

## CHAPTER 4

### INDUSTRIAL PERFORMANCE

Industrial production during 1980-81 to 1986-87 grew at a compound annual rate of 7.6 per cent as against 4.2 per cent per annum between 1971-72 to 1979-80. Also, the growth rate achieved during the eighties is much higher than the trend growth rate of 6 per cent witnessed in the earlier three decades. The sectoral growth profile reveals an improvement in growth performance during 1980-81 to 1986-87, as compared to 1971-72 to 1979-80, in all sectors, i.e., mining, manufacturing and electricity generation. This higher rate of industrial growth recorded during the eighties, as compared to the seventies, has been maintained during 1986-87 and the first eight months of the current year for which the data is available.

#### Impact of drought

4.2 The immediate shock of monsoon failure is first experienced in agriculture. However, the derived effects may be passed on to industry through one or more of four major routes, i.e.,

- (i) a backward linkage in the shortage of raw material supplies for agro-based industry;
- (ii) a forward linkage in the reduced rural demand for industrial products because of reduced agricultural income;
- (iii) a shift in the share of consumer demand away from industrial products because of the higher cost of food and other agro-based necessities with a low elasticity of demand; and
- (iv) a potential shift in public sector resource allocation away from investment expenditure in order to finance drought relief measures.

4.3 It is not surprising, therefore, that in the past major droughts have usually been followed by recession in Indian industry. Eight out of eighteen major industry groups have typically suffered from the adverse impact of drought since the mid-seventies. These include food manufacturing, beverages and tobacco, textiles, footwear and other wearing apparel, rubber products, chemicals and chemical products, transport equipment and other miscellaneous industries. Taken together, these industries accounted for over half

of the total weight in the index of industrial production in the base year 1970. It has also been observed that the effects of drought on industry usually show up only after a lag of about six to eight months, i.e., somewhere between the third quarter of the drought year and the first quarter of the following financial year. However, there are several reasons, some conjunctural and some related to long term structural changes, which suggest that past experience may not be a good basis for gauging the impact of drought on industrial growth this year.

4.4 Conjuncturally the most severe drought since the mid-sixties have coincided with other traumatic episodes. Thus, the drought years of 1965-66 and 1966-67 occurred around the same period that India had to fight a border war which imposed great strains on the economy. The drought of 1972-73 came just before the first oil shock, while the drought of 1979-80 came together with the second oil shock. It is not easy to disentangle statistically the effects of the drought from the effects of these other shocks which affected the economy around the same time. Fortunately, the adverse impact of the drought this year has not been compounded by such severe exogenous shocks.

4.5 Apart from these conjunctural differences, some important structural changes have occurred over the years which have now made the industrial economy less sensitive to fluctuations in agricultural production. Thus, the share of agro-based industries in value added in the manufacturing sector had come down from around 44 per cent in 1960-61 to less than 34 per cent by 1980-81. Furthermore, even within traditionally agro-based industries there has been a significant shift away from agricultural inputs to manufactured inputs, e.g., the increase in the use of synthetic fibres in the textile industry.

4.6 On the demand side, the growing importance of industries like fertiliser, pesticides, farm machinery, etc., have tended to make the manufacturing sector more sensitive to fluctuations in agricultural production. But the adverse impact of drought on these industries again tends to be offset by the higher demand for pump-sets, drilling equipment, electrical or diesel motors and other ancillaries which are used more intensively to maintain ground water irrigation and drinking water supplies. More important is the fact that the share of agriculture in national income

has come down from over 57 per cent in 1960-61 to less than 33 per cent now. Accordingly, the adverse impact of a decline in agricultural income on aggregate consumption demand for industrial products is now much less than in the earlier period.

4.7 These structural changes have led to some weakening of the backward and forward linkages between industry and agriculture. The process is also reinforced by long term structural changes in the power sector. The share of thermal sources in total power generation has gone up from about 54 per cent in 1960-61 to about 70 per cent at present. Consequently with sustained expansion of coal production and managerial improvement resulting in higher plant load factor, total power generation during the current year (April—December) has gone up by about 8 per cent despite the drought and the associated shortfall in hydel power generation. The net effect of all these long term structural developments is that the industrial economy is much less vulnerable to the effects of a drought today as compared to the sixties and early seventies.

4.8 Finally, the impact of the drought, especially in the capital goods sector, depends to a large extent on government policy with regard to public sector investment. It is well known that in India public sector investment usually leads private investment and hence aggregate investment in the economy. In the past, whenever there has been a large cutback in public investment as for instance during the drought years 1965-66 and 1966-67, this had set off a recession—especially in the capital goods sector.

4.9 This year, however, government has adopted a number of measures to ensure that resources allocated for drought relief will not be diverted from public sector investment expenditure. These measures include reduction in current expenditure, additional resource mobilisation through taxation and surcharge on transport fares, additional market borrowings to mop up a part of the flow back of funds to the banking sector on account of reduced food credit and faster disbursement of aid from bilateral and multilateral sources. Details of these measures are discussed elsewhere in the Survey. With the Reserve Bank of India also having announced a busy season credit policy which ensures adequate availability of working capital for the industrial sector, it is expected that the adverse impact of drought on aggregate investment demand will be minimal.

4.10 With the long term changes having substantially reduced the vulnerability of the industrial economy to the effects of the drought and the policies adopted this year to ensure that public investment is maintained

despite the drought, it is unlikely that the current drought, by itself, will set off a recession in industry. This is especially so since this year's drought is not accompanied by other major shocks as in most of the earlier years of severe drought since the mid-sixties. Thus, while the adverse impact of the drought on industrial production cannot be avoided altogether it is expected that the impact will be considerably subdued this year in contrast to the earlier drought years. On balance, it is expected that industrial production may grow by over 8 per cent this year. This is in line with the average growth of 8.8 per cent achieved during the previous three years and much higher as compared to the record of a decline or negligible growth in industrial production during years of severe drought in the past.

#### Industrial Production

4.11 According to the revised Index of Industrial Production (Base : 1980-81 = 100), the growth rate achieved by the industrial sector as a whole was 8.7 per cent in 1985-86 and 9.1 per cent in 1986-87. The sectoral break up of the Index of Industrial Production indicates growth rates of 6.2 per cent, 9.3 per cent and 10.3 per cent respectively for the mining, manufacturing and electricity sectors in 1986-87. These are in contrast to the Seventh Plan target annual growth rates of 13 per cent for mining, 8 per cent for manufacturing and 12.1 per cent for electricity. It is evident that manufacturing sector has exceeded the Seventh Plan target growth rate for the second successive year, but electricity and mining sectors have fallen short of envisaged growth rates.

TABLE 4.1

*Compound Annual Growth Rates in Major Sectors of Industry*

Sector	1971-72 to 1979-80	1980-81 to 1986-87
Mining . . . . .	4.5	10.1
Manufacturing . . . . .	3.8	6.9
Electricity . . . . .	7.1	9.0
General . . . . .	4.2	7.6

TABLE 4.2

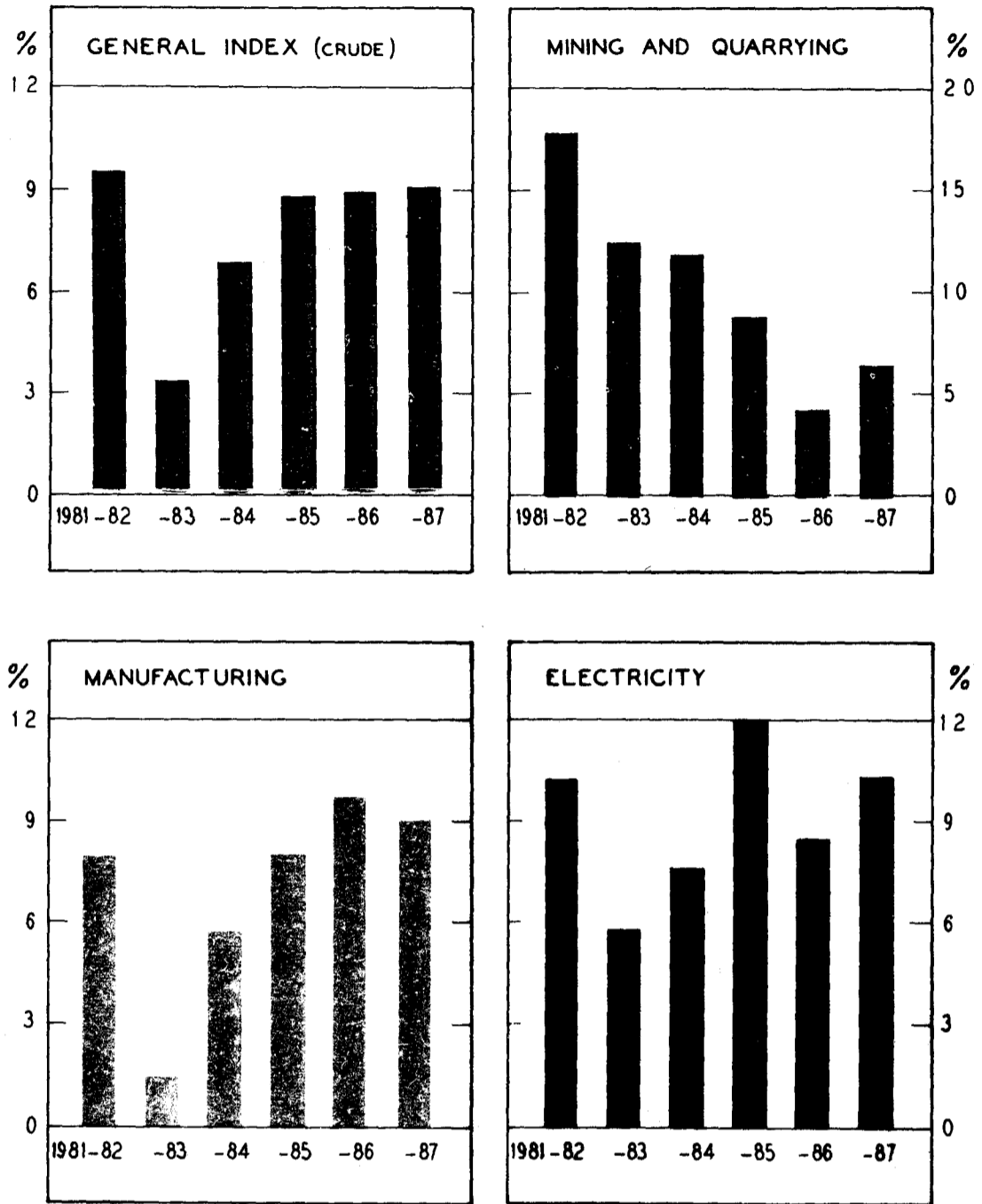
*Annual Growth Rates in Major Sectors of Industry\**

Year	Mining	Manufac- turing	Electri- city	General
(Weights)	(11.46)	(77.11)	(11.43)	(100.00)
1981-82. . . . .	17.7	7.9	10.2	9.3
1982-83. . . . .	12.4	1.4	5.7	3.2
1983-84. . . . .	11.7	5.7	7.6	6.7
1984-85. . . . .	8.8	8.0	12.0	8.6
1985-86. . . . .	4.2	9.7	8.5	8.7
1986-87. . . . .	6.2	9.3	10.3	9.1

\*Provisional.

# GROWTH RATES IN INDEX OF INDUSTRIAL PRODUCTION

(1980-81 = 100)

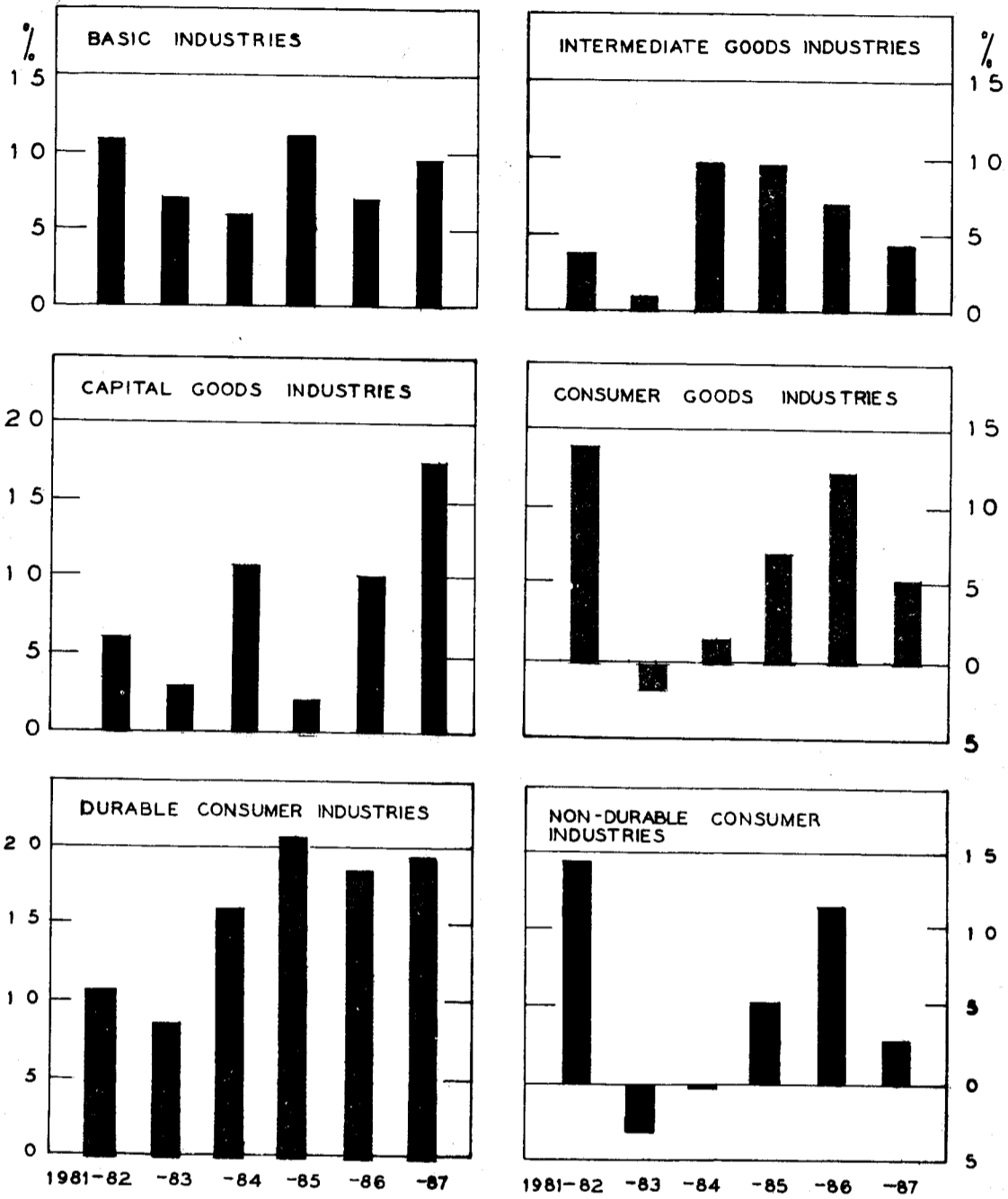


MINISTRY OF FINANCE, ECONOMIC DIVISION.

NGIP(PLU)MEND-666/1/F/87-88

# GROWTH RATES IN USE-BASED INDEX OF INDUSTRIAL PRODUCTION

[1980-81=100]



MINISTRY OF FINANCE, ECONOMIC DIVISION.

This higher rate of industrial growth recorded during the eighties, as compared to the seventies, has been maintained during 1986-87 and the first eight months of the current year for which data is available.

4.12 The growth rate achieved by the mining and electricity sectors during 1986-87 shows improvement in performance compared with 1985-86 when mining sector achieved a growth rate of 4.2 per cent and the electricity sector a rate of 8.5 per cent. The manufacturing sector, however, recorded a lower growth rate of 9.3 per cent in 1986-87 compared with 9.7 per cent in 1985-86. This is attributable to negative growth rates in beverages and tobacco (—12.1 per cent), textile products (—22.8 per cent) and rubber, plastic and petroleum products (—2.2 per cent). As shown in Table 4.3 these industries

together account for a weight of 6.4 per cent in the revised index of industrial production. Also, comparatively lower rates of growth were recorded in 1986-87 as compared to 1985-86 in cotton textile, (1.9 per cent), paper and paper products (9.9 per cent), leather and leather products (5.6 per cent), non-metallic mineral products (1.9 per cent), basic metal and alloy products (8.4 per cent), metal products (8.5 per cent) and electrical machinery (27.0 per cent). These industries account for a weight of 36.9 per cent in the index. Comparatively higher rates of growth were achieved during 1986-87 as compared to 1985-86 in food products (6.1 per cent), jute (4.0 per cent), wood and wood products (10.3 per cent), chemicals and chemical products (13.7 per cent), machinery and machine tools (8.9 per cent), transport equipment (6.7 per cent) and miscellaneous products (54.2 per cent). These industries account for a weight of 33.8 per cent in the index.

TABLE 4.3  
Trends in the Performance of Manufacturing Sector\*  
(Base : 1980-81 = 100)

Industry Group	Industry	Weight	Index			Percentage change	
			1984-85	1985-86	1986-87	1985-86	1986-87
1	2	3	4	5	6	7	8
20-21	Food products . . . . .	5.33	120.0	125.6	133.2	4.7	6.1
22	Beverages, tobacco etc. . . . .	1.57	111.7	112.1	98.5	0.4	—12.1
23	Cotton textiles . . . . .	12.31	102.2	110.4	112.5	8.0	1.9
25	Jute textiles . . . . .	2.00	99.4	97.2	101.1	—2.2	4.0
26	Textile products . . . . .	0.82	95.6	112.8	87.1	18.0	—22.8
27	Wood & wood products . . . . .	0.45	216.5	223.2	246.1	3.1	10.3
28	Paper & paper products . . . . .	3.23	131.9	148.5	163.2	12.6	9.9
29	Leather & leather products . . . . .	0.49	139.7	169.2	178.7	21.1	5.6
30	Rubber, plastic & petroleum products . . . . .	4.00	147.2	153.0	149.6	3.9	—2.2
31	Chemicals & chemical products . . . . .	12.51	142.8	154.3	175.5	8.1	13.7
32	Non-metallic mineral products . . . . .	3.00	138.4	157.3	160.3	13.7	1.9
33	Basic metal and alloy products . . . . .	9.80	107.3	117.0	126.8	9.0	8.4
34	Metal products . . . . .	2.29	105.0	114.7	124.4	9.2	8.5
35	Machinery and machine tools . . . . .	6.24	127.6	130.2	141.8	2.0	8.9
36	Electrical machinery . . . . .	5.78	148.8	200.6	254.7	34.8	27.0
37	Transport equipment . . . . .	6.39	131.6	135.8	144.9	3.2	6.7
38	Miscellaneous products . . . . .	0.90	122.8	152.7	235.4	24.3	54.2

\*Provisional.

4.13 When consolidated into a picture of growth by broad groups of industries as revealed by the use-based group indices of industrial production (Table 4.4) it emerges that basic industries and capital goods, which account for a combined weight of 55.85

per cent, showed higher growth rates of 9.4 per cent and 18.2 per cent respectively during 1986-87 as compared to 1985-86. However, there was considerable deceleration in the intermediate and consumer goods industries which grew by 4.3 per cent and 5.3 per cent respectively in 1986-87.

TABLE 4.4  
Use-based group Indices of Industrial Production]\*  
(Base : 1980-81 = 100)

Industry Group	Weight	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
1	2	3	4	5	6	7	8
I. Basic Industries . . . . .	39.42	110.9 (10.9)	118.7 (7.0)	125.7 (6.0)	139.7 (11.1)	149.2 (6.8)	163.2 (9.4)
II. Capital Goods . . . . .	16.43	106.7 (6.7)	110.6 (3.7)	123.5 (11.7)	127.2 (3.0)	140.7 (10.6)	166.3 (18.2)
III. Intermediate Goods . . . . .	20.51	103.7 (3.7)	104.6 (1.0)	114.9 (9.8)	126.1 (9.7)	135.5 (7.5)	141.3 (4.3)
IV. Consumer Goods . . . . .	23.65	113.8 (13.8)	112.0 (-1.6)	113.8 (1.6)	122.0 (7.2)	137.3 (12.5)	144.6 (5.3)
(a) Consumer Durables . . . . .	2.55	110.9 (10.9)	121.0 (9.1)	140.5 (16.1)	170.8 (21.6)	202.8 (18.7)	242.3 (19.5)
(b) Consumer non-Durables . . . . .	21.10	114.1 (14.1)	110.9 (-2.8)	110.5 (-0.4)	116.1 (5.1)	129.4 (11.5)	132.8 (2.6)

NOTE : Figures within brackets indicate percentage change over the preceding year.

\*Provisional.

4.14 The two sub-sectors of the consumer goods industry, viz., consumer durables and consumer non-durables, have shown divergent trends. Whereas the growth rate of consumer durables increased further from 18.7 per cent in 1985-86 to 19.5 per cent in 1986-87, that of consumer non-durables fell from 11.5 per cent in 1985-86 to 2.6 per cent only in 1986-87. The deceleration in consumer non-durables, where a substantial part of the output is agro-based, could be explained by drought in 1986-87.

4.15 During April—November 1987, industrial production recorded an increase of 10.2 per cent over the corresponding period of the preceding year. At the sectoral level manufacturing, electricity and mining showed increases of 11.6 per cent, 8.2 per cent and 4.6 per cent respectively during April—November, 1987.

4.16 Within the manufacturing sector there have been substantial variation in growth performance across industries. Ten out of seventeen industry groups showed positive growth rates during the first eight months of this year over the corresponding period of the previous year. These industry groups were : food products (5.7 per cent), cotton textiles, (15.8 per cent), paper and paper products (4.4 per cent), manufacture of leather (5.9 per cent), chemicals and chemical products (15.6 per cent), basic metal (10.5 per cent), manufacture of metal products (5.2 per cent), electrical machinery (41.3 per cent) transport equipment (7.4 per cent) and other manufacturing (29.4 per cent). However, seven industries accounting for a weight of about 18.1 per cent showed lower production, during the period April—November 1987. These were beverages and tobacco (-18.4 per cent), jute (-9.8 per cent), wood products (-35.8 per cent), manufacture of rubber, plastic, pet-

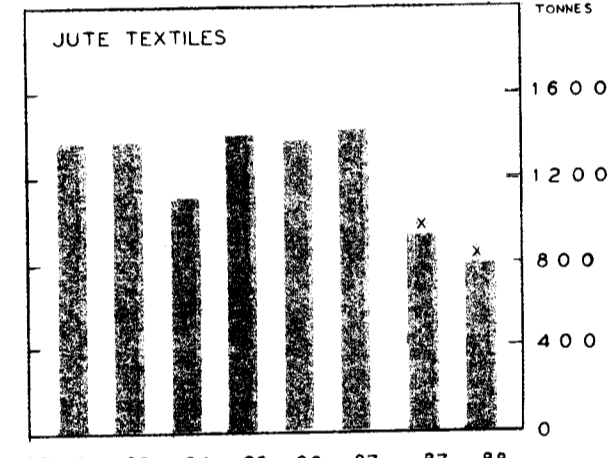
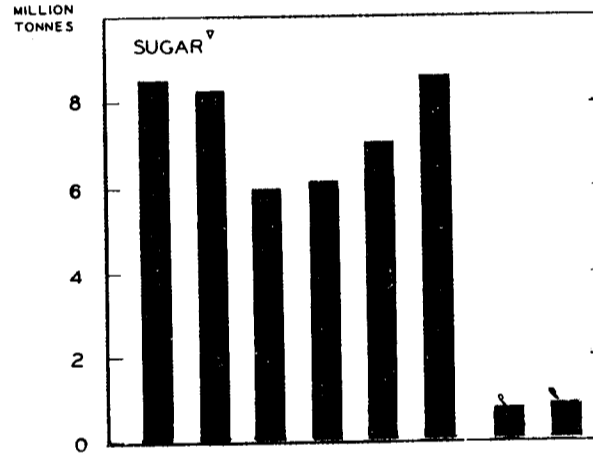
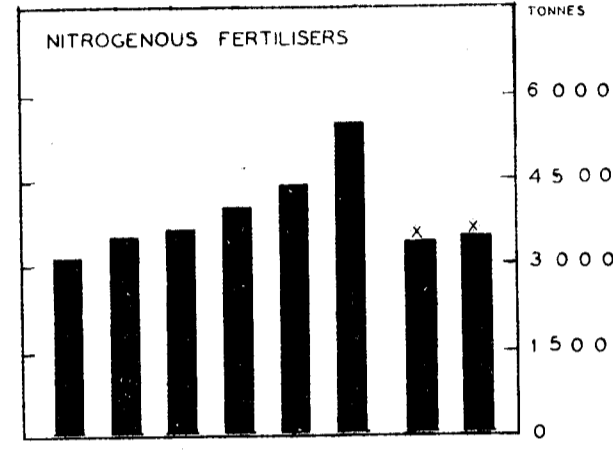
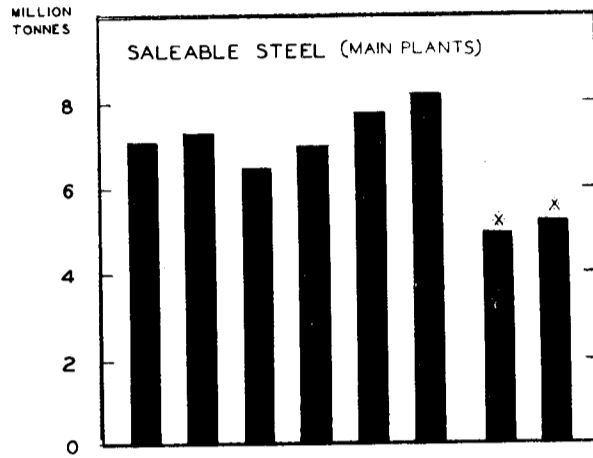
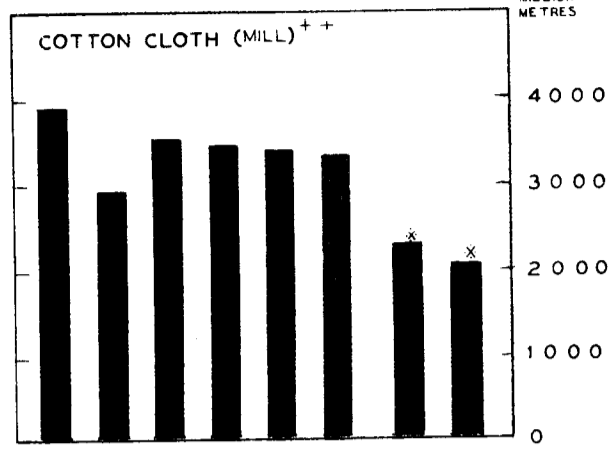
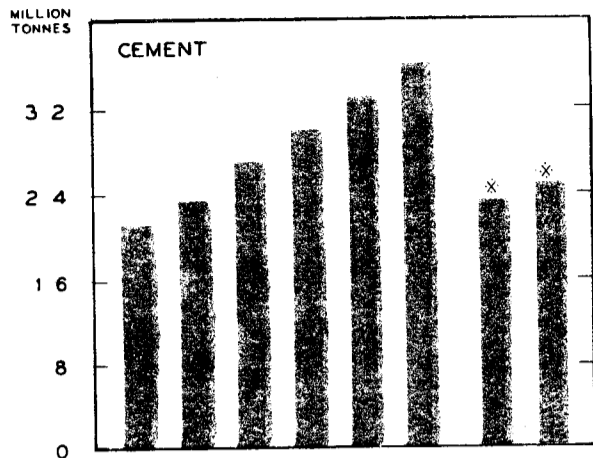
roleum and coal products (-0.1 per cent), non-metallic mineral products (-2.4 per cent), textile products (-18.9 per cent) and non-electrical machinery (-1.0 per cent). The negative growth in some of these industry groups, which are mainly agro-based is in a large measure reflection of unsatisfactory performance of the agricultural sector owing to drought.

4.17 At the three digit level of classification it is observed that sub-group of industries, accounting for a weight of 52.59 per cent in the index or more than two-thirds of the weight in the manufacturing sector, showed positive rates of growth. Eighteen of these industries, accounting for a weight of 20.72 per cent in the index, showed growth rates in excess of 10 per cent.

#### Industrial Policy Initiatives

4.18 The process of industrial policy reforms which started in the late seventies and gained momentum after 1984 have generally emphasised cost efficiency and has aimed at a progressive shift from discretionary quantitative controls to non-discretionary fiscal controls. The attempt is to gradually emphasise cost efficiency in Indian industry through greater domestic competition. The changes are being introduced cautiously to ensure that competitive pressures bring in cost efficiency without risking any sudden shocks. The important reforms in the area of industrial policy in the recent past have emphasised relaxing licensing constraints on entry in priority sectors, growth (capacity re-endorsement), flexibility to respond to changing demand conditions (broad-banding) and cost efficiency (e.g. prescribing minimum scales of production in a number of commodities). The impact of these policy initiatives is to some extent, reflected in acceleration of industrial growth in recent

# PRODUCTION OF SELECTED INDUSTRIES



1981-82 -83 -84 -85 -86 -87 -87 -88

∇... OCT.-NOV.

+ + INCLUDING MIXED/BLENDED  
 ∇ RELATES TO SUGAR SEASON (OCT-SEP)  
 \* APR.-NOV.

MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP(PLU)MRND-868/1/F/87-88

years. Industrial growth accelerated to 8.8 per cent during 1984-85, 1985-86 and 1986-87 from an average growth rate of 6.4 per cent in the preceding three years. There are signs of continued buoyancy in the current year as well. The greater impact of these measures is likely to be felt in the coming years when investment intentions fructify and yield increments in production.

4.19 The schemes of broad-banding and re-endorsement of capacity with minimum economic scales of operation were extended to cover new areas. Computer software industry was added to the list of delicensed industries. Broad-banding was introduced in milk products industry. Also, fresh guidelines were issued to the industrial units for the manufacture of milk products and malted foods. Toilet soap was added to the list of industries where minimum economic capacities were permitted. New sugar policy was announced with a minimum economic size of 2500 tonnes per day subject to sugar cane availability being certified by the State Governments, expansion of capacity upto 3500 tonnes crushing per day was permitted. Having regard to the idle capacity in steel casting industry, such units which have obtained industrial licences, letters of intent before October, 1987 and which have installed electric arc furnace for a capacity of 15 tonnes and above were allowed to take up manufacture of steel ingots/billets provided they adopt modern technological measures for producing steel.

4.20 With a view to removing procedural impediments and facilitate decisions being taken expeditiously, powers were delegated to the Administrative ministries in a number of areas. Furthermore, exemption from the licensing provisions was extended in respect of MRTP/FERA companies, in case of high priority items which were exempted under Section 22 of the MRTP Act subject to locations in centrally declared backward areas (which fall beyond a radius of 100 Kms. from cities having a population of more than 25 lakhs according to 1981 census) However, this facility is not available to the MRTP/FERA companies in the pharmaceutical industry. With a view to encouraging export production, it was decided that undertakings which have obtained export orders be permitted to take up manufacture of the items concerned without having to obtain an industrial licence provided the entire production covered by such permission is exported.

#### Industrial Approvals and the Capital Market

4.21 The number of letters of intent granted were 1130 in 1986 as against 989 in 1987. The

number of licences issued were 618 in 1986 as against 472 in 1987. The data available for 1987 shows declines of 12.5 per cent and 23.6 per cent respectively in the number of letters of intent and industrial licences issued over 1986. Similar trends are in evidence in SIA (Secretariat for Industrial Approvals) registration which show a decline of 21.7 per cent. Also, the total number of foreign collaboration approvals during 1987 showed a decline of 10.9 per cent over last year. However, the value of foreign investment approvals showed a marginal increase of 0.7 per cent during the same period. Besides, capital goods approvals granted during 1987 by the Capital Goods (Main) Committee at Rs. 980.3 crores were lower by 11.8 per cent compared with those (Rs. 1,110.9 crores) in 1986.

TABLE 4.5  
Selected Data on Industrial Approvals

Particulars	Unit	1985	1986	1987
1. Foreign Collaboration Approved . . . . .	Nos.	1024	957	853
Of which :				
Financial Collaboration Approved . . . . .	Nos.	233	240	242
2. Foreign Investment Approvals	Rs. crores	126.07	106.95	107.71
3. Letters of Intent Issued . . . . .	Nos.	1457	1130	989
4. Industrial Licences granted and Registrations (A + B) . . . . .	Nos.	4113	4167	3542
A. Industrial Licences Granted . . . . .	Nos.	985	618	472
B. Registrations				
(i) DGTD . . . . .	Nos.	1961	1162	1201
(ii) SIA (Data available from May, 1985) . . . . .	Nos.	1167 (May—Dec. 85)	2387	1869
5. *Consents given by the Controller of Capital Issues . . . . .	(a) Nos.	1128	965	502@
	(b) (Rs. crores)	3694.72	5843.10	4061.72@
6. *Assistance Sanctioned by Financial Institutions . . . . .	(Rs. crores)	6613.12	8150.62	7651.60@
7. *Assistance Disbursed by Financial Institutions . . . . .	(Rs. crores)	4924.27	5649.78	5532.06@

\*These data relate to April—March. The data against 1985 are for 1985-86 and so on, @April—December, 1987.



4.22 Financial assistance sanctioned and disbursed by the term lending financial institutions aggregated to Rs. 8150.62 crores and Rs. 5649.78 crores respectively during 1986-87 and showed increases of 23.2 per cent and 14.7 per cent respectively. During the period April—December, 1987 sanctions of financial assistance at Rs. 7651.60 crores (provisional estimates) showed a rise of 12.1 per cent and disbursement at Rs. 5532.06 crores registered a higher increase of 17.0 per cent compared with those in the corresponding period of the preceding year.

4.23 According to provisional data, approvals (i.e. consents/acknowledgements) granted by the Controller of Capital Issues for raising fresh capital to Government and non-Government companies during the first nine months of 1987-88 (April—December) at Rs. 4061.72 crores were lower by 11.2 per cent as compared with Rs. 4575.15 crores in the corresponding period of 1986-87. Approvals granted during the first nine months of the current financial year for raising capital include also the consents for public sector undertakings of Rs. 2377.92 crores as against Rs. 991.74 crores for the same period last year. It is noteworthy that during the year, bonds issued by the public sector undertakings, both under the 13 per cent and 9 per cent (tax free) schemes, emerged as a major and successful instrument for resource mobilisation, for the infrastructure segments like power, railways and telecommunication. Making allowances for these, the approvals granted to the private corporate sector for raising capital showed a sharp decline of 53.0 per cent during April—December 1987 over the same period last year. The subdued tone of the stock markets appears to have affected the new issues market for industrial securities.

4.24 Equity prices had experienced unusual buoyancy in 1985-86 largely due to high market expectations and excessive speculative influences. Subsequently there was a long phase of adjustments during 1986-87. Thus, the Reserve Bank's average All India index of ordinary share prices which had risen by 63 per cent in 1985-86, rose by 4 per cent only in 1986-87. After the volatile movements of the preceding two years, stock prices have tended to stabilise during the current year.

4.25 The current year has been a year of trials and adjustments for the capital market. In general, however, the capital market in India remained fairly stable in spite of periodical and heavy speculative selling pressures domestically and unprecedented upheavals in share market round the world. During the

year several steps were taken to provide a solid foundation for the healthy future growth of the capital market, consolidating the gains and learning from the experience of the past. These included progress in computerisation of operations on various exchanges; electronic linking and simultaneous price displays on major exchanges; decisions to permit the entry of corporate members on stock exchanges and steps in that regard; floatation of new mutual funds by State Bank of India and Canara Bank, establishment of investors' service cells in stock exchanges; strengthening of their administrative machinery and more effective monitoring systems; changes in the trading regulations on major exchanges; and the decision to establish a Board for securities.

#### Capital Goods

4.26 Capital goods sector has played a pivotal role in India's industrialisation strategy. Over the years it has emerged as a large and diversified sector. Growth of this sector has followed a cyclical path in the eighties as shown in Table 4.4.

4.27 The heterogeneity of the capital goods sector is reflected in diverse problems faced by this sector in recent years. Some segments of capital goods sector and in particular heavy engineering have not done well due to factors like lack of investible resources, absence of proper linkages between the user sector and the capital goods manufacturing sector, insufficient and sporadic flow of orders. Also, competition from imports is noticeable in machine tools and some items of electrical machinery. Besides, Indian capital goods producers suffer disadvantages in terms of input purchases owing to higher domestic prices vis-a-vis international prices. Also, weak and uncertain recovery in the world economy coupled with access to cheaper credit for producers of capital goods in industrial countries have led to intense competition in the international market for capital goods.

4.28 One major factor of underlying problems in the capital goods sector is the mismatch between supply and demand in the domestic market which is reflected in high demand for sophisticated and high precision machinery by the user industry leading to imports. A better product match between demand and supply is likely to emerge in this sector because of broad-banding and delicensing for a large number of machinery items. The tariff policy for capital goods sector has to strike a right balance between the need to provide reasonable level of protection to the indigenous capital goods industry and at the same time to ensure that it does not raise the cost of capital goods in the user

industries. The Budget for 1987-88 announced certain important steps to stimulate growth and to ameliorate some of the problems faced by the capital goods sector. There was an upward revision in tariff rates on project imports from 55 per cent to 85 per cent (alongwith reduction in the tariff rate for general machinery to the same level) with a view to confer reasonable protection to indigenous producers and reduce bias towards import. The duty on import of equipment for electronic industry was raised from 25 per cent to 30 per cent and for fertiliser plants from zero to 15 per cent. Project duty rate on power plants of 50 MW and below was raised from 25 per cent to 35 per cent. In order to strengthen the competitive position of indigenous machine building sector and to reduce their cost disadvantage in terms of input purchase, the duty rate was reduced to 85 per cent on steels used in industrial machinery. Also, textile machinery industry has been provided access to imported stainless steel at a concessional duty of 65 per cent instead of the rate of 245 per cent prescribed at present. In order to encourage modernisation of foundaries, import duty on specified capital goods was slashed from 101 per cent to 55 per cent. At the same time, a special scheme for technological upgradation for selected capital goods was announced. This scheme is being implemented through Industrial Development Bank of India (IDBI).

4.29 The demand for capital goods is a derived demand which is a function of the rate of modernisation and investment in the economy. Any policy aimed at modernisation and stepping up investment would lead to greater orders on domestic capital goods manufacturers and will soften the demand constraint which has afflicted some sub-sectors of the capital goods industry. Maintenance of the tempo of investment and modernisation in infrastructure sector, in particular in rail-coal-power complex, is vital for sustained growth of the capital goods sector.

#### Fertiliser

4.30 Nitrogenous fertiliser production during 1986-87 at 54.10 lakh tonnes showed an increase of 25 per cent over the level of 43.28 lakh tonnes achieved in 1985-86 and also was well above the targeted level of production of the order of 51.75 lakh tonnes set for 1986-87. The production of phosphatic fertiliser at 16.60 lakh tonnes during 1986-87 recorded an increase of 16.2 per cent over the preceding year's level of 14.28 lakh tonnes, but fell short of the targeted production level of 17.75 lakh tonnes for 1986-87. During the first nine months (April—December) of the year 1987-88 the nitrogenous fertiliser production at 38.95 lakh tonnes fell marginally S/249 Fin./87—6

short of the targeted level of 40.55 lakh tonnes set for the period. Also, in case of phosphatic fertilisers the production during April—December 1987 at 11.25 lakh tonnes fell short of targeted level of production set at 15.10 lakh tonnes for the same period. The level of stocks this year has been much higher than the earlier years mainly on account of reduced offtake by agriculture sector because of the drought, fall in actual consumption over the targeted level and continued import of fertilisers due to contractual obligations. The main reasons for the shortfall in the production of fertilisers apart from the slack demand have been power cut, water shortage, scheduled shut down, equipment breakdown and non-availability of phosphoric acid in case of phosphatic fertilisers.

4.31 The capacity utilisation in the nitrogenous fertiliser industry was higher at 79.1 per cent during 1986-87 compared to 70.4 per cent in 1985-86; in the case of phosphatic fertiliser industry the capacity utilisation at 80.1 per cent was lower during 1986-87 compared with 88.9 per cent in 1985-86. Also, the capacity utilisation has varied across the public, private and cooperative sectors. During 1986-87 nitrogenous fertiliser units in the public sector operated at considerably lower levels of capacity utilisation at 65.4 per cent compared to 93.3 per cent in the cooperative sector and 99.1 per cent in the private sector. In the case of phosphatic fertiliser industry, capacity utilisation in the public sector was 71.6 per cent as against 110.7 per cent in the cooperative sector and 77.2 per cent in the private sector. Higher capacity utilisation of fertiliser plants is essential to bring down unit costs and energy costs of fertiliser production. This will also help in containing the subsidy associated with the indigenous production of fertiliser.

#### Drugs and Pharmaceuticals

4.32 The Indian drug industry has recorded a phenomenal growth both in terms of range and quantum of production. As a consequence of impressive growth recorded by this industry, the country has attained self-sufficiency in a number of bulk drugs. The production of bulk drugs and formulations was valued at Rs. 2597.6 crores during 1986-87 and showed an increase of about 10.3 per cent over 1985-86. There are about 250 units engaged in the production of drugs in the organised sector of which five are in the public sector and seven in the joint sector. There are eight FERA companies at present compared to thirty one in 1978, eleven MRTP companies without foreign equity and seven companies which come under MRTP as well as FERA. In the small scale sector there are about 5,000 units engaged in the production of drugs.

4.33 To enable drug manufacturing units in the country to achieve economies of scale, minimum economic scales of production have been prescribed in respect of certain drugs. The system of delicensing has also been extended to this industry and it covers 94 items at present. The system of delicensing is to be progressively extended in the cases of : (a) bulk drugs whose imports are allowed under Open General Licence; (b) bulk drugs whose formulations are essential and are items of mass consumption; (c) bulk drugs whose production is limited to three producers or less in the organised sector; and (d) formulations and drug intermediaries related to bulk drugs which are delicensed. The scheme of delicensing would be available to non-FERA and non-MRTP companies only. In August 1987, Government promulgated the new Drug Price Control Order which aims at encouraging drug production in desired areas.

#### Small Scale Industries

4.34 The steady progress of small scale industries during the last few years has continued. According to estimates provided by the Development Commissioner, Small Scale Industries (DCSSI), the number of small scale units increased from 13.53 lakhs in 1985-86 to 14.57 lakhs (provisional) in 1986-87, showing an increase of 7.7 per cent. These units produced goods and services valued at Rs. 72,250 crores (provisional) at current prices in 1986-87 thus showing an increase of 18 per cent over the production valued at Rs. 61,223 crores during the preceding year. Employment in the sector also increased from 96 lakh persons in 1985-86 to 101.40 lakh persons (provisional) in 1986-87, thereby registering an increase of 5.6 per cent. Total exports from the sector, in 1985-86 was estimated at Rs. 2,785 crores and showed an increase of 7.9 per cent over the previous year. The share of small scale sector in India's total exports was 25.3 per cent during 1985-86.

4.35 Along-with growth in the volume of production, there has also been progressive diversification in this sector. The sector produces more than 5,000 items. Its contribution has been most notable in important segments of the electronics industry. It contributes about 45 per cent of production in the field of consumer electronics, 75 per cent of production in instruments and instrumentation and 45 per cent of production in computer and allied items.

4.36 The progressive growth of this sector is attributable to a number of promotional measures provided by the Government. These measures include : (a) market protection is provided through the reservation of products for exclusive production in the small

sector. The list of reserved items where small scale production is efficient, is being kept under constant review. With the dereservation of three items during April-December 1987 the total number of items reserved for exclusive manufacture in the small scale sector stood at 847 at the end of December, 1987. In addition, the nomenclature of five reserved items was changed; (b) small scale sector is also given purchase preference in Government procurement. Under this programme, 409 items have been reserved for exclusive purchase from small scale sector while 13 items are reserved for purchase upto 75 per cent and 28 items for purchase upto 50 per cent; (c) infrastructure support is provided through industrial estates, the District Industries Centres, Small Industries Service Institutes and other specialised institutes which provide technical assistance and testing facilities, etc. With a view to improving the quality of products, eight electrical items of mass consumption have been brought under compulsory ISI certification; (d) providing better access to scarce raw materials; and (e) small scale units also get concessional interest rates and priority in the disbursement of loans by the financial institutions.

4.37 Some important policy initiatives have been undertaken specifically for tiny units in the small scale sector. During 1987-88, a National Equity Fund was established with the object of rendering special attention to the needs of the smaller amongst the small scale units. The Government of India has provided Rs. 5 crores towards the Fund with a matching contribution from the IDBI. The scheme is being administered by IDBI and operated through nationalised banks. Under the scheme assistance will be provided by way of seed capital, in the form of soft loan, to eligible small and tiny industries with the project costs not exceeding Rs. 5 lakhs and located in villages or towns with population not exceeding 5 lakhs. New units as also the potentially viable sick units in the small scale sector, eligible for assistance under the Refinance Scheme of IDBI, will get support out of the Fund. Assistance under the scheme is available upto a maximum of Rs. 75,000 per project at a nominal service charge of 1 per cent per annum. The units availing of this assistance are required to mobilise a cash contribution of 10 per cent of the project cost.

4.38 There has been impressive progress in the scheme for providing self-employment to educated unemployed youths, which was launched in 1983-84. In 1986-87, the number of beneficiaries was 2.19 lakhs with sanctions from banks amounting Rs. 455.12 crores.

#### Central Public Sector Enterprises

4.39 Over a period of more than four decades, the growth of the central public sector enterprises has been

phenomenal in terms of investment and production, as well as the scope of activities. From only 5 enterprises on 1st April, 1951 they have increased to 228 as on 31-3-1987 employing about 23 lakhs people (including casual workers). At the end of 1986-87, capital employed in the operating central public sector alone stood at Rs. 51,931 crores and the total turnover was Rs. 69,016 crores. Its coverage has extended beyond the basic and heavy industries into light manufacturing, some of consumer goods, electricity, high technology products, construction, and diverse range of consultancy services. About 55 per cent of total investment in central public sector enterprises is in steel, coal, minerals and metals, power and petroleum sectors.

4.40 During 1986-87, 214 operating central public sector enterprises have together earned a record net profit after tax of Rs. 1,769 crores and showed an increase of 50.8 per cent over the corresponding amount of Rs. 1,173 crores for the preceding year. However, groupwise net profit/loss position of enterprises during 1986-87 in terms of broad sectors shows that of the 12 manufacturing/producing sectors only 5 sectors were able to make net profits. These were Petroleum (Rs. 2,142.05 crores), Power (Rs. 233.78 crores), Medium and light engineering (Rs. 54.76 crores), Heavy engineering (Rs. 8.90 crores) and Minerals and metals (Rs. 2.04 crores). On the other hand, the remaining sectors made net losses during 1986-87. These were : Coal (Rs. 330.96 crores), Textiles (Rs. 189.64 crores), Chemicals, Fertilisers and Pharmaceuticals (Rs. 146.29 crores), Consumer goods (Rs. 141.10 crores), Transportation equipment (Rs. 50.60 crores), Steel (Rs. 26.38 crores) and Agro-based Products (Rs. 3.97 crores). The group of enterprises operating in the non-commodity producing sectors which are mainly engaged in rendering diverse range of services made a net profit of Rs. 216.49 crores during 1986-87. The major performance indicators of the central public sector enterprises for the years 1984-85, 1985-86 and 1986-87 together with the performance during the first six months of the current and previous financial years is given below :

TABLE 4.6

*Performance Indicators of Central Public Sector Enterprises*  
(Rs. crores)

S. No.	Particulars	1984-85	1985-86	Half year ending		
				1986-87	Sept. 1986	Sept. 1987
1	2	3	4	5	6	7
1.	Total no. of enterprises .	207	211	214	170	179
2.	Sales .	54784	62360	69016	28231	33112
3.	Inventory .	17084	19211	21365	16363	17617

1	2	3	4	5	6	7
4.	Net profit by profit-making companies .	2021	2857	3479	1260	1475
	(No. of companies)	(113)	(119)	(108)	(84)	(78)
5.	Net loss by loss-making companies .	1112	1684	1710	1027	1415
	(No. of companies)	(92)	(90)	(101)	(84)	(99)
6.	Total net profit/loss (4-5)	909	1173	1769	233	60
7.	Tax .	1190	1000	1326	482	512
8.	Profit before tax (6+7)	2099	2173	3095	715	572
9.	Interest .	2529	3114	3117	1464	1503
10.	Gross profit/loss (8+9)	4628	5287	6512	2179	2075
11.	Capital employed .	36382	42965	51931	44359	50605
12.	Gross profit ÷ capital employed (%) .	12.72	12.31	12.54	9.82	8.20
13.	Depreciation & DRE .	2758	2983	3382	1614	1769
14.	Gross margin	7386	8270	9894	3792	3844
15.	Gross margin ÷ capital employed (%) .	20.30	19.25	19.05	17.10	15.19

4.41 During the current year, a number of measures were introduced with a view to provide greater autonomy to the public enterprises. A system of memorandum of understanding (MOU)/Annual Performance Plan (APP) has been introduced in case of major undertakings in order to focus clearly on the tasks and responsibilities assigned to the public enterprises on the one hand and the corresponding obligation of the administrative Ministry on the other. This would ensure greater autonomy to the public sector undertakings and at the same time provide accountability for results. Besides, in cases where MOU cannot be entered into, performance evaluation is to be done with reference to four groups of general criteria viz., financial performance, productivity and cost reduction, technical dynamism and effectiveness of project implementation. Also two holding companies were constituted to provide greater managerial autonomy and flexibility to enterprises functioning in broadly similar areas. These companies were set up for engineering enterprises—one with headquarters at Allahabad and the other at Calcutta. Furthermore, it has been decided to give five year terms to Chief Executives and Functional Directors to ensure stability of senior management. It has been decided that investment proposals will go to the Public Investment Board only where the proposal is for more than Rs. 20 crores. The delegation of powers with the enterprises has been revised as given below :—

Gross Block	Power to sanction expenditure without prior approval of Government
Less than Rs. 100 crores	Rs. 5 crores
Rs. 100 crores to Rs. 200 crores .	Rs. 10 crores
Above Rs. 200 crores .	Rs. 20 crores

### Industrial Sickness

4.42 Industrial sickness has emerged as a serious problem affecting the small, medium and large units. It is a major area of concern due to its implications for the entire economy and health of the industrial sector in particular. As at the end of December 1986, the number of sick units in the portfolio of scheduled commercial banks stood at 1,47,740 involving an outstanding bank credit of Rs. 4874 crores. The total number of large industrial units identified by banks as sick has increased from 637 as at the end of December 1985 to 714 as at the end of December 1986 and the amount outstanding against these units increased from Rs. 2980 crores to Rs. 3287 crores over the same period. On the other hand, the number of small scale units increased from about 1.18 lakhs at the end of December 1985 to around 1.46 lakhs at the end of December 1986. The outstanding bank dues of these units increased from Rs. 1071 crores as at the end of December 1985 to Rs. 1306 crores at the end of December 1986.

TABLE 4.7  
Industrial Sickness

No. of sick units as at the end of	(Numbers)			
	Large units	Medium units	SSI units	Total sick units
December, 1980 .	409	992	23,149	24,550
December, 1981 .	422	994	25,342	26,758
December, 1982 .	444	1178	58,551*	60,173*
December, 1983 .	491	1256	78,363	80,110
December, 1984 .	545	1287	91,450	93,282
December, 1985 .	637	1186	1,17,783	1,19,606
June, 1986 .	689	1230	1,28,687	1,30,606
December, 1986 .	714	1250	1,45,776	1,47,740
<b>Amount outstanding as at the end of</b>	(Rs. crores)			
December, 1980 .	1324.47	178.42	305.77	1808.66
December, 1981 .	1478.84	187.63	359.07	2025.54
December, 1982 .	1790.60	225.76	568.97*	2585.33*
December, 1983 .	2014.33	357.97	728.99	3101.29
December, 1984 .	2330.12	428.58	879.69	3638.39
December, 1985 .	2980.24	220.02	1070.67	4270.93
June, 1986 .	3238.64	242.37	1184.22	4665.23
December, 1986 .	3287.02	281.37	1306.10	4874.49

\*Not comparable with the data for earlier years as the State Bank of India has included the small scale units in protested bills/recalled accounts in its list of sick units, which were not included in the data furnished earlier.

4.43 Of the 1,47,740 sick industrial units (large, medium and small) involving a total bank credit of

Rs. 4874 crores at the end of December 1986, the viability position was as follows :

TABLE 4.8  
Viability Status of sick units as at the end of December 1986

Units	Number	Amount (Rs. crores)
1. Units found viable . . . . .	17,708	2167.88
2. Units found non-viable . . . . .	1,27,719	2421.84
3. Units for which viability yet to be determined . . . . .	2,313	284.77
<b>TOTAL . . . . .</b>	<b>1,47,740</b>	<b>4874.49</b>

Source : Reserve Bank of India

4.44 Of the 17,708 potentially viable sick industrial units, 3314 units have been put under nursing by the banks upto December, 1986. The outstanding bank advances to these units amounted to Rs. 1726 crores. In case of 714 large sick industrial units, banks had determined the viability or otherwise in respect of 653 units by the end of December 1986. Out of these, 383 units were found to be potentially viable and accounted for Rs. 1819 crores i.e. about 55.3 per cent of the total outstanding bank credit to all large sick units. Banks have put 255 units with outstanding credit of Rs. 1223 crores under the nursing programme.

4.45 In the small scale sector, 18,76,655 (prov.) units have been provided with bank credit amounting to Rs. 9098 crores at the end of December 1986. Of these, 1,45,776 units (7.8 per cent) have been found to be sick with outstanding bank credit of Rs. 1306 crores (14.4 per cent). Of the total sick units 16,946 units (11.6 per cent) with outstanding credit of Rs. 303 crores (23.3 per cent) were considered by banks as potentially viable. A total of 2761 units with outstanding credit amounting to Rs. 210 crores were reported to be put under nursing programme by the financing banks as at the end of December, 1986.

4.46 In terms of the Sick Industrial Companies (Special Provision) Act, 1985, the Government of India have set up the Board for Industrial and Financial Reconstruction (BIFR) in January 1987 (which has become operative since May 15, 1987) for determining the preventive, ameliorative, remedial and other measures which are required to be taken in respect of sick industrial companies and for expeditious enforcement of the measures determined. Companies (other than Government companies and those specifically exempted under the Act) whose net-worth is eroded fully, fall under the purview of this legislation. For the purpose of this legislation, a sick indus-

trial company has been defined as under : "An industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net-worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year."

4.47 The BIFR has been given wide-ranging powers in respect of approval of rehabilitation packages for sick industrial companies including their restructuring and revival. In cases where sickness is confirmed, BIFR will determine the course of action to be followed with regard to the company. This course of action may be : (a) allowing the company time on its own, i.e. as per the scheme already initiated by the banks/institutions, to make its net-worth positive within a reasonable period; (b) having a scheme prepared through the operating agency in respect of the company; or (c) deciding on the winding up of the company. The scheme under option (b) above sanctioned by the BIFR has to be finalised in accordance with a time schedule stipulated in the Act. The scheme may contain provisions for financial assistance merger, sale or lease of a part or the whole of the company, suspension of existing agreements/contracts etc. The decision of the BIFR is binding on all concerned. The Act has an overriding effect over all other laws except FERA and the Urban Land (Ceiling and Regulation) Act. The jurisdiction of civil courts is barred in respect of matters coming under the purview of BIFR. The Act provides for an Appellate Authority. Besides, the BIFR has powers to appoint a Special Director on the sick company in case of mismanagement. It also has powers to debar the company management and all other units of the same management from any credit facilities from the organised sector for a period of 10 years. The setting up of BIFR is a major step for intervening at an early stage and detecting, preventing and taking remedial measures which need to be taken with respect of sick companies.

4.48 The importance of detection of sickness at the incipient stage, as also the need for proper coordination between the commercial banks and term lending institutions in the formulation and implementation of rehabilitation packages, has been emphasized by the Reserve Bank of India from time to time. With a view to cover these categories of industrial units which do not come under the purview of the Sick Industrial Companies (Special Provision) Act, 1985, the RBI has advised the banks to take the necessary remedial measures in respect of industrial units at the stage of 50 per cent erosion of their net-worth. Such units are

termed as 'weak' units to distinguish them from 'sick industrial companies' as defined in the Act. An industrial undertaking is termed 'weak' if at the end of any accounting year, it has: (i) accumulated losses equal to or exceeding 50 per cent of its peak net-worth in the immediately preceding five accounting years; (ii) a current debt-equity ratio of less than 1 : 1, and (iii) suffers a cash loss in the immediately preceding accounting year. Beside these measures, RBI has been closely monitoring certain specific industries where the incidence of sickness is high. Standing Committees have been set up in the RBI for the jute and sugar industries to consider the specific problems of these sectors.

4.49 The other significant policy initiative has been the introduction of liberalised margin money scheme for supplementing the efforts of the State Governments in reducing sickness in the small scale sector in June 1987. Under the scheme, the State Governments are to make a matching contribution on a 50 : 50 basis in providing assistance to sick small scale units in their rehabilitation. In the revised scheme, the maximum quantum of assistance has been enhanced from Rs. 20,000 to Rs. 50,000 per unit.

#### **Employment in the Organised Sector**

4.50 Growth in the employment in the organised sector has been sluggish in recent years. According to the quick estimates, there was a marginal increase of 1.7 per cent in employment in the organised sector which increased from 250.37 lakhs at the end of June, 1986 to 254.73 lakhs at the end of June, 1987. The increase took place entirely in the public sector which showed an increase of 3 per cent in contrast to a decline of 1.2 per cent in the organised private sector.

4.51 The number of job seekers on the live register of Employment Exchanges was 304.95 lakhs at the end of November 1987 thereby showing an increase of 2.2 per cent over the same month of 1986. Monthly average vacancies notified during April-November 1987 was of the order of 50.4 thousand as compared to 54.1 thousand during the corresponding period of the last year thereby showing a fall of about 6.8 per cent. Similarly, average monthly placements during April-November 1987 declined to 28.1 thousand from the monthly average of 29.1 thousand over the same period of 1986, thus showing a fall of 3.4 per cent.

#### **Industrial Relations**

4.52 There has been a general stability in industrial relations situation in the country during the year

1987-88. Though there has been a marginal rise in loss of man-days from a level of 13.86 million in the first two quarters of 1986-87 to 15.68 million for the corresponding period of 1987-88, there has been no major industrial unrest in the country. Strikes and lockouts were generally confined to the cotton and jute textiles as also the engineering industries in the States of West Bengal, Tamil Nadu, Maharashtra and Andhra Pradesh.

TABLE 4.9  
Man-days lost on account of strikes and lockouts  
(In million)

Quarter	1985-86 (P)	1986-87 (P)	1987-88 (P)
I. . . . .	8.03	7.89	7.10
II. . . . .	6.83	5.97	8.58
III. . . . .	7.51	13.24	*
IV. . . . .	5.39	6.87	*
TOTAL . . . . .	27.76	33.97	15.68

P : Provisional.

\*Not available.

4.53 Tripartite Industrial Committees on Chemical Industry, Engineering Industry, Cotton Textile Industry, Jute Industry, Plantation Industry, Road Transport Industry, Tanneries and Leather Goods Manufacturing Industry, Cement Industry, Building and Construction Industry, Coal Industry and Mines other than Coal Industry, had been reconstituted, with a view to strengthening the Tripartite Consultative Machinery. During 1987, Tripartite Industrial Committees on Electricity Generation and Distribution Industry, Glass and Pottery Industry and Food and Drinks Industry were constituted. In these meetings, discussions were held on the issues relating to industrial relations situation, safety and occupational health, workers participation in management and social security schemes etc.

#### Outlook

4.54 Indian industry enjoys several advantages. It has a large domestic market and diversified industrial base. The base of entrepreneurship has grown substantially. However, the relatively high structure of costs and prices in the industrial sector has adversely affected the competitiveness of Indian manufactured products in the world market and constricted domestic

demand. In order to accelerate industrial growth, a number of measures have been taken in the recent past to promote productivity and efficiency. Existing units today enjoy considerable freedom to expand and diversify to take advantage of economies of scale and be able to respond flexibly to changing market conditions. This is likely to foster domestic competition and exert downward pressure on industrial costs and prices in the future. In the ultimate analysis, the success of these initiatives will depend on the response of entrepreneurs and firms. The transition from a high cost industrial structure to an efficient, low cost one will entail some adjustment costs to individual enterprises. However, these costs are to be viewed in terms of lower cost to the economy, higher employment and output in future.

4.55 The most notable fact in the industrial scenario during the current year has been the remarkable resilience of the industrial sector in the face of severe drought. This, to a large extent, is the result of two factors. Firstly, there has been considerable diversification of the domestic economy in general and the industrial sector in particular which has reduced the sensitivity of industry to fluctuations in agriculture. Secondly, the infrastructure sector in general and power-rail-coal complex in particular has shown robust performance. It has been observed that drought related adverse effects show up only after a lag of about six to eight months i.e. somewhere around the third quarter of the drought year and the first quarter of the following financial year. However, in view of the structural changes, the robust performance of the infrastructure sector and the fact that the drought has not coincided with adverse exogenous shocks as in the past, the experience of the sixties and seventies may not be replicated this year. Therefore, while the adverse impact of the drought on industrial production cannot be avoided altogether, it is expected that the impact will be limited. It is also gratifying that public investment levels are being maintained despite pressure on the resource position of Government because of drought, and that indigenous capital good industries are being provided special support through fiscal and other measures. These coupled with the expected recovery in agriculture should add a further stimulus to industrial growth next year.