CHAPTER 6

INDUSTRY

A major policy reform, substantially deregulating the industrial sector and liberalising foreign investment and technology imports, has been the most significant development during 1991-92. The new package of industrial policy initiatives abandons industrial licensing in all industries except those reserved tor the public sector, for the SSI sector and those under compulsory licensing, subject to minimal locational conditions. Lists of industries reserved for the public sector and under compulsory licensing have been pruned. Restrictions on investment by MRTP and FERA companies have been removed. The MRTP Act has been amended to remove threshold limits of assets. Approval for foreign investment up to 51 per cent of equity has been made automatic in specified high, priority industries subject to certain conditions regarding the coverage of the import cost of plant and machinery and balancing of dividend payments by export earnings. Approval for foreign technology agreements has been made automatic subject to certain limits on payments. The Phased Manufacturing Programme is abolished and the convertibility clause in the loan agreements with banks/financial institutions removed. Part of the equity holdings of selected public sector enterprises are being divested and placed with mutual funds. Sick public sector enterprises have been brought within the purview of the BIFR.

After consistent high growth in the past three years, industrial production is likely to suffer a setback during 1991-92. The recessionary trend is more pronounced in the manufacturing sector. Factors responsible for this downturn were import compression, rise in the cost of imports due to the cash margin requirement and the downward adjustment of the exchange value of rupee and the tight money policy on the supply side and a perceptible fall in effective demand due to inflationary pressure, reduction in public expenditure, and strict fiscal dicipline on the demand side. This setback is transitional, an immediate fall out of the stabilisation measures initiated by the Government for the macroeconomic adjustment of the economy.

However, infrastructure industries performed well, except for crude petroleum and petroleum products. Production of saleable steel and cement increased substantially. There was a deceleration in the production of nitrogenous fertiliser, but phosphatic fertiliser did well. The growth of the small-scale industries decelerated in 1990-91 because of import and credit constraints.

The investment climate continues to be econouraging. There was a significant increase in new capital issues by private sector companies. The stock market has been booming with optimism. Once the key stabilisation measures have been successfully implemented, the overall investment climate is likely to turn brighter in the coming months and years in response to deregulation and liberalisation. Industrial relations were by and large peaceful.

Introduction

The new Industrial Policy initiating far-reaching structural reforms to lead Indian industries away from a regulatory and protective regime to a free, market-oriented, competitive and globalised environment has been one of the widely debated issues in the country ever since its announcement in July 1991. Another important issue which has been a cause of immediate concern during the current financial year is the persisting weak trend in industrial production, particularly in the manufacturing sector. This chapter outlines the thrust areas of new industrial policy, reviews the performance of manufacturing industries and gives an over view of the investment climate, capital market, industrial sickness and other related areas having a close bearing on the industrial economy of the country.

Industrial Policy

6.2 The decade of the 1980s witnessed a rapid expansion of the industrial activity which can be attributed mainly to the reforms undertaken in both industrial and trade policies in the early and mid-1980s. Further policy changes have become necessary for accelerating the industrial growth in the 1990s in order to consolidate the achievements of the last decade. The new policy initiatives were announced in the Statement on Industrial Policy tabled in Parliament on 24th July 1991. The policy de-regulates the industrial economy in a substantial manner. The major objectives of the new policy package will be to build on the gains already made, correct the distortions or weakness that might have crept in, maintain sustained growth in productivity and gainful employment, further encourage growth of entrepreteurship and upgrade technology in order to attain international competitiveness. All sectors of industries whether small, medium or large, belonging to the public, private or co-operative sector, will be encouraged to grow and improve on their past performance. Key provisions of the New Policy are given below:

A. Domestic Regulatory Reforms :

De-reservation of industries for the Public Sector

6.3 Since 1956, 17 industries have been reserved for investment by the public sector. Private sector was, however, permitted to invest in these industries on a selective basis. Now only 8 industries will continue to be so reserved. Among the industries reserved earlier were many core industries like iron and steel, electricity, air transport, ship building, heavy machinery industries such as heavy electrical plants and telecommunication cables and instruments. The new Industrial Policy has removed all these industries from the Reserved List. Industries which continue to be reserved for the public sector are in areas where security and strategic concerns predominate. The Government has also decided that it will undertake a review of the existing portfolio of public investments, particularly in respect of industries based on low technology, small scale and non-strategic areas, inefficient and unproductive areas, areas with low or no social significance or public purpose and areas where the private sector has developed sufficient expertise and resources. The focus in the public sector will be on strategic, hi-technology and essential infrastructure areas. The Government has also announced its intention to offer a part of Government shareholding in the public sector enterprises to mutual funds, financial institutions, the general public and workers. A beginning has been made by divesting part of the equities of selected public sector enterprises to be placed with mutual funds. Overall, much greater autonomy will be given to public sector management so that they can operate on commercial lines. The new policy indicates the Government's intention to invite a greater degree of participation by the private sector in important areas of the economy.

Abolition of Industrial Licensing

6.4 Until the early 1980s the Indian industrial sector had functioned under a tight regulatory regime of industrial licensing which was designed to allocate the overall scarce resources towards building the industrial base of the country. Now that the Indian industrial economy has a wide, diversified and increasingly competitive base, the new policy has abolished all industrial licensing, irrespective of the level of investment, except for certain industries related to security and strategic concerns, social reasons concerns related to safety, and overriding environmental issues, and manufacture of products of a hazardous nature. There are certain locational guidelines designed to discourage the clustering of industries, particularly the polluting industries in the periphery of major urban centres. Existing industries will also be free to expand according to their market needs without obtaining prior expansion or capacity clearance from the Government.

6.5 In the earlier licensing regime existing manufacturers were licensed to produce specific products. With the abolition of industrial capacity licensing, firms will now be free to manufacture any article in response to market demand (except for those subject to compulsory licensing).

Abolition of Phased Manufacturing Programmes

6.6 The Government has recently announced a significant devaluation of the rupee and made substantial trade policy reforms. With the adjustment of the exchange rate towards a more realistic level and the removal of the need for imprort licences for a large part of raw materials, intermediate goods and components, there is no longer any need for enforcing the local content requirements on a case-by-case, administrative basis under the "Phased Manufacturing Programmes" which have been in force in a number of engineering and electronic industries. In future, there will be no Phased Manufacturing Programmes attempting to force the pace of indigenisation in manufacturing. Various incentives that are currently available to manufacturing units with existing Phased Manufacturing Programmes will continue. The prospective abolition of Phased Manufacturing Programmes will remove a major irritant that a large number of firms have felt in terms of discretionary power and Government's interference in business decisions.

Removal of Mandatory Convertibility Clause

6.7 A substantial portion of industrial investment in India is financed by loans from banks and financial institutions. These institutions have so far followed a mandatory practice of including a convertibility clause in their lending operations for new projects. This has provided them the option of converting part of their loans into equity if felt necessary by their management. Although this option has not often been exercised, it has often been interpreted as an unwarranted threat to private firms of takeover by financial institutions. Henceforth, financial institutions will not impose this mandatory convertibility clause.

Removal of Investment Controls on Large Business Houses

6.8 Since the enactment of the Monopolies and Restrictive Trade Practices Act (MRTP Act) in 1969 all firms with assets above a certain size (Rs.100 crores since 1985) have been classified as MRTP firms. This asset limit has been applied to the sum of the assets of firms interconnected through equity shares or through management control. Such firms have been permitted to enter selected industries only and this also on a case-by-case approval basis. In addition to control through industrial licensing, separate approvals were required by such large firms for any investment proposals. This had begun to have a significant deleterious effect on the freedom of many of the large private firms in their plans for growth and diversification. Parliament has passed the MRTP Amendment Bill removing the threshold limits of assets in respect of MRTP and dominant undertakings. These firms will now be at par with others, and not require prior approval from the Government for investment in the delicensed industries. The MRTP Act as amended now will give more emphasis to the prevention and control of monopolistic, restrictive and unfair trade practices so that consumers are adequately protected from such practices.

6.9 This interconnected set of measures will provide a new environment of increased competition and freedom in the operations of the Indian private sector. The aim of all these measures is to recognise the increased competence of Indian firms and to give them the necessary freedom to deal with the emerging challenges that are being thrown up by today's increasingly interdependent industrial world.

B. Reforms in regulations concerning foreign investment and foreign technology

6.10 As with domestic industrial investment, foreign investment has also been traditionally regulated tightly in India. In the case of foreign technology agreements sought by Indian firms as well as foreign investment, it was necessary to obtain specific prior approval from the government for each project. With the expansion of industrial activity in the country, this case-by-case approval process has become unwieldly. Moreover, with the increasing technical sophistication of Indian firms and the communication revolution that has swept the world, there is little reason for the interference of Government, which involves delays and hamper business decision making, in the import of technology by Indian firms. Hence, for a specified list of high-technology and high-investment priority industries (ANNEX-III industries) firms will receive automatic approval to make foreign technology agreements within certain guidelines. For the present, these guidelines will allow royalty up to 5 per cent of domestic sales and 8 per cent of export sales, along with lumpsum technology payments of up to Rs. 1 crore. This automatism will be available to other industries also if the payments can be made without resort to free foreign exchange resources. This policy measure will remove the delay and uncertanity which clouds the relationships between Indian and foreign firms and are designed to encourage more stable and dynamic technology relationships between foreign firms and their Indian counterparts.

6.11 Hiring of foreign technicians and testing of indigenously developed technology abroad earlier required case-by-case approval by the Government. This involved unavoidable delay. Henceforth, no permission will be necessary for these purposes,

6.12 Similarly, in the case of foreign investment, automatic permission will be available for foreign equity up to 51 per cent equity shares in the high-priority industries referred to above. This facility will be available to those firms which are able to finance their capital equipment imports through their foreign equity. This is a major departure from the existing policies which required case-by-case approval of foreign investment normally limited to 40 per cent equity participation. Again, this has been done in recognition of the increased maturity of Indian firms and the fast changing global scenario where strategic alliances are the order of the day. Foreign investment in these areas will therefore be welcome in India and strategic alliances would be specifically invited. For this purpose, a special empowered board will be constituted to engage in purposive negotiations with a number of large international firms and to invite substantial investments to provide access to high technology and world markets. The investment programmes negotiated by this board will be considered in totality and will be free from other predetermined parameters or procedures.

6.13 Foreign investment policy so far has generally discouraged foreign equity holdings in service areas except for hotels. The Government had decided to invite foreign equity holding up to 51 per cent by international trading companies also. In addition to hotels, 51 per cent equity will also be welcomed in other tourist related areas.

6.14 With the announcement of these measures a very substantial structural reform of the Indian industrial policy has taken place. These reforms should help galvanise the economy in the closing decade of the century, make it more outward-oriented and provide freer play of market forces.

Industrial Production 1991-92

6.15 There has been a mild recession in industrial production in the first eight months of the current financial year. The General Index of Industrial Production (IIP) has shown a decline of 0.9 per cent during April—November 1991 compared with a significant growth of 10.0 per cent in the corresponding period of last year. The decline in production was much steeper at 2.3 per cent in the manufacturing sector as against a growth of 11.5 per cent last year (Table 6.1) while the production of the mining and quarrying sector fell by 1.6 per cent, that of the electricity sector recorded a lower growth of 7.8 per cent compared with 8.3 per cent last year.

TABLE 6.1

Annual Growth Rates in Major Sectors of Industry

(In per cent)

Year	Mining	Manufacturing	Electricity	General
Weight	(11.46)	(77.11)	(11.43)	(100.00)
(1)	(2)	(3)	(4)	(5)
1981-82	17.7	7.9	10.2	9.3
1982-83	12.4	1.4	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	3.8	7.9	7.7	7.3
1988-89	7.9	8.7	9.5	8.7
1989-90	6.3	8.6	10.8	8.6
1990-91	4.9	9.1	8.7	8.5
April—November				
1990-91	2.5	11.5	8.3	10.0
1991-92	(—)1.6	(—)2.3	7.8	(—)0.9

6.16 According to the production data at the disaggregated level available upto November 1991, of the 17 major industry groups in the manufacturing sector, 2 groups, viz beverages and tobacco products and non-metallic mineral products with a combined weight of 4.57 per cent in the IIP recorded accelerated growth, 6 groups of industries (weight : 45.18 per cent) recorded decelerated growth and 9 industry groups (weight : 27.36 per cent) recorded negative growth (Table 6.2). The major industry groups which have been reeling under recessionary pressure were electrical machinery and appliances, non-electrical machinery and machine tools, rubber, plastic, petroleum and coal products, metal products and parts and transport equipment. Some of the major product groups of industries which have shown significant fall (by more than 5 per cent) in production during April—October 1991 are nylon filament yearn, polyester fibre, electric motors, diesel engines, viscose filament yarn, wrist watches, pig iron, telephone instrument, computer systems and peripherals, jeeps, motor cycles, scooters and mopeds, cloth (mill sector) paints and varnishes, petroleum crude and machine tools.

6.17 This decline in the production of the manufacturing sector has come about in spite of a fairly good back up support by the agriculture and infrastructure sectors. Except for petroleum, all other major infrastructure industries like coal, electricity and steel have been performing fairly well.

6.18 The structural changes and the resilience acquired by the manufacturing sector over the years have ostensibly weakened the dependent character of its backward linkage with agriculture. However, the health of the industrial sector is getting increasingly sensitive to the changes in the macroeconomic factors both on the demand and supply sides. Some of these factors which have cast a depressive effect on the production performance of the manufacturing sector in 1991-92 are :

(i) Import compression measures initiated in 1990-91 and continued during the curent year have affected the availability of imported raw materials, spares and components and capital goods to import-dependent industries such as man-made fibres and synthetic yarn, electrical and electronics, metals and alloys, chemicals and agro-chemicals, pharmaceuticals, engineering goods, paper and paper products, rubber and plastic products, automobiles and ancillaries. The cash margin requirement on imports and the interest surcharge on import credit imposed by the RBI in 1990 and the downward adjustment of the exchange value of rupee in July 1991 have made imports costilier and pushed up the production cost of many import dependent industries.

(ii) Credit controls along with the hike in interest rates have affected the availability and cost of finance, particularly working capital, to the industry and pushed up the cost of production. The additional taxation measures announced in the union budget for 1991-92 have also contributed to the rise in industrial costs. However, financial results of many of the leading industrial companies for the half-year ending September, 1991 show higher sales earnings and profits, which means that these companies were able to pass on the increased production costs to the consumers in the initial period. The escalations in the prices of the manufactured goods might have led to the build up of some consumer resistance and a slump in effective demand.

(iii) Reduction in public expenditure and other fiscal adjustment measures have also resulted in a perceptible fall in the effective demand for the products of many manufacturing industries. The slump in demand was more pronounced in non-essential consumer durables like automobiles, entertainment electronics etc.

(iv) Production of petroleum products was down by 3.3 per cent in April—October 1991. This might have caused some transport bottlenecks and raw material (e.g. petro-chemical) shortages, affecting industrial production.

TABLE 6.2

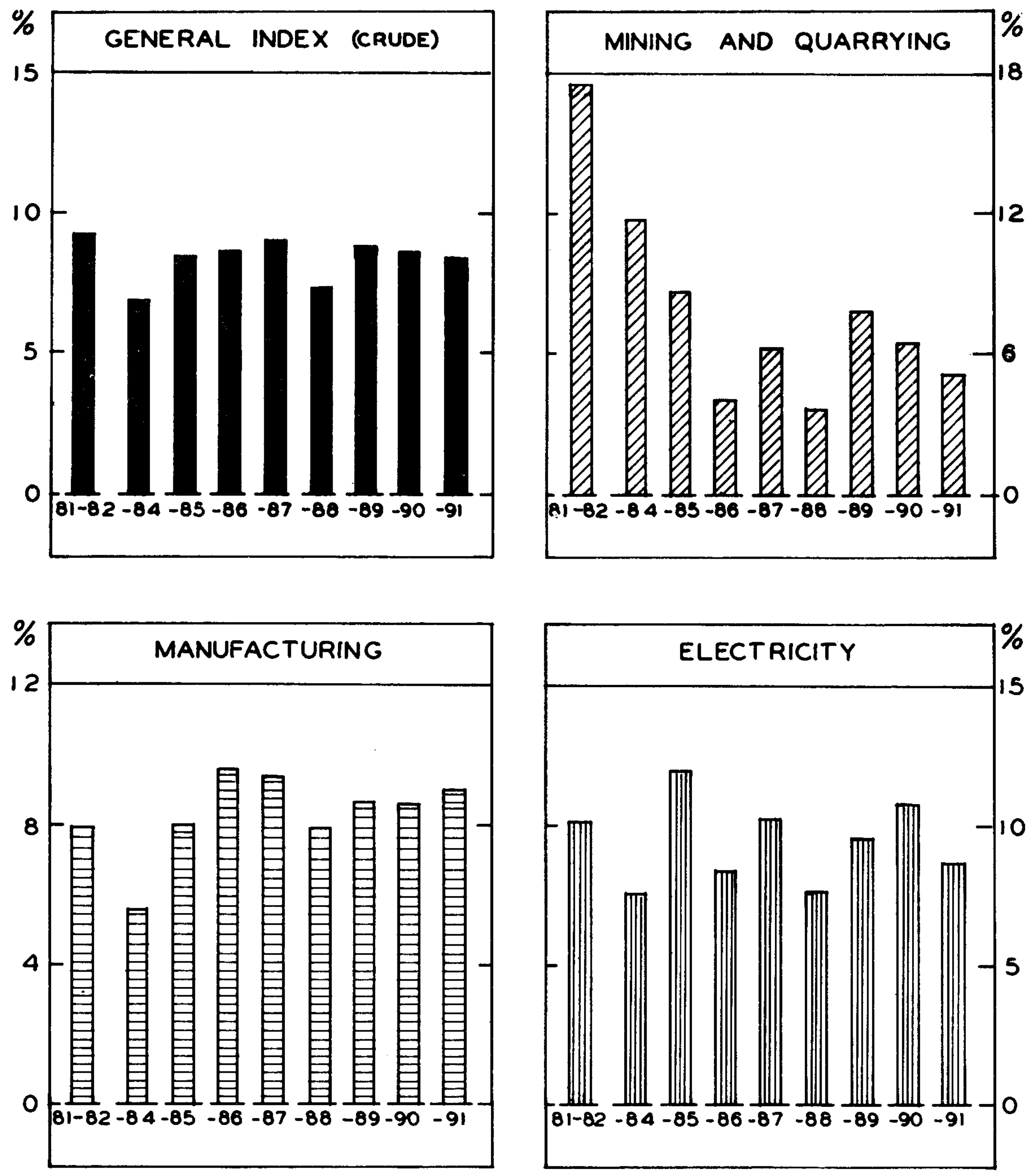
Trends in the output of the manufacturing sector

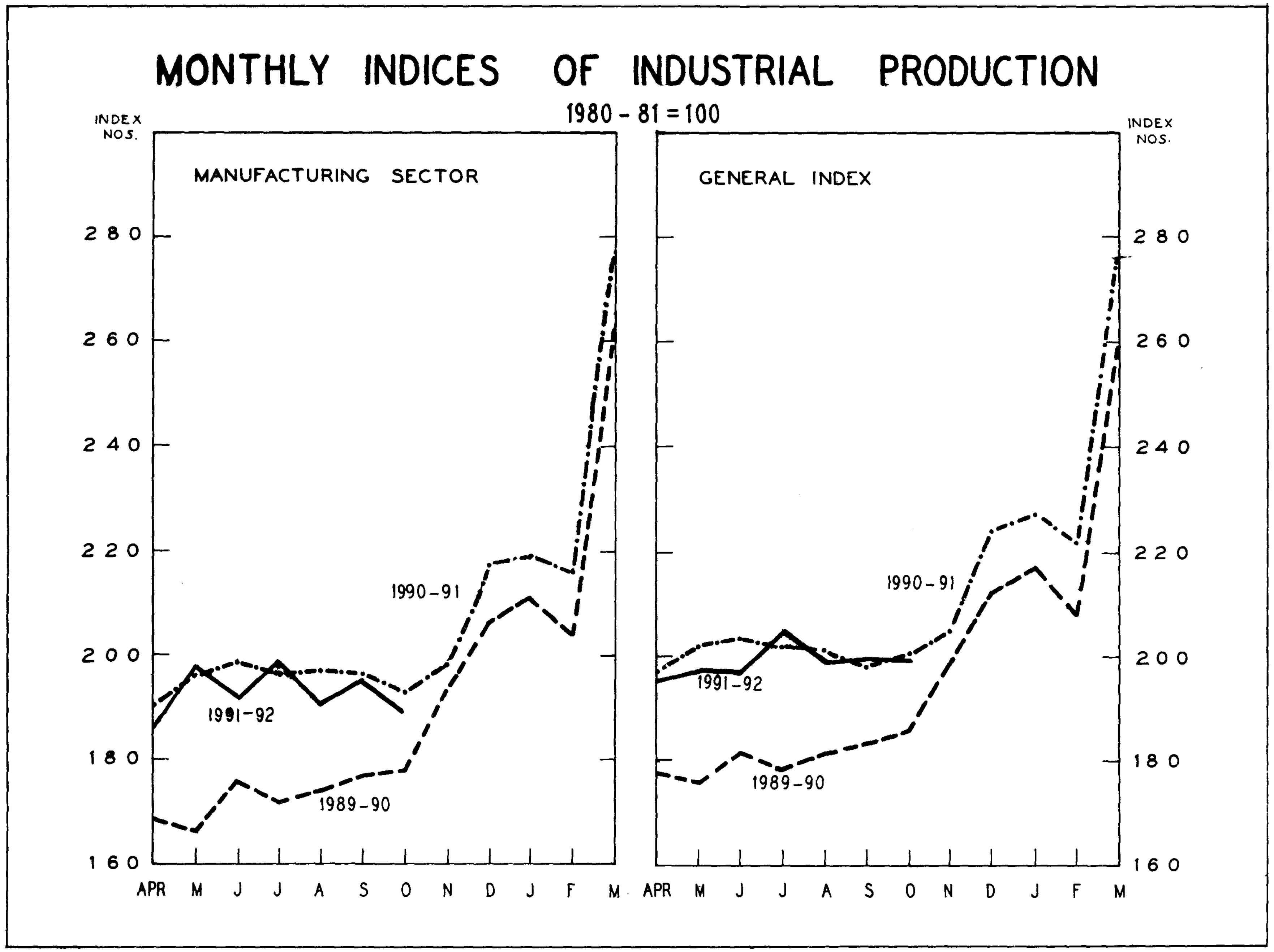
Annual growth rates (per cent)

Code	Industry group	Weight					April—November	
			1987-88	1988-89	1989-90	1990-91	1990-91	1991-92
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
20-21.	Food Products	5.33	4.4	6.8	1.6	12.5	17.1	1.5
22.	Beverages, tobacco and products	1.57	—13.8	8.5	11.8	1.3	—4.0	9.3
23.	Cotton textiles	12.31	—1.2	—3.1	4.2	14.7	15.6	4.2
25.	Jute, hemp and mesta products	2.00	—10.0	12.0	—4.4	4.4	8.5	1.8
26.	Textile products (including wearing apparel other than footwear)	0.82	5.3	46.3	13.0	—32.0	—31.9	—2.9
27.	Wood and wood products	0.45	—34.3	6.2	2.5	12.7	13.1	—1.5
28.	Paper and paper products	3.23	1.9	3.0	6.0	9.0	7.6	5.
29.	Leather and fur products	0.49	4.4	—4.4	6.1	3.1	4.1	—5.2
30.	Rubber, plastic, petroleum and coal products	4.00	3.7	8.5	3.1	—0.1	0.9	—2.4
31.	Chemicals and chemical products	12.51	14.5	16.2	6.1	2.7	3.9	1.0
32.	Non-metallic mineral products	3.00	—1.4	16.8	2.9	1.7	2.9	8.6
33.	Basic metals and alloys	9.80	6.9	6.9	—0.8	10.8	10.2	7.9
34.	Metal products and parts	2.29	4.1	3.0	6.8	0.4	4.3	—7.6
35.	Machinery and machine tools	6.24	—1.8	15.8	6.6	8.4	12.0	—2.7
36.	Electrical machinery and appliances	5.78	31.6	3.2	32.7	22.4	29.8	—18.1
37.	Transport equipment	6.39	4.8	12.8	5.7	6.3	10.2	—3.3
38.	Other manufacturing	0.90	15.6	12.6	8.8	—2.9	—0.2	—18.9
Div. 2-3	Manufacturing	77.11	7.9	8.7	8.6	9.1	11.5	—2.3
Div. 1	Mining and quarrying	11.46	3.8	7.9	6.3	4.9	2.5	—1.6
Div. 4	Electricity	11.43	7.7	9.5	10.8	8.7	8.3	7.8
	General	100.00	7.3	8.7	8.6	8.5	10.0	—0.9

GROWTH RATES IN INDEX OF INDUSTRIAL PRODUCTION

1980-81=100




MONTHLY INDICES OF INDUSTRIAL PRODUCTION
1980 - 81 = 100
INDEX NOS.
MANUFACTURING SECTOR
GENERAL INDEX
280
260
240
220
200
180
160
1990-91
1991-92
1989-90
APR M J J A S O N D J F M

6.19 The structural composition of Indian industries based on the end use of output has not shown any marked changes in the past decade. Table 6.3 gives the group-wise annual growth rates of the use-based groups of all industries in 1981-82 and from 1985-86 to 1990-91. Groupwise growth rates of 155 selected industries with a total weight of 85.51 in the IIP, for the year 1990-91 and for the period April—October, 1991 are given in Table 6.4.

TABLE 6.3

Use-based group indices of industrial production

(Base : 1980-81 = 100)

Industry group	Weight	1981-82	1985-86	1986-87	1987-88	1988-89	1989-90*	1990-91*
1	2	3	4	5	6	7	8	9
I. Basic goods	39.42	110.9 (10.9)	149.2 (6.8)	163.0 (9.2)	172.2 (5.6)	189.2 (9.9)	199.4 (5.4)	207.0 (3.8)
II. Capital goods	16.43	106.7 (6.7)	140.7 (10.6)	166.3 (18.2)	192.8 (15.9)	206.2 (7.0)	252.3 (22.4)	296.2 (17.4)
III. Intermediate goods	20.51	103.7 (3.7)	135.5 (7.5)	141.5 (4.4)	148.3 (4.8)	165.4 (11.5)	172.5 (4.3)	182.9 (6.1)
IV. Consumer goods	23.65	113.8 (13.8)	137.3 (12.5)	147.1 (7.1)	156.6 (6.5)	163.2 (4.2)	173.5 (6.3)	191.5 (10.4)
(a) Consumer durables	2.55	110.9 (10.9)	202.8 (18.7)	241.2 (18.9)	260.1 (7.8)	291.2 (12.0)	296.1 (1.7)	340.0 (14.8)
(b) Consumer non-durables	21.10	114.1 (14.1)	129.4 (11.5)	135.7 (4.9)	144.1 (6.2)	147.7 (2.5)	158.7 (7.5)	173.6 (9.4)

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

TABLE 6.4

Growth rates of 155 selected industries

(Use-based group-wise)

Industry group	Weight	Percentage change over the previous year		
		1990-91	April – October	
		(Full Year)	1990-91	1991-92
1. Basic industries	36.36	4.3	4.8	7.1
2. Consumer durables	2.20	10.9	16.9	(—)10.1
3. Consumer non-durables	19.56	5.2	5.1	2.6
4. Capital goods	11.32	21.9	31.9	(—)17.8
5. Intermediate goods	16.10	5.6	6.3	(—)0.1
All industries	85.54	8.5	10.3	(—)0.6

Performance of Selected Basic Industries

Steel

6.20 Production of saleable steel by the main steel plants (excluding Visakhapatnam Steel Project) during April—December 1991 improved substantially (Table 6.5). All the SAIL plants, except Durgapur, increased their production. But there was a decline in the production of pig iron by the SAIL plants. In the case of finished steel, production of the secondary sector (mini-steel plants) which has been growing at an average annual rate of 4 per cent in the past 3 years, suffered a mild setback during the current year because of the inadequate availability of melting scrap due to import constraints. Price and distribution controls on iron and steel items manufactured by integrated steel plants were withdrawn on January 16, 1992. The Freight Equalisation Scheme was also withdrawn. The requirements of defence, railways, small-scale industries, exporters of engineering goods and the North-Eastern region will, however, continue to be met from the priority quota.

TABLE 6.5

Output of iron and steel

(Million tonnes)

Item	1988-89	1989-90	1990-91	April—December		Percentage change		
				1990-91	1991-92£	1989-90 / 1988-89	1990-91 / 1989-90	1991-92* / 1990-91*
1	2	3	4	5	6	7	8	9
1. Production of saleable steel by main producers								
(a) SAIL	7.26	7.06	7.38	5.21	5.83	—2.8	4.5	11.9
(b) TISCO	1.95	1.97	1.95	1.40	1.48	1.0	—1.0	5.7
Total	9.21	9.03	9.53**	6.61	7.31	—2.0	5.5	10.6
2. Production of finished steel :								
(a) Main producers	7.09	7.00	7.20	5.09	5.75	—1.3	2.9	13.0
(b) Secondary producers	5.75	6.00	6.21	4.64	4.54	4.3	3.5	—2.2
Total	12.84	13.00	13.40	9.73	10.29	1.2	3.1	5.8
3. Production of pig iron by main producers	1.01	1.23	1.39	1.02	1.08	21.8	13.0	5.9

£Provisional. *Relates to April—December

**Includes 200,000 tonnes by VSP.

Cement

6.21 The cement industry has been doing exceedingly well during the current year. Production of cement during April—December 1991 recorded a growth of 10.7 per cent compared with 7 per cent in the corresponding period of last year. The bulk of the increase during the current year has come from the large plants in the private sector which contributed more than 80 per cent of total cement production (Table 6.6). This better performance of private sector cement plants can be partly attributed to the firm trend in cement prices since the decontrol of the industry in March 1989.

TABLE 6.6

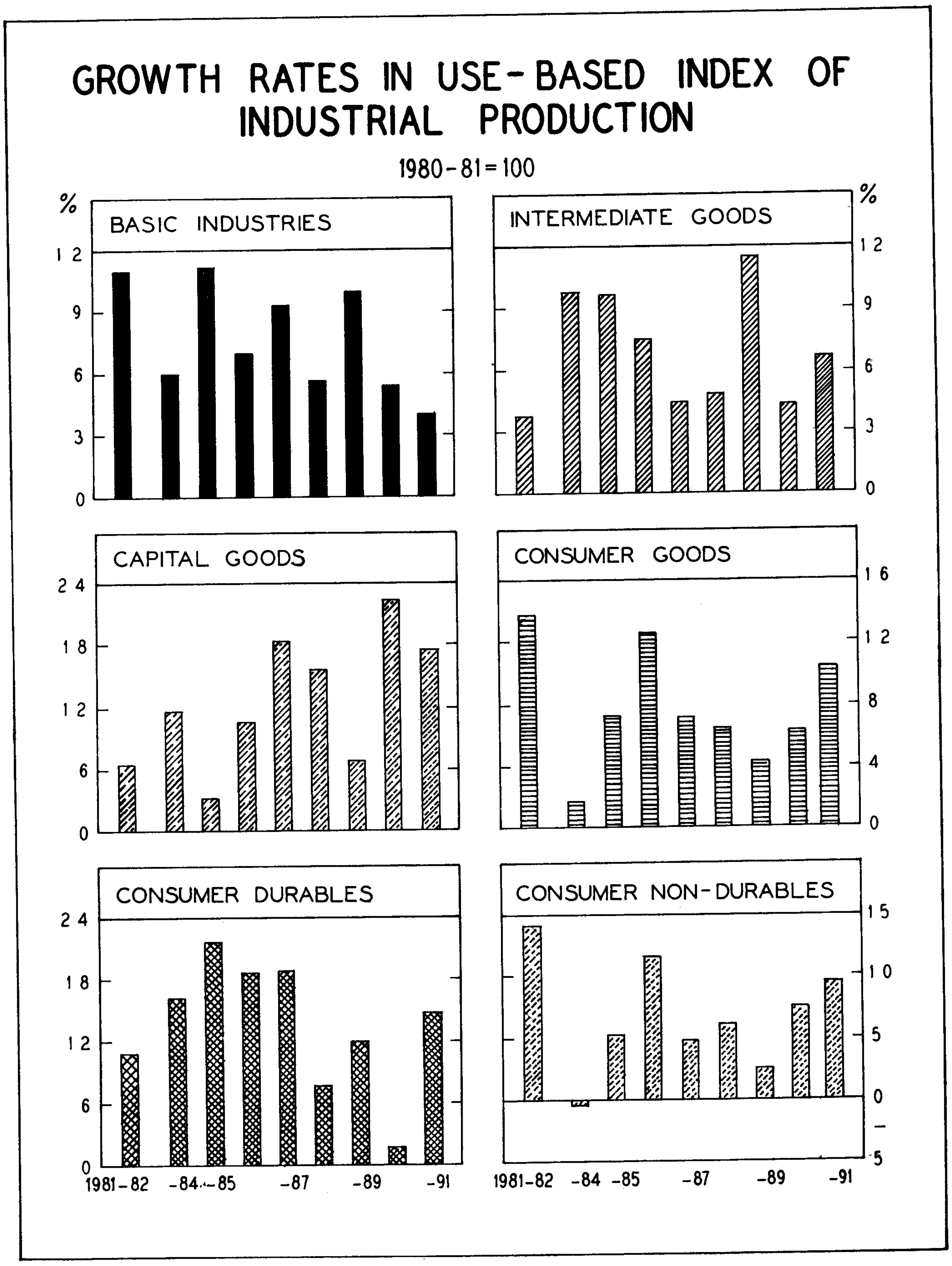
Cement output

(Million tonnes)

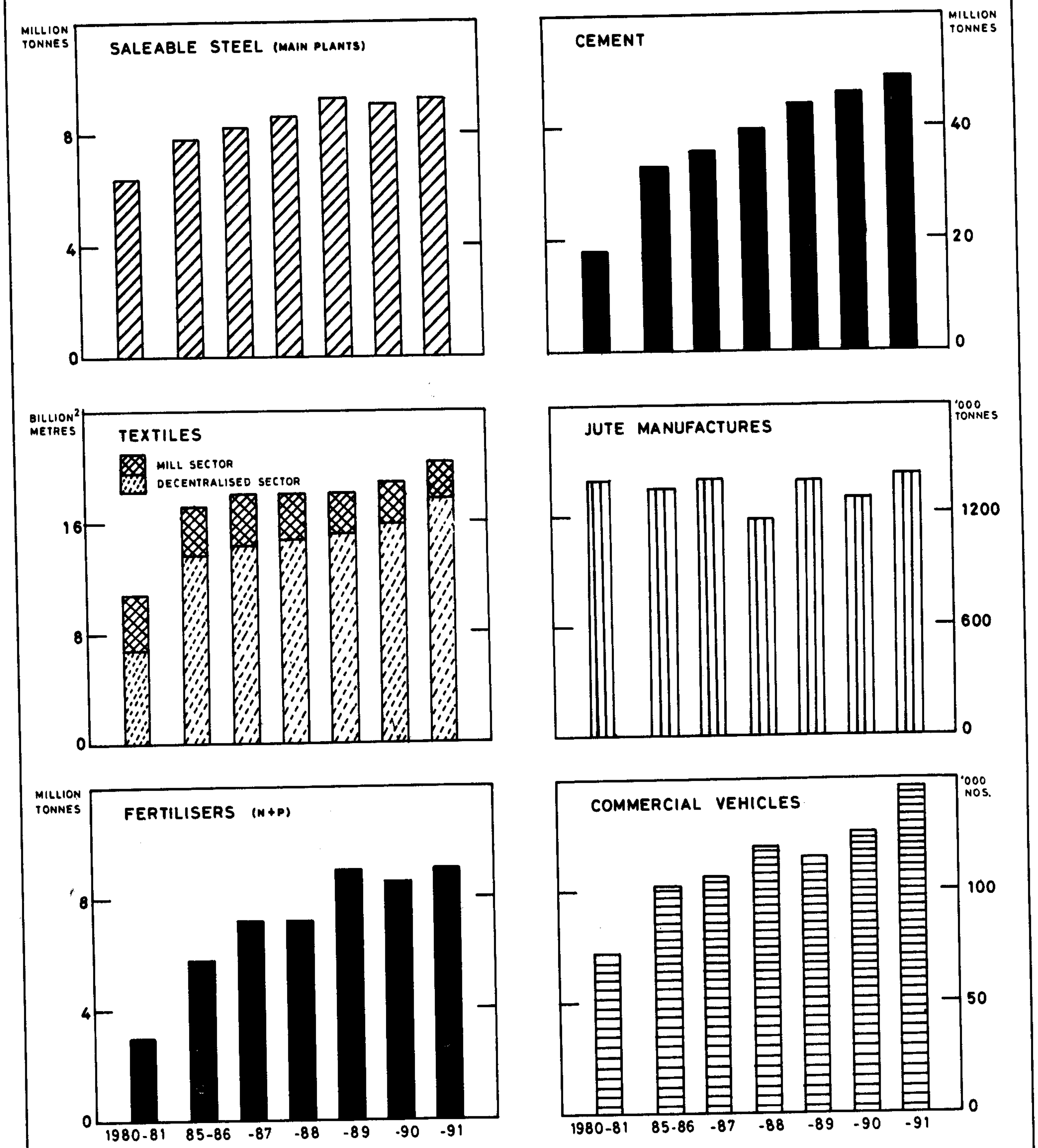
S.No.	Plants	1988-89	1989-90	1990-91	April—December		Percentage change		
					1990-91	1991-92£	1989-90 / 1988-89	1990-91 / 1989-90	1991-92* / 1990-91*
1	2	3	4	5	6	7	8	9	10
1.	Large plants :								
	(i) Public sector	5.29	5.29	4.96	3.55	3.70	No ch.	—6.2	4.2
	(ii) Private sector	36.47	37.68	40.82	29.31	32.89	3.3	8.3	12.2
2.	White/mini cement plants	2.53	2.82	3.26	2.38	2.42	11.5	15.6	1.7
	Total	44.29	45.79	49.04	35.24	39.01	3.4	7.1	10.7

£Provisional

*Relates to April—December


GROWTH RATES IN USE-BASED INDEX OF INDUSTRIAL PRODUCTION
1980-81=100
%
BASIC INDUSTRIES
INTERMEDIATE GOODS
CAPITAL GOODS
CONSUMER GOODS
CONSUMER DURABLES
CONSUMER NON-DURABLES
1981-82 -84 -85 -87 -89 -91

PRODUCTION OF SELECTED INDUSTRIES



Fertilizers

6.22 Production of fertilizers (nitrogenous and phosphatic) during April—December 1991 showed growth of 7.2 per cent over the corresponding period of last year (Table 6.7). This was largely due to the increase in the production of phosphatic fertilizers. There was a deceleration in the production of nitrogenous fertilizers. Targets set for the production of fertilizers for the current year are 7.35 m.t. of nitrogen and 2.65 m.t. of phosphate. Even if the industry is able to meet these targets, indigenous production will fall short of the expected demand of about 13.5 m.t. (including 1.4 m.t. of potassic fertilizers) in the current year, which is 6 per cent higher than the estimated consumption of 12.7 m.t. in 1990-91. The supply—demand gap in fertilizers, particularly in nitrogen, is expected to widen this year. Capacity utilization of the fertilizer industry during April—December 1991 was about 89 per cent compared with about 83 per cent for the corresponding period, last year.

TABLE 6.7

Output of Fertilizers

(Million tonnes of nutrients)

	1988-89	1989-90	1990-91	April—December		Percentage change		
				1990-91	1991-92	1989-90 / 1988-89	1990-91 / 1989-90	1991-92* / 1990-91*
1	2	3	4	5	6	7	8	9
1 Nitrogenous :	6.71	6.74	6.99	5.19	5.34	0.4	3.7	2.8
(i) Public sector	3.08	2.88	2.87	2.07	2.17	—6.4	—0.3	4.4
(ii) Private sector	2.04	2.21	2.40	1.81	1.88	8.2	8.5	4.2
(iii) Co-operative sector	1.59	1.65	1.72	1.31	1.29	3.8	4.4	—1.6
2. Phosphatic :	2.25	1.79	2.05	1.63	1.97	—20.4	14.1	21.2
(i) Public sector	0.67	0.44	0.51	0.41	0.56	—35.0	17.3	37.4
(ii) Private sector	1.28	1.13	1.31	1.01	1.15	—11.9	14.9	13.9
(iii) Co-operative sector	0.30	0.22	0.23	0.21	0.26	—24.5	4.2	24.4
Total : (N+P)	8.96	8.53	9.04	6.82	7.31	—4.8	5.9	7.2

*Relates to April - December.

Small-Scale and Village Industries

Small-scale Industries

6.23 The estimated number of small-scale units at the end of 1990-91 was 19.38 lakh including 5.6 lakh unregistered units. Value of production is provisionally estimated at Rs. 155340 crore and employment at 124.30 lakh. Direct exports from the sector during 1990-91 are provisionally estimated at Rs.9100 crore. The growth of the sector during 1990-91 was relatively low because of the adverse impact of certain factors like import restrictions, credit squeeze and hike in interest rates. The combined adverse effects of these factors are likely to aggravate further during the current year. Production in the small scale sector is expected to go up only by about 3 per cent this year as against 8.5 per cent in 1990-91. The growth in employment is also likely to be only marginal.

6.24 The new policy measures for promoting and strengthening small, tiny and village enterprises were laid in Parliament on 6 August, 1991. The main thrust of the new policy is to impart more vitality and growth to employment and exports. The salient features of the new policy are :

(i) De-regulation, de-bureaucratisation and simplification of statutes, regulations and procedures;

(ii) Increase in the investment limit in plant and machinery of tiny enterprises from Rs. 2 lakh to Rs. 5 lakh, irrespective of the location of the unit;

(iii) Inclusion of industry-related services and business enterprises, irrespective of their location, as small-scale industries;

(iv) Ensuring both adequate flow of credit on a normative basis and quality of its delivery for viable operation of the SSI sector;

(v) Setting up of a special monitoring agency to oversee the genuine credit needs of the small-scale sector;

(vi) Introduction of suitable legislation to ensure prompt payment of small industries bills;

(vii) Introduction of a scheme of Integrated Infrastructural Development (including technological back-up services) for small-scale industries;

(viii) Setting up of a Technology Development Cell in the Small Industries Development Organisation;

(ix) Market promotion of SSI products through co-operative/public sector institutions, other specialised professional/marketing agencies and the consortia approach;

(x) Setting up of an Export Development Centre in the Small Industries Development Organisation.

6.25 The scope of the National Equity Fund and Single Window Schemes being implemented by the Small Industries Development Bank of India for the benefit of the smaller among small-scale units was further widened during 1991-92 by enhancing the limit of the project cost of eligible units from Rs. 5 lakh to Rs. 10 lakh and from Rs. 10 lakh to Rs. 20 lakh, respectively. The limit of working capital assistance under the Single Window Scheme was also enhanced from Rs. 5 lakh to Rs. 10 lakh.

Khadi and Village Industries

6.26 Units under the Khadi and Village Industries Commission produced Rs. 2225 crore worth of goods in 1990-91 and provided employment to 47.93 lakh persons. During 1991-92, the production level is expected to go up to Rs. 2460 crore and employment to 50.01 lakh.

Investment Climate and Captial Market

Investment climate

6.27 The approval of Letters of Intent, SIA registrations, DGTD registrations, etc. are the conventional indicators of investment intentions. After the announcement of the New Industrial Policy, all registrations have been abolished but the issuance of Letters of Intent for still licensed industries continues. The filing of Industrial Entrepreneurs' Memoranda has replaced the system of registrations. The response to the New Industrial Policy is shown by the filing of 3095 memoranda since this system began in mid August. Thus the aggregate indication of investment intentions increased from 2763 during April—December, 1990-91 to 4699 in April-December, 1991-92 (Table 6.8). The funds raised in the capital market and the flow of institutional credit to the industrial sector broadly indicate the trend of actual financial investment in the sector. Approvals for new capital issues granted to non-Government companies during April—December 1991 at Rs. 7309 crore have shown an increase of 59 per cent over Rs. 4604 crore in the corresponding period of last year (Table 6.9). Actual issues also increased by 44 per cent indicating the highly optimstic outlook of the capital market in spite of a recessionary trend in industrial production. According to the provisional data available, assistance sanctioned by all-India financial institutions in the first six months (April—September) of the current financial year, shows an increase of 9.6 per cent over corresponding period of last year. Actual disbursements also have gone up by 39.8 per cent. Approvals for the import of capital goods granted by the Capital Goods (Main) Committee during April—December 1991 was two and a half times more than the approvals granted in April—December, 1990. Approvals for foreign investment proposals and foreign technology agreements also showed an increase (Table 6.8). A full picture of the investment behaviour during the current year, particularly in the post-deregulation period, would be available only after the recalibration of the data reporting system. However, the overall prospects of investment during the current year is expected to turn brighter, responding to the liberalisation measures initiated under the new Industrial Policy announced in July 1991.

TABLE 6.8

Selected indicators on industrial approvals and sanctions

Indicators	1989-90	1990-91	April-December 1990-91	April-December 1991-92
1	2	3	4	5
Fresh approvals for setting up new industrial capacities † :				
(a) Letters of Intent issued	1155 (550)	931 (399)	570 (253)	434 (192)
(b) Registrations issued by SIA under the scheme of delicensing	1328 (751)	1345 (800)	1022 (608)	478 (289)
(c) Registrations of industrial undertakings exempted from licensing	1008 (567)	1214 (639)	917 (490)	550 (305)
(d) Carry-on Business licences issued	67 (16)	51 (9)	35 (7)	17 (2)
(e) DGTD registrations	543 (252)	404 (188)	219*	125*
(f) Industrial entrepreneur memoranda field	—	—	—	3095
Total of investment intentions	4101 (2136)	3945 (2035)	2763	4699
Industrial licences issued by way of conversion of letters of intent/direct licences	334 (157)	325 (137)	255 (111)	148 (67)
Approvals for foreign investments capital issues etc.				
Approvals for foreign investment and technology agreements on the basis of clearance accorded by FIB/FIBP/PAB/RBI				
(a) Foreign investment				
No.	595	640	136	254
Amount (Rs. crore)	—	—	87	474
(b) Foreign technology agreements (No.)	—	—	348	541
Import of Capital Goods (Approvals) by Main Committee (Rs. crore)	1633	854	589	1488
CCI approvals of new capital issues (Rs. crore)	12076	12632	9502	12576
Total financial assistance by All-India financial institutions @ (Rs. crore) :				
(a) Sanctions	15366	19468	7118**	7805**
(b) Disbursements	9421	11911	4311**	6030**

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

* Relates to April—November.

** Relates to April—September

† Figures in brackets relate to backward areas.

Capital Market

6.28 The capital market has been performing reasonably well in the April—December period of the current year. Approvals for new issues of shares and debentures granted by the Controller of Capital Issues (CCI) during the period showed a significant growth of 57 per cent in the case of non-government companies and a modest growth of 9 per cent in the case of government companies (Table 6.9). The overall approval for new capital issues in April—December 1991 was 33 per cent higher than that in the corresponding period of last year. A notable feature of new capital issues this year was a perceptible shift in favour of debentures in the portfolio composition. Debentures constituted 65 per cent of the new issues approved for non-Govt. companies in April—December 1991 as against 56 per cent in April—December 1990

TABLE 6.9

Approvals for new issues by the Controller of Capital Issues and actual issues by non-Govt. public limited companies.

(Amounts in Rs. crore)

	1990-91 (April– March)		April—December 1990		April—December 1991		Percent change (7/5)
	No.	Amount	No.	Amount	No.	Amount	
1	2	3	4	5	6	7	8
A. Non-Government companies							
(i) Equities (including premium and bonus shares)	841	2854 (40)	620	2015	531	2536	26
(ii) Debentures	233	3571 (—39)	128	2589	221	4773	84
Total A	1074	6425 (– 19)	748	4604	752	7309	59
B. Government companies							
(i) Equities (including premium and bonus shares)	14	200 (141)	12	188	3	76	(—) 60
(ii) Public sector bonds	17	6007 (47)	13	4710	12	5283	12
Total B	31	6207 (49)	25	4898	15	5359	9
Grand Total (A + B)	1105	12632	773	9502	767	12668	33
C. Actual issues by non-Government public limited companies*							
(i) Equities**	252	1261(3)	158	580	212	904	56
(ii) Debentures	113	2941 (– 44)	68	1572	89	2192	39
Total	365	4202 (—35)	226	2152	301	3096	44

* Provisional. Exclude issues privately placed with financial institutions etc. Include over subscription retained in cases where information was available.

** Excludes bonus issues, but includes preference shares and cumulative convertible preference shares.

NOTE : Figures in parentheses indicate percentage change over the previous year.

6.29 According to the provisional data available with the RBI new capital issues actually floated in the market by non-government public limited companies during April—December 1991 amounted to Rs. 3096 crore marking an increase of 44 per cent over the corresponding period of last year (Table 6.9). The increase was 56 per cent in the case of equities and 39 per cent in the case of debentures.

6.30 The cautious recovery with an underlying optimism witnessed in the stock market during the last quarter of 1990-91 continued during the first quarter of the current financial year as well, when the Reserve Bank of India's All-India Index Number of Ordinary Share Prices (Base : 1980-81 = 100) recorded an increase of 7.6 per cent from 527.9 in the last week of March, 1991 to 568.0 in the last week of June, 1991. The market sentiments gathered further bullishness following the new fiscal measures announced in the Union Budget for 1991-92 and the new policy initiatives of far-reaching consequences announced in the Industrial Policy Statement in July, 1991 and the Trade Policy Statement in August, 1991. The RBI index moved up from 644.3 in the last week of July 1991 to a new peak of 752.2 in the last week of August 1991. Equity prices, however, opened with a weak note in the first week of September but recovered subsequently and the index closed at 779.9 in the last week of September. The market was rather sluggish in October, 1991 and the index declined to 756.7 in the last week of October. The stock market revived during November and but for some temporary pauses in the bullish trend, remained more or less buoyant till the end of December when the RBI index closed at 814.5. On a point-to-point basis, the RBI index showed a gain of 54.3 per cent between end-March, 1991 and end-December, 1991. The average index for the period April—December 1991 showed an increase of 36.3 per cent over the corresponding period of last year.

6.31 Some of the important policy measures on capital market taken by the Government and the Reserve Bank of India during the current year are :

(i) Setting up of mutual funds in private and joint sectors will be allowed.

(ii) The ceiling on the acquisition of share /debentures of Indian companies by non-resident Indians (NRI) and overseas corporate bodies (OCB) has been raised by the Reserve Bank of India under the portfolio investment scheme, from 5 to 24 per cent.

(iii) The Securities and Exchange Board of India (SEBI) has been made a statutory body by a Presidential Ordinance on 31 January 1992. The Board is now vested with powers to protect the interests of investors in securities and to promote the development of the capital market and to regulate the working of stock exchanges.

(iv) In August 1991 Government issued a directive to the stock exchanges to ensure greater transparency in transactions in securities for the benefit of the investing public and stricter regulation of trading in 'specified' shares, timely settlement of transactions and broad-basing the governing bodies of stock exchanges.

(v) Revised guidelines for good or bad delivery of securities in stock exchanges were issued in August 1991 to improve and simplify the operation of stock exchanges.

(vi) As a measure of investor protection, Government issued a directive in September 1991 to the stock exchanges for introducing a scheme of registration of sub-brokers.

(vii) Clause 41 of the Listing Agreement was amended to provide for greater disclosure of financial information on a half-yearly basis by the listed companies.

(viii) In order to improve the liquidity of listed shares, the Government has asked major stock exchanges to work out a scheme of "Market Makers" in the exchanges.

(ix) Earlier guidelines on Employees' Stock Option Scheme were amended in May 1991 to restrict the maximum number of shares that can be allotted to an employee at 500 shares of Rs. 10 each or 50 shares of Rs. 100 each. The unsubscribed portion of the employees' quota would automatically be added back to the public issues.

(x) All restrictions on interest rates on debentures and public sector bonds other than tax-free bonds were removed in August 1991. Interest rates on such instruments will be governed by the market forces but the companies are required to obtain a credit rating before floating these instruments. The credit rating would be optional in specific cases like public sector bonds, non-convertible debentures up to Rs. 5 crore for private placement and debentures convertible into equity within 18 months of allotment.

(xi) The format of the propsectus to accompany the application form for public issues was revised and a memorandum containing the salient features of the prospectus was prescribed. Among other disclosures, the companies are now required to highlight the risk factors of the projects in the prospectus as well as in the memorandum.

(xii) Guidelines on large issues (Rs. 500 crore or above) were revised in October 1991. Proceeds of such issues, till deployment, can be invested only in fixed deposits with co-operative/nationalised banks, UTI, financial institutions and public sector undertakings (other than in public sector bonds).

(xiii) A new financial instrument, 'Stockinvest' has been introduced to be used by the investors as application money for new capital issues.

Industrial Sickness

6.32 An outstanding credit of Rs. 9353 crore which constituted about 9.2 per cent of the total bank advances and 17.4 per cent of the outstanding bank credit to industries was locked in about 2.2 lakh sick industrial units (excluding 125571 non-existent and non-traceable SSI units with an outstanding bank credit of Rs. 240 crore) on the rolls of commercial banks as at the end of March 1990. If the non-traceable and non-existent units are also taken into account, total bank credit locked in sick and weak units as at the end of March 1990 at Rs. 9593 crore was 24.5 per cent higher than the Rs. 7705 crore outstanding at the end of December 1988, which constituted 9.4 per cent of the total outstanding bank advances (Table 6.10). There was a slight abatement in the increasing incidence of sickness, which is a welcome trend signalling some positive results of the measures taken by the banking system to improve the strengthen the mechanism for an early detection of the symptoms and prevention of sickness among the assisted industrial units as well as for the rehabilitation of such units. The share of the SSI sector in the aggregate bank credit locked in sick/weak units (including non-traceable and non-existent units) had come down from 28.7 per cent at end-December, 1987 to 27.8 per cent at the end of March 1990. According to RBI data, about 74 per cent of the bank credit locked in non-SSI sick and weak units at the end of March 1990 was in the private sector. Industry group-wise, the incidence of sickness and weakness in the non-SSI sector, in terms of credit outstanding, was the highest in textiles (27.7 per cent) followed by engineering (19.9 per cent), chemicals (6.9 per cent), iron and steel (5.8 per cent) and paper (5.2 per cent).

TABLE 6.10

Industrial Sickness

	Number of units			Amount outstanding (Rs. crore)		
	End-December 1987	End-December 1988	End-March 1990	End-December 1987	End-December 1988	End-March 1990
1	2	3	4	5	6	7
1. SSI sick units	204259 (40.1)	240573 (17.8)	218828* (—9.0)	1797.31 (37.6)	2141.00 (19.1)	2426.94 (13.3)
2. Non SSI sick units	1119 (—43.0)	1241 (10.9)	1455 (17.2)	2801.79 (—21.5)	3887.30 (20.9)	4538.82 (34.0)
3. Non SSI weak units	720 (N.A.)	770 (3.9)	814 (5.7)	1657.30 (N.A.)	2177.00 (31.4)	2386.77 (9.6)
Total	206098 (39.5)	242534 (17.7)	221097* (—8.8)	6256.40 (22.3)	7705.30 (23.2)	9352.53 (21.4)

* The figure does not include sick SSI units which are not traceable/not in existence.

NOTE : Figures in parentheses indicate the percentage change over the previous year.

CHAPTER 6

INDUSTRY

A major policy reform, substantially deregulating the industrial sector and liberalising foreign investment and technology imports, has been the most significant development during 1991-92. The new package of industrial policy initiatives abandons industrial licensing in all industries except those reserved tor the public sector, for the SSI sector and those under compulsory licensing, subject to minimal locational conditions. Lists of industries reserved for the public sector and under compulsory licensing have been pruned. Restrictions on investment by MRTP and FERA companies have been removed. The MRTP Act has been amended to remove threshold limits of assets. Approval for foreign investment up to 51 per cent of equity has been made automatic in specified high, priority industries subject to certain conditions regarding the coverage of the import cost of plant and machinery and balancing of dividend payments by export earnings. Approval for foreign technology agreements has been made automatic subject to certain limits on payments. The Phased Manufacturing Programme is abolished and the convertibility clause in the loan agreements with banks/financial institutions removed. Part of the equity holdings of selected public sector enterprises are being divested and placed with mutual funds. Sick public sector enterprises have been brought within the purview of the BIFR.

After consistent high growth in the past three years, industrial production is likely to suffer a setback during 1991-92. The recessionary trend is more pronounced in the manufacturing sector. Factors responsible for this downturn were import compression, rise in the cost of imports due to the cash margin requirement and the downward adjustment of the exchange value of rupee and the tight money policy on the supply side and a perceptible fall in effective demand due to inflationary pressure, reduction in public expenditure, and strict fiscal dicipline on the demand side. This setback is transitional, an immediate fall out of the stabilisation measures initiated by the Government for the macroeconomic adjustment of the economy.

However, infrastructure industries performed well, except for crude petroleum and petroleum products. Production of saleable steel and cement increased substantially. There was a deceleration in the production of nitrogenous fertiliser, but phosphatic fertiliser did well. The growth of the small-scale industries decelerated in 1990-91 because of import and credit constraints.

The investment climate continues to be econouraging. There was a significant increase in new capital issues by private sector companies. The stock market has been booming with optimism. Once the key stabilisation measures have been successfully implemented, the overall investment climate is likely to turn brighter in the coming months and years in response to deregulation and liberalisation. Industrial relations were by and large peaceful.

Introduction

The new Industrial Policy initiating far-reaching structural reforms to lead Indian industries away from a regulatory and protective regime to a free, market-oriented, competitive and globalised environment has been one of the widely debated issues in the country ever since its announcement in July 1991. Another important issue which has been a cause of immediate concern during the current financial year is the persisting weak trend in industrial production, particularly in the manufacturing sector. This chapter outlines the thrust areas of new industrial policy, reviews the performance of manufacturing industries and gives an over view of the investment climate, capital market, industrial sickness and other related areas having a close bearing on the industrial economy of the country.

Industrial Policy

6.2 The decade of the 1980s witnessed a rapid expansion of the industrial activity which can be attributed mainly to the reforms undertaken in both industrial and trade policies in the early and mid-1980s. Further policy changes have become necessary for accelerating the industrial growth in the 1990s in order to consolidate the achievements of the last decade. The new policy initiatives were announced in the Statement on Industrial Policy tabled in Parliament on 24th July 1991. The policy de-regulates the industrial economy in a substantial manner. The major objectives of the new policy package will be to build on the gains already made, correct the distortions or weakness that might have crept in, maintain sustained growth in productivity and gainful employment, further encourage growth of entreprepackages submitted to BIFR. This has been introduced to eschew any tendency to delay on the part of the involved agencies.

(vi) A nodal monitoring agency (either lead institution or lead bank) for monitoring the implementation of the rehabilitation package would be designated and the name of the agency would be indicated in the draft package submitted to BIFR.

(vii) In the context of the all-round increase in lending rates, the RBI parameters on interest rates for various facilities under rehabilitation packages in respect of non-SSI sick/weak industrial units have been revised. In order to obviate the need for change in the parameters whenever there is a revision in the lending rates on advances, the interest rates have been prescribed as fixed percentage points below the prevailing minimum lending rate.

(viii) While drawing up rehabilitation packages for non-SSI sick/weak units, banks are required to ensure that promoters' contribution is maximised. A minimum of 20 per cent in the cases involving change in management, professional/technocrat management and 30 per cent in other cases, should be insisted upon. The banks and financial institutions can stipulate higher promoters' contribution, where warranted. While working out promoters' contribution, in cases other than change of management, technocrat and professional management, the monetary value of sacrifices from banks, financial institutions and Government will have to be taken into account, in addition to the long term requirement of funds under the rehabilitation packages.

(ix) In order to ease the debt burden of sick units, banks and institutions have been given the option, on the basis of their commercial judgement, to convert part/whole of the unpaid interest/term loans into equity/quasi equity under rehabilitation packages sanctioned by them. Detailed guidelines for this purpose have been issued.

(x) Parliament has passed the Bill to amend the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) to bring public sector enterprises also within the purview of BIFR.

6.35 Since its inception up to the end of December 1991 the BIFR had received 1547 references under Section 15 of the Sick Industrial Companies (Special Provisions) Act, 1985. Of these 410 cases were rejected after scrutiny. Of the 1117 references registered, 191 were dismissed as not maintainable and 131 cases were approved under section 17(2), after an assurance that the company could make its net worth positive on its own within a reasonable time. Operating agencies were appointed in respect of 623 cases. After considering the reports of the operating agencies and further hearings the Board sanctioned 225 revival schemes (including merger, change of management and leasing), recommended 155 cases to the concerned High Court for winding up and ordered the sale of one unit. In addition, draft schemes were formulated in respect of 46 cases and winding up notices were issued in respect of 62 cases. The proportion of cases decided to those effectively registered by the BIFR till the end of December 1991 was about two-thirds and the ratio of companies in the revival path to those on the road to liquidation works out to 1.9:1.

Industrial Relations

6.36 Industrial relations were by and large peaceful during the current year. There were no major or prolonged disturbances on the labour front. Industrial unrest, in general, was confined to cotton and jute textiles and engineering industries in the states of Andhra Pradesh, Maharashtra, West Bengal and Tamil Nadu. Table 6.12 gives the data on mandays lost due to strikes and lockouts.

TABLE 6.12

Mandays lost on account of strikes and lockouts

(in million)

Quarter	1989-90*	1990-91*	1991-92*
I	11.31	5.84	4.47
II	7.72	5.98	1.28
III	6.50	7.02	
IV	5.24	3.99	
Total	30.77	22.83	

*Provisional

Outlook

6.37 Industrial production has been on the threshold of a recession in the first eight months of the current financial year. The constraining factors like import compression, tight-money policy, fiscal retrenchment and inflationary pressure which have had a depressing effect on industrial production are still in operation and some of them, particularly the strict monetary and fiscal discipline which are the basic elements of the macroeconomic adjustment programme initiated by the Government, are likely to continue in operation. Import compression, even after relaxation, will have a hangover effect on the manufacturing sector because of the normal time lags in effecting the imports. However, fairly good agricultural production, encouraging trends in the infrastructure sectors and the containment of the inflationary pressures in the economy will give some boost to the effective demand for industrial products. An increase in the tempo of investment in response to the new Industrial Policy is also likely to generate more demand. If an optimistic view of these favourable factors is taken, the growth of industrial production during the current year could be expected to be in the range of 3 to 4 per cent.