INDUSTRIAL FINANCE —SOME TRENDS AND SOME ISSUES

S. S. NADKARNI

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Published by

THE A. D. SHROFF MEMORIAL TRUST
235 Dr. D. N. ROAD,
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OBJECTIVES

(i) Publication of one or more books in English, Hindi, and regional languages annually on some of the great builders of Indian economy aimed primarily at educating the younger generation in high standards of building the national economy as practised by those great entrepreneurs and placing the example of their lives for emulation by India's youth.

(ii) Organising one or more memorial lectures annually on subjects which were of interest to the late Mr. A. D. Shroff, namely, banking, insurance, and industrial finance, the subjects to be chosen in rotation, and the lectures to be delivered by persons eminent in these fields.

(iii) Awarding annual scholarship or scholarships to outstanding student or students in the field of management.

(iv) Instituting a prize to be known as The A. D. Shroff Memorial Prize for the student standing first in Banking at the Sydenham College of Commerce, Bombay.

(v) Doing all such acts, matters and things as are incidental or conducive to the attainment of the above aims or objects or any one or more of them; and

(vi) Without prejudice to the above charitable objects or any of them, the TRUSTEES shall have the power to spend, utilise and apply the net income and profits for the charitable object of education or such of the TRUST FUND for the TRUST FUND for the charitable object of education or such other objects of general public utility not involving the carrying on of any activity for profit as the Trustees may think proper, it being the intention of the SETTLOR that the income and/or corpus of the Trust Fund shall be utilised for all or any of the aforesaid charitable objects without any distinction as to caste, creed, or religion.

INTRODUCTION

The annual public lectures delivered under the auspices of the A. D. Shroff Memorial Trust, in turn on banking, industrial finance and insurance, are appreciated not only by persons specialising in these areas of economic activity, but also by students of public affairs. The reason for such appreciation is the high quality of the lectures, delivered by eminent authorities on the subject. During 1984, the Trust was fortunate once again to get a well-known authority on practical industrial finance, viz. Mr. S. S. Nadkarni, Chairman & Managing Director of Industrial Credit & Investment Corporation of India Ltd. (ICICI). In a lively style, he has focussed attention on several issues of fundamental importance in industrial finance. With his vast experience and keen acumen, Mr. Nadkarni has given a cogent exposition of the lines on which industrial finance should develop in this country.

What makes the lecture of special interest is the fact that ICICI, which has done pioneering work in the field of industrial finance, had as one of its founders, the late A. D. Shroff, whose name this Trust bears.

The Board of Trustees hope that this book will be found useful by the public as well as the authorities.

N. A. Palkhivala
Chairman
Board of Trustees

Bombay,
June 26, 1984.

A. D. SHROFF

(1899 - 1965)

A. D. Shroff's achievements in the field of business, industry and finance were many and varied. A large number of enterprises owe their origin and development to him. As an economist, his predictions have proved right over the years. Through the Forum of Free Enterprise, which he founded in 1956, as a non-political, educative organisation, he sought to educate the public on economic affairs. It was his firm conviction that a well-informed citizenry is the foundation of an enduring democracy.

George Woods, former President of the World Bank, paid the following tributes to A. D. Shroff :

> "In every age and in every society men must express anew their faith in the infinite possibilities of the human individual when he has freedom to develop his creative talents. For this is in large part how the message of freedom is passed from generation to generation. A. D. Shroff spoke eloquently in a great tradition, and thanks to him we can be sure that other great men of India will continue to speak this message in the unknown context of our future problems."

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INDUSTRIAL FINANCE—SOME TRENDS AND SOME ISSUES*

S. S. NADKARNI

I thank the organisers of the A. D. Shroff Memorial Lectures for giving me the opportunity to join you in recalling the late Mr. Shroff's great achievements. ICICI, the organisation which I represent, owes its origin to Mr. Shroff's vision; he was also its founder director. In 1965, towards his last days, I, as a young officer, met him once or twice. The impress that his personality left on my mind is still with me. I pay him my humble tributes.

I shall attempt to place before you a few of my thoughts on Industrial Finance, a subject which was of great interest to the late Mr. Shroff. From time to time, some specific problems and facets loom large and attract public attention. Through all this din, however, some definite trends and some important issues continue to glimmer through. I do not wish to talk here of transient phenomena. What I would like to deal with are some trends and some issues which are of an abiding nature and which are also likely to assume greater importance in future.

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* This is the text of the A. D. Shroff Memorial Trust's annual public lecture, delivered on 23rd April 1984, in Bombay. Mr. Nadkarni is Chairman and Managing Director of Industrial Credit and Investment Corporation of India (ICICI).

Industrial Growth

After the independence, the industrial sector in the country has achieved significant growth. The total invested capital in the manufacturing sector increased from about Rs. 10,000 crores to about Rs. 30,000 crores from 1970-71 to 1979-80. Besides the quantitative growth, there have been important structural changes also. During 1951 to 1982, while production in traditional industries like textiles grew at an annual rate of 1.2%, the non-traditional engineering and chemical industries grew at an annual rate varying between 8% to 14%.

The structural changes have been manifold and not all of them can be captured by statistics. The range of products has undergone a vast expansion and newer technologies have also been adopted and their usage established. While well-established houses have no doubt grown, the entrepreneurial base has also expanded. New entrepreneurs drawn from trade, professions, technologists, non-resident Indians, are forthcoming to promote new ventures. Industrial locations are slowly but surely getting diversified. New units are springing up in backward areas despite the infrastructure problems of the locations.

Since the Second Five-Year Plan, the public sector has made substantial headway in the mining and manufacturing sector. Nationalisation of certain units has also increased the importance of the public sector in the industrial field. And yet, the private sector continues to play a significantly important role in capital formation in industry. The 1978-79 data show that of the total fixed capital in manufacturing covered by factories, 56% was owned by the private sector and it was responsible for 81% of value of output and also value added.

The picture of the industrial scene in India cannot be complete without reference to the tiny and small scale, house-hold and non-household-non-factory sectors. These have grown over the years and presently contribute about 35% of value of output and also value added in the manufacturing field. Incidentally, all of this activity is in the private sector.

The public sector outlay on mining and manufacturing during the Second to Fifth Plan was targetted to be almost 50% higher than that by the private sector. The position has altered considerably in the Sixth Plan where both the sectors are planned to have almost the same level of outlay in mining and manufacturing sector.

Government of India now appears to be conscious of the importance of concentrating its resources and efforts on other areas, allowing the private sector to play its role in the manufacturing field. Recent developments involving allocation of some of the large gas-based fertilizer plants to the private sector and throwing open certain items of communication equipment to the joint/private sector are indicative of expectations from the private sector in the coming years. Besides new units and expansion schemes, the private sector will also have to look for investment in modernisation, replacement and technological upgradation at a faster pace.

Importance of Financial System

The pace and structure of industrialisation no doubt depends upon several factors including growth of markets and availability of physical and human resources. The rate of growth and direction are also determined by fiscal and monetary policies. Be that as it may, the influence of the financial system is by no means small.

No treatise on industrial finance can be complete without recognising the interdependence between fiscal and monetary policies and of the financial system. However, taking a total view encompassing all the intricacies of this relationship will not be practicable this evening for want of time. Hence, I have limited my remarks to some aspects and issues concerning the financial system comprising the financial institutions, the capital market and the commercial banks.

A little earlier, I referred to the role of the public and the private sector in capital formation in the mining and manufacturing field. I also referred to the task that lies ahead for the private sector. Public sector draws on budgetary sources for funding of its fixed capital formation. However, as far as the financing of working capital is concerned, both the sectors draw on commercial banks and to a certain extent on public deposits. Nonetheless, the private sector industries are more directly dependent on the financial system and the connected issues are of greater importance to them.

Financial Systems & Role of Government

Since the nationalisation of life insurance business in 1956, of commercial banks in 1969, and of general insurance business in 1973 followed by change in the IDBI Act in 1975, the ownership and influence of the Government of India over the financial system in the country has become a pervasive factor. The nature of this relationship between the financial system and the Government is quite different than that such a system has to have with the country's Central Bank, which is expected to exercise monetary and credit control.

While a variety of views can be expressed on this relationship, it cannot be denied that it has been responsible for the large scale branch expansion of banks and increasing "bankisation" of the Indian economy. It cannot also be gainsaid that the Government influence on the financial system has been responsible for the growing flow of funds to the priority sectors, including small industry and also to backward areas. Given the national ethos, it is difficult to visualise that Government influence over the financial system would become any less in the coming years. Moreover, with expected emphasis on replacing physical controls by financial ones, it will be unrealistic to visualise a situation which is otherwise.

What is important is not the pattern of ownership of assets or the source of their control. What is important is how best and how efficiently can the system be operated to attain the national objectives. Some basic tenets with regard to the financial system in this context can best be quoted in the words of Dr. I. G. Patel: "However urgent the need, there cannot be any sacrifice of the criterion of financial soundness or viability where credit is involved. Credit is not a gift or a subsidy; and it has to be repaid out of surpluses generated as otherwise the extension of credit, no matter how worthy the recipient or the cause, will only result in a waste of scarce national resources, which a poor country cannot afford. To encourage any section of society to incur debts which it cannot possibly repay and even worse to let it get away with wilful non-repayment would be to mock the very concept of development."

The objectives for the system have to be decided at the national level. However, to ensure the efficacy of the financial system, it is also important that various elements of the system are managed on a sound basis, both with regard to day-to-day administration and policies. The objectives laid down for the system will not be translated into action unless the authorities consistently adopt attitudes aimed at —

(i) selection of top management with requisite professional competence and capability based on merits;

(ii) ensuring continuity of top management for reasonable periods so that they remain committed and feel responsible to the units under their management;

(iii) granting freedom of action as regards day-to-day management within the given frame-work of policy;

(iv) fostering commitment to creation of operational surpluses;

(v) providing motivation through a reward system closely linked with results in matters under control of the management.

There already appears to be a growing recognition of the importance of these factors with regard to management of the financial system.

Let me now turn to certain important facets of the individual elements of the financial system.

Term Finance for Industry

Over the past three decades or so, the institutional structure for providing term finance to industry in the country has expanded and become complex. Besides the all-India financial institutions, viz. IDBI, ICICI and IFCI (whose efforts in industrial financing are supported and supplemented by LIC, GIC and UTI), there are at least two institutions in each State (including Financial Corporations and Development Corporations), which provide term finance by way of loans and share capital. There is yet another gamut of institutions assisting and advising small scale industries. Commercial banks have also been playing some role in term lending at both ends of the wide range of project sizes, small scale as well as very large units. In addition, there are specialised sources like, Shipping & Hotel Development Funds, and also an institution like IRCI, which is charged with the difficult task of revival of sick units. There has been a further addition in the field of term finance, with the debut of the Export-Import Bank.

Bewildering as this structure might appear, it perhaps could not have been otherwise in view of the size of the country and complexity of the very nature of the development process. The size, capability and image of all-India institutions, supplemented by LIC, GIC and UTI, place them in an advantageous position to finance large projects, form consortia of banks as also with overseas organisations, support State Level Organisations, and more importantly, raise long-term finance internally and externally.

The State-level organisations represent, a step towards taking the developmental process to grass-root levels in view of their accessibility to smaller local entrepreneurs. The State Industrial Development Corporations have, in many states, spearheaded promotional efforts through joint sector units. They have also played an active role in dispersal of industries to backward districts through implementation of various incentive schemes.

The financial assistance sanctioned and disbursed by all the abovementioned financial institutions has increased at a rapid rate as can be seen from the following table:—

(Rs. in crores)

	Sanctions	Disbursements
1971-72	343	191
1979-80	2060	1352
1982-83	3278	2367
Cumulative upto March 1983	16960	12203

Shareholding of Institutions: Besides loans, the financial institutions have invested funds in the form of shares of private sector companies. Investment institutions like LIC, GIC and UTI have emerged as a major force in this area. As at December 1982, all India financial institutions held equity shares of the face value of Rs. 627 crores of which 80% were in the portfolio of investment institutions. While this total portfolio would appear to be of an impressive size, it does not represent, even in aggregate, majority shareholding in most cases. In about 80% of companies by number and paid up capital, the institutional holding is less than 30%.

Most of the abovementioned shareholding has been acquired either through underwriting or through market purchases. Popular belief attributes this holding to exercise of convertibility option, but this notion is incorrect. Less than 10% of this holding has been acquired through exercise of the convertibility option.

Let me now deal with some of the important issues concerning operation of the financial institutions.

Socio-Economic Factors: The environment in which financial institutions operate has been changing very rapidly. An important factor that has come to the fore, and which has had a vital effect on what is expected of the financial institutions is what can be broadly termed as "distributive justice". Awareness of the need for reaching the fruits of development to a wider group of people and to carry the process of development deeper into the lower strata of the society has become the focal point of economic thought in our country as also elsewhere. This awareness as also the heightened social expectations could not have left the financial institutions untouched.

The financial institutions have responded to this development in a variety of ways. They have laid emphasis on financing new entrepreneurs and on projects in backward areas. While there is a general appreciation of their role in this respect, there is also some criticism in certain quarters which feel that the institutions could have done better in this field. In assessing the performance of financial institutions in this respect, it is worth noting that while the financial institutions are supposed to be agents of change, they are also creatures of the economic environment in which they work. Development process can be accelerated only to the extent the economic infrastructure would allow. Entrepreneurship can be supported but cannot be created within a short time.

Convertibility Clause: The practice of stipulating a conversion option on loans provided by all-India finance institutions started in 1971. After the initial violent reaction by the industry, it would appear that the borrower companies learned to live with the situation. Over the past five years, there have been many changes in the guidelines concerning conversion option. Threshold of assistance attracting such option has been raised, modernisation loans have been exempted, and limitation has been placed on the level of shareholding the institutions can have while stipulating/exercising conversion option. During the last month, there has been further liberalisation removing most of the irritants. The industry, unfortunately, has not taken note of this liberalisation in the right perspective.

Nominee Directors: The financial institutions have been retaining the right to nominate a director on the Boards of assisted companies since the 60s. However, this condition came to be pursued and implemented with some vigour since 1975. Institutions have a large stake in most of the cases and much larger than the promoters or any other source of finance and their right to have a proper and adequate representation on the Boards of assisted companies cannot be easily denied. While the matter of nominee directorship has attracted wide attention and has raised much controversy, the real issue is quite different.

In India, there appears to be a misconception regarding the role of non-executive directors as also about the relationship that should exist between them and the company and the chief executive. No wonder that effects of this general misconception have been aggravated at times by improperly oriented nominee directors. To my mind, what is required is crystallisation of the concept regarding the role of a Board of Directors and recognition on the part of all (including the financial institutions) of the importance of its composition than of nominating a director or two.

Financial Structure: An analysis of company finances in India indicates "internal funds" as the single most important source of finance for a company. The company statistics also show that their finances are weighted in favour of equity. To my mind, while this situation might appear, *prima facie,* an indicator of health and capability of private sector to self-finance its investment, the matter requires a careful examination.

Firstly, a study based on aggregate figures of debt-equity position as emerging from the analyses of corporate balance sheets as carried out by RBI, ICICI and other agencies, projects an average position and it should be borne in mind that there is a high weightage of existing and long-established companies in the samples. In a large majority of new projects, not only institutional funding is at least 80 per cent of the capital cost but the bulk of it is in the form of loans. Available information indicates a steadily rising trend in debt-equity ratio over time. This movement is also accompanied by a marked deterioration in the ratio of current assets to current liabilities. This is certainly not a healthy trend, especially as it has coincided with the period of rising interest rates. The adverse effects of such an improperly levered financial structure during difficult and uncertain times are already visible in many cases.

I believe that in the first place, the financial institutions have the responsibility of insisting upon a healthier debt-equity ratio for projects assisted by them. The financial institutions in such cases might have to underwrite larger quantum of capital, which might not earn an income in the earlier years. However, this step would provide a sounder financial structure, so very necessary for improved overall yields on funds invested by institutions in the form of loans as well as shares.

Secondly, there is a need for taxation incentives to stimulate the primary equity market and to encourage corporate savings. In addition, there is also need for setting up organisations to provide venture capital. These organisations should have the backing from financial institutions and banks enabling them to take risks. They should also have a special tax free status for their dividend income and capital gains. They should operate on purely commercial basis and should be administered by competent and "market-wise" managers.

Commercial Banks and Industry

As at the end of 1981, the total outstanding loans to industry amounted to Rs. 19,833 crores, of which, Rs. 12,818 were the outstandings of commercial banks representing about 51% of the total credit granted by them. Of the industrial lending of commercial banks about 38% was to medium and large industry and 13% to small scale industries. The bank credit to medium and large industries has come down from 61% in 1968 to 38% in 1981, while lending to other sectors including small industries has gone up in proportion.

As is well known, a major part of the credit by commercial banks to industry is in the form of working capital finance, though they do provide term finance to small industries. They also participate in consortia with all-India financial institutions in providing term finance to very large projects. Incidentally, commercial banks are also the main subscribers to the government guaranteed rupee bonds floated by financial institutions. This subscription is made by utilising a part of the SLR funds.

Besides the overall monetary control, the Reserve Bank has been supervising individual large credit accounts since 1965 through the Credit Authorisation Scheme. The Marathe Committee, which recently reviewed the position in this regard has recommended continuation of the same, though on a somewhat liberal basis. With the emerging resource problems and contending priority claims, it is necessary that corporate financial discipline is strictly imposed. As mentioned earlier, the ratio of current assets to current liabilities is showing a marked deterioration in the finances of the corporate sector. This is also an indication of the need for improvement in working capital management.

Coordination Between Banks and Institutions: The finances for working capital and for building fixed assets are interdependent and both of them together are essential for operation of an industrial venture. However, in a greater part of the corporate sector, the dichotomy that exists between banks as a source of working capital finance and financial institutions as a source for fixed asset finance creates several problems of planning and coordination.

Presently, while the institutions sanction finance for a project, there is no indication that the working capital finance will be available to that project in adequate quantity. It is necessary that a satisfactory coordination mechanism is set-up so that decisions on both the aspects move in a parallel fashion. Such a mechanism will also be useful to the banks in working out a realistic credit plan.

The need for coordination between banks and financial institutions is acutely felt when proposals for rehabilitation of sick units assisted by both of them come up for consideration. Approach of both these agencies is often at variance and it takes a long time before a common resolution of the problem can be arrived at. An examination of this situation is called for at the highest level and it is hoped that evolution of a suitable coordination mechanism will help the situation.

Capital Market

The capital market as far as primary issues of debentures are concerned, has shown a marked growth over the past 4 years. In the earlier period, the amount raised from the capital market, even by well-established companies, remained meagre. While there could have been several inhibiting factors, a feeling is inescapable that many of the existing companies who could have well approached the capital markets took recourse to financial institutions as perhaps they found this source easily accessible as also relatively cheaper. On the other hand, it can also be said that the financial institutions, during that period failed to encourage existing companies with a good track record to approach the capital market.

Over the last 4 years, the position appears to have changed, the amounts raised from the capital markets annually have reached three to four times those during the earlier years. And yet, we have hardly scratched the surface. With a more realistic and freer approach towards interest rates, as also with appropriate incentives for encouraging investments in stocks, it would be possible to accelerate this process further.

It is estimated that the total number of shareholders in India is around 2.75 million, fewer than the shareholders of a single U.S. Company like the A.T. & T. which has over 3 million shareholders. Mobilisation of savings channelled to the corporate sector through the capital market has been only about 0.15 per cent of national income or 0.65 per cent of net national savings during 1977-78. The scope available is also reflected in overwhelming over-subscriptions that many good issues receive.

Selling of An Issue: Making a public issue successfully today has become a specialised activity and Merchant Banks are playing an important role in successful placement of new issues on the market. Today, the number of Brokers participating in underwriting has increased to over 200 in number, and it is normal to receive several lakhs of applications in good issues.

It was only a few years ago that many younger members of the families of stock brokers were contemplating to take-up newer professions outside the stock market. However, it is an encouraging sign that most of them have not only pursued their original family business since then, but quite a few of these young men are in the forefront of providing multidimensional services to companies who intend to go to the market.

In recent years, there appears to be an increasing awareness that like all goods offered on a market, the public offerings of stocks also need to be "sold". Marketing of an issue has now become a positive activity and it is no longer a passive exercise. While mailing of forms and prospectuses is definitely a part of selling efforts, it is no longer adequate. Sophisticated advertising through various media and use of conferences and audio-visual presentations are now being used in an increasing measure. And yet, these efforts appear to be concentrated only in a few urban centres. It is necessary that such efforts are directed towards many upcountry but affluent centres. Creating investor interest in such areas would require efforts as also innovative techniques of using sub-agents as also grass root saving mobilisers.

While generally supporting the approach towards selling an issue, I would like to add a word of caution which would be appropriate. It is essential to emphasise that the enthusiasm for selling an issue should not extend into overstatements and degenerate into misrepresentations. It would not suffice to look at this issue only in legal terms; it has all the ethical implications which are related to use of public funds and responsibility in such matters would have to be squarely carried by all those involved in making out a prospectus or a letter of offer and also those who are connected with marketing of such an issue.

While the responsibility of those associated with selling of an issue might end with allotment of scrips, that of the company which raises the funds is a continuous one. It should be prepared to shoulder the responsibility of satisfying aspirations of investors as also maintaining an open line of communication with them.

There are several other problems connected with the primary capital markets. Some of them might appear to be of little significance at this stage; but in future, the problems may assume larger proportion and become constraints.

Issue Expenses: Making a public issue has become an expensive affair; the cost varies from 8% to 11% of the amount offered to public. A part of these expenses represents compensation to risk-bearers, like underwriters, and those who work for selling the issue like managers and brokers. However, it also includes cost of printing a myriad copies of application forms and prospectuses. It would appear that there is scope for reducing the expenditure on this account and it would be worthwhile for the Stock Exchanges to review the requirements in this respect.

The expenses also include cost of publicity. As mentioned above, the value of the selling efforts required for launching a successful issue cannot be overestimated. Nonetheless, one wonders whether all that high expenditure is well directed and all that money is well spent. It is often noticed that large expenditure on this account is incurred to obtain a high level of oversubscription and it is taken as a measure of prestige of the company and more so of the promoters. In many western countries, such an oversubscription would be taken as an indication of wrong pricing of the issue and not as a matter of pride. It is essential that responsible industrialists should give a fresh consideration to this aspect.

Secondary Offers: While we have discussed about the scope, challenge and problems of making public stock offers, not all companies can partake of the romance of the stock exchange, be it for reasons of size or expenses involved. In many cases, the time might not be right nor ripe for making an issue. Nonetheless, such companies find it necessary to go to the market with the support of the institutional underwriters. In certain instances, the position has been alleviated by delaying the issue till the opportune time such as start-up of production. However, the best way in such and many other appropriate cases is to have an arrangement whereby the shares are taken up by institutional investors at the first instance and then offloaded after some period to public through prospectus. Such an arrangement will be a right step in generating investor interest and confidence as against offering them 'green' issues.

Investor Education: While efforts for selling an issue are essential in an individual issue, one clearly sees the need for educating investors and potential investors, especially in non-urban areas, on a general basis. Such education is necessary to create investor interest as also to make them aware of their rights and responsibilities. Attempts required for familiarising them with various procedures and infusing confidence regarding operation of the stock exchanges. Perhaps, such an educational campaign can be carried out by some independent organisations, like the stock exchanges as also professional bodies having interest in growth of the corporate sector.

Innovations and Financial Services

The last decade has been one of innovations in industrial finance. Ability to innovate and to modify is a sure sign of the vibrancy of a financial system. The commercial banks have introduced a number of new schemes, especially for the tiny and the small scale industry. IDBI has also modified and extended its refinance scheme to meet the requirements of the small scale and tiny industries. All-India financial institutions have introduced new schemes for backward areas and for modernisation of existing units. State Industrial Development Corporations have shown considerable promotional initiative and innovative ability to encourage dispersal of industries to non-developed districts.

The financial community, with the active support and encouragement of the Controller of Capital Issues, has been successful in introducing welcome modifications to certain financial instruments so as to make them more attractive. A variety of convertible debentures with conversion option for a part of the principal or a part of the interest have appeared on the scene. Debentures providing a right to equity subscription have also been introduced. Arrangements have been made to impart a sense of liquidity to the non-convertible debentures.

A variety of new methods for selling issues of shares and debentures have been used in recent times and entirely new financing instruments like leasing have made their appearance with considerable fanfare. This is not to say that the scope for innovation has come to an end. As mentioned earlier, there is a great need for sources of venture capital. A secondary market for discounting pieces of loans made by institutions through public sale of participation certificates will also be welcome. New safe and remunerative methods by which a part of the new accretions to provident and gratuity funds can be diverted for corporate needs are required.

Financial Services: Besides the abovementioned innovations, one of the welcome developments is the establishment of several private organisations for providing a range of financial and connected services. ICICI, the State Bank of India and other banks have also entered this field.

The merchant banking services have supported corporate efforts in the area of mobilisation of resources. However, these organisations have yet to mature to a level where they can provide wider corporate and financial counselling.

For the present, mergers and amalgamation of companies largely take place as a part of schemes for rehabilitation of weak units. Some of the merchant banking organisations have developed expertise in this area. This work needs to be carried much further and mergers for other economic reasons need to be planned, allowed and implemented in the interest of better utilisation of capital employed.

I would now come to a major concern with regard to the availability of resources in coming years.

Resources — A Major Concern

On the one hand, increasing capital ccsts, and the need for achieving larger industrial growth through new investments as also through modernisation of existing units will push up the demand for industrial finance. The demand is likely to increase further as the internal generation of the existing companies would have to be increasingly used towards working capital margins. On the other hand, the next decade is likely to be characterised by shortages of resources. Even during 1978-79, as will be recalled, various industrial organisations were gravely concerned about shortage of resources required for the private sector plans.

There are many factors which are likely to adversely affect the availability of resources and also keep the cost of obtaining the same at a high level. In this connection, it may be noted that, there are other spheres of national economy, which are likely to claim a larger share of the cake. As regards external sources of finance, the availability from multi-lateral and bilateral sources for Indian industry may not be as buoyant as in the past.

A good scope exists for pursuing suitable monetary and fiscal policies to enhance domestic savings and to channelise the same towards industry. Vigorous efforts and creative innovations will be necessary on the part of all those involved in the financial system. New instruments to suit the risk and income preferences of individual savers will have to be designed. The class of individual savers such as farmers, rural middle class and factory workers which has had only nominal participation in industrial capital needs to be increasingly involved in this effort. On the international front avenues like commercial borrowings will have to be explored, but with caution. However, even if some of these and other steps are taken, augmenting resources for industry is going to be a formidable task. The government, financial institutions, banks and industrial borrowers will have to work together to meet this challenge.

While stressing the need for additional mobilisation of resources, I believe that a serious and urgent examination of issues pertaining to the inefficient utilisation of capital brooks no further delay. I share the concern expressed by eminent economists at the rising capital-output ratio. It partly reflects the effect of investment in capital-intensive activities such as power generation and distribution, fertiliser, cement, etc., but it is also due to growing inefficiency in utilisation of capital. While there are many responsible factors, I would like to mention that inefficient management and wasteful practices have also to share the blame even in the private sector.

Spirit of Development Banking

Looking back, the financial system appears to have travelled a long way since the independence. It has expanded in size and acquired new dimension. And yet, there is an uneasy feeling of flagging spirits.

The increasing size of their operations and expanding nature of their organisations, concern with operational problems and anxieties regarding difficult tasks on hand, undue emphasis on norms and stress on uniformity, and oversensitivity towards criticism and reluctance to employ selectivity are some of the factors which have tended to erode the spirit and adventure of development with which the financial institutions were born three decades ago. The commercial banks, which were suffused with the same spirit in the immediate years after nationalisation, also appear to have become somewhat jaded and for similar reasons. Great care would have to be taken to see that this spirit is not totally lost in the battle beween the oncoming problems and operational responses.

It will be the task of the managements of the financial institutions and commercial banks to ensure that importance of building developmental perspectives and attitudes at all levels of their organisation is not lost sight of during the turmoil of the next decade. The tendency towards approaching problems of assisted units in a rigid manner without the necessary human touch will have to be internally discouraged and inclination towards becoming a "controlling authority" instead of a development bank will have to be organisationally thwarted.

Partners in Growth

The relationship between financial institutions and commercial banks on the one hand and industry on the other is presently showing signs of becoming one of mutual disenchantment. This relation will have to be set on a footing of mutual respect and confidence. A sense of partnership between industry and the financial system — a partnership in growth which existed in the sixties and seventies will have to be once again revived.

The financial institutions and commercial banks can and have to do a lot to foster such a partnership through resuscication of the development spirit. The industry and the industrialists on their part will also have to extend their hand by improving their credibility and image in the eyes of the institutions and banks. Much can be achieved on their part by adopting a professional approach to corporate problems, substituting managerial attitudes for misplaced sense of ownership and adopting a style of living and behaviour more in keeping with the ethos.

The development spirit and a sense of partnership can take this nation to greater heights and glories, which its people richly deserve.
