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**FINANCING PATTERN OF INDIAN FIRMS :
TEXTILES INDUSTRY**

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Abstract

This paper gives an account of the financing behaviour of the Indian corporate firms with special reference to the textiles industry in India during the period 1989-90 to 1996-97. It investigates whether the reforms introduced in the various segments of the financial market have exerted significant impact on the financing pattern of firms. First, it examines the financing behaviour of the aggregate sample of textiles firms during the reform period and compares that with the financing behaviour of the aggregate private manufacturing sector. Second, it examines the financing behaviour of different size-classes of textiles firms and analyses how far the liberalisation of the financial market has been successful in changing the pattern of finance in different size-categories. Third, it looks into the behaviour of internal vs. external sources of funds and securitised vs. other sources of funds. Finally, a brief account of the overall performance of the concerned firms is presented. The study finds two phases in the pattern of financing of working capital and fixed capital at the onset of the liberalisation process. The first phase witnessed a boom in the stock market and certain other sources of external funds, such as debenture. However, since then, the proportions of different sources of funds reverted to that of the pre-liberalisation period.

Financing pattern of Indian firms: textiles Industry

1. Introduction

The issues of financing pattern of corporate firms, choice of capital structure, the relationship between financing decision and investment decision, and more importantly the role of a particular pattern of corporate finance in industrial growth have acquired new importance in the context of financial deregulation in many developing countries such as India. Banks and financial institutions are the two major sources of finance for corporate firms in India. The commercial banks mainly provide short-term loans to meet the working capital requirements of the firms and other financial institutions mainly provide long-term loans to meet the fixed capital requirements. Banks and other financial institutions provide finance to specific projects taken up by the firms based on an analysis of the profitability of investment projects. The financial leverage and other financing decisions of firms are mostly norm-driven with guidelines of lending based on capital intensity of projects, importance of the project within national priorities, track record of the firms, average payback period and so on.

It is claimed that since the 1990s, with the onset of the liberalisation process, the financing pattern of Indian firms has significantly changed. Both the banking sector and stock market have undergone a number of reforms (RBI, 1991-92 and 1992-93). Before 1991 interest rates charged by banks were administered. The Reserve Bank of India stipulated the minimum lending rates on all loans disbursed by the commercial banks as well as the maximum interest rates on saving deposits and time deposits of various maturities. The structure of interest rates was influenced by the requirement of making bank credit available to the priority sectors such as small scale-industry, agriculture etc. at concessional rates of

interest. It was presumed that because of the stipulation of high Statutory Liquidity Ratio (SLR), commercial banks were forced to hold low-yield government securities, which reduced the availability of free funds in the hands of commercial banks for lending to the private sector. Cash Reserve Requirement (CRR) was also high in the previous regime. These, in turn, adversely affected the profitability of the banks. The low return on a large part of bank's portfolio of assets also limited the ability of the banks to pay higher interest on deposits. Activities of the money and capital markets were also separated before financial liberalisation. Banks were not allowed to invest in shares of private firms as part of their statutory holding of liquid assets (Bagchi, 1998).

The prevalent systems of administered interest rates, directed credit programme and various reserve requirements began to change with the onset of the liberalisation process during the 1990s. Following the recommendations of the first Narasimham Committee Report on financial sector reforms the government decided to reduce the preemption under the SLR as well as CRR requirements. It was decided to reduce the SLR over the three-year period from 38.5 per cent to 25 per cent (RBI, 1992-93). In the year 1997-98 SLR was set at 25 per cent (RBI, 1997-98).

In order to increase the availability of free funds of the banking sector for lending to the private sector, CRR maintained by the commercial banks has also been reduced. The stipulation that at least 40 per cent of bank credit extended by the commercial banks would be given to the priority sector was eased, especially for foreign banks. However, the proportion of bank credit to be set aside for the priority sector by the domestic commercial banks has been left unaltered although the RBI policy document contains a few proposals relating to the financing of small-scale industries, agriculture and exports. Domestic financial institutions which earlier enjoyed direct government support through government guaranteed bonds and Long Term

Operation (LTO) funds of RBI for their own funding are now compelled to tap the domestic capital market (RBI, 1997-98). Also as a move towards international accounting standards, a number of reform measures such as asset classification, provisioning and capital adequacy norms and income recognition were introduced since 1992-93.

The operation of the equity market (both primary and secondary markets) has also assumed a new importance in the context of recent liberalisation. The government has directly and indirectly encouraged the firms to mobilise more funds from the stock market. As a measure to encourage firms to raise more funds from the stock market, the government repealed the Capital Issues Control Act in May 1992. Firms have become more interested in mobilising funds from stock market and other sources of external funds like debenture, fixed deposits etc. As a measure to popularise the use of securitised instruments, a number of new tradable financial instruments (viz. zero interest fully convertible debentures, fully convertible cumulative preference shares, preference share with warrants etc.) with varying degrees of risk and maturity are introduced to satisfy the diverse and changing needs and preferences of investors (Misra, 1997). Consequently, the private corporate sector's ability to issue marketable securities has substantially increased.

Although firms in need of funds are mainly confined to the domestic market, since 1992 domestic companies have also been allowed to raise funds from international capital market through the instruments of Global Depository Receipts (GDR)¹ and Foreign Currency Convertible Bond (FCCB)² like Eurobonds. Domestic companies now have access to larger group of investors including foreigner and non-resident Indians. However, only a few big firms such as Reliance have so far been able to raise funds from the international market. Another significant development in the post-liberalisation period is that from May 1992 foreign

institutional investors (FIIs) were allowed to participate directly in trading shares in the stock market and over the years the limits to invest by the FIIs has been reduced (Bagchi, 1998). In fact, the investments by the FIIs exerted a significant impact on the movement of the stock prices in recent times.

Since the capital market has acquired a new importance, the Securities and Exchange Board of India (SEBI) has been delegated wide-ranging powers by the SEBI Act, 1992 and its various amendments to monitor the activities of various segments of the capital market. The SEBI took a number of measures for widening and deepening of the market. The reforms in the primary segment of the capital market were aimed at stimulating investor's interest in capital issues by strengthening norms and raising standard of disclosure. Reforms in the secondary market emphasized efficiency and transparency of the activities. Emphasis is now placed on better corporate governance (Nagaraj, 1996). The SEBI devised simplified procedures of floating new issues and issued separate guidelines for different market participants like brokers, merchant bankers, portfolio managers and so on.

In this paper, we have examined whether the reforms introduced in the various segments of the financial market during the 1990s had exerted significant impact on the financing pattern of firms. We have carried out this analysis with special reference to the textiles industry. The rest of the paper is organised as follows. In section 2, the objective of the study is discussed. In section 3, we have described the data sources and the methodology used. In section 4a, the overall financing behaviour of textiles firms is discussed. In section 4b, we have presented a comparative analysis of the financing behaviour of the textiles industry and the aggregate private manufacturing sector. In section 5, we have analysed the financing pattern of different size-classes of textiles firms. In section 6a, we have examined the

behaviour of internal sources of funds vis-à-vis external sources over the reform period. In section 6b, the behaviour of securitised sources of funds vis-à-vis other sources is scrutinised. In section 7, a brief account of the financial performance of the textiles industry is presented. Section 8 concludes the paper.

2. The issue: liberalisation and the financing pattern of the textiles industry

We have raised the following questions in this paper. How did the textiles firms finance their investment? Had the growth in capital market during the 1990s significantly altered the pattern of finance? Had the composition of external funds used by firms changed from sources of bank and financial institutions to other external sources such as equity capital, bond and debenture, commercial paper etc.? Did the firms rely more on the low-cost internal funds or move to the external sources of funds? We have examined these issues initially for the aggregate sample of firms and looked into the same for its different size-classes³ (See notes for the details of size-classes).

We have found that the size distribution of textiles firms in our sample is highly skewed. Concentration of smaller firms is much higher than the larger firms. The Indian textiles industry consists of handloom, power loom and the mills sector. Cotton, blended and man-made fiber materials of different qualities are produced which are finally used in the manufacture of cotton garments. In our sample, we have found that most of these firms produce cotton garments as their major products. One possible reason for the concentration of smaller firms in our sample is that in the apparel or cloth segment of the textiles industry, barring a few big firms, relatively smaller firms have dominated.

We have scrutinised whether any systematic pattern has emerged in the financing behaviour of the large and

small firms of the textiles sector with the introduction of the reforms program. There are some recent studies on the financing pattern of firms in the developing countries. Some of these studies (Athey and Laumas, 1994; Glen and Pinto, 1994; Ajit Singh, 1995, 1997) considered the top 100 firms or top 50 and mainly focused on the big firms. However, in this paper we have put emphasis on the financing behaviour of firms in different size-classes. We have also analysed the behaviour of investment, profitability, and interest payments etc. during the period under investigation.

3. Methodology and data

We have constructed a panel of 85 firms of the textiles industry in India. All the firms are listed in the stock exchanges and belong to the private manufacturing sector. The relevant data of all the firms is generated from PROWESS (version 3.0) database supplied by the Centre for Monitoring Indian Economy (CMIE). The data relating to the aggregate private manufacturing sector is collected from the Corporate Sector (1998) published by the CMIE. The major products produced by the companies selected include cloth, cotton and blended yam, synthetic fabric, woollen textiles, jute products etc. We have considered the period from 1989-90 to 1996-97 for this study.

We have computed the aggregate of each component of funds separately for the sample of firms. Similarly the aggregate of total funds⁴ is computed. The percentage of each component of funds in total funds is then computed separately for each year. This methodology is followed both for aggregate sample as well as for sample firms in different size-groups.

4a. The overall financing pattern

In this section, we have analysed the overall trends of financing of the textiles industry. This gives us an overview of the sequence of use of various sources of funds. The stock results (Table 2) revealed that textiles firms preferred internal funds to debt capital and debt capital is preferred to equity capital. In flow results (Table 1), we have found that in some years, particularly in the first half of the 1990s, textiles firms utilized debt sources to a larger extent than the internal sources of funds. In the latter half of the 1990s, however, firms preferred internal funds to debt capital. However, considering the entire period from 1990-91 to 1996-97, we have found that for the aggregate textiles industry, the corresponding percentages of internal funds, debt capital and equity capital are approximately 43, 33 and 7 respectively. This behaviour of overall financing is consistent with the predictions of the pecking order theory of finance (Myers, 1984). The pecking order theory of finance posited that firms first prefer internal funds, and then use debt sources and equity sources are used only as a last resort. At least three reasons can be given for why this kind of sequence may fit quite well with the firms in developing countries such as India. Firstly, there might be restrictions on the volume and price of new issues that pose effectively as a tax towards issuing shares. Secondly, with an administered interest rate structure, after-tax cost of debt might be lower, leading to a bias towards debt. Thirdly, with the commitment of the government towards directed credit programme, there might be a pre-disposition towards debt. However, we have found the same sequence in financing behaviour in our study even when reforms were introduced in financial markets. Various restrictions on issuing shares were lifted, interest rates were allowed to be determined by market forces and firms had options to choose among more sophisticated set of financial instruments. However, these measures did not significantly

alter the overall behaviour of finance.

Regarding the stability of different components of funds during the liberalisation period, we have found that stock values of different components of funds remained stable. However, the flow results have shown dissimilar behaviour across the years. As far as traded securities are concerned, the study revealed that firms raised relatively higher proportions of funds from bond and debenture than from equity capital. Equity capital accounted for less than 10 % of total funds in all the years during the reform period. Bank borrowing and institutional borrowing together constituted a larger share of total external funds. Other components of external funds such as foreign borrowing, fixed deposits etc. steadily decreased over the reform period.

4b. Textiles industry and the aggregate manufacturing sector: a comparative analysis of the financing behaviour.

Comparison of the financing pattern of textiles firms vis-à-vis the private manufacturing sector revealed that the overall growth rates of different components of funds recorded by our sample of textiles firms are higher than those recorded by the private manufacturing sector (Table 3). The year 1993-94 experienced a boom in the Indian stock market. Both textiles firms as well as firms in the private manufacturing sector mobilised noticeable amount of funds from new issues market. In the first half of the 1990s, despite the stock market scam of 1992, firms raised significant amount of funds from new issues market (Table 2). However, in the latter half of the period under investigation, it significantly declined. We have found similar results for the aggregate private manufacturing sector.

The rates of growth of incremental bank borrowing and incremental institutional borrowing reached the peak levels of 46.2 % and 36.5 % in 1995-96 and 1996-97

respectively. However, in comparison, the corresponding peak average values recorded by the aggregate private manufacturing sector were much smaller (18 % and 12.2 %) than those recorded by our sample of firms. Looking at the growth rates during the entire period 1990-91 to 1996-97, we have found that both incremental bank borrowing and incremental institutional borrowing were more than double the corresponding growth rates recorded by the aggregate manufacturing sector (See Table 3).

The behaviour of the flow of bank borrowing and institutional borrowing need careful analysis. In particular, the years 1991-92, 1993-94 and 1996-97 had drawn our attention because these were the worst affected years as far as incremental bank borrowing is concerned. The implications for this slowdown in incremental bank borrowing are, however, different in different years. While the general macro-economic environment in the year 1991-92 was crisis-ridden and the reasons of the fall in borrowing from banks were mainly supply-driven, the problems in 1996-97 were mainly associated with adverse demand conditions in the credit market. In the early years of the 1990s there were problems of a very high level of inflation and a large budget deficit. The credit and monetary policy of the Reserve Bank of India (RBI) aimed at restraining the expansion of money and credit. In 1991-92 the SLR and CRR were kept at very high levels of 38.5 % and 15 % respectively (RBI, 1991-92). Interest rates on all categories of bank loans were raised. The stringent credit policy pursued by the RBI in October 1991 severely affected the bank borrowing by the firms. Our study of textiles firms has revealed some of the implications of these tight credit policies. We have found that incremental bank borrowing recorded by our sample of firms in 1991-92 significantly declined to 9.1 % from 19.3 % in 1990-91 (Table 2). Similar result was found in the case of the aggregate manufacturing sector.

However, as a move towards liberalisation, the Reserve Bank of India (RBI) relaxed the policy of interest rate determination since October 1994. Commercial banks were given freedom in determining the lending rates on loans exceeding 0.2 millions. Since October 1995, commercial banks were also given the freedom to determine the rates of interest on loans disbursed against term-deposits of both domestic as well as non-resident rupee accounts (RBI, 1996-97). Given these series of policy measures, prime-lending rate of commercial banks increased from 14.5 % in October 1994 to 16.5 % in November 1995. However, during the period 1994-95 to 1995-96, incremental borrowing from banks increased significantly (Table 1). We have found similar results in the case of the aggregate manufacturing sector (Table 3). Thus, the efforts to channelise a greater amount of the banking sector's resources to the private sector through reducing the SLR and allowing the interest rate to be determined freely have exerted significant impact on the borrowing.

However, the year 1996-97 again experienced general slowdown in incremental borrowing from commercial banks. The reasons for this slowdown were, however, different. Again the official intervention in the credit market was quite significant. In order to increase the banking sector's ability to generate loan able funds for the private sector, the RBI reduced CRR by 1 % in July and again in November 1996 by 1 %. Lending rates of commercial banks also declined a range of 14.5 % and 15.5 %. However, paradoxically enough, bank credit during 1996-97 did not increase even if deposits in commercial banks as well as broad money supply significantly increased. How did this happen?

The year 1996-97 was characterized by adverse shocks both on the supply and demand sides of the market for bank finance. Although SLR was significantly cut as a part of expansionary monetary and credit policy, since 1993

banks held government and other securities far in excess of SLR requirements. The RBI estimates revealed that by the end of March 1996, the banking sector held government securities to the tune of Rs.25000 crores. Furthermore, till February 1997 banks invested 51.3 % of incremental deposits in government securities (Rakshit, 1997). Thus, even if the banks had additional resources in their hands, they did not provide loans to the private sector. The alternative explanation of this higher investment of additional resources of the banking sector in government securities is the lack of sufficient demand for loans from the corporate sector.

In order to identify the dominant shock in the market for bank finance, it was necessary to examine the behaviour of prime lending rates of banks and yield on government securities. We have plotted the yield on government securities and PLR and observed that average yield on government securities declined during April 1996 and March 1997 (Figure 1). We have also observed that PLRs during the same period more or less declined. Also between 1995-96 and 1996-97, the differential between yield to maturities (YTM) and PLR increased considerably. The important point to note is that despite the fall in the yield of government securities, banks held these additional securities. Also incremental bank credit declined in the face of downward adjustment of PLR. Government borrowing from the banking sector also declined in the face of a decline in the average interest rate of government securities. These phenomena explained the dominance of a negative demand shock over the negative supply shock in the market for bank finance in 1996-97.

Rakshit (1997) argued that the dissimilar behaviour of different rates of interest made it difficult to identify the dominant shock. While interest rates on government securities are market clearing, the prime lending rates of commercial banks adjust slowly to the market forces. These

characteristics of the market for bank finance together with the autonomous nature of the government-borrowing program suggested the dominance of a negative demand shock in the market for bank finance over the adverse disturbances on the supply side.

Bhaumik and Bandopadhyaya (1997) also tested the hypothesis that the credit market was supply constrained against the alternative that it was demand constrained. Using the monthly data during the period of July 1995 and June 1996, they estimated the probabilities of the hypothesis that actual credit disbursement was equal to the demand for credit. They found that the so-called credit crunch arose as a consequence of the lack of adequate demand for credit as opposed to the credit rationing by the banks. Incremental institutional borrowing, another component of debt capital, registered a sharp decline in the first two years after reforms were introduced in the financial sector. We have already pointed out that domestic term lending institutions earlier enjoyed direct government support through government guaranteed bonds. By issuing SLR bonds, financial institutions borrowed funds from commercial banks and provided long-term funds to the corporate firms. Moreover, these financial institutions enjoyed support from Long-term Operations Funds (LTO) of the RBI. However, these implicit subsidies were phased out and they were compelled to tap the capital market for their own funding. Financial institutions, faced with resource crunch, were forced to curtail their lending in long-term projects. Moreover, some of the DFIs both in the public sector as well as the private sector such as IDBI, ICICI etc. started retail banking like scheduled commercial banks in order to mobilise more and more funds. All these factors led to an increase in the cost of borrowing from financial institutions. This is another reason why the importance of internal funds and other securitised instruments such as debenture, fixed deposits etc. increased considerably in the post-liberalisation period.

We have also computed the simple correlations of different components of funds for the aggregate sample of firms over the period 1990-91 to 1996-97. The stock and flow results are quite different in some cases (in terms of both sign and value) while we get similar results in other cases. We have found that funds raised from new issues market have positive and very weak correlations with both incremental bank borrowing and institutional borrowing (Results are not reported in Tables). This result also holds for stock series. Thus rates of growth of bank borrowing and institutional borrowing are closely connected with the behaviour of capital market. The correlations between retentions, and other components of funds have shown completely different results for stock and flow series. For the stock series, we have very high and negative correlations with equity capital and borrowed funds from banks and financial institutions. To sum up the main points of this section, the above analysis has revealed that firms were still dependent on banks and financial institutions to a large extent as far as funding from external sources was concerned. Comparison of the financing pattern of our sample of textiles firms and the aggregate manufacturing sector revealed that mobilisation of funds from different sources by the textiles firms are higher than that of the aggregate private manufacturing sector.

5. Results for different size-classes

One significant finding of this study is that in the years when the market for primary securities was active, the access of the smaller firms to the stock market significantly increased. This phenomenon is particularly noticeable in the last two categories of the smaller firms. The proportion of funds raised from the primary market significantly increased between 1992-93 and 1993-94, both for the aggregate private manufacturing sector and for the textiles industry.

One possible reason for this sudden upsurge in new issues market was the repeal of Capital Issues of control Act in May 1992, which lifted the barriers of entry of firms into the stock market. Besides, as a move towards liberalisation of the capital market, market forces determined pricing of new issues. This resulted in mobilisation of more funds. Moreover, the relative cost of equity capital has fallen significantly as a result of a significant rise in share prices. These facts together with the rise in the cost of debt capital, made equity issues relatively more attractive for financing corporate growth.

However, since 1995-96 a recession started in the primary stock market. This has been reflected in the current study of textile firms (Fig 2). Incremental funds raised from the primary market went down significantly in 1995-96 in all the different size-classes of firms. During 1996-97, funds raised from the primary market declined in the relatively larger size-classes. However, contrary to expectations, smaller firms raised a larger proportion of funds from new issues market than the larger ones. The smallest group of 22 firms in our sample raised as much as 32.9 % from new issues market as compared to the very low figure of 0.56 % raised by the largest group of 11 firms.

It would appear that increase in dependence on the stock market on the part of the small and medium size categories of firms even in the face of bearish conditions of the stock market in the latter half of the 1990s occurred due to the adverse conditions in the credit market. With the increase in the PLR, the cost of debt capital increased. This was coupled with the curtailing of the availability of credit from banks and financial institutions. In fact, small and medium categories of firms were forced to tap the stock market and other securitised sources.

The most important reason for this significant slowdown in the stock market during the period 1995-96 and 1996-97 is the fall in demand for industrial securities. This

happened because of the withdrawal of retail investors from the market. Many of the companies, which were listed during 1991-94 and floated issues, raised funds and then disappeared from the market. An estimated 30-40 % of the companies, which were floated in the years of stock market boom, have disappeared from the market (Gupta, 1998). In our study of textiles firms, we have also found that some of the companies in smaller categories (for example, Sterlite Projects Ltd.), which existed in the database and are selected in our sample, have now disappeared. Some companies, which appeared as separate entities in our original set, are now found to be merged with some other companies (for example, Surat Textiles Ltd.). These phenomena led to a significant erosion of confidence of the investors community in corporate management and demand for corporate securities declined substantially.

Another finding of this paper is that incremental bank borrowing by the relatively smaller firms increased considerably over the period from 1990-91 to 1996-97 as compared to that of the larger firms. The year 1995-96 was identified as the year of substantial growth in the flow of bank borrowing in most of the size-classes. It is evident from the coefficient of variation of incremental bank borrowing that the within-class variation over the liberalisation period is larger in relatively larger size-classes of firms than that of their smaller counterparts. Incremental institutional borrowing, on the other hand, decreased in the relatively larger size-classes. The incremental borrowing from financial institutions in 1995-96 decreased substantially in all the size-classes. Coefficient of variations of incremental borrowing from financial institutions is larger in larger size-classes and smaller in smaller size-classes. Within-class variation is found to be the lowest in 1991-92 and the highest in 1996-97.

The behaviour of incremental fixed deposits across different size-classes revealed that in 1991-92, 1994-95 and 1996-97, it significantly decreased in most of the size-

classes. However, within-class results revealed that it decreased in the relatively smaller size-classes in all the years under investigation (Table 4).

Use of bonds and debenture within size-classes revealed that the years 1991-92 and 1995-96 registered significant increase in all the size-classes. These two particular years experienced significant slowdown in the stock market. Firms failed to generate adequate amount of funds from the stock market. This, in turn, motivated firms to search for alternative sources. Bond and debenture in this regard was found to be very useful. Coefficient of variation shows that in the first four years during the 1990s, inter-class variation of incremental bond and debenture increased (Table 4). However, intra-class variations are much erratic.

Relatively smaller firms used inter-corporate loans to a greater extent than the larger firms. Within-class variation of inter-corporate loans during the entire period under investigation is found to be much smaller in the relatively smaller categories of firms (Table 4). However, we have found wide variations across the size-classes.

Commercial paper did not appear to be a significant source of funds for the textiles industry. Foreign funds were also not an important source of finance. Only the larger firms in our sample tapped this source. Although since 1993-94 inflows of foreign funds in the Indian economy in the form of foreign direct investment as well as portfolio investments significantly increased and occupied central stage in external development, the current study of textiles firms does not throw much light on that.

The above analysis of the effects of reforms in the capital market on the financing behaviour of firms has revealed certain important issues. We have observed that firms raised a larger percentage of funds from bond and debenture than equity capital in all the years under investigation. This finding holds good for the aggregate textiles industry as well as its different size-classes. In both

stock as well as flow series, we have similar results. Another finding of this study is that during the period under review, smaller firms in our sample increased their use of equity capital to a greater extent than the larger firms. In the latter half of the period, however, smaller firms mobilised funds much more from bond and debenture than from equity capital.

6a. Internal vs. external funds

In this section, we have analysed the behaviour of internal sources of funds⁵ vis-à-vis external funds (Table 6). Internal funds play an important role in the financing decision of corporate firms particularly when firms face problems in mobilising funds from external sources. These problems relate to various kinds of regulations imposed by the government on the operation of the capital market, various imperfections in capital market such as asymmetric information among market participants, transactions costs and managerial agency problems. It is argued that with the ongoing process of reforms in the financial sector, earlier restrictions on the operations of the various segments of the financial market have been eased. It was presumed that this would increase the importance of the external sources of funds in corporate financing decisions and reduces the pressure on the internally generated funds. We have scrutinised the relative importance of internal sources and external sources over the reform period.

Movements of incremental internal funds and incremental external funds for the textiles industry as a whole are shown in figure 3. The graph shows that since 1994-95, use of internal funds by textiles firms increased significantly. This result is also found to hold for firms in different size-classes, which is shown in figure 4. As far as different components of internal funds are concerned, we have found that retained earnings dominated depreciation in the latter

part of the period. However, in the initial years depreciation shared larger percentages than retained earnings (Table 2).

In the later half of the 1990s, however, the firms faced a severe problem in raising funds from external sources mainly because the firms could not generate adequate funds from banks and financial institutions. We have already pointed out that banks, even though flush with funds, preferred government securities rather than extending loans to the corporate sector. Loans from financial institutions also decreased due to the paucity of their own resources. On the other hand, due to the general slowdown of the stock market firms also could not generate adequate funds from the stock market. These phenomena, in turn, motivated firms to rely on low-cost internal sources.

As far as different size-classes are concerned, we have found that the use of internal funds in the latter half of the 1990s increased in all the size-classes. This happened not only because of higher retention by firms but also for the increased use of depreciation. Coefficients of variation revealed that intra-class variations are much more erratic in case of retained earnings than depreciation. Retained earnings showed higher inter-class variation than depreciation.

The flow of external funds, on the other hand, smoothly increased in smaller size-classes. Borrowing from banks and financial institutions constituted the major components of external funds in all the size-classes. Equity capital and debenture are the other two important sources of external funds. However, incremental funds raised from issue of bonds and debenture is much more erratic in different size-classes than that of new issues of share. In the years of recession in the stock market particularly during the latter half of the 1990s, larger firms in the sample have shown a greater tendency to use debentures and inter corporate loans than the smaller firms. In 1996-97, funds raised through issue of debenture substantially increased in the first two

size-classes of firms and became negative in the relatively smaller size-classes of firms.

6b. Securitised sources of funds vs. other sources

Another related aspect of the financing of firms is to analyse the relative importance of securitised⁶ sources of funds vis-a-vis other sources. Generally, firms in a country like India rely more on the borrowed sources of funds mainly banks and financial institutions. The main reason for this general financing trend of firms is the absence of a well-developed market for traded financial instruments. Even if such a market is operational, not all categories of firms could afford to enter these markets for the purposes of raising funds. One of the most important reasons for this is the very high cost of transaction in traded securities. This posed problem particularly to the smaller firms.

During the 1990s, attempts have been made through various government policies to develop the market of securitised financial instruments. We have already pointed out that Capital Issues Control Act has been repealed in order to encourage all categories of firms to raise more and more funds from the stock market. Apart from that, a number of new financial instruments like certificate of deposits, commercial paper etc. have been introduced.

In the current study of textiles firms, we have found that incremental funds generated from securitised sources accounted for merely 19 % on an average over the period 1990-91 and 1996-97 implying the dominance of non-securitised sources. Variation within size-classes revealed that in the initial years of reform, textiles firms substantially increased their use of securitised instruments of funds. Variation across different size-classes showed that in 1991-92, use of securitised sources increased substantially in all the size-classes particularly because of increased use of debenture. Between 1995-96 and 1996-97, larger firms

increased their use of securitised sources. On the other hand, relatively smaller firms relied more on other sources of funds. The most possible reason for this is the larger use of new loans from banks and financial institutions (Table 5)

Debt-equity ratio

During the 1990s, the debt-equity ratio, in general, witnessed a sharp decline implying increased preference of the corporates for equity financing. In the last decade, Indian companies experienced a relatively high debt-equity ratio, which was the consequence of free pricing of equity issues, high corporate tax rates, and the lack of adequate depth of capital market. However, financial sector reforms have brought about a considerable change in all these respects. The free pricing introduced in 1992 had a profound impact on the equity market. During 1992-95, the Indian firms relied more on capital market than banks and financial institutions. However, this trend reversed in the late 1990s, which led to an increase in the debt-equity ratio. However, the entire post-reform period has experienced a decline in debt-equity ratio although there was a marginal reversal of the trend in recent years.

In our current study we have found that incremental debt-equity ratio for the textiles industry as a whole in the latter half of the 1990s increased compared to that in the initial years of reform. It recorded lowest (0.97) in 1993-94 and highest (32.59) in 1995-96 (Results not reported). During the period 1990-91 and 1992-93, incremental debt-equity ratio decreased from 14.84 to 5.22.

As far as the different size-classes are concerned, we have found that only during 1994-95 and 1995-96, debt-equity ratio noticeably increased in most of the size-classes. However, looking at the general trend of the incremental debt-equity ratio across different size-classes, we have found that in most cases it decreased. With cost of debt increasing

sharply during the reform years, it was clear that textiles firms turned to the securitised sources of finance such as equity capital, debenture, commercial paper etc. During the period 1992-93 to 1994-95, when the stock market was booming, intermediated debt was increasingly replaced by equity (and debenture). Khanna (1999) has pointed out that the large issue of overpriced equity and the subsequent shift in capital structure has deleterious impact on Indian firms as it diluted the earning per share (eps) and reduced the value of firms.

7. Analysis of company performance

In this section we have presented a summary account of the behaviour of investment, profitability and other characteristics of firms and examined how these performance indicators varied across firms of different size-categories. We have computed the average values of the selected variables over the entire period from 1990-91 and 1996-97 for the aggregate sample of firms as well as for five sub-samples that we have defined. Investment is defined as the change in gross fixed assets. We have computed the rate of growth of sales and gross fixed assets, which are very often considered as the indicators of corporate growth.

Growth of industry measured by growth of sales revealed that average textiles firms grew at about 13 per cent pa during the reform period. Turning to the size-categories we observed that with the fall in the size of firms, rate of growth of sales increases. This particular finding would possibly suggest that smaller firms of the industry are found to be more growth-oriented, than the larger firms during the reforms years (Table 7).

The above results are consistent with the financing pattern of textiles firms that we have analysed in previous sections. One important finding of this study is that greater access of the smaller firms to the external sources of funds particularly long-term funds such as equity capital resulted in

higher growth of fixed assets. This in turn, resulted in higher sales turnover.

We have also expressed investment, net profit and sales relative to the capital stock in the current period. We found that these variables are inversely related to the firm size in most of the size-classes. We found that higher investment by the smaller firms of the textiles industry resulted in higher volume of sales and also higher profitability. However, the rates of return on net worth and net assets are fluctuating across the size-groups. The dividend payout behaviour is also found to be erratic across size-classes. However, the larger firms in our sample have a tendency to pay higher dividends as compared to the smaller firms.

We have also analysed the behaviour of interest payments on debt, which is very often used as an indicator of the ability of the firms to meet their financial obligations. We have observed that aggregate interest payments on debt are smaller in case of smaller firms than in case of the larger firms. We have also found that interest payments on both short-term loans and long-term loans are directly related to the firm size. We have found that both short-term interest and long-term interest hover around 3 % of total sales. However, interest paid on long-term debt is higher than interest paid on short-term debt in case of larger firms.

Payments of short-term interests and long-term interests revealed that textiles firms were more concerned about servicing their long-term debts than short-term debts. This result holds good for aggregate sample of firms and firms of larger size-classes. We have already found that firms used more long-term loans than short-term loans. Thus firms used more long-term loans and the interest payments on these loans are also higher. Another finding of this study is that total debts (in flow terms) in proportion to total net assets (in flow terms) are inversely related with size (Table 7).

8. Concluding Remarks

This paper attempts to advance our understanding of the financing of the corporate firms in India during the reform period, with special reference to the firms of the textiles industry. One general observation of this study is that the liberalisation of the financial sector and the expansion of the stock market during the 1990s initially had a significant impact on the financing pattern of firms in some particular years. The new issues on the stock market, whether ordinary shares, or debenture have made significant contribution in the initial years of reform. However, in the latter half of the 1990s, this contribution declined. The stock and flow results of financing behaviour of textiles firms, however, differed in most cases.

Another finding of the study is that the overall rates of growth of most of the components of external funds such as equity capital, bank borrowing, institutional borrowing etc. in flow terms during the period 1990-91 and 1996-97 are found to be much higher for our sample of firms than the corresponding growth rates recorded by the aggregate private manufacturing sector.

Results in different size-classes revealed that the access of the smaller firms to the stock market substantially increased during the post-liberalisation period. Banks and financial institutions constitute the major sources of funds for both large and small firms. We also found that in the latter half of the 1990s, the mobilisation of internal funds increased. The financial performance of the smaller firms was, interestingly enough, much better than that of the larger groups of firms.

However, the general impression is that the deregulation of the financial sector has created uncertainty on the part of the firms about how much funds to be sourced from banks and other external sources such as equity capital, debenture etc. One major objective of the financial

sector reforms was to introduce stronger competitive elements in the economy by the lifting the restrictions on the various segments of the financial market and thereby channelising more and more funds to the industrial sector. However, the reforms did not significantly alter the financing behaviour of firms. In our study of textiles firms, we did not find any noticeable trend of change in the financing pattern. In some years, some components of funds appeared to be significant. However, these appeared to be insignificant in other years.

Thus various measures of deregulation in the financial sector have adversely affected the ability of the industries to adjust to the deregulated environment. With the cost of debt rising sharply, firms were compelled to rely on the securitised sources of funds. On the other hand, with an apparent increase in the degree of risk-averseness of banks, they became more reluctant to lend to firms when such lending involved perceptible risk. These have, in turn, created greater uncertainty in the corporate firms' financing behaviour.

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Table 1

Incremental sources of Funds of the Textiles Industry, 1990-91 to 1996-97

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	C.V.
Equity Capital	3.37	3.07	9.91	16.37	9.94	1.99	3.23	(0.78)
Bank Borrowing	19.25	9.11	14.67	-0.49	19.28	46.22	-13.69	(1.39)
Institutional Borrowing	23.07	23.84	14.01	8.09	29.61	3.72	36.47	(0.59)
Foreign Borrowing	0.26	0.65	-0.25	-0.20	0.33	-0.79	-2.27	(3.02)
Fixed Deposits	0.14	-1.61	-0.13	-0.44	1.68	0.31	-4.67	(2.99)
Debtenture	4.48	19.55	23.71	6.20	2.39	8.30	21.87	(0.73)
Corporate Loans	1.70	0.91	0.64	4.30	2.13	1.69	9.00	(1.01)
Commercial Paper	-	-	0.05	5.91	-1.19	-2.23	4.74	-
Other Borrowings	1.09	3.70	-0.86	-1.65	5.12	5.34	-5.95	(4.21)
Internal Funds	46.64	40.77	38.24	61.90	60.61	35.46	51.28	(0.24)

Source: Prowess database (CMIE).

Note: Sample based on 85 firms.

Table 2
Sources of Funds of the Textiles
Industry*, 1989-90 to 1996-97
(Percent of total funds)

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Equity Capital	6.43	5.92	5.32	5.79	6.49	6.68	6.03	5.93
Bank Borrowing	14.71	15.50	14.10	13.78	11.21	11.90	15.63	14.35
Institutional Borrowing	12.27	14.12	15.14	14.56	12.77	14.90	13.38	14.52
Foreign Borrowing	0.53	0.49	0.50	0.38	0.29	0.28	0.15	0.04
Fixed Deposits	2.97	2.49	1.81	1.50	1.18	1.19	1.07	0.81
Debtenture	9.32	8.51	9.89	11.47	10.04	8.04	6.94	8.62
Corporate Loans	0.49	0.70	0.71	0.68	1.02	1.15	1.19	1.56
Commercial Paper	-	-	-	0.01	0.64	0.29	-	0.22
Other Borrowings	28.08	28.10	28.23	27.24	25.20	21.99	21.85	24.01
Depreciation	22.29	21.57	21.61	22.45	29.60	31.49	30.33	27.88
Retained Earning								

Source*: Same as in Table 1. Sample based on 85 firms.

Note : The coefficients of variation (cv) for the different components of funds are 0.07, 0.11, 0.07, 0.53, 0.46, 0.13, 0.38, 0.19, 0.10 and 0.17 respectively except for commercial paper.

Table 3
Summary account of developments in the financing of
sample of firms and the aggregate private
manufacturing sector
(in per cent)

	Sample of firms			Aggregate manufacturing sector*		
	Overall growth between 1990-91 & 1996-97	Highest growth (1993-94)	Growth in 1996-97	Overall growth between 1990-91 & 1996-97	Highest growth	Growth in 1995-97
Equity Capital	7.14	16.4 (1993-94)	3.2	6.1	10.2 (1993-94)	3.4
Bank Borrowing	17.70	46.2 (1995-96)	-13.69	11.2	19.1 (1995-96)	13.4
Institutional Borrowing	19.29	36.5 (1996-97)	36.5	10.6	14.8 (1991-92)	13.8
Fixed Deposit	-0.12	1.7 (1994-95)	-4.7	0.5	1.1 (1996-97)	1.1
Foreign Borrowing	-0.12	0.65 (1991-92)	-2.27	nav	nav	Nav

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Condid.. table 3

Deben ure	10.39	23.7 (1992-93)	21.9	6.4	10.3 (1993-94)	6.2
Interna Funds	40.82	61.90	51.28	27.7	36.0 (1990-91)	28.0
Retained Earnings	13.75	32.8 (1993-94)	16.62	13.0	17.5 (1995-96)	10.4
Depreciation	27.80	67.9 (1996-97)	67.9	14.7	21.4 (1990-91)	17.4

Source : Corporate sector (1998), CMIE.

Note : (1) All these results are expressed in flow terms and in relation to total funds where total funds include total external funds and total internal funds.
 (2) Internal funds include retained earnings and depreciation.
 (3) NAV indicates not available.

Table 4

Incremental sources of funds of the textiles industry in different size-classes,
1990-91 to 1996-97 (per cent of total funds)

Value in crs.	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	C.V.
Equity Capital:								
>80	4.93	1.31	14.04	25.96	10.89	0.98	0.56	(1.11)
40 to 80	1.52	4.00	4.60	3.52	8.83	1.26	0.008	(0.86)
20 to 40	1.40	4.18	1.41	11.01	8.52	4.58	0.008	(0.91)
10 to 20	2.44	2.22	7.54	13.61	9.06	3.76	5.95	0.64
<10	2.27	10.73	16.64	20.94	10.50	3.28	32.29	(0.76)
C.V.	(0.57)	(0.82)	(0.72)	(0.58)	(0.11)	(0.57)	(1.79)	
Bank Borrowing:								
>80	16.70	10.40	10.17	-26.81	14.66	62.00	-63.06	(3.23)
40 to 80	31.00	-1.53	15.39	22.68	14.20	36.10	-27.29	(11.37)
20 to 40	18.40	17.73	16.76	9.90	44.24	53.31	67.56	(0.68)
10 to 20	15.54	9.02	21.49	10.54	20.32	23.00	36.76	(0.47)
<10	21.33	-2.41	17.80	21.26	16.95	14.88	73.08	(1.01)
C.V.	(0.30)	(1.28)	(0.25)	(2.67)	(0.57)	(0.52)	(3.45)	

Contd....

Contd...table 4

Value in crs.	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	C.V.
Institutional Borrowing:								
>80	19.09	16.35	9.04	3.13	39.03	-8.00	64.01	(1.19)
40 to 80	36.61	26.89	9.04	16.05	31.97	22.02	-23.39	(1.18)
20 to 40	21.46	33.88	22.74	10.67	-7.14	-9.59	27.71	(1.19)
10 to 20	25.30	26.20	6.99	14.60	31.39	27.14	8.43	(0.49)
<10	19.26	36.34	34.62	-14.25	24.21	11.08	69.37	(0.99)
C.V.	(0.29)	(0.28)	(0.72)	(2.05)	(0.76)	(1.97)	(1.32)	
Fixed Deposits:								
>80	-0.51	-5.42	-2.58	0.86	3.63	-0.67	-9.70	(2.13)
40 to 80	0.44	7.84	17.28	-8.47	-0.31	5.45	-1.64	(2.79)
20 to 40	0.53	0.58	0.17	1.03	-0.020	-2.03	1.35	(4.78)
10 to 20	0.35	0.29	0.21	0.98	-0.18	0.08	0.22	(1.27)
<10	4.20	-0.12	-0.70	2.48	1.21	1.41	-2.28	(2.42)
C.V.	(1.83)	(7.45)	(2.82)	(7.10)	(1.92)	(3.37)	(1.79)	

Contd...

Contd.. table 4

Value in crs.	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	C.V.
Debtenture:								
>80	4.99	31.88	29.67	5.57	-3.27	2.60	58.05	(1.20)
40 to 80	2.68	7.64	-4.28	25.13	15.83	5.65	12.51	(1.03)
20 to 40	6.57	5.53	22.75	6.74	6.23	19.28	-30.03	(3.28)
10 to 20	2.77	6.01	28.28	-3.15	-3.75	8.81	-0.19	(1.99)
<10	3.10	18.59	1.09	-8.62	26.34	30.95	-64.26	(31.31)
C.V.	(0.42)	(0.82)	(1.03)	(2.5)	(1.56)	(0.86)	(9.60)	
Corporate Loans:								
>80	2.03	-1.00	1.34	3.30	1.30	-2.26	18.20	(2.09)
40 to 80	-0.60	1.19	2.19	0.64	0.10	-0.072	3.99	(1.49)
20 to 40	2.56	1.37	0.42	5.94	8.99	-5.712	-4.24	(3.91)
10 to 20	2.38	5.17	-1.07	7.55	2.47	0.66	0.57	(1.17)
<10	2.03	2.84	0.42	2.82	0.49	6.23	6.65	(0.81)
C.V.	(0.77)	(1.21)	(1.84)	(0.67)	(1.37)	(18.97)	(1.67)	

Contd....

Condit., table 4

Value in crs.	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	C.V.
Depreciation:								
>80	29.09	33.57	34.50	44.16	17.20	22.35	68.40	(0.47)
40 to 80	15.41	26.01	50.02	20.44	10.51	33.35	90.72	(0.78)
20 to 40	21.27	22.36	22.83	22.63	21.75	67.36	83.23	(0.71)
10 to 20	23.54	23.96	17.25	16.98	12.38	19.57	42.10	(0.43)
<10	23.82	14.80	20.83	26.59	8.32	13.21	88.18	(0.98)
C.V.	(0.21)	(0.28)	(0.46)	(0.41)	(0.39)	(0.69)	(0.29)	
Return on Earning:								
>60	19.90	7.50	7.36	44.33	14.97	14.80	-33.36	(2.15)
40 to 80	15.32	22.35	7.47	21.14	14.57	0.86	10.75	(0.57)
20 to 40	27.00	9.60	6.40	20.36	12.56	-29.23	-5.03	(3.12)
10 to 20	28.49	25.93	18.17	33.12	21.91	17.51	13.72	(0.30)
<10	29.13	17.65	9.66	37.19	13.13	11.69	-93.08	(12.09)
C.V.	(0.25)	(0.48)	(0.49)	(0.33)	(0.24)	(6.12)	(2.07)	

Source : Same as in Table 1.

Note : The classifications of firms in different size-classes are based on the value of plant and machinery in 1989-9. C.V. stands for Coefficient of Variation.

Table 5

Securitized sources of funds in different size-class,
1990-91 to 1996-97
(per cent of total funds)

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Value in crs.								
Industry:	-	7.99	21.01	33.54	28.04	12.91	8.36	25.16
>80	-	9.42	27.77	41.13	46.34	9.42	-0.84	58.92
40 to 80	-	4.64	19.48	17.60	20.17	25.39	10.36	10.88
20 to 40	-	8.50	10.30	25.58	20.90	0.31	21.83	-28.68
10 to 20	-	5.55	8.52	36.02	13.52	3.94	12.65	5.98
<10	-	9.57	29.20	17.03	14.80	38.05	35.64	-34.25

Source : Same as in Table 1.

Note : 1 Classification of firms in different size classes is same as in table 4.

2 By securitized sources we mean the aggregate of the following:

a) new issues, b) flow of debenture, fixed deposit and commercial paper.

Table 6
Movement of incremental internal funds of the textiles industry
(per cent of total funds)

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Internal Funds:								
Industry:	-	46.64	40.77	38.24	61.90	30.61	35.46	52.28
Size-class:								
>80	-	48.99	41.08	41.86	88.50	32.17	37.15	35.04
40 to 80	-	30.73	48.36	57.49	41.58	25.48	34.22	101.47
20 to 40	-	48.27	31.97	29.23	42.99	34.31	38.13	78.20
10 to 20	-	52.03	49.89	35.42	50.10	34.29	37.07	55.82
<10	-	52.95	32.46	30.48	63.78	21.45	24.89	-4.90

Source : Same as in Table 1.

Note : Size classifications are same as in table 4.

Table 7

Summary statistics of the important performance
variables of textiles industry
1990-91 - 1996-97

(in per cent)

	Aggregate sample	Sample 1 (largest)	Sample 2	Sample 3	Sample 4	Sample 5 (smallest)
Growth of sales (at current price)	12.98	9.72	16.30	17.09	18.88	15.95
Investment/capital stock ¹	14.57	12.75	14.63	15.19	18.21	21.86
Net profit/capital stock	3.98	3.44	3.92	4.01	6.98	4.73
Sales/capital stock	14.45	9.72	20.30	19.29	22.58	22.42
Net profit/net worth	49.33	44.84	60.50	50.17	58.98	40.60
Net profit/net assets ²	22.47	22.20	22.84	17.68	28.68	17.23
PBT net assets ³	27.52	25.48	35.21	25.08	32.03	22.43
Interest/Sales	6.96	7.60	6.50	6.30	6.43	6.56
Interest/dcbt ⁴	95.54	106.49	90.53	103.30	76.22	65.56

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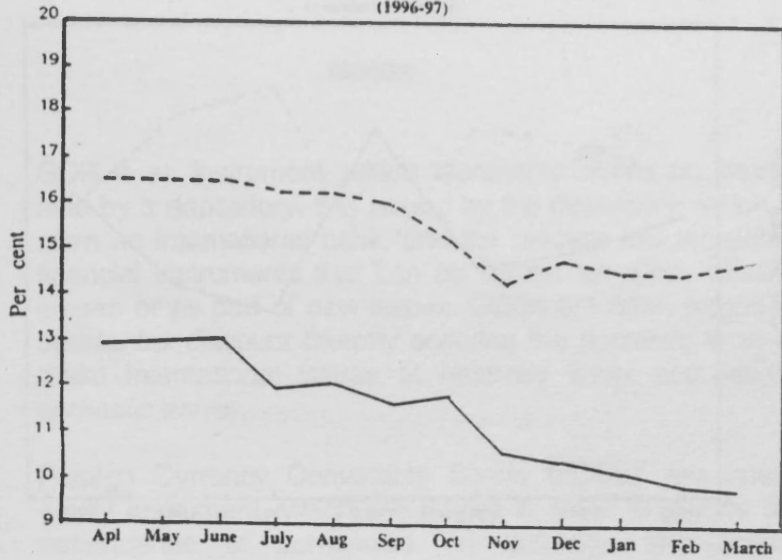
Contid.. table 7

	Aggregate sample	Sample 1 (largest)	Sample 2	Sample 3	Sample 4	Sample 5 (smallest)
Short-term interest/debt	14.97	42.93	38.50	49.53	40.87	33.18
Long-term interest/debt	52.56	63.56	52.03	53.76	35.35	32.38
Debt/net assets	52.31	48.08	60.63	62.21	49.29	56.72
Dividend/net profit	38.50	45.50	35.82	38.94	24.88	40.81

Source : Same as in Table 1.

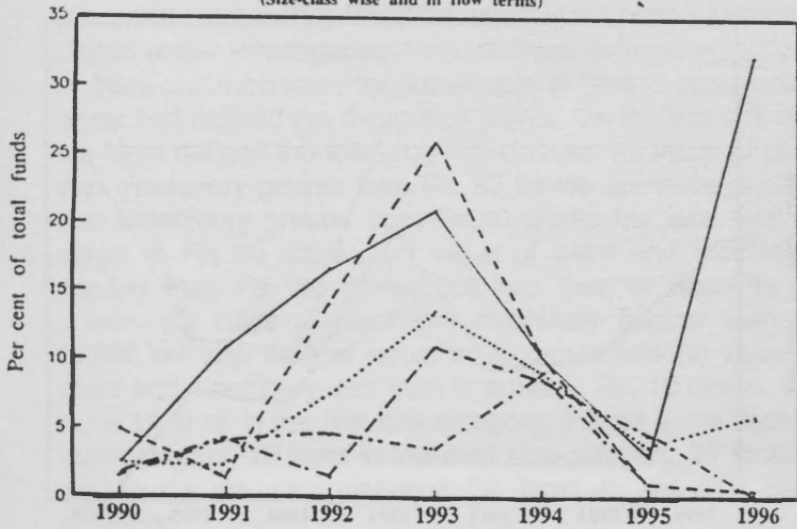
- 1 Capital stock is meant for gross fixed assets in the current financial year.
- 2 Net asset is defined as total assets less current liabilities.
- 3 PBT stands for profit before tax.
- 4 Total debts include incremental bank borrowing, institutional borrowing, fixed deposit, debenture, foreign borrowing, corporate loans and commercial paper.

Fig 1: YIELD ON GOVERNMENT SECURITIES & PLR
(1996-97)



Yield on securities — Prime lending rate - - - - -

Fig 2: SHARE OF EQUITY IN TOTAL FUNDS
(Size-class wise and in flow terms)



>80 Crs. - - - - - 20-40 Crs. - . - . -
 40-80 Crs. 10-20 Crs.
 <10 Crs. ———

Fig 3: INTERNAL VS EXTERNAL FUNDS (FLOW)
(Aggregate Industry)

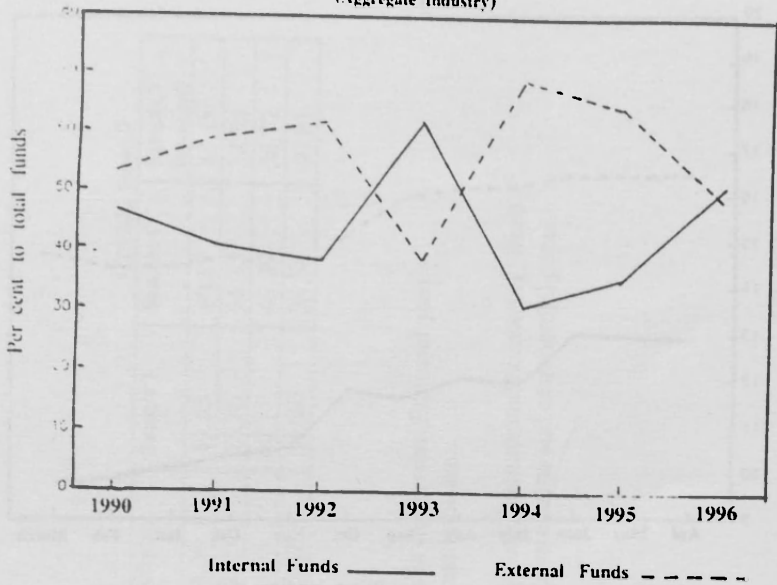
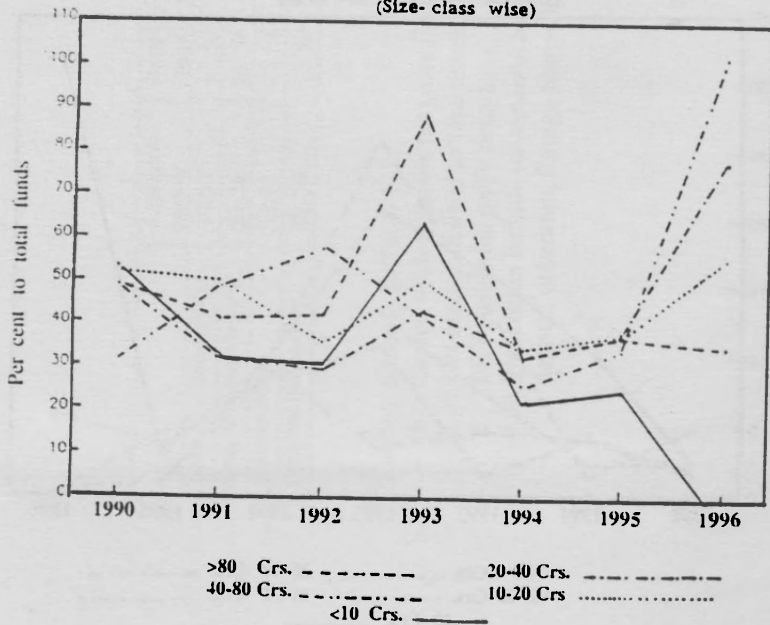


Fig 4: MOVEMENT OF INTERNAL FUNDS
(Size-class wise)



Notes

1. GDR is an instrument, which represents claims on shares held by a depository. It is issued by the depository, which is often an international bank, and the receipts are registered financial instruments that can be issued for either existing shares or as part of new issues. GDRs are often issued at substantial discount thereby enabling the domestic firms to make international issues at relatively lower cost vis-vis domestic issues.
2. Foreign Currency Convertible Bonds (FCCB), are quasi-equity instrument, which are issued in order to reduce the dependence of companies on domestic term-lending institutions while raising funds for long-term purposes.
3. Classification of firms is done on the basis of the value of plant and machinery in 1989-90 which is the base year of the period under investigation. First we have ordered the values of plant and machinery for our sample of firms in descending order and defined the five cut-off points. On the basis of that we have defined the following sub-classes: (a) value of plant and machinery greater than Rs. 80 crores. (b) value of plant and machinery greater than Rs.40 crores but less than or equal to Rs 80 crores. (c) value of plant and machinery greater than Rs. 20 crores but less than or equal to 40 crores. (d) value of plant and machinery greater than 10 crores but less than or equal to 20 crores and (e) value of plant and machinery less than or equal to Rs. 10 crores. We have 11 firms in the first size-category, 9 firms in the second size-category, 16 firms in the third size-category, 27 firms in the fourth size-category and 22 firms in the fifth size-category.

4. Total funds comprise of total external funds and total internal funds. Total external funds include equity capital, borrowed funds from banks and financial institutions, foreign borrowings, bond and debenture, commercial paper, corporate loans and other borrowings.
5. Internal funds consist of retained earnings and depreciation. External funds, on the other hand, consist of equity capital, bank borrowing, borrowing from financial institutions, borrowing from foreign sources, fixed deposits, bonds and debenture, inter corporate loans, commercial paper and other borrowings.
6. Securitised sources include those financial instruments like new issues, bond and debenture, commercial paper, fixed deposits etc. which are traded in the market. Other sources include inter corporate loans, different components of internal funds like retained profits, depreciation and various components of borrowing like bank borrowing, institutional borrowing, borrowing from foreign sources.
7. For details see Khanna (1999).

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