6.1 Introduction

In this chapter, we examine the financing patterns of private corporate firms that participated in the equity boom of the 1990s. The effects of this equity boom are analysed as reflected in the sources and uses of funds, of firms with different characteristics of the kind highlighted in Chapter 4. The analysis helps us to focus attention on a shift from credit-based financing to market-based financing, in the external sources of financing of firms. Thus, this chapter would focus on the role played by the stock market (NIM) in the financing of investment proposals in India during what has been characterised as the phase of ‘disintermediation’ in this study, which is the phase in which capital markets were liberalised, especially after 1992.

At the macro level, the shift from banks to market-based financing gets reflected in the relative growth in asset intermediation by banks and capital markets. Between the 1980s (1980-89) and 1990s (1990-95), while sums mobilised through the primary market (NIM) increased from Rs. 30668 crores to Rs. 150504 crores, incremental aggregate deposits with banks rose from Rs. 135200 crores to Rs. 266860 crores. Thus, between the 1980s and the 1990s, the relative share of capital markets in asset intermediation as a percentage of incremental bank deposits rose from 22.70 per cent to 56.40 per cent.¹ Our intention in the following discussion is to analyse the firm-level effects of these macro trends in asset intermediation in India. To that end, the chapter analyses the dependency of firms on the stock market and looks in detail at the various sources and uses of funds mobilised by the firms.

6.2 Sources of Finance of Private Corporate Firms in The NIM : The 1990s

The evidence discussed in the previous chapter points to a high degree of dependence of firms on the stock market. The immediate question that arises relates to the nature

of this increase in dependence. Was it in the form of equity or debentures, and how did the structure of this growing demand vary with firm level characteristics such as size, age, industry and region? Further, these ‘internal shifts’ in composition aside, what was the relative role of banks and financial institutions, which till the nineties were a major source of external finance for private corporate firms in India? Answers to these questions are crucial to understanding whether the stock market on the one hand and banks and financial institutions on the other, played a complementary or substitutive role in financing private corporate investments.

Table 6.1: Sources of Finance of Private Corporate Firms, 1989-95

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Shares</td>
<td>11.9</td>
<td>12.4</td>
<td>13.6</td>
<td>9.5</td>
<td>23.6</td>
<td>16.7</td>
<td>15.8</td>
</tr>
<tr>
<td>Right Issues</td>
<td>3.9</td>
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<td>7.2</td>
<td>15.6</td>
<td>3.2</td>
<td>6.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Debentures</td>
<td>17.1</td>
<td>11.0</td>
<td>7.6</td>
<td>11.7</td>
<td>9.2</td>
<td>11.2</td>
<td>6.1</td>
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<td>Promoter's shares</td>
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<td>9.3</td>
<td>6.5</td>
<td>9.6</td>
<td>7.0</td>
</tr>
<tr>
<td>Premium Amount</td>
<td>1.1</td>
<td>0.4</td>
<td>1.4</td>
<td>11.6</td>
<td>12.5</td>
<td>19.9</td>
<td>16.7</td>
</tr>
<tr>
<td>Bank loans &amp; Term Loans</td>
<td>48.1</td>
<td>52.1</td>
<td>50.8</td>
<td>22.2</td>
<td>21.9</td>
<td>20.5</td>
<td>13.7</td>
</tr>
<tr>
<td>Subsidy</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.2</td>
<td>0.1</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Public Deposits</td>
<td>1.1</td>
<td>0.3</td>
<td>0.4</td>
<td>0.2</td>
<td>1.4</td>
<td>2.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Internal reserves</td>
<td>5.0</td>
<td>2.7</td>
<td>3.3</td>
<td>15.3</td>
<td>8.7</td>
<td>6.5</td>
<td>24.6</td>
</tr>
<tr>
<td>Lease financing</td>
<td>0.1</td>
<td>0.1</td>
<td>1.2</td>
<td>3.9</td>
<td>1.9</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Others</td>
<td>0.1</td>
<td>1.0</td>
<td>0.6</td>
<td>0.6</td>
<td>10.9</td>
<td>5.5</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Note: (1) * = CCI and post-CCI are percentage shares for the respective periods, 1989-1991 and 1992-1995,
(2) * = in crores of rupees.
Source: Extracted from the sample data.

The data in Table 6.1 representing the amount collected by firms from various sources, indicates that total financing projected by firms grew at a compound rate of 35.8 per cent between 1989 and 1995, having increased from Rs. 1662.3 crores in 1989 to Rs. 10428 crores in 1995. The total investment planned by firms participating in the NIM during these seven years amounted to Rs. 39883.9 crores. Of this, only 11.7 per cent was accounted for by firms turning to the NIM in the CCI phase, compared to 88.3 per cent by firms in the post-CCI phase.

In the financing of the total investment of Rs. 4637 crores planned during the CCI phase, the largest contribution came from term loans which accounted for 50.2 per cent, followed by equity at 12.7 per cent, and debentures and promoter shares, at 12.0 and 12.4 per cent, respectively. This indicates the important role played by banks and financial institutions in the CCI controlled phase.

But, with the liberalisation of 1992, the structure of financing by firms changed completely. During this phase, investments planned by firms in the NIM shot up to Rs. 35246.9 crores, which was nearly 7 times the average investment planned during the
CCI years. Evidence from the post-CCI period shows that, while term loans still accounted for a significant share of projected finance, their share had fallen sharply to 19.1 per cent, giving way to equity, with a share of 16.9 per cent in project financing, followed by premium amounts (15.3 per cent), internal reserves (14.2 per cent) and convertible debentures (9.3 per cent). The increase in importance of internal reserves could be partly attributed to the regulation which set a three consecutive years' profit requirement for firms entering the market with a public issue. The significant shares of internal reserves and the premium expected to be garnered from equity sales, are in keeping with our earlier findings about the role of liberalisation of equity pricing and that of increase in the participation of existing firms in influencing financing trends in the post-CCI phase.

The liberalised phase, thus, witnessed an increase in the contribution of equity, premium and internal reserves and a reduction in the role of banks and financial institutions. This suggests a shift from institutional and bank finance to market-based finance like broad-equities, with funds planned to be raised through the latter channels increasing from 19.6 per cent of the total in the CCI period to 39.2 per cent in the post-CCI period. The rise in the share of broad-equities and the reduction in that of debentures were, undoubtedly, related to the ability of firms to garner premium on equities, which was in turn due to the overvaluation of equity resulting from the primary market boom. Other sources like public deposits and lease financing also recorded significant increases during this period. All of these helped the promoters to make larger investments based on a small promoter's contribution, which dropped to 7.9 per cent in the post CCI phase. The question which remains is whether this trend was common to all firms, independent of the size, age and industry categories they belonged to, and the region in which they were located.

6.2.1 Size-Wise Trends in the Sources of Finance

For the size-wise analysis, firms were divided into three categories based on their post issue PUC, and the various sources of financing were analysed as percentages to total investment in each firm. The aggregates under each size category were then calculated for the CCI phase, the post-CCI phase and for the whole period. Table 6.2 reveals the

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2 Broad-equities are equities, inclusive of rights shares and premium amount.
3 After public issue, paid-up-capital as provided in the prospectus is subject to increase in case of over-subscription, but not otherwise. That is, no decrease is possible as only refund is allowed in the case of under-subscription.
general trend of a decrease in importance of term loans and an increase in importance of stock market-based funds (refer figures 6.1 and 6.2 also).

Table 6.2 : Size-wise Trends in Sources of Finance of Private Corporate Firms

<table>
<thead>
<tr>
<th>Phase</th>
<th>Equity</th>
<th>Right</th>
<th>Deb.</th>
<th>Promoter</th>
<th>Premium</th>
<th>Term Loan</th>
<th>Subsidy</th>
<th>Public dep</th>
<th>Internal</th>
<th>Lease fin.</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCI</td>
<td>22.1</td>
<td>2.3</td>
<td>5.1</td>
<td>18.0</td>
<td>1.7</td>
<td>48.2</td>
<td>0.8</td>
<td>0.8</td>
<td>2.2</td>
<td>0.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Post-CCI</td>
<td>33.9</td>
<td>2.2</td>
<td>2.5</td>
<td>18.5</td>
<td>11.9</td>
<td>22.6</td>
<td>0.7</td>
<td>1.2</td>
<td>4.5</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Total</td>
<td>28.9</td>
<td>2.2</td>
<td>3.4</td>
<td>18.3</td>
<td>8.7</td>
<td>33.6</td>
<td>0.8</td>
<td>1.0</td>
<td>3.5</td>
<td>1.1</td>
<td>0.8</td>
</tr>
</tbody>
</table>

| Medium firms |        |       |      |          |         |           |         |            |          |            |        |
| CCI   | 15.2   | 2.1   | 6.8  | 14.1     | 1.3     | 64.6      | 0.3     | 0.0        | 7.3      | 0.2        | 0.2    |
| Post-CCI | 23.5  | 3.8   | 5.4  | 13.8     | 18.8    | 25.2      | 0.1     | 2.0        | 5.5      | 0.8        | 1.2    |
| Total  | 20.0   | 3.5   | 5.8  | 13.9     | 16.8    | 42.1      | 0.2     | 2.0        | 5.9      | 0.8        | 0.9    |

| Big firms |        |       |      |          |         |           |         |            |          |            |        |
| CCI   | 31.5   | 0.0   | 0.0  | 17.3     | 50.0    | 69.7      | 0.0     | 0.0        | 0.0      | 0.0        | 0.0    |
| Post-CCI | 19.6  | 7.8   | 15.5 | 9.5      | 12.3    | 22.1      | 0.0     | 4.0        | 10.8     | 1.9        | 2.2    |
| Total  | 22.0   | 7.8   | 15.5 | 10.2     | 16.2    | 26.6      | 0.0     | 4.0        | 10.8     | 1.9        | 2.2    |

Note: The table has been simplified for presentation but the discussion would contain elaboration to prove the trends.

Source: Extracted from the sample data.

Equities as a source of financing was the lowest for large firms when compared to small firms. Within big firms, the share of equity in total financing ranged from 16 per cent to 27 per cent, whereas in the case of small firms it showed higher shares, which ranged from 26 to 32 per cent. But, when all stock market-based funds are taken together, their share stood at 43.11 per cent in the case of small firms, 46.05 per cent in the case of medium firms and 62 per cent for big firms (Figure 6.1). This was because medium and big firms garnered larger contributions from sources like premium on equity issues, debentures and rights issues. However, these firms also relied on internal reserves and public deposits to a larger extent.

Figure 6.1 : Size-wise Trends in Dependence on Total Stock market-based Funds by Private Corporate Firms

Note: The distribution of usage of sources according to various size categories of the firms are represented in Roman numerals (line graphs) in figures 6.1 & 6.2. The lines showing I and II represent small firms, III and IV represent medium firms and V and VI stand for large firms.

4 Including equity, rights issues, premium on equity and debentures.
Both Figure 6.2 and Table 6.2 indicate a decreasing role for term loans\textsuperscript{5} in the liberalised phase. The ratio of term loans to total investment was the lowest for small firms (Figure 6.2; see lines ‘I’, ‘II’, till ‘V’) as compared to medium and large firms. Further, for small firms, the share of term loans decreased from 48.2 per cent of total financing to 22.6 per cent between the CCI and post-CCI periods, that of medium firms decreased from 64.6 per cent to 25.2 per cent, and that of big firms from 69.7 per cent to 26.6 per cent. This suggests that although all categories of firms registered a large drop in the use of term loans, the extent of fall was larger for medium and big firms, when compared to that for small firms.

**Figure 6.2 : Size-wise Trends in Dependence on Loans by Corporate Private Firms**

![Figure 6.2](image)

*Note: Loans are taken as a percentage to total investment.*

*Source: Extracted from the sample data.*

In terms of using alternative sources, Table 6.2 indicates that large firms were characterised by a more even distribution of funding from various sources, with no skew in favour of either stock market-based funds or term loans, which was in contrast to the financing pattern observed among small and medium firms. This is well captured by a coefficient of variation analysis performed across various sources (for total percentage share), which shows a decrease in the value of the co-efficient across size of firms, from 129.7 per cent in the case of the small firms, to 124.2 per cent for medium firms and 81.4 per cent for big firms. This indicates that large firms had a wider choice of sources of financing when compared to small and medium firms, though this did not prevent them from capitalising on the equity boom in the nineties.

\textsuperscript{5} Inclusive of bank and financial institutional credits, both long term and short term.
6.2.2 Age-Wise Trends in the Sources of Finance

Besides the size of firm, another firm characteristic that influenced financing choices is the age of the firms. An old firm always has an advantage over new firms when accessing finance, be it debt, term loans or equity from the market. But, these older firms may shy away from the market for equity, as dispersion of shares may lead to take-overs. It has been proved by various empirical studies that new firms always have a tendency to be more dependent on external funds, equity in particular, than old firms. This dependency can extend to a period of 10 years from incorporation.6

Table 6.3 is an analysis of 2960 firms for which data on age and sources of financing were available. The data points to varying preferences of firms belonging to different categories. New firms, which are less than 2 years old, show a high degree of dependence on equity (32.6 per cent), term loans (25.8 per cent) and promoter’s capital (22.7 per cent), in that order. As a result, young firms, as a group, record a high share of financing from equity, promoters’ capital and term loans. In the case of middle-aged firms, the share of promoters’ capital was lower at 8.7 per cent, with the dominant external sources being equity (26.0 per cent), term loans (24.6 per cent) and share premium (16.4 per cent). Thus, middle-aged firms used the benefit of liberalised pricing rules for garnering premiums on equity issues.

Table 6.3 : Age of Firms and Preferences for Source of Finance by Private Corporate Firms

<table>
<thead>
<tr>
<th>AGE</th>
<th>Equity</th>
<th>Right Deb</th>
<th>Promoter</th>
<th>Premium</th>
<th>T. Loan</th>
<th>Subsidy</th>
<th>Pub. Dep</th>
<th>Internal</th>
<th>Lease Fin</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2</td>
<td>31.3</td>
<td>6.6</td>
<td>2.2</td>
<td>24.5</td>
<td>6.4</td>
<td>24.0</td>
<td>0.3</td>
<td>7.5</td>
<td>2.3</td>
<td>0.7</td>
</tr>
<tr>
<td>2 to 5</td>
<td>33.8</td>
<td>1.0</td>
<td>5.1</td>
<td>20.9</td>
<td>4.3</td>
<td>27.6</td>
<td>0.3</td>
<td>1.2</td>
<td>1.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Young</td>
<td>32.6</td>
<td>0.8</td>
<td>3.7</td>
<td>22.7</td>
<td>5.4</td>
<td>25.8</td>
<td>0.3</td>
<td>4.4</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>5 to 10</td>
<td>27.1</td>
<td>4.3</td>
<td>6.4</td>
<td>11.4</td>
<td>14.7</td>
<td>23.0</td>
<td>0.2</td>
<td>2.4</td>
<td>6.2</td>
<td>2.3</td>
</tr>
<tr>
<td>10 to 20</td>
<td>24.9</td>
<td>4.3</td>
<td>4.6</td>
<td>5.9</td>
<td>18.0</td>
<td>26.2</td>
<td>0.1</td>
<td>1.0</td>
<td>6.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Middle-aged</td>
<td>26.0</td>
<td>4.3</td>
<td>5.5</td>
<td>8.7</td>
<td>16.4</td>
<td>24.6</td>
<td>0.2</td>
<td>1.7</td>
<td>6.4</td>
<td>1.4</td>
</tr>
<tr>
<td>20 to 40</td>
<td>13.4</td>
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<td>4.9</td>
<td>1.7</td>
<td>25.5</td>
<td>17.1</td>
<td>0.1</td>
<td>0.2</td>
<td>16.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Above 40</td>
<td>9.1</td>
<td>1.1</td>
<td>4.7</td>
<td>1.2</td>
<td>7.5</td>
<td>11.4</td>
<td>0.0</td>
<td>27.5</td>
<td>37.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Old</td>
<td>11.3</td>
<td>8.6</td>
<td>4.8</td>
<td>1.5</td>
<td>16.5</td>
<td>14.3</td>
<td>0.1</td>
<td>13.9</td>
<td>26.9</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source : Extracted from the sample.

Funds garnered through high premiums (16.5 per cent) play a significant role in the financing of old firms too. But, these firms recorded higher shares of internal financing (26.9 per cent) and public deposits (13.9 per cent) than equity (11.3 per cent). Old firms also resorted to more rights issues compared to middle-aged and young firms. Thus, the old firms raised less through stock market-based funds as can be seen from

the data that young firms raised 42.5 per cent, middle-aged firms raised 52.2 per cent and old firms collected 41.2 per cent. It can be inferred that old firms relied less on equity volumes that would lead to dispersion of shares among investors, but gained heavily in the form of premiums garnered.

Between the CCI phase and the liberalised phase in the market, old firms recorded an increase in equity of 2.4 percentage points (Table 6.4), while premiums grew by 11 percentage points. But, in the case of middle-aged firms, equity recorded a 14.5 percentage points increase and premiums, a 17.1 percentage points increase. New firms, on the other hand, recorded a high increase in equity at 18.1 percentage points and a low growth in premiums of 5 percentage points.

Table 6.4 : Age-Wise Trends in Sources of Finance of Private Corporate Firms

<table>
<thead>
<tr>
<th>AGE</th>
<th>Equity</th>
<th>Right</th>
<th>Deb.</th>
<th>Promoter</th>
<th>Premium</th>
<th>T. Loan</th>
<th>Subsidy</th>
<th>Public Dep</th>
<th>Internal</th>
<th>Lease fin</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Young Firms</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>CCI</td>
<td>16.4</td>
<td>1.9</td>
<td>11.4</td>
<td>18.8</td>
<td>0.6</td>
<td>47.4</td>
<td>0.6</td>
<td>0.9</td>
<td>1.1</td>
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<td>0.2</td>
</tr>
<tr>
<td>Post</td>
<td>34.5</td>
<td>0.7</td>
<td>3.1</td>
<td>22.8</td>
<td>5.7</td>
<td>23.9</td>
<td>0.3</td>
<td>4.1</td>
<td>1.8</td>
<td>2.6</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Diff.</strong></td>
<td>18.1</td>
<td>-1.2</td>
<td>-8.3</td>
<td>3.9</td>
<td>5.1</td>
<td>-23.5</td>
<td>-0.3</td>
<td>2.2</td>
<td>0.7</td>
<td>2.0</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Middle Age Firms</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCI</td>
<td>13.3</td>
<td>5.2</td>
<td>10.3</td>
<td>10.7</td>
<td>0.6</td>
<td>55.8</td>
<td>0.2</td>
<td>0.1</td>
<td>2.8</td>
<td>0.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Post</td>
<td>27.8</td>
<td>4.2</td>
<td>5.2</td>
<td>9.1</td>
<td>17.7</td>
<td>20.5</td>
<td>0.2</td>
<td>2.0</td>
<td>6.7</td>
<td>1.7</td>
<td>4.9</td>
</tr>
<tr>
<td><strong>Diff.</strong></td>
<td>14.5</td>
<td>-1.0</td>
<td>-5.1</td>
<td>-1.6</td>
<td>17.1</td>
<td>-35.3</td>
<td>-0.1</td>
<td>1.9</td>
<td>3.9</td>
<td>1.2</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Old Firms</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCI</td>
<td>8.7</td>
<td>11.1</td>
<td>12.7</td>
<td>1.0</td>
<td>5.0</td>
<td>50.1</td>
<td>0.1</td>
<td>0.0</td>
<td>10.5</td>
<td>0.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Post</td>
<td>11.1</td>
<td>7.2</td>
<td>4.3</td>
<td>1.4</td>
<td>15.8</td>
<td>11.6</td>
<td>0.0</td>
<td>16.9</td>
<td>29.5</td>
<td>0.2</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Diff.</strong></td>
<td>2.4</td>
<td>-3.9</td>
<td>-8.4</td>
<td>0.4</td>
<td>10.8</td>
<td>-38.5</td>
<td>0.0</td>
<td>16.9</td>
<td>19.0</td>
<td>0.2</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Note : (1) Diff. = (CCI percentage - post-CCI percentage), this is to identify the trend in post-1992 years.
Source : Extracted from the sample data.

However, across all age categories, some standard trends hold. These trends are : a) the shares of rights issues, debentures, premiums on equity, funds from public deposits and internal reserves increased with the age of firm; b) promoters’ share showed a decreasing trend with increasing age; c) term loans registered a similar decreasing trend; and d) big firms exploited alternative sources more than small firms, during the liberalised phase.

6.2.3 Regional Trends in the Sources of Finance

The regional analysis of the sources of financing of firms reveals that share of equity, as a source of finance, varied from 23 to 28 per cent across the four regions. Firms from the western region planned to finance a high share (28 per cent) of their investments with equity and the lowest share was found among firms from the southern region, with 22.9 per cent. On the other hand, the share of term loans in total financing was the highest among firms from the southern region. This amounted to
35.0 per cent, compared with 20 per cent for the northern and western regions and 30 per cent among firms in the eastern region.

Table 6.5 : State-wise Trends in Sources of Finance of the Private Corporate Firms

<table>
<thead>
<tr>
<th>States</th>
<th>Equity</th>
<th>Right</th>
<th>Deb.</th>
<th>Prom' r</th>
<th>Premium</th>
<th>T. Loan</th>
<th>Sub'y</th>
<th>P. D</th>
<th>Int. reserves</th>
<th>Lease fin.</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assam</td>
<td>24.4</td>
<td>1.3</td>
<td>-</td>
<td>14.9</td>
<td>12.6</td>
<td>41.0</td>
<td>0.1</td>
<td>-</td>
<td>4.3</td>
<td>1.3</td>
<td>-</td>
</tr>
<tr>
<td>Bihar</td>
<td>33.8</td>
<td>6.9</td>
<td>2.6</td>
<td>10.9</td>
<td>13.8</td>
<td>25.6</td>
<td>1</td>
<td>0.1</td>
<td>3.5</td>
<td>1.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Orissa</td>
<td>12.3</td>
<td>3.6</td>
<td>14.1</td>
<td>10.4</td>
<td>3.5</td>
<td>46.1</td>
<td>0.3</td>
<td>-</td>
<td>6.4</td>
<td>1.1</td>
<td>0.2</td>
</tr>
<tr>
<td>West Bengal</td>
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<td>1.6</td>
<td>1.6</td>
<td>16.3</td>
<td>11.4</td>
<td>18.6</td>
<td>0.1</td>
<td>9.5</td>
<td>5.9</td>
<td>0.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Eastern</td>
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<td>6.1</td>
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<td>32.8</td>
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<td>0.2</td>
<td>2.7</td>
<td>0.6</td>
<td>0.5</td>
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<td>-</td>
<td>19.9</td>
<td>13.5</td>
<td>29.9</td>
<td>0.6</td>
<td>-</td>
<td>0.6</td>
<td>0.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
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<td>12.9</td>
<td>15.9</td>
<td>9.5</td>
<td>26.5</td>
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<td>0.5</td>
<td>3.3</td>
<td>0.4</td>
<td>0.2</td>
</tr>
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<td>Delhi</td>
<td>18</td>
<td>1.5</td>
<td>7.8</td>
<td>5.9</td>
<td>27.9</td>
<td>8.6</td>
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<td>2.7</td>
<td>27.4</td>
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<td>0.3</td>
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<td>3.8</td>
<td>18</td>
<td>12.3</td>
<td>25.3</td>
<td>0.6</td>
<td>-</td>
<td>2.3</td>
<td>0.1</td>
<td>0.4</td>
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<td>0.4</td>
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<td>0.4</td>
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<tr>
<td>J &amp; K</td>
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<td>-</td>
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<td>-</td>
<td>61.4</td>
<td>4.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
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<td>15.4</td>
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<td>28.3</td>
<td>0.1</td>
<td>0.9</td>
<td>6.6</td>
<td>0.4</td>
<td>0.5</td>
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<td>0.5</td>
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<td>-</td>
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<td>19.5</td>
<td>33.5</td>
<td>0.1</td>
<td>1.2</td>
<td>2.4</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Karnataka</td>
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<td>1.2</td>
<td>5.4</td>
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<td>5.0</td>
<td>27.2</td>
<td>0.1</td>
<td>13.7</td>
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<td>1.6</td>
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<td>5.3</td>
<td>6.4</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
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<td>-</td>
<td>-</td>
<td>20.9</td>
<td>6.2</td>
<td>45.9</td>
<td>0.2</td>
<td>0.5</td>
<td>3</td>
<td>0.8</td>
<td>-</td>
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<tr>
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<td>24.1</td>
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<td>36.5</td>
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<td>4.4</td>
<td>3.6</td>
<td>1.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Daman and Diu</td>
<td>38.3</td>
<td>5.3</td>
<td>1.3</td>
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<td>17.1</td>
<td>18.2</td>
<td>0.1</td>
<td>0.3</td>
<td>5.7</td>
<td>1.2</td>
<td>0.1</td>
</tr>
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<td>13.9</td>
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<td>-</td>
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<td>11.9</td>
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<td>4.9</td>
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<td>0.9</td>
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<td>10.1</td>
<td>25.4</td>
<td>0.4</td>
<td>0.9</td>
<td>2.1</td>
<td>1.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Western</td>
<td>27.5</td>
<td>5.8</td>
<td>5.1</td>
<td>13.7</td>
<td>19.5</td>
<td>21.5</td>
<td>0.3</td>
<td>0.7</td>
<td>5.0</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Others</td>
<td>19</td>
<td>0.2</td>
<td>-</td>
<td>0.4</td>
<td>3.1</td>
<td>5.5</td>
<td>-</td>
<td>-</td>
<td>59.8</td>
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<td>Total</td>
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<td>4</td>
<td>5.6</td>
<td>12.2</td>
<td>12.7</td>
<td>22.9</td>
<td>0.2</td>
<td>2.3</td>
<td>11.7</td>
<td>1.2</td>
<td>2.2</td>
</tr>
<tr>
<td>COV.</td>
<td>29.8</td>
<td>93.2</td>
<td>83.5</td>
<td>35.4</td>
<td>61.8</td>
<td>46.8</td>
<td>198.2</td>
<td>161.2</td>
<td>169.8</td>
<td>99.7</td>
<td>211.8</td>
</tr>
</tbody>
</table>

Note: Daman and Diu and Pondicherry are Union Territories.

Source: Extracted from the sample data.

The third prominent source of finance, premium charged on equities, financed 19.5 per cent of the financial requirements of firms from the western region, 15.6 per cent of the northern region and 10 per cent each of the eastern and southern regions. Hence, it can be said that firms from the industrially developed western region could exploit the equity boom in the market, in terms of equity issues and premiums collected. On the other hand, firms from the southern region had the highest promoters’ share (16.4 per cent) in financing, pointing to a high participation of young and small firms in that region.

The state-wise distribution of financing from different sources, provided in Table 6.5, reveals that there were large variations across the states in the relative shares of these sources. Term loans were used to the extent of 61.4 per cent by firms from Jammu and Kashmir, which appears to be a special case. Among the rest, firms from Assam, Orissa, Andhra Pradesh and Pondicherry registered a more than 40 per
cent share of term loans. Firms from Delhi showed the lowest share of 8.6 per cent. Such variations are also found with regard to equity as a source of financing, though, here, the difference between the highest and lowest shares is not as large as in the case of term loans. This points to a relatively even spread of the equity culture across states.

The greatest beneficiaries of the equity boom were firms from states like Bihar, Himachal Pradesh, Kerala, Daman and Diu, Gujarat and Rajasthan. Equity accounted for more than 30 per cent of financing in these states. Debenture issues were more prevalent in firms from states like Haryana, Orissa, Madhya Pradesh and Goa, where they accounted for 10 to 20 per cent of the total projected financing. The largest premiums were collected by firms from Delhi and Goa, for whom share premium accounted for more than 25 per cent of total projected financing. The other states in which firms enjoyed the benefits of a high share of premium in financing (amounting to more than 15 per cent of the total project cost) were Kerala, Tamil Nadu, Daman and Diu, Gujarat and Maharashtra.

Firms from Tamil Nadu, Karnataka and West Bengal showed a higher dependence on public deposits compared to the other states. The reason could be the easy availability of such funds due to a high level of urbanisation, which makes it easy to reach investors with various deposit schemes, which serve as alternative channels for savings with higher returns. Across states, firms from Delhi had the highest dependence on internal reserves, which accounted for 27.4 per cent of the total project cost. This is, basically, because of the high concentration of service-oriented industries in the state, which earn high-return, and thus, have large retained funds. Thus, the overall trend points to significant variations across states in terms of sources of finance. But, these variations did not undermine the role of equity and term loans as the most popular sources of finance.

*Internal and External Sources of Finance: State-wise Trends*

A crucial aspect of corporate financing, which often comes up in debates on sources of
financing strategies, is the relative roles of internal and external financing. Table 6.6 classifies the sources of finance into 'internal' and 'external sources', and further subdivides external sources into 'stock market-based sources' and 'other sources'. The variation across the states in the sources used by firms suggested that other external sources (with a COV value of 38.6) showed the highest variation across states, followed by stock market funds (COV: 27.5) and internal sources (COV: 21.4). On the whole, firms across all states collected more than 29 percent of their funds from the stock market, except Jammu and Kashmir (13.8 per cent). The share of stock market-based sources amounted to 50 to 60 per cent for firms from states like Bihar, Delhi, Uttar Pradesh, Punjab, Madhya Pradesh, Maharashtra, Kerala and Rajasthan. Thus, twelve out of 21 states had firms collecting more than 50 per cent of their funds from the stock market. Firms from states like Haryana, Daman and Diu, Gujarat and Goa garnered 60 per cent of financing from stock markets.

Table 6.6 : State-wise Trends in Internal and External Sources of Finance

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>STATES</th>
<th>External Sources</th>
<th>Internal Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Capital Market</td>
<td>Others</td>
</tr>
<tr>
<td>1</td>
<td>Orissa</td>
<td>35.6</td>
<td>47.7</td>
</tr>
<tr>
<td>2</td>
<td>Assam</td>
<td>38.3</td>
<td>42.4</td>
</tr>
<tr>
<td>3</td>
<td>West Bengal</td>
<td>47.7</td>
<td>30.1</td>
</tr>
<tr>
<td>4</td>
<td>Bihar</td>
<td>57.1</td>
<td>28.4</td>
</tr>
<tr>
<td>1</td>
<td>Eastern</td>
<td>44.7</td>
<td>37.2</td>
</tr>
<tr>
<td>5</td>
<td>Jammu &amp; Kashmir</td>
<td>13.8</td>
<td>66.0</td>
</tr>
<tr>
<td>6</td>
<td>Himachal Pradesh</td>
<td>47.5</td>
<td>32.1</td>
</tr>
<tr>
<td>7</td>
<td>Madhya Pradesh</td>
<td>53.0</td>
<td>27.8</td>
</tr>
<tr>
<td>8</td>
<td>Punjab</td>
<td>53.3</td>
<td>26.4</td>
</tr>
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<td>9</td>
<td>Uttar Pradesh</td>
<td>53.8</td>
<td>27.9</td>
</tr>
<tr>
<td>10</td>
<td>Delhi</td>
<td>55.1</td>
<td>11.5</td>
</tr>
<tr>
<td>11</td>
<td>Haryana</td>
<td>64.8</td>
<td>19.9</td>
</tr>
<tr>
<td>12</td>
<td>Northern</td>
<td>48.7</td>
<td>30.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Extracted from the sample data.

External channels, other than the capital market, were also used by firms to the extent of 32.52 per cent of total financing. The 11 states that exceeded this average were Maharashtra, Kerala, Rajasthan, West Bengal, Himachal Pradesh, Tamil Nadu, Assam, Orissa, Andhra Pradesh, Karnataka and Pondicherry. Thus, it becomes evident that, though the stock market was the main source of external funds, other sources like

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7 Here internal sources include internal reserves (retained profits) and promoters' funds.
8 Other sources are subsidies, public deposits, lease financing, term loans and others.
9 The Coefficient of Variation (COV) showing variation in the sources of funds across states excludes the values for 'Others' in its calculation (these values are not provided in the Table).
banks, public deposits, and financial institutions also had a considerable share in private corporate financing in India in the early nineties. Internal sources were prominent in the firms from Delhi (33.3 per cent) standing above the national average of 21.5 per cent. The regional trends confirm the hypothesis that the developed regions exploited the potential of the NIM in the nineties with firms from the western region collecting nearly 57 per cent of the funds from stock markets.

To assess the complementarity and substitutability between various sources of finance, a correlation matrix of the shares of different sources of finances was constructed using the state-wise figures (Table 6.7). The results reveal that equity financing was positively correlated with premium issues and debentures. But, it was negatively related to financing from all other sources. That is, states that had a high share of equity in projected financing had high shares of debenture and premium issues as well. But, these states were characterised by a low share of term loans in total finance. There was, therefore, strong complementarity between sources like equity, debentures and premiums, whereas term loans, public deposits and internal funds were negatively correlated with equity finance, indicating that they were substitutes.

<table>
<thead>
<tr>
<th>Sources</th>
<th>Equity</th>
<th>Prem.</th>
<th>R. Eui.</th>
<th>Deb.</th>
<th>Prom.</th>
<th>T.Loan</th>
<th>Subs'y</th>
<th>P.D.</th>
<th>Internal</th>
<th>Others</th>
</tr>
</thead>
<tbody>
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<td>-0.08</td>
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<td>-0.15</td>
<td>-0.17</td>
<td>-0.03</td>
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<td>0.02</td>
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<td>-0.11</td>
<td>-0.18</td>
<td>-0.22</td>
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<td>-0.32</td>
<td>-0.02</td>
<td>-0.13</td>
<td>-0.20</td>
</tr>
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<td>-0.31</td>
<td>0.54</td>
<td>0.33</td>
<td>-0.06</td>
<td>-0.78</td>
<td>-0.64</td>
</tr>
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<td>Promoter</td>
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<td>-</td>
<td>-</td>
<td>1.00</td>
<td>-0.50</td>
<td>-0.32</td>
<td>-0.03</td>
<td>0.02</td>
<td>-0.25</td>
</tr>
<tr>
<td>T. Loan</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<td>-0.43</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: Correlation analysis was carried out on the state-wise trends in the sources of finance. Source: Extracted from the sample data.

Premium funds were found to be positively correlated with equity issues in the case of public issues (0.30), rights (0.55) issues and debentures (0.02), suggesting a use of premium in all the cases. It can be inferred from the value of the correlation coefficient that premiums were more important in the case of firms which had resorted to larger rights issues, suggesting that existing firms benefited the most from premium issues. Term loans had a high positive relationship with debenture issues, but a negative correlation with equity funds garnered via public and rights issues and from

---

10 In the case of debentures, premium can be charged for fully and partly convertible debenture instruments, that is, for quasi-equities.
premiums. The correlation coefficient between the total of these three sources (rights, public and premiums) and term loans was -0.66. This clearly corroborates the finding that there was a process of disintermediation taking place, in which firms were raising funds directly through the stock market rather than through financial intermediaries. The states which were beneficiaries of this process were Daman and Diu (61.32), Bihar (55.28), Gujarat (53.71), Goa (50.75) and Kerala (49.06), as the firms from these states collected nearly 50 percent and above from the stock market for financing the investment plans. The state least affected by this process was Jammu & Kashmir, which collected only 13.82 per cent of total funds from stock markets. Another important result that can be derived from the table is that firms appear to fall into two broad categories: those which almost totally depended on the capital market for funds, and those which depended on debt in the form of term loans and debentures for a high share of funds. The issue is not just one of disintermediation, but also of opposing financing strategies adopted by firms, partly for internal reasons and partly because of differential opportunities.

6.2.4 Industry-wise Trends in the Sources of Finance

Table 6.8 provides an analysis of the role of internal and external funds in the financing of the project cost across different industries. The data reveals that firms belonging to other manufacturing, recreation and culture, wood products, jute textiles, leather and fur products, metal products and electrical machinery planned to obtain more than 60 per cent of their funds from the capital market. Of the two external sources, firms used the capital market source more than other external sources. The firms from industries like electricity, basic metal and alloys, water works, and synthetic textiles financed more than 40 per cent of their project cost from this market. The table indicates that on the whole, nearly 80 per cent of the funds of the private corporate firms in India were collected from external sources. Thus, during the nineties, external sources of financing were highly significant for the private corporate sector. This trend can be largely attributed to the high share of small and young firms in the NIM.

Internal sources of finance were significant in the case of firms in industries like rubber, plastics, and petroleum products, jute textiles, transport equipment, and machine tools, amounting to between 30 and 45 per cent of the total. These industries belonged largely to the capital goods sector, which has large capital surpluses.
Table 6.8: Industry-wise Trends in Internal and External Sources of Finance

<table>
<thead>
<tr>
<th>Industry</th>
<th>External Sources</th>
<th>Internal Sources</th>
<th>Industry</th>
<th>External Sources</th>
<th>Internal Sources</th>
</tr>
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<td>Stock Market</td>
<td>Others</td>
<td></td>
<td>Stock Market</td>
<td>Others</td>
</tr>
<tr>
<td>Rubber plastic &amp; petroleum products</td>
<td>43.7</td>
<td>11.9</td>
<td>44.5</td>
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</tr>
<tr>
<td>Basic metal and alloys</td>
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<td>43.4</td>
<td>15.6</td>
<td>Beverages</td>
<td>51.5</td>
</tr>
<tr>
<td>Chemical products</td>
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<td>37.6</td>
<td>17.5</td>
<td>Wood products</td>
<td>62.6</td>
</tr>
<tr>
<td>Food products</td>
<td>47.7</td>
<td>28.9</td>
<td>23.4</td>
<td>Jute textiles</td>
<td>61.4</td>
</tr>
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<td>Cotton textiles</td>
<td>46.6</td>
<td>33.5</td>
<td>19.9</td>
<td>Manufacturing</td>
<td>51.5</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td>45.4</td>
<td>33.7</td>
<td>20.9</td>
<td>Consultancy, construction etc.</td>
<td>52.6</td>
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<tr>
<td>Electrical machinery</td>
<td>59.9</td>
<td>22.5</td>
<td>17.7</td>
<td>Financial services</td>
<td>55.9</td>
</tr>
<tr>
<td>Synthetic textiles</td>
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<td>39.2</td>
<td>16.2</td>
<td>Recreation &amp; culture</td>
<td>67.2</td>
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<td>14.8</td>
<td>Financial services</td>
<td>58.6</td>
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<td>Transport equipment</td>
<td>32.6</td>
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<td>31.3</td>
<td>Water works &amp; supplies</td>
<td>31.3</td>
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<td>Textile products</td>
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<td>35.9</td>
<td>19.1</td>
<td>Electricity</td>
<td>33.9</td>
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<td>Non-electrical machinery</td>
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<td>16.3</td>
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<td>Infrastructure</td>
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<td>Other manufacturing</td>
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<td>7</td>
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<td>Others not classified</td>
<td>91</td>
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<tr>
<td>Metal products</td>
<td>69</td>
<td>24.6</td>
<td>15.3</td>
<td>Total</td>
<td>52.47</td>
</tr>
</tbody>
</table>

Source: Extracted from the sample data.

At a more aggregate level, the data reveals that the services sector collected nearly 59 per cent of its funds from the stock market, followed by manufacturing (51.5 per cent) and infrastructure (32.6 per cent) sectors. Since internal sources accounted for a similar share in all the three sectors, it appears that variations in the role of the other external sources explain the variations in the role of stock market-based funds. For example, the infrastructure sector received 47.8 per cent of its funds from ‘other’ external sources like term loans, public deposits, lease financing, etc. On the whole, all the sectors showed a high degree of dependence on capital market sources, at 52.47 per cent, followed by other external sources, at 26.22 per cent, and internal sources at 21.31 per cent.

Further, a correlation analysis was carried out on the same lines as in the case of states, based on the percentage shares of different sources of finance in different industries. The results reveal that stock market-based sources showed a negative correlation with other external funds (-0.79) and also with internal funds (-0.38), suggesting that in industries which had a high share of stock market-based funds, the share of the other two sources decreased. That is, internal funds and other external funds substituted for stock market funds. A correlation analysis relating total investment in each industry to the shares of the three sources revealed that the industries which had large investments used less of capital market funds (-0.2704) and more of internal sources (0.40) and other external sources (0.0158).

Thus, it can be concluded that, though there were larger variations in the usage
of different sources, external sources dominated. External sources accounted for nearly 79 per cent of funds required for financing of investment projects in the private corporate sector. The boom in the NIM in the early nineties, in both the number of issues and amounts of investment, provided a major source of finance in addition to existing sources like term loans and internal funds. It provided equity for small and new firms for expansion and new projects, and helped existing firms utilise the premium option to raise what were virtually zero-cost funds. The next section is an analysis of trends in investments by these firms across various assets.

6.3 Uses of Funds by Private Corporate Firms in The NIM: The 1990s

Firms have two broad uses for finance raised from any source: fixed investments and variable investments. The relative proportion of these forms of investments in any individual firm depends on factors like industrial characteristics, technology, objectives of investment, etc. Theoretical and empirical studies have suggested that fixed investments in a firm are carried out through the issue of long term instruments, while short term requirements of finance for holding inventories and meeting operational expenses are met through short term instruments like overdrafts, short term loans, etc. The access to additional finance which resulted from the liberalisation of the stock market, should, given the fact that only long term instruments are financed by the NIM, encourage investments in areas requiring a higher proportion of investment in 'fixed assets'\(^\text{11}\).

Table 6.9 presents the yearly trends in the investment pattern of private corporate firms in the nineties. Total investments of firms participating in the NIM increased from Rs. 7714.0 crores in the CCI phase, to Rs. 121246.5 crores in the post-CCI phase. Despite this, allocations for investment in tangible assets (fixed assets) like land and building, machinery and miscellaneous fixed assets, fell from 71.8 per cent of the total in the CCI phase to 61.5 per cent. The rise in the share of investment in intangible assets across these periods was largely due to contingent expenses, issue expenses and working capital allocations. This suggests that in the wake of the equity boom and equity market liberalisation, firms were diverting an increasing share of their

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\(^{11}\) The fixed assets in this subsection includes investments in land and building (L&B), machinery (imported and indigenous, i.e., M-imp & M-ind). A broader definition could include technology (Tec) and miscellaneous fixed assets (MFA) also.
investments into intangible assets, and were perhaps using long term funds for these short term purposes. The significance of this trend is greater because of the sharp increase in total investments in the post-CCI phase, which accounted for 95 per cent of projected investments of firms participating in the NIM during 1989 to 1995.

Table 6.9: Yearly Trends in Investment of the Private Corporate Firms

<table>
<thead>
<tr>
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<td>9.3</td>
<td>4.1</td>
<td>11.7</td>
<td>27.5</td>
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<td>1990</td>
<td>12.2</td>
<td>13.9</td>
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<td>75.1</td>
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<td>19.3</td>
<td>29.3</td>
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<td>70.3</td>
<td>4.9</td>
<td>6.3</td>
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<td>32.5</td>
<td>2.9</td>
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<td>31.8</td>
<td>4.4</td>
<td>8.7</td>
<td>71.8</td>
<td>2.8</td>
<td>8.8</td>
<td>4.1</td>
<td>10.6</td>
<td>26.3</td>
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<td>Post CCI</td>
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<td>32.9</td>
<td>2.8</td>
<td>5.9</td>
<td>61.5</td>
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<td>6.1</td>
<td>20.7</td>
<td>36.9</td>
<td>1.7</td>
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</tr>
<tr>
<td>Total</td>
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<td>13.7</td>
<td>32.4</td>
<td>3.5</td>
<td>7.1</td>
<td>65.9</td>
<td>3.0</td>
<td>7.7</td>
<td>5.2</td>
<td>16.4</td>
<td>32.3</td>
<td>1.8</td>
<td>128906.5</td>
</tr>
</tbody>
</table>

Source: Extracted from the sample data.

Further, the decreasing share of term loans and increasing share of allocations to working capital could be indicative of the use of long-term funds raised from the stock market for the purpose of short-term requirements. The other reason for the increase in investments in intangible assets is the sharp increase in the number of financial services companies participating in the NIM during the nineties. Financial companies in the form of NBFCs were increasing in number and there was a corresponding increase in their share in new issues, leading to an increased need for working capital, which is the form of capital in this industry. But, the use of long term capital for the financial needs of these service-oriented industries could destabilise the confidence of the primary market. Most of the firms in this category belonged to nine different financial services12, which the commercial banks do not provide. Given the weak regulatory environment in India13, the resources raised by these companies could be used for purposes not announced in the public issue document. Since some of these activities are highly risky in nature, there is a real danger of a mismatch between the source and use of funds, leading to financial crises.

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12 NBFCs have been classified as 1) Loan companies; 2) Investment companies; 3) Hire-purchase finance companies; 4) Equipment leasing companies; 5) Mutual benefit finance companies; 6) Miscellaneous finance companies; 7) Miscellaneous non-banking companies; 8) Residuary non-banking companies; and 9) Housing finance companies.

13 Many committees have been formed since the introduction of regulation on NBFCs through the Banking Laws (Miscellaneous Provision) Act, 1963. In 1996, the report of the Khanna Group, used information from the various ROCs to show that there existed nearly 41,361 financial companies of which only 10,000 companies were registered with the RBI. This low number of registered NBFCs under RBI, points to the urgent need to increase the regulatory focus on NBFCs.
6.3.1 Industry-wise Trends in the Uses of Funds

The use of finance of firms across industries is analysed in Table 6.10 to assess the influence of industry characteristics. Investments in fixed assets exceeded 50 per cent of total investment in most of the manufacturing industries, with the figure standing at more than 65 per cent in industries like electricity (76.7 per cent), wood products (69.8 per cent), cotton textiles (67.9 per cent), transport equipment (65.8 per cent), recreation and culture (65.3 per cent) and jute textiles (65.3 per cent). A break-up of fixed asset investment into land and building, indigenous machinery and imported machinery, shows that the share of land and building (in total fixed asset investment) was significant at more than 10 per cent in the case of electricity, recreation and culture, transport equipment and wood products.

Table 6.10: Industry-wise Trends in Investment in the Assets of Firms

<table>
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<th></th>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Rubber, plastic &amp; petroleum products</td>
<td>58.2</td>
<td>10.3</td>
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<td>12.1</td>
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<td>6.7</td>
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<td>40.6</td>
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<td>10.7</td>
<td>15.3</td>
<td>2.3</td>
<td>75050.3</td>
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<td>Consultancy, construction &amp; others</td>
<td>57.3</td>
<td>7.8</td>
<td>3.7</td>
<td>6.8</td>
<td>19.7</td>
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<td>0.6</td>
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<td>48.8</td>
<td>43.6</td>
<td>39.2</td>
<td>105.6</td>
<td>123.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Extracted from the sample data.

Imported machinery accounted for a major share of investment in cotton textiles (30.1 per cent) and recreation and culture (27.7 per cent). Most of the industries that projected high investments in total fixed assets had allocated more than 25 per cent of their fixed asset investment to indigenous machinery. The financial services industry projected the lowest investment in total fixed assets, with low investments in land and...
building and indigenous machinery, when compared to the other industries.

A break up of intangible asset investments indicates that average expenses incurred on public issues stood at 3.9 per cent of total investment across industries, with industries like recreation and culture, jute textiles, wood products, water works and supplies, leather and fur products recording issue expenses of more than 5 per cent of total investment. All these industries are relatively new to the NIM and, in fact, entered the market only in the post-CCI phase, which could partly explain the high expenditures incurred by them. This could also be due to the higher expenditure incurred by them in hiring a larger number of merchant bankers and for listing at more than one stock exchange for getting a better response. In the case of industries like cotton textiles, paper products, synthetic textiles, rubber, plastic and petroleum products, non-metallic mineral products, transport equipment, basic metals and alloys, non-electrical machinery and electricity, expenses incurred on public issues amounted to less than 3 per cent of their total investment.

While working capital allocations amounted to an average of 18 per cent of investment for all industries, some industries recorded remarkably high values as was true in the case of financial services (91 per cent) and non-electrical machinery (56 per cent). Certain other industries like, water works and supplies, jute textiles and beverages and tobacco, projected an allocation of 20 to 30 per cent of total investment for working capital. The lowest share of less than 5 per cent was seen in paper products and electricity industries. The large shares of working capital in total investment for certain industries suggest that the long-term funds collected from the stock market is used for these short-term needs, especially in financial services. Besides the risk associated with such allocations, it also results in situations where productive investments are not adequately furthered by increased activity in the NIM.

The co-variation (COV) in the share of fixed investment across industries was 25.3, while that of working capital funds stood at 105.6. This suggests greater industry-wise variations in the use of NIM financing for working capital requirements when compared to fixed investments, with some industries more prone to a greater use of these funds for working capital needs. The COV in the case of issue expenses and preliminary and contingent expenses, showed low values due to standardisation and transparency in the fees, commissions and brokerages paid for various intermediaries.
by firms. The core findings are, however, the large participation of financial services firms (mostly NBFCs) in the NIM during the 1990s and the relatively high share (90.6 per cent) of investments by these firms in working capital.

### 6.3.2 Size-wise Trends in the Uses of Funds

Table 6.11 is an analysis of the allocation of capital raised from the market by firms belonging to small, medium and large categories. It reveals that the allocation for working capital was higher among small firms as compared to medium and large firms. Small firms (less than Rs. 5 crores) allocated up to 30 per cent of capital for working capital purposes, but as size increased, the shares dropped to 18 per cent (above 100 crores).

<table>
<thead>
<tr>
<th>SIZE (Cr.)</th>
<th>L&amp;B</th>
<th>M-imp</th>
<th>M-ind</th>
<th>TECH</th>
<th>MFA</th>
<th>F.Ast.</th>
<th>Inst. Ex</th>
<th>P. Ex</th>
<th>CONT</th>
<th>W.C.</th>
<th>L. Ast</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5</td>
<td>12.4</td>
<td>7.8</td>
<td>28.3</td>
<td>1.2</td>
<td>5.5</td>
<td>55.6</td>
<td>4.5</td>
<td>4.5</td>
<td>3.6</td>
<td>29.9</td>
<td>42.5</td>
<td>2</td>
<td>9572.2</td>
</tr>
<tr>
<td>5 cr. - 10</td>
<td>13.5</td>
<td>7.2</td>
<td>27.8</td>
<td>1.9</td>
<td>7.8</td>
<td>63.7</td>
<td>3.7</td>
<td>6</td>
<td>4.8</td>
<td>20.3</td>
<td>34.8</td>
<td>1.5</td>
<td>12643.5</td>
</tr>
<tr>
<td>Small Firms</td>
<td>12.95</td>
<td>10.25</td>
<td>28.15</td>
<td>1.55</td>
<td>6.65</td>
<td>59.5</td>
<td>4.1</td>
<td>5.25</td>
<td>4.2</td>
<td>25.1</td>
<td>36.6</td>
<td>1.75</td>
<td>22174.7</td>
</tr>
<tr>
<td>10 cr. - 20</td>
<td>10.2</td>
<td>14</td>
<td>24</td>
<td>2.2</td>
<td>6.3</td>
<td>56.7</td>
<td>3.9</td>
<td>5.2</td>
<td>4.2</td>
<td>27.1</td>
<td>40.4</td>
<td>3</td>
<td>12984.2</td>
</tr>
<tr>
<td>20 cr. - 40</td>
<td>9.5</td>
<td>16.3</td>
<td>27.4</td>
<td>2.5</td>
<td>7.6</td>
<td>63.3</td>
<td>2.7</td>
<td>6.5</td>
<td>4.2</td>
<td>18.1</td>
<td>31.5</td>
<td>5</td>
<td>8378.9</td>
</tr>
<tr>
<td>Med. Firms.</td>
<td>9.85</td>
<td>15.15</td>
<td>25.7</td>
<td>2.35</td>
<td>6.95</td>
<td>60.0</td>
<td>3.3</td>
<td>5.85</td>
<td>4.2</td>
<td>22.6</td>
<td>35.9</td>
<td>4</td>
<td>21367.1</td>
</tr>
<tr>
<td>40 cr. - 100</td>
<td>12.4</td>
<td>18.6</td>
<td>22.4</td>
<td>3.4</td>
<td>6.7</td>
<td>63.5</td>
<td>3.3</td>
<td>6.7</td>
<td>5.5</td>
<td>17.1</td>
<td>32.6</td>
<td>3.9</td>
<td>10751.9</td>
</tr>
<tr>
<td>Above 100</td>
<td>4.2</td>
<td>7</td>
<td>41.6</td>
<td>3.7</td>
<td>6.6</td>
<td>63.1</td>
<td>2.2</td>
<td>7.1</td>
<td>7.7</td>
<td>19.7</td>
<td>36.7</td>
<td>0.2</td>
<td>36372.3</td>
</tr>
<tr>
<td>Large Firms</td>
<td>8.9</td>
<td>12.8</td>
<td>32</td>
<td>3.55</td>
<td>6.65</td>
<td>63.3</td>
<td>2.75</td>
<td>6.9</td>
<td>6.6</td>
<td>18.4</td>
<td>34.6</td>
<td>2.85</td>
<td>47134.2</td>
</tr>
</tbody>
</table>

Source: Extracted from the sample data.

One factor explaining this could be the greater difficulty faced by small firms in obtaining working capital loans from banks and other sources. At a more aggregate level, however, this tendency was less pronounced. On the whole, investment in fixed assets amounted to nearly 60.0 per cent of total capital for both small and medium firms, while that for big firms rising to 63.3 per cent. Issue expenses were also higher for small firms. This is to be expected since even for small issues ‘overheads’ remain the same as in the case of mega-issues, thus, increasing the cost of public issues for small firms.

### 6.4 NIM and Trends in Financing of Existing Companies

A remarkable characteristic of the capital market in the 1990s was that a number of existing firms repeatedly turned to the market with public and rights issues, to finance their investment needs. This section concentrates on such firms which came to the

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14 Overheads here refer to fees and commission paid to registrar, brokers, merchant bankers and expenses on other services like printing, marketing, etc.
market more than once with issues, during the period 1989 to 1995. Such an analysis becomes vital to identify the choices of firms in which the market had higher confidence (existing firms) in the market, in terms of channels and instruments. The sample used for the purpose is the complete population, of both rights and public issues, over the period from March 1989 to March 1995.15

It was found that, of the 5092 issues16 announced during this period, an overwhelming majority (3377 issues) was by firms that resorted to only a single issue during the whole period. But, the remaining 1715 issues over this period were accounted for by just 716 firms17. Among these firms making multiple issues, there were two that resorted to as many as 7 issues with different financial instruments, through public and rights channels. This indicates that existing companies found this phase most suitable for mobilising funds from the market and exploited the opportunity to the maximum possible extent.

Table 6.12: The Number of Issues by Existing Companies in NIM

<table>
<thead>
<tr>
<th>The Number of Times Firms Came with Issues</th>
<th>No. of Firms</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twice</td>
<td>514</td>
<td>71.8</td>
</tr>
<tr>
<td>Thrice</td>
<td>145</td>
<td>20.3</td>
</tr>
<tr>
<td>Four</td>
<td>42</td>
<td>5.8</td>
</tr>
<tr>
<td>Five</td>
<td>8</td>
<td>1.1</td>
</tr>
<tr>
<td>Six</td>
<td>5</td>
<td>0.7</td>
</tr>
<tr>
<td>Seven</td>
<td>2</td>
<td>0.3</td>
</tr>
<tr>
<td>Total Firms</td>
<td>716</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source : Extracted from the sample data.

Of the 716 firms which had more than one issue during this period, 72 per cent had resorted to two issues, while 20.3 per cent had resorted to three issues during this phase. The firms that resorted to four or more issues accounted for 8 per cent of the total issues. The two companies that had resorted to seven issues during this period were Kalyani Steels Ltd. and Videocon International Ltd. In both cases, two out of the seven issues were in the form of premium issues, while the rest were in the form of debentures. Overall, it does emerge that most of the companies capable of multiple issues resorted to debentures or hybrid instruments. This corroborates our earlier conclusion that there was a decrease in the degree of equitisation of large firms during the nineties.

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15 Though the analysis in this section includes many of the firms taken in the sample, it is based on an independent source of data. The complete data was collected from the Prime Database Annual Reports on the primary market.
16 The complete population of issues during the period from March 1989 to March 1995.
17 Firms here include non-manufacturing corporate bodies like, financial institutions, banks and non-banking financial companies, in addition to manufacturing firms, that had actively participated in the market.
The occurrence of multiple issues in a single year by the same firms was found to be increasing with capital market liberalisation in 1992 (Figure 6.3). The number of firms resorting to more than one issue in the same year increased from 7 in 1989 to 96 in 1993 and 89 in 1994\textsuperscript{18}, due, in part, to the boom in the primary market during the period 1992 to 1994.

**Figure 6.3 : Prominent Years in terms of Frequency of Issues by Firms**

![Graph showing the frequency of issues by firms from 1989 to 1995.](image)

In fact, 212 of the 716 firms resorting to multiple issues had turned to the market in 1992 and 30 per cent of them opted for more than one issue in that year. The number of firms announcing such an issue increased from 1989 to reach a peak in the year 1992, after which the number fell and returned to the 1989 level by the end of the period. This was partly because the market was increasingly crowded with firms that were resorting to single issues, as was evident from the results of our earlier analysis. Thus, it can be concluded that most large firms reacted quickly to the NIM boom during 1992 to 1994, and exploited the benefit of the euphoria generated by liberalisation, to the maximum.

### 6.4.1 Preferences of the Existing Companies for Financial Instruments

Table 6.13 illustrates the changing preferences of firms for different instruments issued through the NIM in the 1990s. The relative popularity of various financial instruments depends on the expected returns and the repayment structure of the issues.\textsuperscript{19} It appears from the results that most of the firms used premium (574) issues as the

---

\textsuperscript{18} Data for 1995 is only for three months, and recorded 41 multiple issues.

\textsuperscript{19} Besides factors like take-over threats, debt-equity ratios, agency problems, moral hazard problems etc.
instrument of financing, followed by equity (535) and FCDs (315). Equity was clearly the more preferred instrument in the years 1991 and 1992. But, by 1992, there are signs of a shift in favour of premium issues. The number of premium issues increased from 8 in 1989 to 157 in 1994. As a result, between the CCI and post-CCI phases, the number of premium issues increased by 825.0 percent, as compared with 13.1 per cent in the case of equity and 76.1 per cent in the case of debentures issued by the existing firms.

Table 6.13: Financial Instruments used by Existing companies in NIM

<table>
<thead>
<tr>
<th>Years</th>
<th>Equity</th>
<th>Premium</th>
<th>Debentures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>39</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>1990</td>
<td>89</td>
<td>23</td>
<td>69</td>
</tr>
<tr>
<td>1991</td>
<td>123</td>
<td>25</td>
<td>112</td>
</tr>
<tr>
<td>CCI</td>
<td>251</td>
<td>56</td>
<td>201</td>
</tr>
<tr>
<td>1992</td>
<td>140</td>
<td>106</td>
<td>123</td>
</tr>
<tr>
<td>1993</td>
<td>69</td>
<td>179</td>
<td>103</td>
</tr>
<tr>
<td>1994</td>
<td>52</td>
<td>157</td>
<td>94</td>
</tr>
<tr>
<td>1995*</td>
<td>23</td>
<td>76</td>
<td>34</td>
</tr>
<tr>
<td>Post CCI</td>
<td>284</td>
<td>518</td>
<td>354</td>
</tr>
<tr>
<td>Growth</td>
<td>13.1</td>
<td>825.0</td>
<td>76.1</td>
</tr>
</tbody>
</table>

Note: (1) * = January to March of 1995, (2) Growth is between the CCI period and Post CCI period. Source: Extracted from the sample data.

One factor explaining this shift in favour of premium issues could be the liberalisation of equity pricing rules. Although debenture issues were more popular among existing companies during the period 1991 to 1993, FCDs, which again are a proxy for equity, were the main contributors to this growth. FCDs are initially accounted for as debentures, though these instruments are fully convertible into equity, with a premium. Most FCDs issued in the market are convertible into equity at a future date with a premium just as premium instruments are, with the added advantage that they yield a fixed amount of interest in the initial years, just like debt.

Table 6.14: Instruments Used by Corporate Firms for Frequent Issues

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Premium</td>
<td>574</td>
<td>33.4</td>
<td>8</td>
<td>Bonds</td>
<td>9</td>
<td>99.1</td>
</tr>
<tr>
<td>2</td>
<td>Equity</td>
<td>535</td>
<td>64.6</td>
<td>9</td>
<td>EODW</td>
<td>6</td>
<td>99.4</td>
</tr>
<tr>
<td>3</td>
<td>FCDs</td>
<td>315</td>
<td>83</td>
<td>10</td>
<td>FC-Bonds</td>
<td>3</td>
<td>99.6</td>
</tr>
<tr>
<td>4</td>
<td>PCDs</td>
<td>146</td>
<td>91.5</td>
<td>11</td>
<td>OCDs</td>
<td>2</td>
<td>99.7</td>
</tr>
<tr>
<td>5</td>
<td>NCDs</td>
<td>92</td>
<td>96.9</td>
<td>12</td>
<td>DDB-EW</td>
<td>2</td>
<td>99.8</td>
</tr>
<tr>
<td>6</td>
<td>EW</td>
<td>15</td>
<td>97.7</td>
<td>13</td>
<td>RCPS</td>
<td>1</td>
<td>99.9</td>
</tr>
<tr>
<td>7</td>
<td>CCPS</td>
<td>14</td>
<td>98.5</td>
<td>14</td>
<td>POCDS</td>
<td>1</td>
<td>99.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15</td>
<td>SPN</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>16</td>
<td>Total</td>
<td>1716</td>
<td></td>
</tr>
</tbody>
</table>

Source: Extracted from the sample data.
Thus, equity and 'equity-related instruments' dominated the market during this period. More than 91 percent of issues, in this period, were of equity or equity-related instruments. This implied that, even firms having 'goodwill' advantages used equity to enhance their net-worth in this phase.

It is evident that existing firms adopted a strategy of not dispersing their equity, as in many cases they resorted to rights issues to existing shareholders, thus avoiding the risk of take-overs and keeping out unwanted speculative investors. In fact, most large private corporate firms had less equity issued through the public issue channel as compared to rights issues.

**Table 6.15**: Frequently Used Channels by Firms with Multiple Issues

<table>
<thead>
<tr>
<th>Times</th>
<th>Right Issue</th>
<th>Percentage</th>
<th>Public Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>370</td>
<td>48.5</td>
<td>393</td>
<td>51.5</td>
</tr>
<tr>
<td>Two</td>
<td>238</td>
<td>64.9</td>
<td>129</td>
<td>35.1</td>
</tr>
<tr>
<td>Three</td>
<td>39</td>
<td>72.2</td>
<td>15</td>
<td>27.7</td>
</tr>
<tr>
<td>Four</td>
<td>5</td>
<td>83.3</td>
<td>1</td>
<td>16.7</td>
</tr>
<tr>
<td>Five</td>
<td>2</td>
<td>66.7</td>
<td>1</td>
<td>33.3</td>
</tr>
<tr>
<td>Total</td>
<td>654</td>
<td>54.8</td>
<td>539</td>
<td>45.2</td>
</tr>
</tbody>
</table>

Source: Extracted from the sample data.

Further, the average size of rights issues was much higher than that of public issues, for companies that opted for more than one issue. A large share of even these rights issues were in the form of premium instruments and debentures rather than equity. Both these instruments put together accounted for Rs. 6,609.25 crores, which itself was more than the total funds collected through public issues.

**Table 6.16**: Average Size of Funds Collected from NIM by Firms with Multiple Issues

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Average Size of Issues</th>
<th>Total Funds Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rights Issues</td>
<td>Public Issues</td>
</tr>
<tr>
<td>Equity</td>
<td>4.88</td>
<td>4.84</td>
</tr>
<tr>
<td>Premium Issues</td>
<td>21.58</td>
<td>26.67</td>
</tr>
<tr>
<td>Debentures*</td>
<td>41.00</td>
<td>43.74</td>
</tr>
</tbody>
</table>

Note: * includes FCD, NCD, PCD, OCD and other hybrid instruments.

Source: Extracted from the sample data.

Table 6.16 provides a complete picture of the funds raised by existing Indian corporate firms from the primary market between 1989 and 1995. This compares with Table 6.17, which relates to firms that resorted to more than one issue. The results here suggest that there was a subtle strategy adopted by private firms to route most debt-
creating issues through the public issue channel, while restricting equity issues largely to existing shareholders.

Of the 5070 issues analysed here, 2867 are equity issues, 1393 are issues of premium instruments and 399 are issues of FCDs. All of these amount to direct or indirect issues of equity. Together, they constituted 91 per cent of total issues. Pure debt creating issues were only bonds, non convertible debentures (NCDs) and hybrids of NCDs, totalling 110 in number and accounting for just 2.2 per cent of total issue value. Other instruments used included PCDs and other hybrid instruments like cumulative convertible preference shares (CCPS), EODW and equity warrants (EW), which together accounted for another 5.6 per cent.

Table 6.17: Rights and Public Issues as Strategy of Private Corporate Sector Firms

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Public</th>
<th>Right</th>
<th>Difference</th>
<th>Total</th>
<th>Public</th>
<th>Right</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>2370.0</td>
<td>0.0</td>
<td>2370.0</td>
<td>2370</td>
<td>197.5</td>
<td>0.0</td>
<td>197.5</td>
</tr>
<tr>
<td>CCPS</td>
<td>131.1</td>
<td>51.1</td>
<td>80.0</td>
<td>182.2</td>
<td>11.9</td>
<td>8.5</td>
<td>3.4</td>
</tr>
<tr>
<td>EODW</td>
<td>528.9</td>
<td>153.4</td>
<td>375.5</td>
<td>682.3</td>
<td>75.6</td>
<td>15.3</td>
<td>60.2</td>
</tr>
<tr>
<td>Premium</td>
<td>11451.8</td>
<td>11780.0</td>
<td>-328.2</td>
<td>23231.8</td>
<td>14.9</td>
<td>18.8</td>
<td>-3.9</td>
</tr>
<tr>
<td>Equity</td>
<td>7975.7</td>
<td>3679.9</td>
<td>4295.8</td>
<td>11655.6</td>
<td>3.7</td>
<td>5.1</td>
<td>-1.4</td>
</tr>
<tr>
<td>EW</td>
<td>0.0</td>
<td>375.4</td>
<td>-375.4</td>
<td>375.4</td>
<td>0.0</td>
<td>26.8</td>
<td>-26.8</td>
</tr>
<tr>
<td>FCD#</td>
<td>5395.3</td>
<td>8380.1</td>
<td>-2984.9</td>
<td>13775.4</td>
<td>34.6</td>
<td>34.5</td>
<td>0.1</td>
</tr>
<tr>
<td>NCD</td>
<td>484.4</td>
<td>1044.4</td>
<td>-560.0</td>
<td>1528.8</td>
<td>28.5</td>
<td>38.7</td>
<td>-10.2</td>
</tr>
<tr>
<td>NCD-EW</td>
<td>679.5</td>
<td>3029.7</td>
<td>-2350.2</td>
<td>3709.2</td>
<td>113.2</td>
<td>63.1</td>
<td>50.1</td>
</tr>
<tr>
<td>PCD</td>
<td>4535.2</td>
<td>5842.4</td>
<td>-1307.3</td>
<td>10377.6</td>
<td>45.4</td>
<td>42.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Others 21</td>
<td>4597.3</td>
<td>771.9</td>
<td>3825.4</td>
<td>5369.2</td>
<td>510.8</td>
<td>128.6</td>
<td>382.2</td>
</tr>
<tr>
<td>Total</td>
<td>38149.1</td>
<td>35108.3</td>
<td>3040.8</td>
<td>73257.4</td>
<td>94.2</td>
<td>34.7</td>
<td>59.5</td>
</tr>
</tbody>
</table>

Note: # Includes FCD equity warrant and FCD bond as these were very few in number.
Source: Extracted from the sample data.

Some of the hybrid instruments like equity warrants and NCD-EW were issued largely through the rights channel. Though equity warrants issued totalled Rs. 375.4 crores, there was no public issue of this instrument. Similarly, out of a total issue of Rs. 3709.2 crores of NCD-EW, Rs. 3029.7 crores worth was issued through the rights channel. This reveals the clear bias of existing companies towards existing shareholders.

Though existing firms used equity, premium instruments and debenture-related instruments for raising capital from the market, the market reflected a preferential bias in the type of instrument used in the case of multiple issues by a single company. Table 21 Others include optional fully convertible debentures, partially optional convertible debenture, total optional convertible debenture, multiple option convertible debenture, double discount bonds, redeemable convertible preference shares, secured preference share with Warrant (SPW), optional convertible debentures, optional fully convertible debentures and double discount bonds with equity warrants.
6.18 clearly indicates that a large majority of existing firms that turned to the market twice, favoured equity and premium instruments. However, in the case of firms which issued more than three times, there was a clear preference for debentures when compared with equity and premium issues.

<table>
<thead>
<tr>
<th>Times Issued by a Firm</th>
<th>Number of Issues</th>
<th>Percentage to total in each row</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity</td>
<td>Premium</td>
</tr>
<tr>
<td>One time</td>
<td>210</td>
<td>233</td>
</tr>
<tr>
<td>Two times</td>
<td>151</td>
<td>140</td>
</tr>
<tr>
<td>Three times</td>
<td>5</td>
<td>16</td>
</tr>
<tr>
<td>Four times</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Five times</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Six times</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>368</td>
<td>392</td>
</tr>
</tbody>
</table>

Source: Extracted from the sample data.

6.5 Conclusion

The results from the analysis on dependency of firms by size and age of firms suggests that dependency on the NIM is inversely related to size and age. Thus, small and young firms were more dependent on stock market funds. Further, existing firms appear to have chosen a strategy of realising equity finance more through rights channels than public issue channels.

The analysis of sources of financing further confirms the process of disintermediation. Sources like term loans form banks and financial institutions showed a drop in share in total finance from 50.2 percent in the CCI period to 19.2 percent in the post-CCI period. This decrease in the share of term loans was largely due to a greater reliance of the private corporate firms on stock market-based funds and partly on internal sources. Premium sources also registered high growth during this period. But, the size and age-wise analyses show that stock market-based funds were used largely by small / young and middle-aged / medium firms, while the large / old firms relied on various other sources like term loans and public deposits etc. Thus, the nineties was a period of growth in the equity-market, largely because of the growing participation of firms from the medium / middle-aged and small / young categories.

This phase showed signs of growing investment in intangible assets. With growing investments in the services sector and high shares of investments in these
sectors in working capital, there was an overall decrease in the share of productive investments (fixed assets).

The implications of these trends in the projected sources of financing and patterns of investment of firms participating in the NIM need to be noted. With long term funds flowing into short-term investments and capital moving away from productive to financial investments, primary market investments are turning more risky. This could lead to a substantial increase in volatility in the secondary market over a period of time. Further, with the equity boom encouraging large investments in small / young firms, whose representation in trading activities is low, investors could be faced with a lack of liquidity, leading to decreased confidence in the NIM, in future.