CHAPTER 4

INDUSTRIAL PERFORMANCE AND POLICIES

Data available upto November, 1988 indicates that industry has been growing at over 9 per cent this year. The manufacturing sector, which accounts for almost four-fifth of the index of industrial production (IIP) has been growing at an even higher rate of about 10 per cent. This performance during the current year maintains the higher growth path of industry established during the past few years as compared to the trend growth rate achieved upto the early eighties. Furthermore, industrial growth during the current year has been fairly well dispersed with over half the sectors growing at between 10 to 20 per cent while some sectors like textile products have grown at even higher rates. The strong growth performance of industry is partly attributable to buoyant demand conditions led by the resurgence of agricultural growth as also the good supporting performance of key infrastructure sectors. The dynamic performance of industry this year and during the last few years also reflects the effects of a continuing process of industrial policy reforms directed at fostering greater competition, efficiency and growth in the industrial sector. Major advances have been achieved in this regard during the current year.

4.2 In 1987-88, industrial production had grown at 7.5 per cent while the manufacturing sector recorded a growth of 8.2 per cent. This performance is especially remarkable in view of the drought conditions prevailing last year, since such supply shocks in agriculture have usually had a severe adverse impact on industrial production. As anticipated in the Survey last year, the adverse impact of drought on industrial production was very limited. Apart from other factors this is attributable in large measure to policies which helped to maintain consumption and investment demand for industrial products and arrest the emergence of infrastructure bottlenecks, especially in the generation of power, despite the adverse drought conditions.

4.3 On the consumption side, these measures included large scale relief operations in drought affected areas, which helped to compensate for the loss of purchasing power arising from the decline in agricultural incomes, as well as the special efforts made in the Rabi programme to recover the loss in agricultural incomes. The package of inflation containment measures, especially the unloading of accumulated foodgrain stocks and restraint in recourse to deficit financing, also helped to arrest the erosion of purchasing power in the large unorganised sector of the economy where incomes are not indexed. Furthermore, since the large scale expenditure on relief was financed largely through additional resource mobilisation, plan expenditure targets could be met in real terms despite the strain on resources. This, together with adequate flow of non-food bank credit to the commercial sector, helped to sustain aggregate investment demand. Finally, the decline in hydro-electric power generation triggered by monsoon failure was offset to a large extent by the growth in thermal power generation while other infrastructure sectors also recorded good performance.

TABLE 4.1

Annual Growth Rates in Major Sectors of Industry

Year	Mining	Manufacturing	Electricity	General
(Weight)	(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
1987-88	3.6	8.2	7.7	7.5

4.4 Such measures notwithstanding, it is not possible to insulate industrial production completely from setbacks in agriculture in an economy where agriculture still accounts for about a third of the total Gross Domestic Product. There was, therefore, a mild deceleration in industrial and manufacturing output growth last year as compared to the growth rate of around 9 per cent or more recorded during the previous two years. As anticipated, this deceleration occurred during the third and fourth quarters of 1987-88. However, there has been a strong recovery during the first few months of the current year, with overall industrial production growing at 9.3 per cent during April-November, 1988 over the corresponding period of 1987. At the sectoral level manufacturing, electricity and mining showed increases of 9.9 per cent, 7.5 per cent and 7.0 per cent respectively during April-November, 1988.

Industrial Production

4.5 The growth rate of 7.5 per cent achieved by the industrial sector as a whole in 1987-88 fell short of the overall industrial growth rate oι over 8 per cent per annum recorded during previous three years. The sectoral break-up of the Index of Industrial Production indicated growth rates of 3.6 per cent, 8.2 per cent and 7.7 per cent respectively for mining, manufacturing and electricity in 1987-88. Thus, while manufacturing exceeded the Seventh Plan growth target of 8 per cent for the third successive year, there was substantial slippage in the mining sector as compared to the Plan target of 13 per cent. Though electricity generation was below the Plan target, the increase of 7.7 per cent over the previous year helped a great deal in containing the adverse effects of the drought.

4.6 As noted earlier the lower growth rate in manufacturing sector during 1987-88, compared to the previous two years, reflects the impact of subnormal agricultural conditions. Negative growth rates were recorded in beverages and tobacco (—13.8 per cent), jute textiles (—10.0 per cent), wood and wood products (—34.3 per cent), non-metallic mineral products (—1.4 per cent) and machinery and machine tools (—1.8 per cent). These industries together account for a weight of 13.3 per cent in the index.

4.7 Positive but lower rates of growth compared to 1986-87 were recorded in food products (4.3 per cent), cotton textiles (1.0 per cent), paper and paper products (1.9 per cent), leather and fur products (4.4 per cent), basic metals (6.9 per cent)., metal products (4.1 per cent), transport equipment (5.1 per cent) and other manufacturing industries (15.6 per cent). These industries account for a weight of 40.7 per cent in the index.

TABLE 4.2

Trends in the Performance of Manufacturing Sector

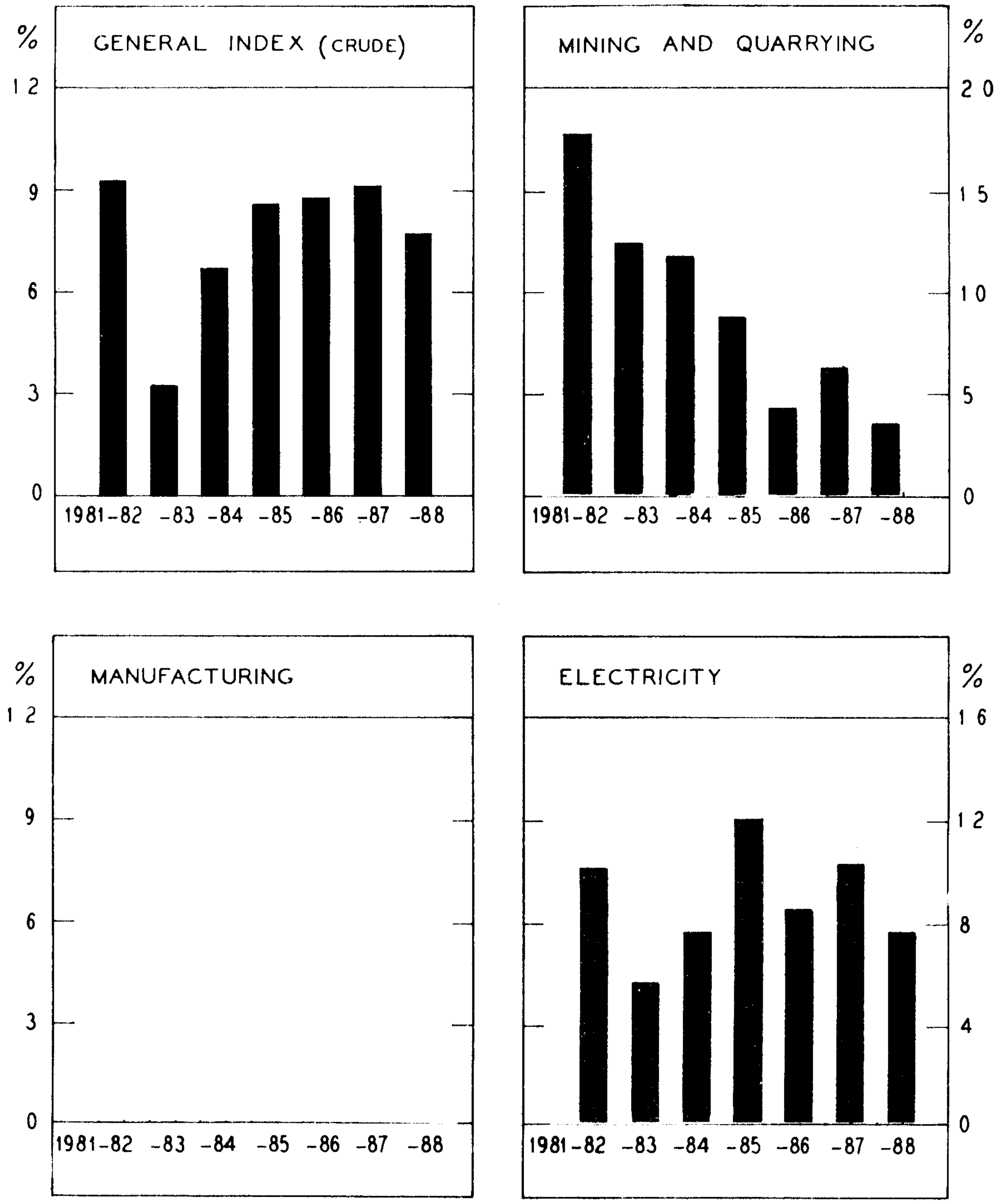
(Base 1980-81 = 100)

Code	Industry Group	Weight	Growth Rate (Percent) Seventh Plan Target	1985-86 / 1984-85	1986-87 / 1985-86	1987-88 / 1986-87
20—21	Food products	5.33	6.4	4.7	6.1	4.3
22	Beverages, Tobacco and products	1.57		0.4	—12.1	—13.8
23	Cotton Textiles	12.31		8.0	1.9	1.0
25	Jute, Hemp and Mesta products	2.00	5.0	-2.2	4.0	-10.0
26	Textile products (including wearing apparel other than footwear)	0.82		18.0	-22.8	5.3
27	Wood and Wood products	0.45	8.5	3.1	10.3	-34.3
28	Paper and Paper products	3.23		12.6	9.9	1.9
29	Leather and Fur products	0.49	4.3*	21.1	5.0	4.4
30	Rubber, Plastic, Petroleum and Coal products	4.00	6.2**	3.9	-2.2	4.1
31	Chemicals and Chemical products	12.51	9.5	8.1	13.7	14.5
32	Non-Metallic Mineral products	3.00	5.6	13.7	1.9	—1.4
33	Basic Metals	9.80	8.1	9.0	8.4	6.9
34	Metal products and parts	2.29		9.2	8.5	4.1
35	Machinery, Machine Tools	6.24	11.8	2.0	8.9	-1.8
36	Electrical Machinery & appliances	5.78	12.5	34.8	27.0	31.6
37	Transport Equipment	6.39	10.8	3.2	6.7	5.1
38	Other Manufacturing Industry	0.90	9.8***	24.3	54.2	15.6
	Manufacturing	77.11	8.0	9.7	9.3	8.2

* Includes rubber.
** Excludes rubber.
*** Includes metal products.

GROWTH RATES IN INDEX OF INDUSTRIAL PRODUCTION

(1980- 81 = 100)



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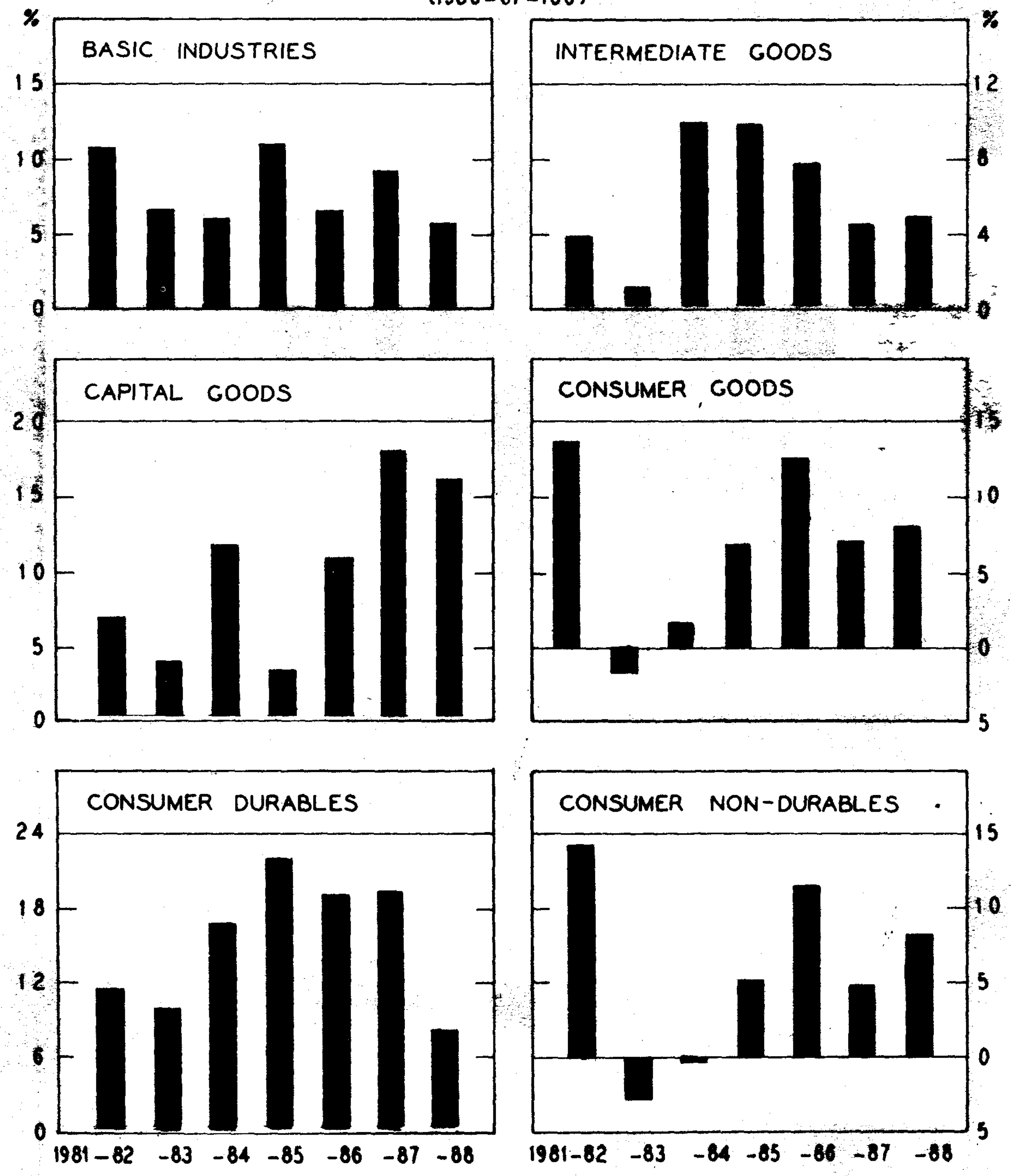
GROWTH RATES IN USE-BASED INDEX OF INDUSTRIAL PRODUCTION

(1980-81 = 100)



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4.8 Higher rates of growth compared to 1986-87 were recorded in textile products (5.3 per cent), rubber, plastic, coal and petroleum products (4.1 per cent), chemicals (14.5 per cent) and electrical machinery and appliances (31.6 per cent). These sectors account for a weight of 23.1 per cent in the index. The sector that has performed remarkably well is that of electrical machinery and appliances. This sector has grown at an annual rate more than double the planned rate of growth during the first three years of the current five year plan. A large part of this growth is accounted for by the electronics subsector.

4.9 An analysis of growth by broad use-based groups of industries (Table 4.3) reveals that the capital goods sector, with a weight of 16.43 per cent in the IIP grew at 16 per cent. This is followed by the consumer goods sector with a weight of 23.65 per cent in the index, which recorded an increase of 7.4 per cent. A heartening feature in the growth performance of consumer goods is the acceleration in growth of consumer non-durables from 4.9 per cent in 1986-87 to 7.4 per cent in 1987-88. This seems to indicate the success of policies aimed at arresting the erosion of purchasing power which has been referred to above. However, there was considerable deceleration in the growth of basic industries which have a weight of 39.42 per cent in the index. This sector recorded an increase of 5.6 per cent in 1987-88 in contrast to a growth of 9.2 per cent in the preceding year. The intermediate goods sector with a weight of 20.51 per cent recorded a growth of 4.7 per cent during 1987-88, which represents a marginal improvement in growth performance over the preceding year.

TABLE 4.3

*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	1987-88
1	2	3	4	5	6	7	8	9
I. Basic Goods	39.42	110.9 (10.9)	118.7 (7.0)	125.7 (6.0)	139.7 (11.1)	149.2 (6.8)	163.0 (9.2)	172.2 (5.6)
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)	192.9 (16.0)
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)	141.5 (4.4)	148.1 (4.7)
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)	147.1 (7.1)	158.0 (7.4)
(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)	241.2 (18.9)	259.6 (7.6)
(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)	135.7 (4.9)	145.8 (7.4)

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

4.10 During the current year, manufacturing sector as a whole grew at 9.9 percent during April-November, 1988. Within manufacturing sector the growth has been quite broad based. Eight out of seventeen industry groups at the two digit level with a combined weight of 44.84 percent in the IIP have grown at rates ranging between 10 and 20 percent. These include chemicals (18.8 percent), non-metallic mineral products (17.1 percent), rubber, plastic, coal and petroleum products (15.5 percent), machinery and machine tools (15.0 percent), transport equipment (12.3 percent), jute textiles (12.0 percent), miscellaneous manufacturing industries (10.4 percent) and basic metal and alloy products (10.2 percent). Textile products which account for a weight of 0.82 percent in the IIP showed a phenomenal increase of 55.6 percent. Four industry groups accounting for a weight of 13.13 percent in the Index grew at rates ranging from 5 to 10 percent. These are food products (8.3 percent), electrical machinery (7.1 percent), beverages and tobacco (6.4 percent) and wood and wood products (5.2 percent). Metal products and paper and paper products with a weight of 5.52 percent in the IIP showed low growth rates of 4.7 percent and 1.9 percent respectively. Of the remaining groups cotton textiles and leather products (accounting for a weight of 12.80 percent) showed negative growth rates of the order of 7.7 percent and 3.7 percent respectively.

4.11 At the 3 digit level of classification it is observed that sub-groups of industries, accounting for a weight of 54.95 per cent in the index or above seventyone per cent of the weight in the manufacturing sector, showed positive rates of growth. Thirtyeight of these industries, accounting for a weight of 38.35 per cent in the index, showed growth rates in excess of 10 per cent.

Industrial Policy Initiatives

4.12 Policies of industrial regulation have a major role in setting the market environment which governs industrial performance. Accordingly, a number of steps have been taken in recent years to reform the overall policy regime and make it more conducive to the promotion of competition, modernisation and cost efficiency. Major advances have been made during the current year in this ongoing process of industrial policy reform, with an emphasis on easing entry or expansion of incumbent firms and the recognition of efficient scales of production. These recent reforms can be broadly grouped into three categories, viz., (i) measures to facilitate capacity creation; (ii) measures to facilitate output expansion and; (iii) measures to remove procedural impediments.

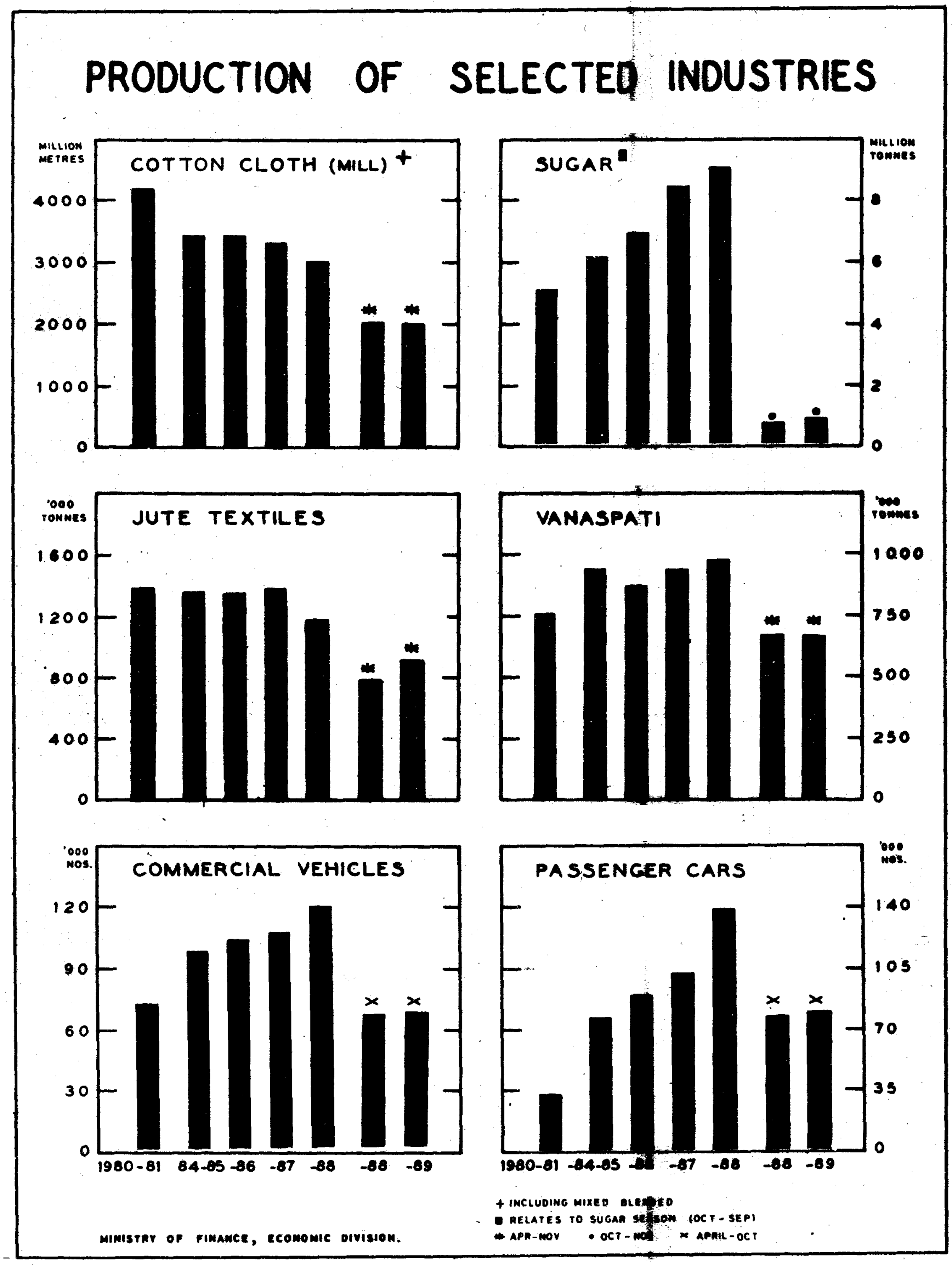
Measures to Facilitate Capacity Creation

4.13 *Delicensing :* During the year a major package of industrial delicensing was announced to attract investment and promote industrial growth. Henceforth, only projects involving an investment in fixed assets of more than Rs. 50 crores, if they are located in centrally declared backward areas, or more than Rs. 15 crores if they are located in non-backward areas will need industrial licences. However, the benefit of delicensing in both the cases will be available only if the project is located outside the following distance limits: 50 kms from the boundary of cities with a population of more than 25 lakhs; 30 kms from cities with a population of more than 15 lakhs but less than 25 lakhs; 15 kms from cities with a population of more than 7.5 lakhs but less than 15 lakhs and the standard urban area/municipal limits of other cities and towns.

4.14 Location requirements of industries delicensed earlier have been brought in line with the aforesaid distance limits. The limit on requirements of imported inputs has also been increased from the earlier 15 per cent of the ex-factory value of the annual production subject to a ceiling of Rs. 75 lakhs, to 30 per cent of ex-factory value of production. The negative list of industries for which licensing remains compulsory, regardless of the size of investment was reduced from 77 to 26. Also, the exemption from industrial licensing has been extended to dominant undertakings, so registered under Section 20(b) of the MRTP Act, for items other than those in which the industrial undertaking is registered as "dominant industrial undertaking."

4.15 *Technical Development Fund (TDF) :* This scheme was introduced by the Government in 1976 in order to encourage modernisation and upgradation of technology by the existing units. It has been liberalised by widening the scope and extending its coverage to include import of all kinds of capital equipment and technical know-how, assistance, drawings and designs, and consultancy services. The ceiling for imports under TDF has been raised to a foreign exchange equivalent of Rs. 2 crores per unit per financial year. Multiple applications within a single year now, are also being permitted provided that the ceiling is not exceeded, and the ceiling itself can be relaxed in "deserving" cases where a total package of technology is being imported.

4.16 *Licensing of Leather Capacity :* Licensing of new units and substantial expansion of existing units for manufacture of leather footwear and leather goods will henceforth be permitted in any location permissible under the general locational policy of the Government. Furthermore, there will be no restriction on setting up of additional capacity in the manufacture of finished leather from semi-final stage. While permitting capacity



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in this regard, the need for restructuring the capacity in areas which are already saturated will be taken into account on a case to case basis.

4.17 *Minimum Economic Capacity (MEC)* : The minimum economic capacities have been prescribed for the following industries: vanaspati at 25 tonnes per day, cold rolled formed sections at 10,000 tonnes per annum, GLS lamps at 45 million lamps per annum, paper and paper board including speciality paper made from agricultural residue as raw materials at 33,000 tonnes per annum, ceramic tiles at 12,000 tonnes per annum, float glass at 10 million sq. metres of 2mm thickness, automobile tyres and tubes at 2 million nos. per annum, graphite electrodes at 15,000 tonnes per annum, welded steel pipes and tubes (excluding stainless steel pipes and tubes) at 25,000 tonnes per annum, aluminium foils at 3000 tonnes per annum and aluminium rolled products at 15,000 tonnes per annum. Besides, existing levels of minimum capacity specified earlier have been revised upwards as per Table 4.4. There are now altogether eighty four industries for which minimum economic capacities has been prescribed. Under this policy, existing units are automatically allowed to expand their capacities upto these limits, while new units are sanctioned capacities at these minimum economic levels. It is expected that this policy will help considerably in preventing fragmentation of capacity at uneconomic levels and impart cost efficiency in the long run.

TABLE 4.4

Revision in Minimum Economic Capacity

Sl. No.	Name of products	Existing Minimum economic capacity per annum	Revised Minimum economic capacity per annum
1.	Carbon Black	40,000 tonnes	50,000 tonnes
2.	Hot Rolled Strip Units	40,000 tonnes	1 lakh tonnes
3.	Storage Batteries	8 lakh nos.	1 million nos.
4.	Ceiling Fans	8 lakh nos.	1 million nos.
5.	Electronic Typewriters	15,000 nos.	25,000 nos.

Measures to Facilitate Output Expansion

4.18 *Capacity Re-endorsement* : The re-endorsement of licensed capacity introduced earlier has been substantially liberalised. Industrial licences will be automatically re-endorsed at the maximum production achieved by any industrial undertaking between 1st April, 1988 and 31st March, 1990. There are no restrictions on this, except that it does not apply to items reserved for the small scale sector. However, additional investment in plant and equipment to achieve the higher production level should not exceed 10 per cent of the book value of existing capital. MRTP and FERA firms can also take advantage of this measure subject to certain conditions. Locational restrictions also do not apply to this scheme. Furthermore, the number of industries for which automatic re-endorsement of capacity is not available has been reduced from 77 to 26.

4.19 *Broad Banding* : The facility of broad banding which enables manufacturing enterprises to adjust their product mix in line with changing market conditions and also facilitates better capacity utilisation has now been extended to a larger number of industries. These include all types of electric fans except industrial fans and blowers, electrical equipment, automobile tyres and tubes, glass, cement, leather manufactures, thirty one bulk drugs, surgical ancillaries, serums and vaccines, diagnostics of all types, allergins and transfusion solutions, all fruit and vegetable products and all processed foods. In case of electrical equipment the range of items covered by broad banding has been enlarged after review by removing their prescribed limits and rationalising nomenclature. Altogether forty items have been brought under the purview of broad banding.

4.20 Broad banding is permitted within the existing licensed capacity and is not available to an item reserved for small scale sector or the public sector. However, in cases where an existing industrial undertaking is already manufacturing a reserved item, the capacity will be pegged at the existing levels. Installation of additional equipment to the extent of 10 per cent of the existing book value of the plant and machinery used for products under broad banding has also been permitted. Broad banding facility can be availed of by MRTP/FERA companies in case of Appendix—I items. The facility will also be available for MRTP/FERA companies for non-appendix—I items in accordance with certain prescribed guidelines.

4.21 The paper and pulp industry had been broad banded earlier, but newsprint was excluded from broad banding. Now paper mills with an annual capacity of 30,000 tonnes or more can freely diversify into newsprint, provided they have spare capacity of at least 20,000 tonnes per annum for newsprint. The same is true of paper mills having an annual capacity of less than 30,000 tonnes provided they expand their total capacity to at least 33,000 tonnes per annum. In either case the source of raw material is supposed to be established in advance. The total ban on creation of additional capacity for manufacture of potable alcohol based on non-molasses raw materials has been relaxed. This measure in particular is expected to augment the supply of molasses for the manufacture of industrial alcohol.

Measures to Remove Procedural Impediments

4.22. In order to simplify administrative procedures and allow sufficient time for implementation of investment projects, the period of validity of letters of intent issued after 1st June, 1985 has been increased to three years. Also, the validity of registrations granted by Director General, Technical Development (DGTD) and other technical authorities has been increased from two years to three years after 1st June, 1985. Furthermore, foreign companies can submit applications for industrial licences and foreign collaboration and other approvals, in their own names. Once approval is granted, the foreign company concerned has to incorporate a company in India to implement the projects.

Industrial Approvals and Capital Market

Industrial Approvals

4.23 Table 4.5 gives a comparison of the flows of letters of intent, industrial licences, Secretariat for Industrial Approval (SIA) registrations, DGTD registrations, re-endorsments, foreign collaboration approvals in the last three years. It will be observed that several items have shown some decline during the current year. However, foreign collaboration approvals have recorded an increase of 15.1 per cent during April—November, 1988, compared to the same period of 1987. It is noted that while letters of intent have shown an increase of 11.3 per cent, there has been a substantial decline of 21.2 per cent in industrial licences during April—November, 1988. However, these indicators have to be seen along with other investment indicators discussed below for an assessment of the prevailing investment climate.

TABLE 4.5

Selected Indicators on Industrial Approvals

(Numbers)

Sl. No.	Indicators	1986-87	1987-88	April–November 1987-88	April–November 1988-89
(1)	(2)	(3)	(4)	(5)	(6)
1.	Fresh approvals for setting up new industrial capacities :				
	(a) Letters of Intent Issued . .	997	971	647	720
	(Of which those issued for backward areas) .	(533)	(525)	(358)	(374)
	(b) Registrations issued by SIA under the scheme of delicensing .	2575	1750	1062	836
	(Of which those issued for backward areas) .	(1600)	(1020)	(613)	(504)
	(c) Cases approved under the scheme of Minimum Economic Scales (MES) . .	134	46	34	23
	TOTAL .	3706	2767	1743	1579
2.	Industrial licences issued, cases approved for endorsement of higher capacities under the scheme of re-endorsement and cases approved under the scheme of broad-banding :				
	(a) Industrial licences issued by				

(1)	(2)	(3)	(4)	(5)	(6)
	way of conversion of letters of intent/direct licences . .	499	349	255	201
	(Of which those issued for backward areas) .	(230)	(147)	(105)	(92)
(*b*)	Carry-on Business licences issued . .	97	48	30	27
	(Of which those issued for backward areas) .	(29)	(14)	(12)	(9)
(*c*)	Re-endorsement made under the scheme of re-endorsement of capacity . .	178	173	116	133
(*d*)	Cases approved under the scheme of broad-banding	108	112	74	47
	TOTAL .	882	682	475	408
3.	Foreign collaboration approvals on the basis of clearance accorded by FIB .	649	587	385	443
4.	CG approvals on the basis of clearance accorded by the CG (Main) Committee .	236	216	148	155
*5.	DGTD registrations	1244	1133	715	450
	(Of which those issued for backward areas) . . .	(646)	(613)	(377)	(272)

*Including registrations granted against delicensed (MRTP) applications.

Stock Market

4.24 Equity prices on the major stock exchanges, which ruled easy during the major part of 1987-88, recorded a strong recovery during the current year. The Reserve Bank's All India Index of Ordinary Share Prices (1980-81 = 100) edged to 285.6 for the week ended December 31, 1988 showing an increase of around 51 per cent over end March, 1988 level of 189.3.

4.25 The upswing in the stock market can be attributed to the strong resurgence in economic growth, a bountiful monsoon, satisfactory corporate results, effective economic measures, continuation of policy reforms aimed at promoting efficient competition and the restoration of confidence among investors. Substantial funds mobilised by the financial institutions and mutual funds were also channelised for investment in a wide spectrum of equity issues in the secondary market. With a view to making the capital market dynamic a number of important initiatives were introduced during the year. Steps were initiated to give effect to corporate membership and to permit multiple membership on stock exchanges by amending the Securities Contracts (Regulation) Rules, 1957. Share transfer procedures have been simplified. Measures were also taken for ensuring parity in prices of existing and new shares of a company, the introduction of a national equity index and various steps at investors' education and training of brokers, computerisation in stock exchanges, etc. The number of recognised stock exchanges in the country increased to 16 with the grant of recognition to the Jaipur Stock Exchange by theGovernment on January 9, 1989. Other measures that have strengthened the capital market infrastructure include the launching of the Stock Holding Corporation of India and the Credit Rating Information Services of India Ltd. (CRISIL).

4.26 Another major development in the Indian capital market during 1988-89 was the establishment of the Securities and Exchange Board of India (SEBI) and two new mutual funds as subsidiaries of public sector commercial banks. SEBI was set up on April 12, 1988 to promote an orderly and healthy growth of the securities market and to protect the investors' interest. The drafting of a comprehensive legislation for the establishment of a statutory body is currently in progress. The new mutual funds aim not only at pooling investible resources, but also at providing allied financial services. The Unit Trust of India floated the India Growth Fund in the U.S.A. during August, 1988 in association with Merril Lynch. The Fund has provided an important opportunity for Non-Resident Indians (NRIs) and other foreign investors to participate indirectly in the Indian securities market. SBI Capital Markets had launched a second magnum that would entitle investors in the scheme to claim tax benefit under Section 80 cc of the Income Tax Act.

Venture Capital

4.27 Another important event in the field of capital markets is the establishment of a frame work for launching new venture capital companies or venture capital funds. Venture Capital Company (VCC)/Venture Capital Fund (VCF) can be floated by All India Public Sector Financial Institutions, State Bank of India and other scheduled banks including foreign banks operating in India and their subsidiaries. Joint ventures between them, or between non-institutional promoters and the latter would be permitted, but the equity holding of such promoters will not be allowed to exceed a total of 20 per cent and must not be the largest single holding. Activities such as money market operations, bill rediscounting, broking, portfolio investments and fund management, financial services and consultancy, intercorporate lending would not be permitted to VCC/VCF. The minimum size of a VCC/VCF would be Rs. 10 crores. A VCC/VCF may raise funds from the public in which instance the promoters share must not be less than 40 per cent. Funds may be raised through public issues as well as private placements to finance a VCC/VCF. Foreign equity participation will be permitted upto 25 per cent to multilateral/international financial organisations, development finance institutions, reputed mutual funds, etc. provided these are management neutral and are for medium to long term investments. NRI investments would be permitted upto 74 per cent on a non-repatriable basis and upto 25 /40 per cent on a repatriable basis. The debt-equity ratio has a ceiling of 1:1.5.

4.28 Venture capital assistance is to be extended to the enterprises which fulfill the following conditions: (a) Size: Total investment not to exceed Rs. 10 crores; (b) Technology : New or relatively untried or very closely held technologies or technology being taken from pilot to commercial stage or those which incorporate some significant improvement over existing technologies in India and; (c) Promoters/Entrepreneurs: Relatively new, professionally or technically qualified, with inadequate resources or backing to finance the project. Preferential tax treatment would be available to the approved VCC/VCF only in respect of financing of enterprises defined as above. VCC/VCF is a major policy initiative to provide vital equity support to new technology intensive enterprises where the risk element is high and the entrepreneurs are qualified but lack the necessary resources to proceed on their own.

TABLE 4.6

Indicators of Investment Approvals and Sanctions

(Rs. crores)

	1986-87	1987-88	1988-89
1. Capital Issues (Approvals)	5843.10	5166.72	5407.77 a (4061.72)
2. Capital Goods (Approvals)	1182.24	800.14	872.36 a (587.77)
3. Total Financial Assistance (Sanctions)	7979.57	9297.73	7547.22 b (4173.16)
4. Total Financial Assistance (Disbursements)	5655.59	6778.78	4069.50 b (3178.84)

Note: Figures within brackets represent data for corresponding period of 1987-88.

(a) : April-December

(b) : April-September.

New Issues

4.29 According to provisional data, approvals (i.e. consents and acknowledgements) granted by the Controller of Capital Issues during April-December, 1988 for raising fresh capital by Government and non-Government companies aggregated to about Rs. 5408 crores showing a sharp increase of 33 per cent over that of the corresponding period of 1987 (Rs. 4062 crores). The increase was due entirely to larger approvals for issue of convertible debentures amounting to Rs. 1781 crores which marks about six fold increase over similar approvals granted during the corresponding period of 1987 (Rs. 321 crores). However, approvals of initial equity showed decline. Also, approvals granted during the current year to public sector enterprises at Rs. 2070 crores were lower by 13 per cent compared to approvals granted during the corresponding period of 1987 (Rs. 2378 crores).

4.30 Capital Goods (CG) approvals granted by the Capital Goods (Main) Committee during 1987-88 at Rs. 800 crores were lower by 32.4 per cent compared to the preceding year. However, CG approvals during April-December, 1988, at Rs. 872.4 crores, showed an increase of 48.4 per cent over the value of capital goods approvals granted during the corresponding period of 1987. While approvals for import of capital goods granted to engineering, cement, chemicals, man—made fibres and miscellaneous industries recorded a significant step up, approvals to electronics, electricals, automobiles, iron & steel, metals, rubber, paper and other textiles showed declines.

Assistance by Financial Institutions

4.31 According to provisional data, financial assistance sanctioned and disbursed by all financial institutions during 1987-88 amounted to Rs. 9298 crores and Rs. 6779 crores respectively, showing a rise of 16.5 per cent in sanctions and 19.9 per cent in disbursements over the corresponding period of the previous year. During 1987-88 almost two—third of the total sanctions went to textiles, paper, rubber products, chemicals, fertiliser, cement, basic metal, capital goods and electricity generation. The same pattern is observed in the case of disbursements. During the first six months of the current year sanctions and disbursements by all financial institutions showed further substantial increases of 80.8 per cent and 28 per cent respectively. Thus, the tempo of investment in the corporate sector appears to have been maintained.

4.32 Partial results based on the Industrial Development Bank of India (IDBI) portfolio shows that performance of the corporate sector during the current year has recorded substantial improvement in terms of sales and profit indicators. The rising flow of institutional assistance, sustained buoyancy witnessed in capital market in recent months, an excellent agricultural year with rising industrial output and exports are all factors which indicate that the investment climate will improve further.

Industrialisation of Backward Areas

4.33 The number of industrial licences issued to backward areas have shown a decline as shown in Table 4.5. However, the share of licenecs going to backward areas in total licences issued increased to about 46 per cent during April-November, 1988 from about 41 per cent for the same period of 1987. So far, Rs. 672.49 crores have been disbursed as central investment subsidy to units located in backward areas upto 1987-88. Andhra Pradesh, Madhya Pradesh, Rajasthan, Tamil Nadu and Uttar Pradesh have been the most active in availing of this subsidy since its inception, accounting for about 46 per cent of the total subsidy. However, four States, viz, Assam, Bihar, Orissa and West Bengal have been able to absorb only about 8 per cent of this subsidy since its inception. The total amount of central investment subsidy disbursed during 1987-88 at Rs. 154.35 crores showed an increase of 23.4 per cent over the previous year.

4.34 Recognising that one of the impediments blocking the industrialisation of backward areas is the absence of infrastructural facilities, the government has announced a decision to set up 100 growth centres throughout the country over the next five years or so. It is intended that these growth centres should serve as gravity centres for attracting industries to backward areas through adequate development of infrastructure in these growth centres. In the first phase, it has been decided to launch 61 growth centres, allocated to different States/Union Territories as follows: 6 in Uttar Pradesh; 5 each in Madhya Pradesh and Bihar; 4 each in Andhra Pradesh, Maharashtra and Rajasthan; 3 each in Karnataka, Orissa, Tamil Nadu and West Bengal; 2 each in Assam, Gujarat, Haryana, Jammu & Kashmir, Kerala and Punjab; and 1 each in Arunachal Pradesh, Goa, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Pondicherry and Tripura. Besides, in case of Sikkim, Andaman and Nicobar Islands and Lakshadweep the need for special treatment in view of their geographical features has been emphasised and would be considered separately.

4.35 The criteria for selection of growth centres for promoting industrial dispersal in an effective manner is essentially based on distance criteria. These growth centres can not be ocated within 50 kms from 7 cities (Calcutta, Bombay, Delhi, Madras, Bangalore, Ahmedabad and Hyderabad) with a population above 25 lakhs; 30 kms from the boundary of two cities (Pune and Kanpur) with a population of above 15 lakhs but below 25 lakhs and 15 kms from the boundary of 12 cities (Nagpur, Jaipur, Lucknow, Coimbatore, Patna, Surat, Madurai, Indore, Varanasi, Jabalpur, Agra and Vadodra) with a population of 7.5 lakhs but below 15 lakhs. These cut—off points for population are as per the 1981 population census.

4.36 The growth centres will be located close to District/Subdivisional/Block/Taluka headquarters or developing urban centres. The growth centres would be endowed with infrastructural facilities at par with the best available in the country. In particular, these centres will have proximity/access to rail-heads, national or state highways, water supply, power, telecommunication facilities and educational and health facilities. Each growth centre would cover a radius of about 20-25 kms. Based on the aforesaid criteria, States/Union territories have been asked to submit their proposals for roughly twice the number of growth centres allocated to them with detailed information and justification. The final selection of the growth centres, will be made by the Central Government.

4.37 Each growth centre, would be provided with funds of the order of Rs. 25 crore to Rs. 30 crores in order to create infrastructural facilities of a high order. An investment of the order of Rs. 2500 crores to Rs. 3000 crores spread over 100 growth centres is envisaged over the next five years for creating sound and efficient infrastructural facilities in backward areas. The funds for this purpose will be found by the Centre, the States and the all India financial institutions acting together.

4.38 Each growth centre will acquire about 400 to 800 hectares of land for infrastructure development and for allocation primarily to small and medium sized units. Apart from the cost of land and its development, the other items eligible for financing under this scheme are provision of water supply, telecommunication facilities, construction of access roads, effluent disposal system, power distribution net-work within the growth centre and upgradation of existing schools, industrial training institutes, etc. provision of funds for augmentation of power supply are to be found under the State plan separately. Adequate banking facilities will also be provided in the growth centre but the expenditure on this will be borne by the banks concerned.

Small Scale Industries

4.39 The small scale sector has been assigned an important position in the industrial economy of the country as it possesses the inherent advantages of low capital intensity and high employment generation potential. Development of the small scale sector also promotes decentralisation of industrial growth and widens the entrepreneurial base. In the Seventh Plan, special emphasis has been laid on technology upgradation and modernisation of small scale industries.

4.40 The small scale sector has continued to perform well despite the adverse conditions prevailing in 1987-88. According to estimates provided by the Development Commissioner, Small Scale Industries (DCSSI), the number of small scale units increased from 14.76 lakhs (revised) in 1986-87 to 15.92 lakhs (provisional) in 1987-88 showing an increase of about 8 per cent. These units produced goods and services worth Rs. 85,700 crores (provisional) valued at current prices in 1987-88, thus showing an increase of about 18.6 per cent in nominal terms over production valued at Rs. 72,250 crores during the preceding year. At constant prices, the production during 1987-88 showed an increase of 13 per cent. Employment in the sector also increased from 101.40 lakh persons in 1986-87 to 107.00 lakh persons (provisional) in 1987-88, marking an increase of 5.5 per cent. Exports from the small scale sector during the year 1986-87 amounted to Rs. 3648 crores and accounted for a share of about 29 per cent in the total direct exports from the country during the year.

4.41 Government has introduced a wide range of policies and programmes to support the development of the small scale sector. To this end, an extensive institutional support network has been created. These include assistance in marketing through Small Industries Development Corporations of the States, provision of consultancy services, training, common facility services, entrepreneurship training, etc. Apart from the infrastructure support to the small scale sector, Government has also pursued a policy of according protection and purchase preference to the small scale sector. The total number of items reserved for exclusive manufacture in the small scale sector stood at 835 at the end of January, 1989 Under the Government stores purchase 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.

4.42 The other significant policy change pertains to the definition of "ancillary industrial undertaking." The proportion of output which a unit must supply to other industrial undertakings in order to be classified as an ancillary unit has been reduced from 50 per cent to 30 per cent provided its investment in fixed assets in plant and machinery did not exceed Rs. 45 lakhs.

4.43 A number of important policy developments have taken place with regard to small industries during the year under review. A National Equity Fund was set up in 1987-88 with the object of providing special attention to the needs of the smaller amongst small scale units. Under the scheme, assistance is provided by way of seed capital in the form of soft loan to eligible small and tiny industries with project cost not exceeding Rs. 5 lakhs and located in villages or towns with population not exceeding 5 lakhs. New units as also potentially viable sick units in the small scale sector, eligible for assistance under the refinance scheme of IDBI, get support out of this fund. No security (including collateral) needs to be provided by the borrowers under the scheme. The scheme was being operated through the nationalised banks. During 1988-89, some modifications have been made in the scheme. Having regard to the special characteristics of the North—Eastern region and the hilly States of Himachal Pradesh and J & K, it has been decided that in addition to nationalised banks and State Bank of India, the State Financial Corporations (SFCs)/twin-function Small Industries Development Corporations (SIDCs) in these regions/states will also be the operating agencies for implementation of the scheme. In case of rehabilitation proposals, the project could be located in towns/villages with population not exceeding 15 lakhs as against the ceiling of 5 lakhs population in the original scheme.

4.44 In May, 1988 the IDBI has introduced a Single Window scheme for financing of fixed assets and working capital to tiny and small scale units. This refinance scheme enables State Financial Corporations and twin-function SIDCs to provide, through a single window, both term loan for fixed assets and working capital to new tiny and small scale units whose project cost does not exceed Rs. 5 lakhs. Beside providing term loans for fixed assets, SFCs/SIDCs will also now simultaneously provide working capital loans upto Rs. 2.5 lakhs. The Reserve Bank of India has also constituted a study group in January, 1988 to examine the need and scope for the introduction of 'factoring' services in India to help the small scale industries in realising payments for supply of goods and services made to purchasers. Fresh guidelines have been issued by the Reserve Bank of India in July, 1988 for credit assistance to small scale sector, covering important aspects like timely and adequate sanction of working capital, co-ordination between commercial banks and State Financial Corporations, adequate monitoring of credit assistance to small scale sector, etc.

4.45 The scheme for providing self employment opportunities to educated unemployed youth in the country will remain in operation during the remaining period of the Seventh Plan. In the modified scheme, the beneficiaries for industrial and service ventures will also include those who have passed out from the Industrial Training Institutes apart from matriculates and above. The loan limit for industrial ventures is Rs. 35,000, for service venture Rs. 25,000 and for business venture Rs. 15,000. However, the subsidy level in all types of ventures is fixed at 25 per cent. Income ceiling of Rs. 10,000 per family per annum has been fixed as the criterion for determining eligibility under the scheme. In particular, 30 per cent of the total sanctions has been reserved for scheduled castes/tribes. During 1987-88, against a target of 1.25 lakhs, 1.20 lakhs cases were sanctioned by the banks involving an amount of Rs. 259.02 crores. A target of 2.5 lakhs has been fixed for 1988-89.

Industrial Sickness

4.46 The growing incidence of sickness is one of the most serious problems being faced by the industrial sector in India today. There are a variety of factors, internal and external to industrial undertakings that contribute to the problem of sickness. As at the end of June, 1987, the total number of sick units in the portfolio of scheduled commercial banks stood at 1,59,938 involving an outstanding bank credit of about Rs. 5738 crores. The total number of non-small scale units covered under the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), stood at 1057 at the end of June, 1987 and the amount of outstanding credit against these units was Rs. 2680 crores. The total number of non-small scale weak units not covered under SICA, stood at 655 and accounted for outstanding credit of Rs. 1515 crores at the end of June, 1987. The number of sick units in the SSI sector is overwhelming and stood at 1,58,226 with an outstanding bank credit of Rs. 1542 crores at the end of June, 1987. This works out to almost 99 per cent of the total number of sick/weak units. However, they account for only about 27 per cent of the total credit outstanding against sick/weak units. The relative position in respect of sick/weak units with the outstanding bank credit is indicated below in Table:4.7

TABLE 4.7

Industrial Sickness—End-June, 1987

Category	No. of Units	Amount outstanding (Rs. crores)
1. SSI Sick Units . . .	1,58,226	1542.25
2. Non-SSI Sick Units (as defined in SICA, 1985) . . .	1,057	2680.44
3. Non-SSI weak units (not covered under SICA) . .	655	1515.19
TOTAL	1,59,938	5737.88

4.47 Of the 1,59,938 sick units comprising non-SSI sick/weak and sick SSI units involving a total bank credit of about Rs. 5738 crores at the end of June 1987, the viability position was as follows :

TABLE 4.8

Viability Status of Sick/Weak Units as at the end of June, 1987

Category	No. of Units	Outstanding Bank Credit (Rs. crores)
(1)	(2)	(3)
I. Non SSI Sick Units (as defined in SICA, 1985)		
Viable	341 (233)	1180.28 (847.55)
Non-Viable	521	999.29
Viability not decided . .	195	500.87
Sub-Total (I) . .	1057	2680.44
(1)	(2)	(9)
II. Non-SSI Weak Units (Not covered under SICA, 1985)		
Viable	262 (148)	673.96.. (421.35)..
Non-Viable	219	335.11
Viability not decided . .	174	506.12
Sub-Total (II) . .	655	1515.19
III. SSI Sick Units		
Viable	12062 (4980)	342.74 (232.96)
Non-Viable	139346	1059.91
Viability not decided . .	6818	139.60
Sub-Total (III) . .	158226	1542.25
GRAND TOTAL (I+II+III) .	1,59,938	5737.88

NOTE : Figures in brackets relate to sick/weak units put under nursing programme.

4.48. Of the 1057 non-SSI sick industrial units, banks had taken decisions about viability or otherwise in respect of 862 units as at the end of June, 1987. Out of these, 341 units were found to be viable and their outstanding bank credit amounted to Rs. 1180 crores. There were 521 units with outstanding amount of Rs. 999.29 crores which were considered by banks as non-viable as at the end of June, 1987, and banks have yet to decide about viability of the remaining 195 units with outstanding credit of Rs. 500.87 crores. Banks have put 233 units with outstanding bank credit of Rs. 847.55 crores under nursing programme.

4.49 Of the 655 non-SSI weak industrial units, banks had taken decisions about viability or otherwise in respect of 481 units as at the end of June, 1987. Out of these, 262 units were found to be viable and their outstanding bank credit amounted to Rs. 673.96 crores. There were 219 units with outstanding bank credit of Rs. 335.11 crores which were considered by banks as non-viable as at the end of June, 1987, and banks have yet to decide about viability of the remaining 174 units with outstanding credit of Rs. 506.12 crores. Banks have put 148 units with outstanding bank credit of Rs. 421.35 crores under nursing programme.

4.50 In the small scale sector 20,41,161 (Provisional) units have been provided with bank credit amounting to Rs. 9817.80 crores (Provisional) as at the end of June, 1987. Of these, 1,58,226 units (7.8 per cent) have been found to be sick with outstanding bank credit of Rs. 1542.25 crores (15.7 per cent). Of the total sick SSI units 12,062 units (7.6 per cent) with outstanding bank credit of Rs. 342.74 crores (22.2 per cent) were considered by banks as potentially viable. A total of 4980 units with outstanding credit amounting to Rs. 232.96 crores were reported to be put under nursing programme by the financing banks as at the end of June, 1987.

4.51 The extent of industrial sickness varies by sectors and across regions. In the category of non-SSI sick units, engineering and textile industries accounted for about 61 per cent of the total credit outstanding and 47 per cent of the total number of sick units. Among the states, Maharashtra and West Bengal accounted for about 45 per cent of the total credit outstanding and 36 per cent of the number of total units in the category of non-SSI sick units. As in the case of non-SSI sick units, the preponderance of sickness is also evident in engineering and textile industries in the category of non-SSI weak units. These industries accounted for about 50 per cent and 44 per cent in the total credit outstanding and total number of units respectively. However, Maharashtra and West Bengal accounted for about 38 per cent of the total credit outstanding and 34 per cent of the number of total units in the category of non-SSI weak units. To a large extent, this regional concentration of sickness corresponds with the historical pattern of industrialisation in India. Also, these regions are characterised by the presence of industries in textiles, engineering goods and jute which happen to be the sectors afflicted with industrial sickness, especially in the category of non-SSI sick industrial units. The other important feature is that the proprotion of banks' outstanding advances to sick SSI, non-SSI-sick and non-SSI weak units in the total advances as at the end of June, 1987 was 2.5 per cent, 4.3 per cent and 2.4 per cent respectively.

4.52 The Board for Industrial and Financial Reconstruction (BIFR), set up under the Sick Industrial Companies (Special Provisions) Act, 1985, became operational on 15th May, 1987. Industrial companies whose net-worth has been eroded completely and those which have net-worth eroded by 50 per cent or more are required to make a reference to the BIFR under Sections 15 and 23 of the Act, respectively. While references received under Section 15 are required to be inquired into, there is no such requirement in respect of references received under Section 23. Since its inception, BIFR has received 880 references under Section 15 and 346 references under Section 23 of the Act, upto 31-12-1988. Out of the total 880 references received under (Section 15), 187 were rejected after initial scrutiny, 75 references were under scrutiny for want of complete information and 618 references were registered. In 210 cases BIFR appointed an operating agency, while in 29 cases BIFR has formed the *prima facie* opinion that the company be wound up and issued notices inviting comments. In another 16 cases BIFR has recommended for winding up to the concerned High Courts. Also BIFR has sanctioned 16 schemes which include merger, change of management and leasing. Draft schemes have been formulated by BIFR in 19 cases. In 52 other cases approval has been accorded under section 17(2) to enable the companies to make net-worth positive on their own.

4.53 Steps taken by the BIFR to expedite the processing of references received under Section 15 includes expansion of the list of operating agencies by inclusion of 6 more nationalised banks. BIFR can at present nominate any one of the following financial institutions/banks as the operating agency to formulate revival package in respect of a sick industrial company: Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India, Industrial Reconstruction Bank of India, State Bank of India, Bank of Baroda, Bank of India, Punjab National Bank, Central Bank of India and Canara Bank.

4.54 The State Governments have been requested to formulate policy packages for rehabilitation of sick industrial units so that the operating agency and the BIFR can calibrate the actual reliefs/concessions to individual units within these parameters. The policy packages of some State Governments have been received while those from others are awaited. Another step taken by the Board is to hold hearings in State capitals. Hearings of the Bench have been held in Calcutta, Bombay, Bangalore, Trivendrum and Cochin.

4.55 In view of the need to initiate remedial measures much before the net-worth is fully eroded and also to cover those categories of industrial units which do not come under the purview of the SICA ,the RBI has advised the banks to take the necessary remedial steps in accordance with RBI guidelines, in respect of industrial units at the stage of attaining 50 per cent erosion of their net-worth. *Inter-alia,* such units are included amongst 'weak' units to distinguish them from 'sick industrial companies' as defined in the SICA. All the operative guidelines regarding sick industrial undertakings issued by the RBI so far apply, *mutatis mutandis,* to 'weak' units. Beside these measures, RBI has been closely monitoring certain specific industries where sickness is more widespread. Standing Committees have been set up in the RBI for the Jute and Sugar industries. These Committees which meet periodically consider the specific problems relating to these particular industries with a view to ascertaining suitable remedial measures at the policy level.

4.56 The RBI has further instructed all scheduled commercial banks that whenever any major adverse features come to the notice of the lead bank from the conduct of the accounts of a unit financed jointly, it will be necessary for that bank to request the lead financial institution to arrange for a joint review to look into the causes of sickness and suggest appropriate corrective measures. A time-frame for action in this regard has been stipulated. In view of the need for speedier responses, banks have been advised that the decision of lead banks (whenever there are consortium arrangements) and the bank having the next largest share in the limits, or two major financing banks (in the case of borrowers having multiple financing arrangements, where there is no formal consortium) shall be binding on all the banks financing a unit.

4.57 With the adoption of the parameters for reliefs and concessions to sick units as drawn up by the RBI in November, 1985, speedier response in cases of sick units is already in evidence particularly in the matter of formulation of packages of rehabilitation. The implementation of the additional measures as above, is expected to yield results in the near future.

4.58 These developments have now put in place the basic mechanism necessary for timely identification of sick or potentially sick units. However, it will be evident from the very large number of enterprises involved, and the large volume of capital locked up in such units, that the problem does not allow any room for complacency. Long term solutions will also have to be found for the basic underlying causes which are leading to the spread of industrial sickness on such a wide scale.

Employment in the Organised Sector

4.59 Growth in the employment in the organised sector (comprising all establishments in the public sector and those non-agricultural establishments in the private sector employing 10 or more persons) has been sluggish in recent years. According to the employment market information service, there was a marginal increase of 1.4 per cent in employment in the organised sector which increased from 253.9 lakhs in 1986-87 to 257.5 lakhs in 1987-88 (provisional). This increase was contributed by an increase in employment of the order of 1.7 per cent and 0.8 per cent in the public and private sectors respectively. It is noteworthy that component of women employment showed a higher growth of 3.0 per cent in 1987-88 when it increased from 33.4 lakhs in 1986-87 to 34.4 lakhs in 1987-88 (provisional).

4.60 The number of job seekers on the live registers of Employment Exchanges was 300.02 lakhs at the end of September 1988, thereby showing a decline of 2.6 per cent over the same month of 1987. Monthly average vacancies notified during April-September, 1988 was of the order of 48,400 as compared to 52,100 during the corresponding period of last year, thereby showing a fall of about 7.0 per cent. Similarly, average monthly placements during April-September, 1988 declined to 28,500 from the monthly average of 28,600 over the same period of 1987, thus showing a marginal fall of 0.3 per cent.

Industrial Relations

4.61 Although the number of man-days lost during 1987-88 at 39.47 million were higher than the preceding year there appears to be substantial improvement in the industrial relations climate in the country during the current year. Latest available figures on man-days lost for the first two quarters of 1988-89 show a decline of 34.2 per cent over the same period of 1987-88. Besides, there has been no major or prolonged instances of industrial unrest in the country (upto December 1988). Strikes and lock-outs were generally confined to cotton and jute textiles and engineering industries in the States of West Bengal, Tamil Nadu, Maharashtra and Andhra Pradesh.

TABLE 4.9

Mandays Lost on Account of Strikes/Lockouts

(In Million)

Quarter	1985-86	1986-87	1987-88	1988-89
I . . .	8.03	7.96	7.42	6.57*
II . .	6.83	6.02	10.39	5.15*
III . .	7.51	13.32	10.32	–
IV . .	5.45	7.23	11.34*	–
Total . .	27.82	34.53	39.47*	11.72*

*Provisional – Not available.

Outlook

4.62 Industry has recorded good growth performance during the first few months of the current year on top of the high growth rate recorded last year despite adverse conditions created by the drought. Growth in the sector has also been well dispersed across sectors, with over half the two digit level manufacturing groups growing at more than ten per cent. The small scale sector has also been doing well this year, while the number of job seekers on the live registers of the employment exchanges has started declining. Furthermore, during the year a number of major reforms have been introduced in the overall policy regime in order to facilitate new capacity creation, expansion of current output and the elimination of procedural impediments to investment in the sector. These measures, taken along with the strong recovery in agriculture and the indicators of buoyant industrial performance cited above, suggest that industrial growth for the year as a whole is likely to exceed 8 per cent. This would be in line with the high rates of growth achieved by this sector in recent years.

4.63 Expectations of good industrial performance are also reflected in the strong uptrend in the stock market, which raised the RBI All-India Index of Ordinary Share Prices to a new high in the third quarter of 1988-89. The revival of the stock market is also attributable to other major developments in the capital market during the year such as the establishment of the Securities and Exchange Board of India, mutual funds and venture capital funds. These new developments will help to mobilise additional resources for sustaining investment and growth in the industrial sector.

4.64 A serious long term problem threatening the continued high growth of industry is the increasing spread of industrial sickness. The launching of the Board for Industrial and Financial Reconstruction (BIFR) in 1987, under the Sick Industrial Companies (Special Provisions) Act, 1985, was a major step forward in dealing with this problem. However, the initiation of measures for revival, where possible, when the net worth of an enterprise has been fully eroded, or even when 50 per cent of the net-worth has been eroded, is more in the nature of curative therapy rather than preventive action. For a solution to this problem, the causes of industrial sickness will have to be tackled at their roots.