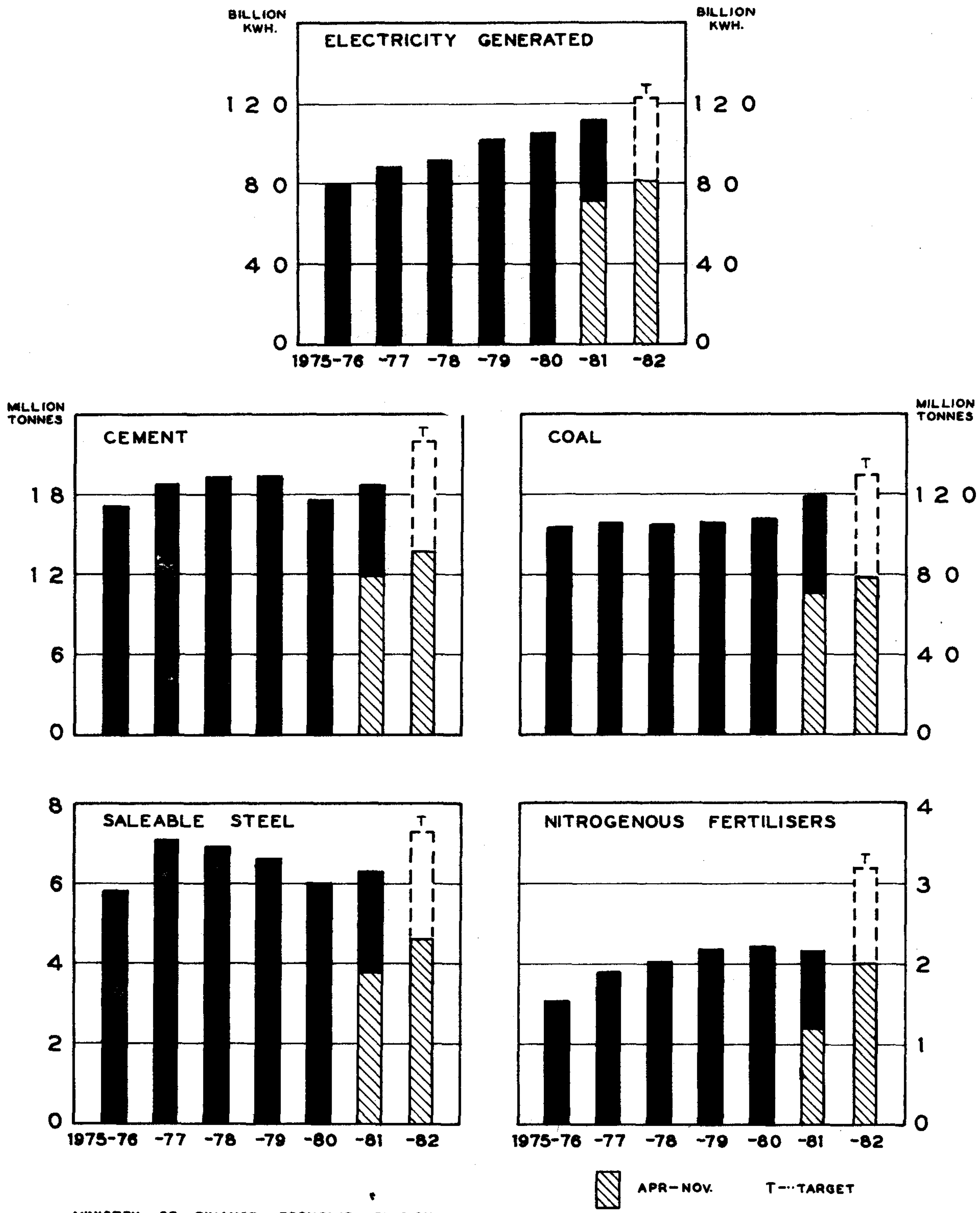
Index of Industrial Production

(Base : 1970=100)

Group Code	Industry Group	Weight	1978-79	1979-80	1980-81	Percent change 1979-80 / 1978-79	Percent change 1980-81 / 1979-80	April—Oct.* 1980-81	April—Oct.* 1981-82	April—Oct.* Percent change
1	2	3	4	5	6	7	8	9	10	11
20	Food manufacturing industries except beverage industries	7.74	140.2	123.6	134.1	—11.8	+8.5	115.0	121.7	+5.8
21	Beverage industries	0.69	379.8	266.1	329.2	—29.9	+23.7	309.5	428.1	+38.3
22	Tobacco industries	2.21	118.5	122.2	127.2	+3.1	+4.1	121.6	134.8	+10.9
23	Textile products	17.43	109.7	111.5	115.7	+1.6	+3.8	115.4	118.3	+2.5
24	Footwear, other wearing apparel, etc.	0.34	76.1	74.1	72.4	—2.6	—2.3	69.0	89.3	—29.4
25	Wood & cork except furniture	0.49	122.9	142.3	100.2	+15.8	—29.6	109.4	87.3	—20.2
27	Paper & paper products	2.24	121.7	124.9	135.8	+2.6	+8.7	130.3	145.4	—11.6
29	Leather & fur products except footwear, etc.	0.32	74.8	82.8	97.9	+10.7	+18.2	100.9	93.7	—7.1
30	Rubber products	2.22	146.0	141.0	152.0	—3.4	+7.8	150.8	150.4	—0.3
31	Chemicals & chemical products	10.90	186.6	184.2	188.2	—1.3	+2.2	179.3	205.6	+14.7
32	Petroleum & coal products	1.62	141.0	150.4	140.5	+6.7	—6.6	138.9	163.0	+17.4
33	Non-metallic mineral products except products of petroleum and coal	3.33	153.9	156.5	161.4	+1.7	+3.1	160.3	168.7	+5.2
34	Basic metal industries	8.84	144.1	137.6	137.5	—4.5	—0.1	126.0	143.2	+13.7
35	Metal products except machinery and transport equipment	2.77	157.9	161.3	147.7	+2.2	—8.4	145.0	150.0	+3.4
36	Machinery except electrical machinery	5.55	209.1	206.0	221.8	—1.5	+7.7	211.4	229.3	+8.5
37	Electrical machinery, apparatus, appliances & supplies	5.30	161.6	160.0	176.0	—1.0	+10.0	161.8	165.6	+2.3
38	Transport equipment	7.39	127.8	126.6	130.7	—0.9	+3.2	121.3	139.2	+14.8
39	Miscellaneous manufacturing industries	1.70	125.1	121.4	109.0	—3.0	—10.2	108.7	97.8	—10.0
Division 2—3 Manufacturing		81.08	146.6	143.5	148.8	—2.1	+3.7	141.3	153.6	+8.7
Division 1 Mining and Quarrying		9.69	144.1	145.1	151.3	+0.7	+4.3	136.7	159.0	+16.3
Division 5 Electricity		9.23	187.9	191.8	202.9	+2.1	+5.8	195.3	221.1	+13.2
General Index (Crude)		**100.00**	**150.2**	**148.1**	**154.0**	**—1.4**	**+4.0**	**145.9**	**160.3**	**+9.9**

*Provisional.

PRODUCTION OF SELECTED INDUSTRIES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

GMGIPMRND-PLW-344/6/Finance/81-82-Chart 5

4.12 Growth has also been impressive in some other industries. In April-November 1981, output of cement machinery increased by 19.3 per cent, commercial vehicles by 34.9 per cent, machine tools by 26.7 per cent, electric motors by 11.5 per cent, electric lamps (incad.) by 33.3 per cent and zinc by 30.0 per cent. Sugar production has increased sharply by 57.1 per cent during the current year. Production of vanaspati has also increased by 17.4 per cent. The improvement in output of the chemicals group has been made possible by significant increases in caustic soda (10.3 per cent), soda ash (24.2 per cent), penicillin (14.1 per cent) and streptomycin (16.5 per cent). In many of these industries new peaks of production are expected to be achieved during 1981-82. Production of crude petroleum and petroleum products had been adversely affected by the Assam situation during 1980-81. With the resumption of the flow of Assam oil, substantial increase in production has been registered in these industries during April-December 1981. The output of crude petroleum has risen sharply by 62.0 per cent and that of petroleum products by 19.6 per cent compared with April-December 1980.

4.13 However, the performance of certain industries has remained sluggish. Notable among these are tea, cotton yarn, mill cloth and jute textiles. Although tea production was 6.5 per cent higher in 1980-81, it has yet to achieve the peak level of 576 million kgs. reached in 1978-79. Production in the first eight months of 1981-82 has been somewhat lower than that during the corresponding period of 1980-81. An important foreign exchange earner, the tea industry has been afflicted with sickness, lack of modernisation, and labour problems in the Southern Region. In cotton textiles, while the decentralised sector has achieved considerable progress, the mill sector has suffered loss in production during the last decade. The organised sector of the industry suffers from many structural problems including high incidence of sickness, high cost of production due to rise in the price of raw materials and lags in replacement and modernisation, low demand, and persistent labour problems. Although increased production in the decentralised sector has more than offset the shortfall in the mill sector, the industry as a whole needs to pay greater attention to modernisation. Despite the availability of soft loans for this purpose, the pace of modernisation has been slow. The jute industry has also been facing serious problems due to higher costs, infrastructural deficiencies and the inability of the industry to diversify. These have led to a substantial reduction in exports. Internal demand has also not been adequate. As a result, there is heavy stock accumulation. Steps have been taken to solve the stock accumulation problems by high public purchases of jute goods, but a more sustained medium term effort by the industry to modernise and diversify is required.

4.14 The improvement in capacity utilisation that began in 1980-81 has continued, especially in key industries. In saleable steel (main plants), capacity utilisation during the first nine months of 1981-82 increased to 74.6 per cent which was substantially higher than 66.7 per cent during the comparable period of 1980-81. Nitrogenous fertilisers achieved a capacity utilisation of 66.3 per cent as against 49.3 per cent last year, the corresponding figures for petroleum refinery products being 94.6 per cent compared with 79.1 per cent.

4.15 The factors responsible for the revival of industrial production during 1980-81 have continued to accelerate production in industries during 1981-82. Thus the improvement of the infrastructure sectors has been sustained and strengthened during the current year. The significant recovery in the cash crops production last year and the good kharif production during the current year have improved inputs supply and also kept the demand for industrial products buoyant. The normalisation of the Assam situation and the improvement in labour relations situation also have had a salutory effect.

Production Trends in Public Sector

4.16 Public sector undertakings have contributed handsomely to the revival of industrial production since the middle of 1980-81. The growth in output of public sector undertakings was 9.2 per cent in 1980-81 as against 11.5 per cent during 1979-80. During April-November, 1981 production in these enterprises has gone up by 20.6 per cent over the corresponding period of last year. Industrial groups covering steel, minerals and metals, coal, petroleum, chemicals and pharmaceuticals, heavy engineering, medium and light engineering, transport equipment and consumer goods have all recorded a rise in production during this period. Important factors responsible for the improved results so far are the gradual removal of infrastructure and other constraints and a remarkable improvement in labour relations. Corrective measures taken in the recent past have also shown encouraging results: these include appropriate changes in pricing of inputs and outputs, a measure of price preference to public sector units, and incentives for technology upgradation, modernisation and diversification. Priority accorded in the supply of steel and other inputs, establishment of administrative mechanisms for continuous monitoring and review of the financial performance have led to improvement in the management of these enterprises.

4.17 Special efforts have been made by public enterprises to promote ancilllary units. As a result, the number of such units increased from 295 in 1978-79 to 313 in 1979-80. The number of ancillaries is estimated to go up to 364 by the end of 1980-81. Some of the public sector units have also introduced the concept of "nucleus plants" referred to in the Statement of Industrial Policy 1980. The first Nucleus Plant complex was launched in November, 1980 at Govindwal Sahib, Amritsar District in the Punjab.

Small Scale Industries

4.18 The steady progress of small scale industries during the last few years has contined. According to estimates furnished by the Development Commissioner, Small Scale Industries (S.S.I.) production at 1979-80 prices from both registered and unregistered units in the small scale sector increased from Rs. 21635 crores in 1979-80 to Rs. 23569 crores in 1980-81. Between 1979-80 and 1980-81 employment in the sector went up from 67 lakh to 71 lakh persons and its exports showed a substantial rise from Rs. 1050 crores to Rs. 1305 crores.

4.19 Alongwith the growth in the volume of production, there has been progressive diversification in this sector. Beginning with simple consumer goods like soap, detergents, leather goods, the sector has now entered into many sophisticated fields like microprocessers, mini computers, electronic components, electronic watches, colour TV and electro-medical devices.

4.20 The progressive growth of this sector is attributable to the entrepreneurial skills of small industrialists and the protective and promotional measures in force like reservation of items for exclusive development in the small scale sector, marketing assistance including preferential purchase by DGS&D from this sector, and supply of critical raw materials on priority basis. The list of reserved items is being kept under constant review. Eleven more items were added to the reserved list while thirteen items were de-reserved, with this the total number of products reserved for exclusive development in the small scale sector now stands at 832. In addition, the nomenclatures of 56 reserved items have been amended. Also the number of items reserved for exclusive purchase from small scale sector has been increased from 241 in 1978-79 to 384 in 1981-82. In addition, there are 11 items reserved for purchase up to 75 per cent and another 15 items for purchase up to 50 per cent of the requirement from the small scale sector. The items so reserved have also been accorded price preference of up to 15 per cent. As a result, the value of purchases from small scale sector by the DGS&D rose from Rs. 114 crores in 1978-79 to Rs. 196 crores in 1980-81.

4.21 Small scale units are being given special attention to improve their production performance. Steps have been taken to ensure for them easy availability of basic raw materials and remove transportation bottlenecks of coal and coke. Besides, imports of items used by the small scale units have been liberalised e.g. selected steel items can now be imported through SAIL under OGL.

4.22 A beginning has been made to implement the concept of "nucleus plants", spelt out in the Industrial Policy Statement of July 1980, with a view to accelerating the base of industrial growth in backward areas with necessary forward and backward linkages. Industrial potential surveys for project formulation for nucleus plants are being carried out by several task forces and some centres for location of nucleus plants have already been identified. The organisational set-up of the District Industries Centres has also been restructured with a view to strengthening their technological competence in areas offering prospects.

4.23 Production of handloom cloth also witnessed an upward trend, from 2900 million metres in 1979-80 to 3100 million metres in 1980-81. There was a remarkable increase in the production of janata cloth which totalled 287.4 million metres in 1980-81 as compared with the previous year's production of 205 million metres. However, the exports of handloom fabrics and made up garments improved only marginally in value terms and remained more or less stagnant in volume terms. It is estimated that part-time and full-time employment in the industry increased from 61.5 lakh persons in 1979-80 to 64.7 lakh persons in 1980-81. The main thrust of the handloom cloth development programmes has been to provide assistance in terms of credit, raw materials, modernisation and marketing and on progressive cooperativisation so as to eliminate the exploitation of the weavers by middlemen. It is estimated that by the end of 1980-81, 14 lakh handloom would have been brought under the cooperative fold.

Industrial Relations

4.24 Man-days lost which had reached a peak of 39.62 million in 1978-79 declined to 29.82 million in 1979-80 and further to 26.87 million in 1980-81. There was a sharp increase in the fourth quarter of 1980-81 due to widespread strikes/lockouts in jute industry, non-electrical machinery, transportation services, transport equipments manufacture and insurance. The number of man-days lost during the first half of the current financial year totalled 8.01 million compared with 11.79 million in the corresponding period of 1980-81. The improvement in the labour relations has been an important factor in the improved performance of the industrial sector during 1980-81 and the current year so far.

TABLE 4.3

Man-days lost due to strikes and lock-outs

(In million)

Quarter	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
First	13.70	7.27	2.78	6.01	8.21	9.01	5.96	5.80
Second	6.11	2.17	3.25	7.41	6.17	10.46	5.83	2.21
Third	3.74	2.64	3.86	9.41	7.05	6.20	6.00	
Fourth	12.82	2.86	2.48	6.90	18.19	4.15	9.08	
TOTAL	36.37	11.94	12.37	29.73	39.62	29.82	26.87	

4.25 As stated in the last Economic Survey, it had been decided to pay productivity linked bonus to employees of the Railways, the P & T, certain Defence Establishments, the EPF, the ESIC and a few other such organisations. In keeping with this decision, railway employees (excluding RPF|RPSF staff) drawing wages not exceeding Rs. 1600|- per month were granted 24 days' wages as bonus on the performance of 1980-81 as against 23 days' wages paid as bonus during 1979-80. In the case of the P & T employees also bonus paid on the basis of productivity during 1980-81 was higher at 21 days' wages against 19 days wages paid during 1979-80. Ad-hoc payments equal to 10 days' wages were made to employees of the ESIC and the EPF, pending the formula to be evolved for the payment of productivity linked bonus for them. Another important steps was the enactment of the Essential Services Maintenance Act, 1981. The Act prohibits strikes in essential services like the railways, the posts and telegraphs, banks, supply or distribution of coal, power, steel, fertilisers and petroleum products.

4.26 Apart from the payment of incentive bonus based on productivity in the key sector; the industrial relations machinery made sustained effort to minimise work-stoppages. The industrial relations situation in key sectors was constantly monitored and remedial measures taken, wherever necessary. Government continued to undertake various welfare measures for workers and encouraged their participation in management. A Labour Relations Monitoring Unit has been set up with the object of taking timely action through preventive mediation to forestall industrial disputes. It has been decided to activise industrial committees in major industries. To begin with, industrial committees are being set up in jute, cotton textiles, engineering, plantations and chemical industries. Steps have also been initiated to fix minimum wages.

Industrial Sickness

4.27 According to the latest data available with the Reserve Bank of India, there were 389 large sick units (large units are defined as those having bank credit of Rs. 1 crore or more) at the end of June 1980 involving outstanding bank credit of Rs. 1232.7 crores compared with 345 large units with an outstanding bank credit of Rs. 1101.7 crores at the end of June 1979. Out of the 389 large sick units, 59 units belonged to MRTP houses. Of the total increase of Rs. 131.0 crores in credit outstanding between end-June 1979 and end-June 1980, the share of cotton textiles (Rs. 61.9 crores) was the largest followed by engineering (including iron and steel) (Rs. 49.4 crores), chemicals (Rs. 11.1 crores) and rubber (Rs. 8.4 crores). Of the 389 sick units, 275 were found to be viable and they accounted for a outstanding bank credit of Rs. 959.3 crores. 53 units involving an outstanding credit of Rs. 131.6 crores were considered non-viable, and in the remaining 60 units the final assessment by banks had not been completed. Measured in terms of increase in number and credit outstanding, there appears to be no reduction in the incidence of industrial sickness.

4.28 An indepth analysis carried out by the Reserve Bank of India for the period ended December, 1979 to identify the reasons for industrial sickness of large industrial units revealed that in the majority of such units (about 52 per cent) internal causes like management deficiencies, diversion of funds, lack of clear marketing strategy and infighting among different interests were the major causes of sickness. In the case of jute textiles, market recession was identified as the principal cause. Though to a lesser extent, engineering industries, iron and steel and textile industries have been also affected by similar constraints.

4.29 The incidence of industrial sickness has been widespread also in medium scale units (non-SSI units availing bank credit of less than Rs. 1 crore). The number of sick medium scale units at the end of June 1980 was 1026 a little higher than 1013 units at end-June 1979. The outstanding bank credit at Rs. 219.2 crores was also higher than Rs. 202.3 crores outstanding at end-June 1979.

4.30 Data regarding sick small scale units at end-June 1980 show that the number of sick small scale units was 22325 as against 20326 units at end-June 1979. This increased further to 23255 at the end of December 1980. The aggregate bank credit locked up in the sick small scale units which was Rs. 231 crores at end-June 1979 increased to Rs. 293 crores at end-June 1980 and to Rs. 305 crores at end-December 1980.

4.31 To the extent the persistent industrial sickness was due to the shortages of power, coal and inadequate availability of transportation facilities, the substantial improvement recorded in these sectors since the middle of 1980-81 would have reduced the impact of these constraints. Efforts are being made for the prevention of industrial sickness and for the revival of existing sick units. Responsibility has been assigned to the concerned administrative ministries for the prevention, monitoring and for taking coordinated remedial action according to broad guidelines. Banks and financial institutions providing credit facilities to the sick units have been requested to ensure that such credits are utilised effectively. The aided sick units are required to submit periodical returns to financial insitutions. In case such units do not show recovery, their management may be taken over by the concerned bank or financial institution which would also take other legal measures to safeguard their financial interests. Ordinarly, in future take over of industries under the Industries (Development & Regulation) Act, 1951 would be resorted to only if a sick unit can be made viable within a reasonable period and if such a step is in the national interest. As a matter of policy, whether such units should be nationalised would be taken soon after their take over. Other remedies, such as merging of sick units with healthy units or restructuring of the sick undering would continue to be resorted to. The public financial institutions can charge lower lending rates in case of viable sick units for finances provided for modernisation and rehabilitation of plant and machinery. Effective from 1st January 1982, Government has also announced a scheme for the provision of margin money to sick units in the small scale sector. During 1981, management of two industrial undertakings was taken over under the Industries (Development and Regulation) Act, 1951, as against four units during the previous year. The period of take over in respect of twenty six industrial undertakings was extended during the year and investigations were ordered into the working of three more undertakings. No sick unit earlier managed under the Industries (Development and Regulation) Act, 1951, was nationalised during 1981. Thirteen such units were nationalised during 1980. While the Government will continue to take suitable measures in this respect, it would not take over inherently unviable industrial units. Further, the financial institutions would not hesitate to enforce their legal rights in cases of mismanagement and financial improprieties.

Industrial Investment

4.32 The rate of real gross domestic capital formation at market prices (at 1970-71 prices) had declined from 22.3 per cent in 1978-79 to 20.4 per cent in 1979-80 but increased to 21.9 per cent in 1980-81. The gross domestic capital formation in the registered manufacturing sector (at 1970-71 prices) had only marginally increase to a level of Rs. 2348 crores in 1979-80, reflecting the set-back to industrial production and investment during the year. The pick up in industrial production from the second half of 1980-81 has also given an impetus to capital formation in the manufacturing sector. Real gross domestic capital formation has registered an increase of 16.7 per cent during 1980-81. Available indicators suggest that the tempo of industrial investment has been maintained during the current year.

4.33 Consents for the issue of new capital rose substantially in 1980-81. As a result of this and due to the measures taken to promote investment, especially in debentures, the amount of capital raised by non-Government companies during the first six months of 1981-82 was as high as Rs. 222 crores, about five times the capital raised during the corresponding period of 1980-81. If this trend continues, capital aggregating Rs. 400 crores may be raised in the current year as a whole.

4.34 The loans sanctioned and disbursed by term lending financial institutions provide a good indication of private corporate investment activity during a year. The total term loans sanctioned during April-September of 1981-82 at Rs. 1271.1 crores by financial institutions other than the State Financial Corporation and State Industrial Development Corporations show an increase of 29.8 per cent over those sanctioned in the corresponding period of 1980-81. Term loans sanctioned by the IDBI were 17.8 per cent higher, by the IFCI up by 42.0 per cent, those sanctioned by the IRCI and the LIC quadrupled and by the UTI more than doubled. Loans sanctioned by the ICICI marginally increased by 1.4 per cent. Disbursements also increased by 16.3 per cent to Rs. 755.2 crores during this period. However, the percentage increases of disbursements of various financial institutions varied : the increase was 13.4 per cent in the IDBI, 28.8 per cent in the ICICI, 60.7 per cent in the IFCI, 66.7 per cent in the IRCI, 6.7 per cent in the UTI and 35.8 per cent in the LIC. Sanctions accorded to industries like paper and paper products, textiles, machinery except electrical machinery, chemicals and chemical products were more pronounced. Disbursement, however, was the highest for textiles followed by chemicals and chemical products, machinery except electrical machinery, cement, electricity generation, and paper and paper products.

4.35 Statistics of import licensing of capital goods (CG) and of heavy electrical plants (HEP) which reveal medium term investment intentions have shown encouraging trends during the year. In April—September of 1981-82 the value of C.G. licences at Rs. 468.4 crores showed an increase of 8.1 per cent over the same period of 1980-81. The increase on private account has been sharper at 32.3 per cent while the value of C.G. licences on Government account has declined by 4.8 per cent. The value of HEP licences, during the first half of 1981-82, however, has increased by 26.8 per cent and this increase has been sharper for approvals on Government account (33.4 per cent) than those on private account (10.3 per cent).

4.36 The consents for capital issues given during 1980-81 reached a record figure of Rs. 793.8 crores. These were more than double the amount of consents given during 1979-80 at Rs. 386.4 crores. In the first three quarters of 1981-82 the value of capital consents given was Rs. 152.6 crores, Rs. 184.1 crores and Rs. 302.7 crores respectively. If this trend continues the capital consents given during 1981-82 may exceed the record level reached in 1980-81. As in 1980-81, during the current year also consents have been secured more for new investment than for expansion of existing units. Of the different forms of capital raised, a striking change in the pattern is the shift in favour of debentures, in particular convertible debentures. A notable feature has ben the heavy over-subscription of new issues indicating good investment expectations.

4.37 The approvals given by the Capital Goods (Main) Committee for the import of plant and machinery increased from Rs. 266.0 crores during 1979-80 to Rs. 421.35 crores in 1980-81, i.e. by 58.4 per cent. During the current financial year, the approvals increased sharply by 57.8 per cent in the first quarter but declined by 18.9 per cent during the second quarter. Approvals have shown wide variations among different industries during the current year. While approvals to textiles industry during the first two quarters have been about three and a half times those in the corresponding period last year, there has been a sharp decline in approval for electronics, metals (excluding iron and steel) and rubber goods. Approvals have increased significantly for cement, ceramics and refractories (+45 per cent), engineering (+42 per cent), iron ore and iron and steel manufactures (+38 per cent), electricals (+23 per cent) and man-made fibres (+15 per cent).

Employment in Organised Sector

4.38 Employment in the organised sector at the end of March 1981 stood at 229.18 lakhs as against 223.17 lakhs a year ago. The number of job seekers on the live register of the Employment Exchanges rose from 15.95 million at the end of October, 1980 to 17.42 million at the end of October, 1981 i.e. by 9.2 per cent. Monthly average of vacancies notified during January—October 1981 increased to 73.0 thousand from 70.3 thousand over the same period in 1980 i.e. by 3.8 per cent The average monthly placements during January—October, 1981 at 41.1 thousand were higher than 40.3 thousand during the corresponding period of 1980. With the substantial pick-up in industrial production since 1980-81 which has continued during the current year, the situation in regard to employment generation is expected to improve.

Industrial Policy Development

4.39 A series of measures have been taken to implement the Industrial Policy Statement of July 1980. Investment limits for small scale and ancillary industries were raised to Rs. 20 lakhs and Rs. 25 lakhs respectively. Installed capacities in excess of licensed|registered capacities in thirty four selected industries have been regularised. These include basic industries and those producing mass consumption goods not reserved for the small sector, provided the firms are not units to which the Monopoly and Restrictive Trade Practices Act, 1969 of the Foreign Exchange Regulation Act, 1973 applies. Subject to the similar qualifications, automatic growth has been allowed to the extent of 5 per cent per annum or 25 per cent in a five year period in the registered or licensed capacity of nineteen additional industries bringng the total of such industries to thirty four. There has also been some relaxation in industrial location policy with a view to providing for natural growth for export production. With a view to encouraging use of alternate sources of energy, Government have delicensed the manufacture of equipment for exploitation of such sources of energy like solar insulation, wind power, bio-mass including bio-gas, geo-thermal energy, tidal power and sea power. Assistance from financial institutions for modernisation which was available to industries like cement, sugar, cotton textiles, jute and engineering goods has been extended to all other industries.

4.40 Further incentives have been provided for export promotion. Production for exports will not be counted in the licensed capacity of an undertaking and it will also not be taken into account for the purpose of determining 'dominance' under the MRTP Act. Imports of capital goods, raw materials and components have been liberalised for export—oriented production. A Special Board has been constituted to give a single-point clearance for the setting up of 100 per cent export-oriented units.

4.41 The Budget for 1981-82 included several incentives for the industrial sector. Fourteen groups of industries have been removed from the Eleventh Schedule of the Income Tax Act and these now qualify for specified investments related to concessions. These industries include electric fans, pressure cookers, glass and glassware, colours, pigments, paints, etc. Some of these industries have considerable export potential. Complete tax holiday has been granted to export—oriented industrial units set up in the Free Trade Zones for an initial period of five years in lieu of other concessions. Complete exemption from income tax of dividends derived by a domestic company from an Indian company has been extended to encourage manufacture of electronic components as this industry is both labour intensive and export-oriented. To promote the cultivation of tea, the expenditure qualifying for development allowance has been substantially raised. This liberalisations will go a long way in meeting the increased cost of tea planting.

4.42 The Textile Policy Statement of 9th March, 1981 aims at generating larger employment opportunities with continued emphasis on the development of the decentralised sector. Simultaneously, encouragement will be given to modernisation leading to cost effectiveness of the industry, which in turn should enhance exports.

4.43 The Budget for 1981-82 gave high priority to oil and natural gas exploration and development in order to reduce our dependence on imports. The expenditure allocation for the sector was raised to Rs. 1011 crores, substantially higher than Rs. 780 crores in 1980-81. It was also decided to supplement domestic capability by engaging foreign parties, on a production sharing basis, to hasten the pace of exploration and development of oil resources. The depreciation allowance on machinery and plant for manufacturing renewable energy devices and systems was enhanced from 10 per cent to 30 per cent.

4.44. A series of steps were taken during the year to improve industrial investment. In March, 1981 the ceiling of interest on debentures was raised from 12 per cent to 13.5 per cent. Earlier in October, 1980 the permissible maximum debt-equity ratio had been raised from 1 : 1 to 2 : 1 to enable companies to raise more funds through debentures. This led to increased share of debentures in the consents for capital issues during the current year. Recognising the lack of interest in preference shares, with effect from November, 1981 the upper limit on the rate of dividend, on preference shares to be issued has been brought at par with that of interest on debentures which is 13.5 per cent.

4.46 The procedures for processing of applications for industrial licences, foreign collaborations and capital goods approvals have been further streamlined. Applications for licences by non-MRTP companies are now to be placed before the appropriate Approval Committee within 60 days instead of 120 days for composite applications and 90 days for other types of applications; similarly, in the case of

MRTP and FERA companies the time limit has been reduced from 150 days to 90 days. Economic ministries have set up groups to monitor the progress of implementation of Letters of Intent/Industrial Licences with a view to their early implementation. The issue of import licences for capital goods have been further liberalised and suitable powers have been delegated to regional offices of the Chief Controller of Imports and Exports to clear imports within specified value limits without reference to the Capital Goods Committee.

4.46 The problems of backward regions and the correction of regional imbalances have been receiving due attention. In this connection, about Rs. 100 crores have been reimbursed under the capital investment and concessional finance scheme for such reasons up to 1980-81, of which Rs. 30 crores was in 1980-81 alone. In the current year also, Rs. 20 crores to Rs. 25 crores would be reimbursed to the State Government under the scheme.

4.47 As 1982 is the 'Productivity Year', further measures to enable industrial undertakings to optimise production out of existing capacity need to be taken as a matter of urgency. The New 20-Point Programme reiterates the need to maximise power generation and improve the functioning of electricity authorities. It seeks to further liberalise investment procedures and streamline industrial policies. Handicrafts, handlooms, small and village industries are to be encouraged to grow and update their technology. The working of public sector enterprises will be improved by increasing their operational efficiency, capacity utilisation and generation of internal resources. Every unit of production must identify and remove the constraints responsible for the prevailing gap between potential and actual capacity utilisation.

Outlook

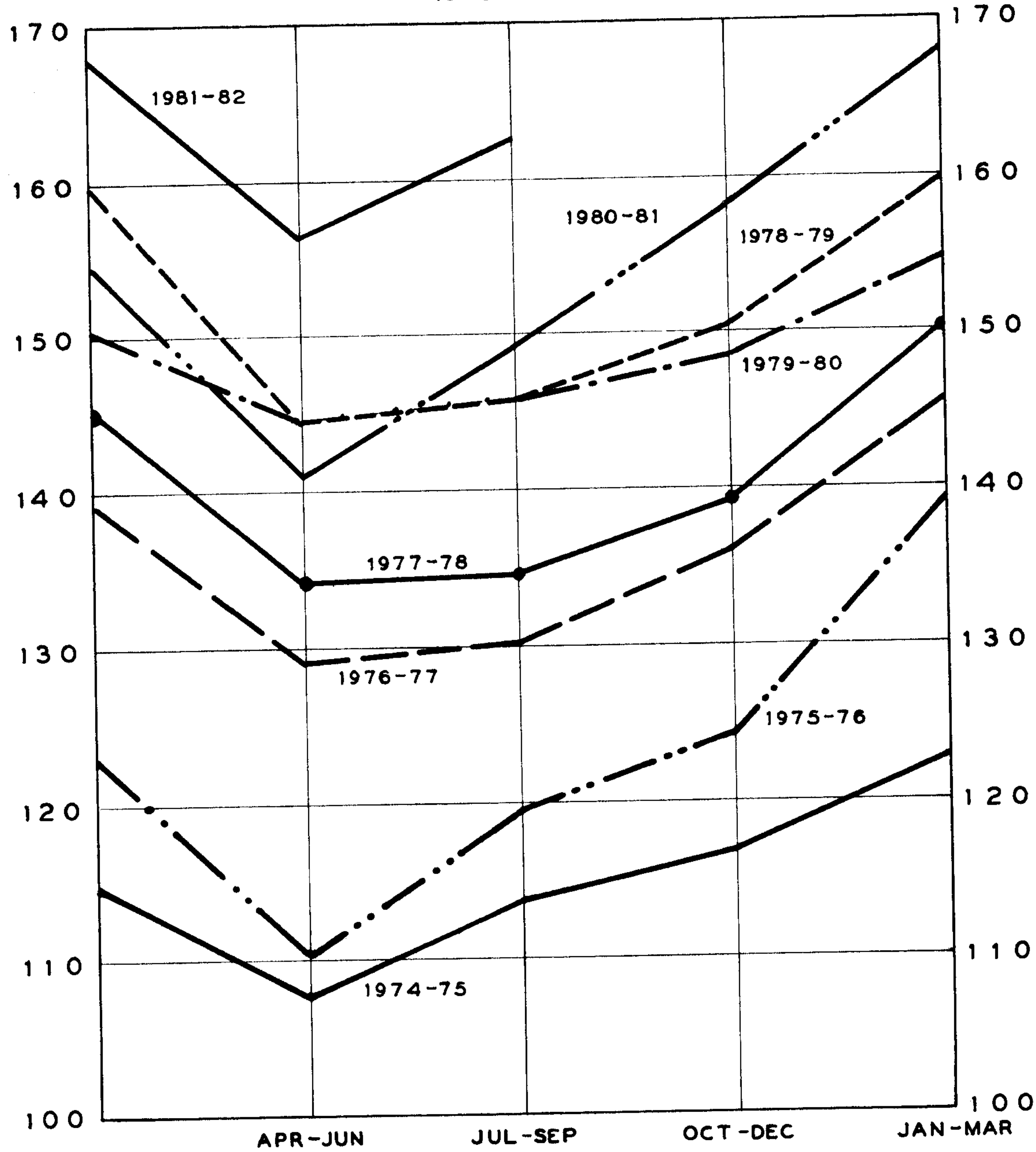
4.48 The expected growth rate of industrial production of around 8 per cent during 1981-82 is double that of the 4 per cent realised during 1980-81. However, part of the reason for high growth this year has been the depressed level of production in the previous two years. It is a matter of concern that in five out of ten years of the 70's, the growth rate of industrial production was less than 3.5 per cent. A year of reasonable growth and recovery has been inevitably followed by one or even two years of stagnation in industrial production. A major task in the years ahead will be to ensure that an average rate of growth of about 7-8 per cent per annum in industry is achieved on a sustained basis. This would require continued improvement of and investment in infrastructure, a determined effort to utilise existing capacities fully, and speedy implementation of new industrial projects. It is important that measures are initiated to reduce costs and prices through improvement in productivity and efficiency. In view of the absence of effective competition, in which many Indian industries have grown, sufficient attention has not been paid to cost and efficiency aspects at the plant level. The prospects for Indian industry in the eighties would depend largely on the success achieved in increasing productivity and reducing costs of manufacture.

INDEX OF INDUSTRIAL PRODUCTION

(CRUDE)

QUARTERLY AVERAGES

1970=100



MINISTRY OF FINANCE, ECONOMIC DIVISION.

GMGIPMRND-PLW-344/6/Finance/81-82-Chart 4