CHAPTER VIII

Summary and Conclusions
Attainment of higher rate of economic growth is a major goal of national policy in all the countries of the world irrespective of their level of development and differences in their political and social structure. For developing countries such as those included in the third world category, particularly a country with massive population and resource problems like India, a high rate of economic development is more essential for breaking the vicious circle of poverty. Economic development has a direct relationship with industrialisation. The industrial development of a country helps not only in optimising the utilisation of its natural resources but also in diversification of its economy. In India, unfortunately the pace of industrial growth has not been commensurate with the size and demand of the country and remained lopsided during the pre-independence period. Soon after independence India’s economic plans envisaged the setting up of a wide spectrum of industries as a crucial development strategy to achieve self sustaining economic growth, which would require a massive capital.

Finance is to industry what blood is to the human body and the lending institutions act as blood banks to the large and medium scale sectors. Financial support in adequate measure from institutional source is not only
essential for the growth of industry but is perhaps even necessary for its very survival. In India, the existing financial arrangements were incapable of coping with the burgeoning financial requirements of upcoming enterprises. Although the country had a network of strong and developed commercial banks, these institutions working on the British Banking Model, confined themselves to short-term financial activity and abstained from supplying long-term financial assistance. There was, moreover, dearth of issue houses and underwriting firms which sponsor security issues. As against the limited arrangement for the supply of long-term financial facility, there was enormous increase in the demand for capital not only for reconstructing, modernisation, expansion and diversification of existing industries but also for the establishment of new industrial projects in a gigantic scale in the capital goods sector. Hence, it was felt necessary to set up special financial institutions or development banks in order to fill the gap between demand for and supply of financial resources in the field of industrial finance and to foster economic development. The development banks are not only the financial agencies that are merely engaged in providing medium and long-term assistance to business undertakings, but they are also catalytic agents in promoting a balanced and a viable process of development by assuming promotional role of discovering investment projects, undertaking the
managerial services and sometimes establishing and managing industrial units. In India, so far, six national level development banks were set up to cater to the needs of the industrialists. They are - IFCI, ICICI, IDBI, IRCI, SCICI and SIDBI.

In addition to the national level development banks, state level development banks, viz., State Finance Corporations (SFCs) and State Industrial Development Corporations (SIDCs) were set up with the objective of achieving balanced regional development and ultimately enriching the entire society through the highest standard of living. While the SFCs have been playing increasing role in financing the small scale sector, the SIDCs are to take care of the medium scale sector. The Andhra Pradesh Industrial Development Corporation (APIDC) was established in 1960 with an authorised capital of Rs. one crore which has gone up to Rs. 100 crores as on February, 1992. The APIDC has been playing a vital role in catering to the needs of the industrial finance in Andhra Pradesh for the last 36 years. At this stage, it is worth while to critically examine the performance of APIDC in achieving the set objectives so that the constraints, if any, could be identified and the policies and the procedures could be improved in the light of such delving.
The yesteryear studies on the performance of APIDC have mainly concentrated either on progress of APIDC in terms of assistance given to industrial units or on the role of APIDC with special reference to joint venture units. Major parameters such as the role of APIDC in the development of backward areas, inter district investments in industrial projects, inter-sectoral investment pattern were not examined. The present study is a modest attempt to overcome the above limitations of the earlier studies. The objectives of the study are:

1. to review scheme-wise, industry-wise and region-wise performance of development banks,
2. to evaluate specific role of development banks in the development of backward areas in the country,
3. to analyse scheme-wise, industry-wise and region-wise performance of APIDC,
4. to examine the role of APIDC in the development of backward areas in the state of Andhra Pradesh,
5. to assess the role of APIDC in generating employment opportunities,
6. to analyse the financial structure of APIDC,
7. to evaluate the financial performance of the assisted units and joint ventures of APIDC, and
8. to make suitable suggestions, if any, in the light of the findings for improving the performance of APIDC.
8.1.1 METHODOLOGY

To examine the objectives of the study relevant data were collected from primary and secondary sources. The primary data were collected from annual reports of the selected industrial units. Personal interviews were also conducted to ascertain the views of entrepreneurs and top executives of selected companies on various aspects of the working of the industrial units, problems involved in getting loans sanctioned by APIDC, adequacy of loans etc. In addition, secondary data were collected from annual reports of IDBI, IFCI, Report on Development Banking in India, annual reports of APIDC, unpublished records from APIDC, Andhra Pradesh State Industrial Directory and A.P. Industrial Hand Book.

The sample Industrial Units were drawn on the basis of stratified random sampling method. The industrial units were classified into nine categories based on the line of manufacturing such as food, electrical and electronics, mineral based, mechanical, chemical, leather, hotels, textiles, and others. Out of the total working units in each category, one third of them were selected for the study. In case of joint ventures, since the number of working industrial units are very few, all the units were considered for the study.
8.1.2 DIMENSIONS OF DEVELOPMENT BANKING

The various theoretical dimensions of development banking were discussed in the second chapter of the study. There is hardly any disagreement among the policy makers, planners and the analysts on the importance of development banking in India. The development banks as distinguished from commercial banks and other financial institutions have some unique features of their own. The development banks have development outlook and aim at optimisation of social profits, enterprise creation and promotion, decentralised, diversified and diffused growth, enhancing productivity of investment, technical upgradation, generation and enhancement of skills, development of capital market, research, acquisition and proper allocation of foreign capital and finally acting as entrepreneurs in countries or parts of countries which are specially backward in industrial development with lack of entrepreneurship.

The objectives of development banking in India are -activising the dormant entrepreneurship through technical, managerial, financial and marketing assistance, to provide medium and long-term credit, to develop efficient managerial resources, to achieve balanced regional development, to facilitate the development of small industries etc.,. To achieve the above objectives, development banks performs functions which are partly financial and partly
developmental. The direct financial function of development banks are - grant of loans, underwriting, direct subscriptions and guaranteeing, while the indirect financial functions are - refinancing and rediscounthing. Besides financial functions, development banks also undertake promotional/developmental functions such as industrial potential surveys, follow-up of project ideas, preparation of feasibility reports, evolving suitable strategy for industrial development, providing technical consultancy service and organisation of entrepreneurial training programmes.

The capital structure of development banks chiefly comprises of four elements viz., paid-up capital, reserves and surplus, bonds and debentures and borrowings besides other liabilities. An analysis of the capital structure of development banks indicated that the share of paid-up capital and borrowings in total liabilities declined from 7.27 per cent and 72.62 per cent in 1970-71 to 2.35 per cent and 39.27 per cent respectively in 1992-93, while the share of reserves and surplus, bonds and debentures and other liabilities increased during the period. The increase in the share of bonds and debentures was more spectacular, which raised from 10.89 per cent in 1970-71 to 44.76 per cent in 1992-93.
8.1.3 FUNCTIONAL ANALYSIS OF DEVELOPMENT BANKS

The performance of development banks was evaluated in the third chapter of the study.

8.1.3.1 Assistance Sanctioned by Financial Institutions

The financial institutions are playing a vital role in supplying industrial finance. The study revealed that the financial assistance sanctioned by all financial institutions has grown up significantly from Rs.223.90 crores in 1970-71 to Rs.34084.40 crores in 1992-93. Among the financial institutions, development banks' contribution to industrial finance was very high. (82.53 per cent). It is noticed that while the share of development banks continued to be around 90 per cent until 1983-84, the share of investment institutions remained more or less stagnant over the period thereby raising the doubt whether the capital market would grow to its full potential. However, with the introduction of 'buy-back scheme', the share of investment institutions significantly increased since 1984-85. The increase in the share of investment institutions was more spectacular during 1992-93 which might be due to privatisation drive in India as an integral part of globalisation and structural adjustment programme. To have an idea of rate of growth of assistance during 70s, 80s and 90s, the compound growth rates were computed, which revealed that the assistance of AFIAs, DBs, and IIs grew at the rate
of 24.9 per cent, 24.2 per cent and 29.10 per cent respectively during 1970-71 - 1979-80. During the subsequent period (1980-81 to 1989-90) the rate of growth of assistance of APIs and DBs declined while the rate of growth of assistance of IIs increased while in nineties the growth of assistance sanctioned by APIs and IIs increased and the rate of growth of DBs financial assistance marginally declined.

8.1.3.2 Utilisation of Assistance

The actual benefit accruing to the industrialists can be understood in terms of disbursements made by the financial institutions. The disbursements as percentage of sanctions i.e. utilisation ratio (based on cumulative date upto 1993) was 67.86 per cent, 66.59 per cent and 74.31 per cent in case of APIs, DBs and IIs respectively. The utilisation ratio in case of IIs increased from 45.5 per cent in 1970-71 to 77.32 per cent in 1992-93, indicating increased interest and motivation on the part of the applicants to avail the assistance sanctioned, while the utilisation ratio in case of DBs marginally declined from 70.32 per cent in 1970-71 to 67.44 per cent in 1992-93 which might be due to difficulty in completing several formalities by the industrialists. An analysis of the growth of the disbursements revealed that the average annual disbursements
of AFIs, DBs, and IIs grew at the rate of 24.5 per cent, 24.5 per cent and 34.8 per cent respectively during 1970-93.

8.1.3.3 Institution-wise Assistance of Development Banks

Among the development banks, IDBI occupied first place with a share of 43.37 per cent in the cumulative assistance of total development banks upto 1993, followed by ICICI and SFCs. Though the share of IDBI declined during 1980s and 90s, it continues to occupy the first place. The share of two state level development banks (SFCs & SIDCs) declined from 24.82 per cent in 1964-65 to 12.67 per cent in 1992-93.

8.1.3.4 Sector-wise Assistance

The analysis of assistance sanctioned by development banks across the sectors revealed that the private sector claimed a lion’s share of 80 per cent of the sanctions cumulative upto the end of March, 1993. Next in prominence has been the public sector followed by the joint sector. The low level of 2.07 per cent share in cumulative assistance to co-operative sector was mainly due to the low level of development of co-operative institutions in the country.

8.1.3.5 Purpose-wise Assistance

Purpose-wise analysis of development banks' assistance revealed that new investments received the top
priority which constituted 58.41 per cent of the total assistance sanctioned by the development banks. It is also noted that though new investments claimed first place, its share in total assistance declined from 43.91 per cent in 1978-79 to 37.18 per cent in 1992-93. Next in the importance was the assistance for modernisation followed by expansion. Among the development banks, IRBI rendered major share of assistance for modernisation purpose while the other banks gave top priority to investment in new projects.

6.1.3.6 Industry-wise Assistance

An attempt was made to review the industry-wise pattern of assistance by development banks. A look at the industry shares in cumulative assistance revealed that six industries viz., textiles, chemical and chemical products, machinery, electricity generation, food products, and basic metals accounted for 50 per cent of assistance sanctioned by the development banks. Services and others together accounted for 24.96 per cent. Trend analysis indicated that though the share of the six industries declined from 52.4 per cent in 1978-79 to 42.8 per cent in 1986-87, subsequently increased to 54.16 per cent in 1992-93. The study also revealed that agro-based industries received greater part of the cumulative assistance during 1970-93 followed by chemical industry and metal based industries. Diversion of assistance, even though more biased towards
agro-based industries, it may be considered as the desirable pattern of assistance in countries like India in view of the larger employment potential associated with these industries.

8.1.3.7 Region-wise Assistance

The persistent complaint against the working of the development banks is that they have been favouring the 'Big Business', the consequence of which is the non-realisation of regional development and dispersal of economic power objectives. State-wise distribution of development banks' assistance revealed that Goa, Punjab, Haryana, Maharashtra, Gujarat, Arunachal Pradesh, Sikkim and Tamil Nadu which are relatively high-income states together accounted for 48.32 per cent of the total sanctioned assistance upto March, 1993. The poorest eight states viz; Bihar, Orissa, Tripura, Uttar Pradesh, Jammu and Kashmir, Manipur, Assam and Rajasthan together accounted for a mere 14.91 per cent of the development banks' sanctioned assistance.

In order to test the relationship between percapita incomes of states and their share in development banks' assistance, rank correlation co-efficient was computed, which indicated that the relatively high income
states obtained larger share of assistance of the development banks.

8.1.3.8 Assistance to Backward Areas

An analysis of development banks' assistance to backward areas showed that the relative share of assistance to backward areas has been declining though not consistently from 49.75 per cent in 1978-79 to 33.61 per cent in 1992-93 and accounted for 40.18 per cent of cumulative assistance upto 1993. It is also observed that Goa, Punjab, Haryana, Gujarat and Maharashtra, the top five high-income states, enjoyed a claim of 28.83 per cent in the total assistance sanctioned to backward areas in the country by development banks while Bihar, Orissa, Tripura, Uttar Pradesh and Jammu and Kashmir claimed 17.66 per cent of total assistance which implies that a major chunk of assistance to backward areas in the country is enjoyed by the backward areas of the developed states. Thus, the development banks are not seriously taking into account the relative levels of development of states and the flow of resources to different states is not guided by considerations of balanced regional development. Institution-wise analysis revealed that SIDCs provided the highest proportion of assistance to backward areas followed by SFCs.
8.1.4 APIDC: A THEORETICAL FRAMEWORK

The Andhra Pradesh Industrial Development Corporation (APIDC), a fully owned undertaking of the Government of Andhra Pradesh, incorporated as a private limited company in 1960, is the first of its kind to be set up in the country. The specific objectives of the corporation were: 1. to help develop the entrepreneurial base in the state, 2. to promote large and medium scale industries for rapid industrialization, 3. to effect a rational transfer of resources with a view to reducing regional imbalances, and 4. to create additional employment opportunities.

The APIDC renders financial assistance to large and medium scale units in various modes such as participation in equity and preference share capital, underwriting of new issues of equity and preference shares, guaranteeing deferred payments, providing term loans to industries and extending seed capital assistance to technocrats. Under term loan scheme, APIDC sanctions term loans to new units, for modernisation, for purchase of equipment and for nursing homes. Besides financial functions, the APIDC also undertakes promotional activities such as project promotion, escort services, entrepreneurial training etc. Besides, APIDC implements a number of schemes such as scheme for modernisation of medium
industries, special capital scheme for women entrepreneurs and refinance for sick units rehabilitation.

The corporation channelises its investment in three schemes viz., assisted units, joint ventures and subsidiaries. The resources for the investment and promotional activities of the corporation were mobilised through issuing of debentures, loans from APIIC, IDBI and Government of Andhra Pradesh. An analysis of resource mobilization during 1973-74 - 1987-88 revealed that the corporation mobilised major share of resources from IDBI and Government of Andhra Pradesh.

8.1.5 PERFORMANCE OF APIDC

The performance of APIDC is critically examined in the fifth chapter.

8.1.5.1 APIDC Vis-a-Vis Other SIDCs

The study revealed that among the 26 SIDCs, the SIDC of U.P occupied first rank with cumulative assistance of Rs.1130.40 crores followed by SIDCs of Maharashtra, Gujarat, Karnataka and Punjab. Though APIDC occupied seventh place in terms of total assistance and percentage share of assistance, it lagged behind in terms of per capita sanctions. The computed quotients of assistance were observed to be less than unity in eleven states signifying that the average per capita assistance in these states is
less than the average per capita of other states. In respect of disbursements, the SIDC of Maharashtra occupied first rank followed by SIDCs of U.P. and Gujarath while the performance of APIDC was relatively poor.

8.1.5.2. Sanctions and Disbursements of APIDC

Trend analysis of APIDC's sanctions during 1978-79 - 1994-95 indicated enormous increase from 974.81 crores in 1978-79 to 2316.63 crores in 1994-95. The sanctions of the corporation grew at the compound growth rate of 1.21 per cent during the period while the disbursements grew at the rate of 1.95 per cent. It is also observed that the utilization ratio increased, though not consistently, from 51.62 per cent in 1978-79 to 72.92 per cent in 1994-95. The low utilization ratios during the years 1990-91 and 1991-92 might be partly due to the failure of the industrialists to respond quickly to sudden and unanticipated changes in the industrial policy in the context of new economic policy. However, an improvement in utilization is noticed subsequently indicating increasing interest and motivation on the part of the applicants to avail the assistance sanctioned.

8.1.5.3 Pattern of Assistance

The corporations' investment portfolio mainly consists of investment in equity, term loans and seed
capital. The study indicated that term loans accounted for 69.82 per cent of the cumulative sanctions, while equity and seed capital accounted for 27.81 per cent and 2.77 per cent respectively. The annual average sanctions as equity and term loans though declined during 1985-90, increased marginally during 1990-95. The average annual sanctions as seed capital continuously declined indicating lack of interest and motivation on the part of technically qualified personnel to take advantage of the facility available to them.

8.1.5.4 Scheme-wise Assistance

The corporation has promoted/assisted 619 units in different parts of the state by the end of March, 1992. Of these 395 units have gone into production and the balance of 224 were under different stages of implementation. The scheme-wise analysis indicated that the APIDC has sanctioned financial assistance to 545 assisted units, 68 joint ventures and six subsidiaries. Of the total sanctions, assisted units claimed a major share (83.21 per cent) followed by joint venture units (14.23 per cent) while the subsidiaries claimed a very meagre share of assistance. Similar trend was noticed in case of production units and units under implementation.
8.1.5.5 Industry-wise Assistance

One of the objectives of the corporation is to establish such industrial units as would fully exploit locally available resources and create industrial climate required for further industrialisation in the state. The industry-wise classification of units promoted/assisted, amount of sanctions made by the corporation revealed that the two industrial categories - chemical industries and engineering industries accounted for about 52 per cent of the total sanctions. This is an indication of the importance accorded to the basic and capital intensive industries in consonance with the general pattern of priorities and policies adopted in planning. The agro-based industry accounted for about 12 per cent of total sanctioned assistance. The share of mineral based industry is observed to be least in comparison with other industrial categories.

8.1.5.6 Region-wise Assistance

One of the objectives of the corporation is to achieve balanced regional development. An analysis of region-wise distribution of assistance revealed that Telangana region accounted for a major share (60 per cent) of the sanctions, followed by Coastal Andhra (25 per cent), while Rayalaseema region lagged behind with regard to it's share in total sanction. The computed quotient value for Telangana region was more than unity signifying that the per
capita sanctions in this region is relatively higher. The quotient values for coastal Andhra and Rayalaseema are less than unity, which means that these two regions had not received their due share in the sanctioned assistance of the corporation.

Further, scheme-wise analysis indicated that emphasis was given to joint ventures in Rayalaseema and Coastal Andhra regions, while the emphasis is on assisted units in Telangana region. It is also noted that the share of equity assistance in total assistance sanctioned to Telangana region was relatively less (22.78 per cent) in comparison with Coastal Andhra (37.83 per cent) and Rayalaseema (30.06 per cent) regions, while the share of term loan and seed capital in total assistance sanctioned to Telangana region is noticed to be more than that of Rayalaseema and Coastal Andhra regions. In case of disbursements also, Telangana region claimed a higher share of disbursements. However, the rate of utilization is observed to be less in Telangana in comparison with the other regions.

8.1.5.7 District-wise Assistance

District-wise distribution of assistance indicated uneven distribution, a few districts receiving more investment while others not getting their due share. The Coefficient of Specialisation (CS) and Hirschman's Index
(HI) indicated higher concentration of assistance among a few districts indicating less degree of diversification. The CS and HI also indicated that the degree of concentration of APIDC assistance is relatively more in Telangana region followed by Rayalaseema and Coastal Andhra regions. This trend need to be checked for such a tendency not only violates the objectives of the corporation but also aggravates regional imbalances which result in lopsided development of the state.

District-wise utilisation of assistance revealed that utilisation ratio did not have any positive relation either with the level of the development of the district or with the share of the districts in total sanctions made by the corporation. However, in districts like Nizamabad, Vizianagaram and Prakasam, which claimed less share in sanctions, the utilisation ratio worked out to be less. Hence, it is very much required to improve the capacity of absorption of funds for industrial development in these districts.

8.1.5.8 APIDC Operations in Backward Areas

The corporation has been playing an important role in promoting industrial development in backward districts of the state. It is interesting to note that backward districts claimed 65.91 per cent of the industrial units
promoted/assisted by the corporation and 69.59 per cent of the total sanctions. The quotient values indicated that the backward districts claimed disproportionately higher share of the assistance than the non-backward districts. The analysis of scheme-wise assistance revealed that more or less equal emphasis is given for assisted as well as joint venture units in backward areas. However, year-wise analysis of the corporations' assistance to backward areas showed declining trend with wide fluctuations. If this trend continues the goal of backward area development may be lost in the long run and hence the required infrastructure facilities are to be augmented in backward regions and the APIDC has to enthuse the entrepreneurs through its promotional activities to undertake industrial units.

8.1.5.9 Employment Generation

One of the objectives of the corporation is to generate employment opportunities through promotion of industrial avenues. The study revealed that as many as 117924 new job opportunities were created in industrial units assisted/promoted by the corporation with an investment of Rs.2.93 lakhs for creating one additional job. Scheme-wise employment generation revealed that the required investment for creating one additional job was less in subsidiaries in comparison with assisted and joint venture units. The investment required for creating one additional
job was less in textile industry, followed by forest based industries, while it was very high in chemical industry. Area-wise analysis indicated that backward areas claimed 60 per cent of total employment generated in the state and the investment required for creating one additional job in backward areas was relatively less in comparison with non-backward areas.

8.1.6 FINANCIAL STRUCTURE AND APPRAISAL OF APIDC

The financial structure of any business organisation or for that matter, of a development bank like SIDC provides an insight into the various long-term and short term funds which have been tapped to finance the total assets employed in the enterprise. The assets of the APIDC and long-term liabilities increased by around 27 times during 1967-77 - 1987-88, while equity raised by less than four times. It is also noticed that the leverage ratio of APIDC improved from 0.24:1 in 1976-77 to 1.77:1 in 1987-88 with limited variability. The observed debt-equity ratio of the corporation can be treated as a favourable one since the accepted ratio is 2:1.

The profitability of APIDC has been done on the basis of investment made by the corporation. The ratio of pre-tax profits to net capital ranged between 0.56 per cent in 1984-85 and 4.63 per cent in 1973-74 indicating declining
trend. More or less similar trend is noticed in case of ratio of profits after tax to net capital employed.

The return on capital fails to reveal as to what has been earned for the proprietors which in turn can be understood by the ratio of profits to net worth. The ratio of pre-tax profits to net worth of the corporation was observed to be inconsistent during the study period. Until 1985-86, the rate of return on net worth was positive but suddenly it turned out to be negative in 1987-88. More or less similar trend is noticed in ratio of post-tax return to net worth also.

8.1.7 COMPARATIVE EFFICIENCY OF INDUSTRIAL ENTERPRISES

The APIDC, in its endeavour to achieve industrial development will be successful only when it's assisted units have healthy earnings. Further, the prompt repayment of loans to APIDC can be ensured only when the units get the satisfactory profits. An attempt is made in seventh chapter of the study to examine the economic efficiency of the selected industrial units. The economic efficiency of an industrial unit is broadly measured in terms of the unit's liquidity position, capital structure, turnover and profitability.
8.1.7.1. Liquidity

Liquidity is a pre-requisite for the very survival of a firm. The liquidity ratios measure the short-term financial strength of a firm. The liquidity of the firm is measured in terms of current ratio (ratio of current assets to current liabilities) and quick or acid test ratio (ratio of quick assets to current liabilities).

It is observed in the study that the current ratio of assisted units though increased to 3.05 during 1989-90, thereafter declined to 2.40 in 1992-93 (Table 7.1). In case of joint venture units also the current ratio declined from 3.05 in 1987-88 to 1.32 in 1992-93. Among the assisted units, SVP recorded a very high annual average current ratio followed by LVR, APS, NCP in that order indicating a very high liquidity position. The current ratio is worked out to be less than the generally accepted ratio in two industrial units such as CFC and HM. However, trend analysis of current ratio of CFC and HM indicated an increasing trend. Three assisted industrial units namely APS, MSM and PSWM and all the joint venture units viz; NPP, BT and ORD recorded a declining trend.

The current ratio fails to convey any information on the composition of the current assets of a firm. The acid test ratio is a measure of liquidity designed to
overcome this defect of the current ratio. The data on acid test ratios indicated that the assisted units registered a declining trend while the joint ventures recorded an increasing trend. The annual average acid test ratio of assisted units and joint ventures worked out to be 1.04 and 0.86 respectively. The trend analysis of acid test ratio of the individual industrial units indicated wide fluctuations except in case of LVR, HM and BT.

8.1.7.2 Capital Structure

The debt equity ratio is employed to analyse the composition of capital structure of the industrial enterprises. In this study the debt-equity ratio is expressed in two ways viz; the ratio of long-term debt to shareholders' equity and the ratio of total debt to shareholders' equity. It is found in the study that the annual average ratio of long-term debt to shareholders' equity of assisted units and joint ventures was 4.02 and 3.22 respectively. Among the assisted units, MSM recorded the highest ratio (10.26) followed by SVP, LVR and HM which registered a low ratio (1.00). Among the joint ventures, the ratio is observed to be high in BT and low in ORD. Trend analysis indicated declining trend in almost all the enterprises except APS, LVR and RC.

The data on ratio of total liabilities to net worth (Table 7.4) showed that the ratio of assisted units
and joint ventures, declined from 2.48, 3.07 in 1987-88 to 2.01 and 2.53 respectively in 1992-93, which indicates an improvement in capital structure. Among the sample assisted units, the average debt-equity ratio is found to be the highest in RCP followed by PSWM and APS, while CFC recorded a very low ratio (0.76). The year-wise analysis revealed that the dependence of CFC, LVR, SC, NCP and BM on borrowed funds declined and the share of owner's funds raised during the period. In case of joint ventures, NFP and ORD registered a declining trend indicating an improvement in capital structure while BT recorded an increasing trend. The data also revealed that RC, FSWM and BT had high and unfavourable debt-equity ratio in 1992-93.

8.1.7.3 Turnover

Turnover ratios are computed to evaluate the efficiency with which the firm manages and utilises its assets. It is evident from the study that the ratio of sales to total assets of the assisted units is more than the joint venture units and improved from 0.56 to 1.45 reflecting an improvement in the operational efficiency. The annual average asset turnover ratio of NCP was very high followed by PSWM while CFC recorded a very low turnover ratio (0.20). Trend analysis of ratios indicated an improvement in the operational efficiency of all the industrial units except CFC whose asset turnover
ratio deteriorated from 0.21 to 0.10 during the study period.

The operational efficiency of the firms is also expressed in terms of ratio of sales to current assets. It is seen from the data that HM recorded high working capital turnover while RC recorded a very low working capital turnover. Trend analysis of working capital turnover indicated an improvement in all the industrial units except CFC, PSWM and NFP. A comparative analysis of assisted and joint venture units revealed that assisted units were more efficient in utilising the current assets. More or less similar trend is noticed in terms of fixed assets turnover ratio and ratio of sales to net worth.

8.1.7.4 Profitability

The profitability of the industrial units assisted by APIDC is measured by gross profit ratios and net profit ratios. An analysis of trend in gross profit revealed that the annual average amount of profits for an assisted unit increased by 134 per cent, on the other hand, the annual average gross profits of joint ventures rose by 22 per cent only. Among the assisted units, MSM recorded the highest average annual profits (32.35 lakhs) followed by SC (Rs. 14.68 lakhs) and PSWM (Rs.101.6 lakhs), while CFC registered the lowest average annual gross profits (Rs.3.18 lakhs).
Trend analysis of gross profits revealed mixed results. CFC recorded negative profits in three years under study. The reasons for negative profits of the firm is attributed to the poor availability of inputs, disruption of operation followed by illegal strikes, substantial expenditure on repairs etc. Industrial units such as LVR, SC and SVP registered an increasing trend, while RC, HM, MSM, PSWM and NCP recorded fluctuating trend.

A high ratio of gross profits to sales is a sign of good management. The study revealed that gross profits as percentage of sales of the assisted units improved from 13.66 per cent in 1987-88 to 21.73 per cent in 1989-90 and subsequently declined to 14.82 per cent in 1992-93. Joint venture units also witnessed fluctuations in the ratio during the study period. The average gross profit ratio of SVP was very high (35.95 per cent) followed by SC (31.70 per cent) while it was low in case of CFC. The trend analysis of gross profit ratios indicated wide fluctuations. More or less similar trend is noticed in ratio of gross profits to total assets also.

The efficiency with which the firm would generate sales and control costs can be measured through net profits. It is noticed that the net profits of the assisted units, which were negative in 1987-88 (Rs.12.19 lakhs) increased to Rs.13.24 lakhs in 1992-93. The annual average net profits
worked out to be Rs. 9.18 lakhs while the average annual net profits of joint venture units turned out to be negative during the period under study. It is disheartening to note that four industrial units, two belonging to food industry viz., CFC and NFP, RC, a mineral based industry and BT, a mechanical industry were under losses in almost all the years of analysis. The losses of the industries can be attributed to poor availability of inputs, heavy expenditure on repairs, strikes by the workmen, unprecedented powercuts, heavy rainfall, disruption of raw material supply etc.

As seen in the case of net profits, the ratio of net profits to net sales of assisted units which was negative in 1987-88 and 1988-89 turned out to be positive in subsequent years. But, the net profits as percentage of sales declined from 5.49 per cent in 1989-90 to 1.78 per cent in 1992-93, while the joint ventures registered a negative ratio in almost all the years of analysis. Among the industrial units, the ratio is observed to be negative in case of CFC, NFP, RC and BT for the reasons earlier discussed. The ratio of net profits to sales is noticed to be high in SC followed by LVR.

The profitability is also measured in terms of ratio of net profits to total assets and shareholders' equity. As seen in case of net profits and ratio of net
profits to net sales, the average annual ratios of net 
profits to assets and shareholders' equity were positive in 
assisted units and negative in joint venture units. Trend 
analysis of these ratios indicated wide fluctuations.

8.1.8 POLICY IMPLICATIONS

It is noticed in the study the relatively 
developed states have claimed a major share of development 
banks' assistance. This is because the statutes governing 
development banks have not spelt out the explicit role of 
these institutions in regard to development of backward 
areas. The regional allocations with greater bias for 
backward areas perceptibly observed in the recent years are 
based on the broad policies of regional development. Erratic 
fluctuations in the magnitude of assistance to backward 
areas in different years will be attributed to the absence 
of explicit policy of regional development on the part of 
the development banks. In order to ensure consistent 
increase in the level of assistance to backward areas and 
better returns on investment in these areas, it would be 
adviseable to operate assistance to backward areas on 
statutory basis, which would enable the development banks to 
earmark a definite portion of their investable resources for 
backward areas.

The financial assistance of development banks to 
projects in backward areas on priority basis alone will not
lead to development of backward areas since the problem of development of backward areas is a complication requiring a planned and integrated approach at least in regard to long-term investment. Different institutions are trying to inject scarce capital resources into backward areas in isolation and this may not bring about optimal returns unless such investments are based on well thought out regional plans and policy.

The development banks cannot remain as passive instruments of economic activity. They must use their capital well if they have to be active financially and to live up to their objectives. These institutions must adhere to feasibility of the projects while rendering assistance and must turn a deaf ear to political machinations.

The region-wise analysis of the distribution of APIDC assistance showed that Rayalaseema region which is not only industrially backward but also a chronic drought prone area received less share in the total assistance, which might be partly due to lack of adequate industrial infrastructural facilities and partly due to the bias of the corporation which sanction loans to the region. Hence the corporation has to pay more attention and redefine its strategy and priorities for reducing regional imbalances and to bring about equitable distribution of infrastructural facilities.
Though the backward districts taken together claimed more than their due share, the most backward districts viz., Adilabad, Karimnagar, and Srikakulam received much less than the share due to them. It implies that among the backward areas relatively less backward areas have received more assistance than the most backward areas. If this trend continues, the very objective of the development of backward areas based on antyodaya approach may be lost in the long run. Hence, the corporation has to pay attention to this end.

The respondent industrialists have lamented that withdrawal of concessions given to prompt repayers of the loan, high interest rates, lack of concessional assistance to entrepreneurs in backward areas inter alia have resulted in less returns on investment. In this context, the corporation may think of coining a package, which is entrepreneur friendly leading to rapid industrialisation of the state.