

CHAPTER 4

GROWTH OF CORPORATE SECTOR IN INDIA

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CHAPTER 4

GROWTH OF CORPORATE SECTOR IN INDIA

4.1 *Introduction*

Corporate sector is the economic pulse of a nation. Its birth, prosperity and demise reflect the economic progress of a country. The economic development of a nation greatly depends on the activities of its corporate sector. It is the most popular form of business organisation and in the sphere of production, supply or distribution of a country, its dominant role can be well conceived. An efficient and dynamic corporate sector can, in fact contribute much to social development, diversification of the economy and eradication of poverty. It can act as a catalytic agent for transformation of the rural economy into a growing and viable entity. It can also contribute greatly for the evolution of modern industry. The process of economic development adopted during the post-independence period has witnessed substantial economic activity being taken up in the corporate sector.

The Indian Companies Act, 1956, together with its amendments, is a very comprehensive piece of legislation regulating the functioning of companies in India. This act has been in force for the last 44 years and during the period, it has been amended 16 times. Since 1956, the corporate sector has undergone substantial changes in its structure and dimension. Thus, it is necessary to review the corporate sector in India.

In this chapter, an attempt has been made to study the corporate sector in India under the various heads, viz;

- (1) brief history of the corporate sector,
- (2) the growth of corporate sector in India during different plan periods and the period under study,
- (3) Sector-wise growth of companies,
- (4) Ownership - pattern-wise distribution of companies,
- (5) region-wise distribution of companies,

Discussions have also been made about the industrial group-wise distribution of companies at work. In this study, the corporate sector is defined as companies limited by shares only. The study doesn't cover companies with unlimited liability, companies limited by guarantee and foreign companies.

4.2 *Brief History of Corporate Sector*

Corporate Sector is one form or the other existed in the ancient past, though not much attention was paid to it then. It was so primarily because in those days heavy amounts of capital were not required for running business and even a single individual could venture to undertake some good business and raise financial assistance at his own level. We find that in ancient India, in Rome and Greece there were several guilds who helped in the promotion of collective business. However, with the passage of time, the need and necessity for more funds and collective business increased. It was a period when Joint Stock Companies were formed. The famous East India Company was a Joint Stock Company which traded with India and gave Britain a well founded empire. Similarly, other companies were founded in England, France and other European countries. The Joint Stock Company was already known when the Industrial Revolution took place, but it was considered less efficient than the partnership form of organisation. Economists like Adam Smith thought that a Joint Stock Company was suitable only for such occupations as could be reduced to a routine, or for those fields where monopoly existed. For ordinary business requiring initiative and prompt decisions, company form of organisations was not considered suitable. However, the misgivings have been belied by subsequent developments. In fact, it may be said that the Industrial Revolution could not have succeeded so well, had it not been for the company type of organisation. The system of corporation received a great encouragement during what is called Railroad Era.

In India, the Joint Stock Companies came into existence in 1845 when an Act was passed to incorporate the Assam Company with an authorised capital of Rs. 50 lakhs. The Companies Act, 1850 gave birth to the legal institutions of Joint Stock Companies, but the principles of limited liability was introduced only in 1857. Banking and Insurance companies received the privilege of limited liability three years later. The first comprehensive Companies Act in India was passed in 1866 which provided for the incorporation , regulations and winding up of companies. This Act was followed by the Companies Act, 1913, whose special feature was the introduction of the institution of private company.

In pre-independence days, company promotion was predominated by the managing agents due to dearth of enterprise and capital. By providing capital, enterprise and managerial skill, managing agents gave stimulus to industrial development in the country. But, the companies promoted by the managing agents were fraught with certain defects and they became the subject of vehement criticism. However, the growth of corporate sector was very slow till the boom after the First World War. In 1900, there were only 1340 companies with a paid up capital of Rs. 34.70 crore and in 1919, the total number of companies rose to 2789 and their paid-up capital crossed Rs. 100 crore for the first time to reach the figure of Rs. 106.6 crore. In 1950, the number of companies swelled upto 27,500 and their paid-up capital amounted to Rs. 725 crore. The growth of corporate sector since 1951 has been taken up in section 4.3 and 4.4. In terms of the number of listed domestic companies in the stock market, India ranked number one in the world in 1996 and 1997. According to the Emerging Stock Markets Fact Book 1997 released by the International Finance Corporation, as many as 8800 Indian Companies were listed against 8479 in the United States, 2433 in U.K. and 2334 in Japan. This explicitly proves the fast growth of corporate sector in India.

There has been a landmark development in the sphere of Corporate Sector since the country embarked on planning in 1951. In order to accelerate industrial production and to hasten the pace of industrial progress in a planned and

balanced way, the Government of India took several far-reaching steps, viz., formulating new industrial policy, introducing industrial licensing system, nationalising industries of national importance, establishing new industrial undertakings in the public sector, etc. A committee under the Chairmanship of C.H. Bhaba was set up to recommend and suggest reforms in company law. Accordingly the Companies Act, 1956 was enacted as a central legislation. It replaced earlier acts and subsequent amendments. Prior to the enactment of this act, administration of the companies legislation was the responsibility of the state Governments. The Companies Act, 1956 contains at present 658 sections, 13 schedules and numerous forms. From the year 1991-92 and onwards the Government of India has inclined towards the privatisation of public sector and in order to give more scope to the private sector, it has abolished certain regulatory laws. As such, corporate sector in India has made rapid strides.

The Company Law Board is the executive arm of the Central Government, which functions under the Ministry, Department of Company Affairs. It has to exercise or discharge such powers and functions of the Central Government as may be delegated to it. In fact, most of the powers of the Central Government have been delegated to the Company Law Board.

4.3 *Pattern of Growth of Indian Corporate Sector*

The process of economic development during the post independence period has witnessed an increase in economic activities taken up in the corporate sector. Under the impact of planning, India has undergone a perceptible amount of transformations in the sphere of corporate sector. Hence, it is necessary to evaluate the growth of the corporate sector since the first five year plan.

Our study is confined to companies limited by shares. We are not covering companies with unlimited liability, companies limited by guarantee and foreign companies. More, specifically, we will deal with companies limited by shares in public and private sector only.

In 1950, the number of companies were 27,500 and their paid-up capital amounted to Rs. 725 crores. At the beginning of first plan, i.e., in 1950-51, India presented a picture of stagnant economy having a few agricultural based industries like cotton, textile, tea and sugar. The heavy industries were practically non-existent excepting a few companies in the steel, aluminium and some engineering industries. India planned for rapid industrialisation with emphasis on basic, heavy and key industries since the beginning of the second plan. The growth of corporate sector in India since 1956-57 to 1996-97 has been presented in Table 4.1. It indicates the pattern of growth of the Indian Companies at work during 1956-57 to 1996-97 in Corporate Sector.

TABLE 4.1
GROWTH OF CORPORATE SECTOR IN INDIA

(paid-up capital in Rs. crore)

As at 31st	Number of Companies	Paid-up Capital	Compounded Annual Growth Rate	
			No. of Companies	Paid-up Capital
1957	29,948	1097	—	—
1962	26,200	1934	-12.5	76.3
1967	26,819	3144	2.4	62.6
1972	28,039	4662	4.5	48.3
1977	45,866	10880	63.6	133.4
1982	72,402	18936	57.9	74.0
1987	1,40,670	43968	94.3	132.2
1992	2,50,361	84642	78.0	92.5
1997	4,50,950	184543	80.1	118.0

Source : Compiled & calculated from various Annual Reports on the Working & Admn. of the Companies Act, 1956, & Company News & Notes : A Journal of Department of Company Affairs, New Delhi.

The number and paidup capital of companies at work in India during 1956-57 to 1996-97 indicates the pattern of growth of the Indian corporate sector. It can be observed from the said table that both the number and paid-up capital of companies have continuously grown over the years, barring the sub-period 1957-62 when the growth rate in the number of companies was negative. The number of companies went up from 29,948 in 1956-57 to 4,50,950 in 1996-97 recording an increase by more than 14 times. At the same time, the paid-up capital of these companies grew from Rs. 1097 crore to Rs. 1,84,543 crore registering an increase by more than 167 times. Consequently, the average paid-up capital of companies went up from Rs. 0.037 crore in 1956-57 to Rs. 0.409 crore in 1996-97. The number of companies at work in India remained almost stagnant during 1950-51 to 1971-72. With the implementation of the Companies Act, 1956 which made the Companies Act, 1913 inoperative, the sub-period 1957-62 recorded a negative growth rate, i.e., -12.5% in terms of number of companies, but the paid-up capital showed a positive growth rate, i.e., 76.3%. There was also a temporary lull in corporate activity, since it took some time for company promoters and others to understand the implications of forming a company under the new law. Thereafter, the corporate sector grew slowly till 1971-72. But, the real momentum in the corporate growth took place during 1972-77. Among the various sub-periods, the sub-period 1982-87 recorded the maximum growth rate in terms of number of companies which was 94.3%, whereas in terms of paid-up capital, the maximum growth at 133.4% was registered during 1972-77.

4.4 *Growth of Companies in Public and Private Sector*

Under the Indian mixed economy, the intention was "to let all the flowers bloom". Accordingly both the public as well as the private sectors blossomed and proliferated in India. In this arrangement, the public sector remained overwhelmingly involved with the development of the strategic and basic industrial

sectors, while the bulk of development in terms of overall scope and quantum remained with the private sector. Therefore, it is felt relevant to review the growth of companies in both the sectors separately. Table 4.2 contains the growth of companies in public as well as private sector.

TABLE 4.2
GROWTH OF COMPANIES : BREAK-UP BY COMPANIES IN PUBLIC
AND PRIVATE SECTOR

(paid up capital in Rs. Crore.)

As at 31st	Govt. Companies				Non -Govt. Companies			
	No	PUC	5 yrs. Growth %		No	PUC	5yrs growth(%)	
			No	PUC			No	PUC
1957	74	73	—	—	29874	1024	—	—
1962	154	630	108.1	763.0	26046	1304	-12.8	27.3
1967	232	1391	50.6	120.8	26587	1753	2.1	34.4
1972	352	2369	51.7	70.3	27687	2293	4.1	30.8
1977	701	7175	99.1	202.9	45165	3705	63.1	61.6
1982	894	13309	27.5	85.5	71508	5627	58.3	51.9
1987	1053	32873	17.8	147.0	139617	11095	95.2	97.2
1992	1180	57911	12.1	76.2	249181	26731	78.5	140.9
1997	1220	79735	3.4	37.7	449730	104808	80.5	292.1

PUC - Paid-up capital

Source : Compiled & Calculated from various Annual Reports on the Working & Admn. of the Companies Act, 1956, & Company News & Notes : A Journal of Department of Company Affairs, New Delhi.

The number of government companies increased from 74 in 1956-57 to 1220 in 1996-97, an increase by 15.49 times. During the same period, the paid-up capital of these companies rose from a mere Rs. 73 crore to Rs. 79735 crore, an increase by 1091 times. Among the various sub-periods, the government companies recorded maximum growth during the sub-period 1957-62, both in terms of number as well as paid-up capital. This is due to the fact that India

planned for rapid industrialisation with emphasis on basic, heavy and key industries since the beginning of the second plan (1956) and the main responsibility for this programme rested upon the Central Government. The lowest growth rate, both in terms of number as well as paid-up capital, was revealed during the sub-period 1992-97.

Table 4.2 also shows that the Indian private sector has registered a significant growth during 1972-97, both in terms of number as well as paid-up capital. The number of non-government companies at work surged from 29,874 in 1956-57 to 4,49,730 in 1996-97, recording an increase over 14 times. The paid-up capital of these companies swelled by more than 101 times, from Rs. 1,024 crore to Rs. 1,04,808 crore during the same period. As a result, the average paid-up capital of non-government companies rose from Rs. 0.34 crore to Rs 0.233 crore. The private sector companies account for 99.7% of the total number of all companies limited by shares, as on 31st March, 1997. Among the various sub-periods, the private corporate sector has recorded the maximum growth during 1982-87 in terms of number as well as paid-up capital. However, this sector has registered a negative growth (-12.8%) in terms of number during 1957-62. This negative growth could be explained by the administrative drive launched by the department of company affairs to strike off the inactive companies from the official records.

On comparison between the companies in public and private sector, it was observed that the private sector companies recorded a much faster growth in number as well as in paid up capital during 1987-97, while the government companies in public sector registered a much faster growth rate during 1957-77. During 1977-87, the government companies registered a faster growth in terms of paid up capital and the non-government companies in terms of number.

The share of paid up capital of government companies in total paid up capital of all the companies limited by shares rose from 6.6% in 1956-57 to 74.8% in 1986-87; thereby outstripping the paid-up capital of non-government companies at work. Therefore, the share came down and remained at 43.2% in

1996-97. This could be explained by the government's inclination towards privatisation which reduced the role of public sector in the economic activities of the nation. Further, the New Industrial Policy announced by the Government of India on 24th July, 1991 played a vital role for the growth of companies in the private sector, in terms of number as well as paid-up capital.

4.5 Ownership Pattern-wise Distribution of Non-government Companies at Work

TABLE -4.3
GROWTH OF NON-GOVERNMENT COMPANIES :
BREAK-UP BY PUBLIC LTD. & PRIVATE LTD. COMPANIES
(paid up capital in Rs. Crore.)

As at 31st	Public Limited				Private Limited			
	No	PUC	5 yrs. Growth %		No	PUC	5yrs.growth %	
			No	PUC			No	PUC
1957	9575	690	—	—	20299	334	—	—
1962	6702	948	-30.0	37.4	19344	356	-4.7	6.6
1967	6405	1353	-3.8	42.7	20137	400	4.1	12.4
1972	6535	1834	1.3	35.6	21152	459	5.0	14.8
1977	7794	2808	19.3	53.1	37371	897	76.7	95.4
1982	10169	4084	30.5	45.4	61339	1543	64.1	72.0
1987	21442	8435	110.9	106.5	118175	2660	92.7	72.4
1992	29231	22522	36.3	167.0	219950	4209	86.1	58.2
1997	63500	79651	117.2	253.7	386230	25157	75.6	497.7

Source : Compiled and Calculated from various Annual Reports on the Working and Administration of the Companies Act, 1956, and Company News and Notes : A Journal of Department of Company Affairs, New Delhi.

Table 4.3 presents the break-up of non-government companies according to the ownership pattern since March 1957. It indicates that the non-government public limited companies increased from 9575 companies with a paid-up capital of Rs. 690 crore in 1956-57 to 63500 companies with a paid-up capital of Rs. 79651 crore in 1996-97. During the same period, the number of non-government private limited companies rose from 20299 to 386230 while the paid-up capital of these companies swelled from Rs. 334 crore to Rs. 25157 crore. In view of this the total number of non-government public limited companies which was 32% of the number of non-government companies in 1956-57 declined sharply to 14% in 1996-97. But, the share of paid-up capital of these companies in the total paid-up capital of all non-government companies increased from 67% in 1956-57 to 76% in 1996-97. During the period 1956-57 to 1996-97, the average paid-up capital of non-government private limited companies rose from Rs. 0.16 crore to Rs. 0.065 crore as against an increase from Rs. 0.072 crore to Rs. 1.25 crore in case of non-government public limited companies. Thus the average paid-up capital of private limited companies in private sector was much smaller as against the average paid-up capital of public limited companies. Again, the rate of increase in the average paid-up capital of private limited companies was also much lower than the rate of increase in the average paid-up capital of public limited companies during 1957-82 but this has been reversed during 1992-97 (Post liberalisation period). Further, it is observed that non-government public limited companies registered the maximum growth during the sub-period 1992-97 both in terms of number and paid-up capital while non-government private limited companies recorded maximum growth during 1992-97 in terms of paid-up capital and during 1982-87 in terms of number.

4.6 *Region-wise Distribution of Companies at Work*

With a view to accomplish all round economic progress of the country, the Government adopted the policy of diffusing industries in different regions of the

country. Although India has achieved a considerable rate of growth in the corporate sector, the pattern of growth has not been uniform for all regions. Certain regions/states record a high rate of corporate development, while many other still remain backward both industrially and economically. The overall picture of Indian corporate world shows certain regional disparities existing even after the end of seventh five year plan. The region wise distribution of companies at work and their paid-up capital are presented in table 4.4.

TABLE 4.4
REGION-WISE DISTRIBUTION OF COMPANIES LIMITED BY SHARES
AT WORK AND THEIR PAID-UP CAPITAL (In percentage)

As on	Eastern		Western		Northern		Southern	
	No	PUC	No	PUC	No	PUC	No	PUC
1974	30.36	34.56	29.12	18.97	21.76	31.44	18.76	15.03
1979	28.12	20.37	29.77	18.67	22.68	43.57	19.43	17.39
1984	22.20	23.49	32.82	16.52	26.04	43.15	18.94	16.84
1990	18.21	24.44	32.21	17.25	29.87	38.62	19.71	19.69
1991	17.93	23.25	32.24	19.48	29.93	38.28	19.90	18.99
1992	17.76	22.80	32.03	20.63	29.99	38.02	20.12	18.55
1993	17.73	21.18	31.90	21.82	30.00	36.72	20.37	20.28
1994	17.71	19.53	31.79	25.05	29.91	36.26	20.59	19.16

Source :Computed from various Annual Reports on the Working and Administration of the Companies Act, 1956.

Table 4.4 shows that the Western region occupied the top position in terms of the number of companies starting from the end of the fifth plan period till the end of 1993-94. But in terms of paid-up capital, the Northern region topped the list during the same period. The trend of the percentage of companies in the Southern region, in general, is upward but as regards to the trend of the percentage of paid-up capital of those companies, it is fluctuating. The percentage of paid-up capital of companies in the Western region to the total paid-up capital of all companies witnessed, in general, an increasing trend while it was reverse

for companies in the Northern region. At the end of the fourth plan period (1973-74), the Eastern region had occupied the top position both in terms of number of companies as well as paid-up capital. Out of the total number of companies working in the country during different plan periods, the share of Eastern region deteriorated sharply from 30.36% as at the end of fourth plan period to 17.71% as at 31st March, 1994. Further, the share of Eastern region in the total paid-up capital declined from 34.56% to 19.53% during the same period. This trend clearly indicates that the importance of Eastern region is fast declining as regards company formation and also capital formation in the corporate sector.

The principal reason underlying the glaring disparity in the working of companies has been the indifferent attitude of the Government as well as the business entrepreneurs. Despite, abundance of natural resources and existence of favourable industrial conditions, big business houses have been shy of laying roots in the underdeveloped regions possibly due to the enormous problems of infrastructural development and considerable risks involved. Absence of local entrepreneurial ability was further responsible for the slow corporate growth in these regions.

4.7 Industrial Group-wise Distribution of Companies

With a view to laying down strong industrial foundation in the country, the Government pursued the policy of fostering the growth of basic and heavy industries and provided fiscal and financial incentives for their development. The distribution of Government and Non-Government companies at work in different industrial groups as on 31st March, 1993 has been presented in table 4.5 on the next page.

TABLE 4.5
COMPANIES LIMITED BY SHARES AT WORK DISTRIBUTION BY
INDUSTRIAL ACTIVITY
(As on 31st March, 1993)

(in percentage)

Sl. No.	Industrial Classification	Government Companies		Non- Govt Companies		Total Companies	
		No	PUC	No	PUC	No	PUC
1.	Agriculture & allied activities	8.8	0.6	2.8	1.2	2.8	0.8
2.	Mining & Quarrying	4.1	26.9	1.3	0.6	1.3	18.1
3.	Manufacturing	53.8	60.2	48.3	74.2	48.3	65.0
	(a) Food stuffs, Textiles Woodens products, leather and products thereof	19.2	4.5	14.9	18.5	14.9	9.3
	(b) Metals & Chemicals and products there of, Machinery & Equipment	33.2	34.4	33.1	55.1	33.1	41.3
	(c) Electricity, Gas & Water	1.4	21.3	0.3	0.6	0.3	14.4
4.	Construction	5.0	2.6	5.1	2.1	5.1	2.4
5.	Wholesale & Retail trade, Resturants & Hotels	5.5	0.5	12.1	6.8	12.1	2.6
6.	Transport, Storage & Communication	4.4	2.6	3.0	2.1	3.0	2.4
7.	Finance, Insurance, Real Estate & business thereof	14.3	6.4	23.6	11.3	23.6	8.0
8.	Community, Social & Personal Services	4.1	0.2	3.8	1.7	3.8	0.7
	Total (%)	100	100	100	100	100	100
	Actual Total	1190	61163	2744	32892	275664	94055

(Rs. Crores)

(Rs.Crores)

(Rs.Crores)

Source : Annual Reports on the Working & Administration of the Companies Act, 1956, Ministry of Law, Justice and Company Affairs, March 1993.

It is evident from table 4.5 that Government companies as well as non-government companies engaged in processing and manufacturing activities occupied a lion's share both in terms of the number and paid-up capital. In the private sector the processing and manufacturing group was followed by "Finance, insurance real estate and business services" group both in terms of number and paid-up capital. But in the public sector, "finance, insurance real estate and business services" group ranked second in terms of number while "mining and quarrying" group ranked second in terms of paid-up capital. Further, both

Government and non-government companies covered under the sub group "metals, chemicals, machinery and equipment" topped the list in terms of number and paid-up capital not only under the group "processing and manufacturing" but on the whole also. Among all the companies limited by shares at work, slightly less than half of them are engaged in manufacturing, about one third in "manufacturing of metals, chemicals, machines and equipments" and a quarter in "finance, insurance, real estate and business services". The share of paid-up capital of the manufacturing companies to the total paid-up capital of all companies was the highest at 65%, while "mining and quarrying" group companies ranked second and their share was at 18%.

4.8 *Summary*

The growth of corporate sector in India remained almost stagnant during the 1950s and 1960s. But the real momentum in the corporate growth took place starting from the early 1970s. The sub-period 1972-77 recorded the maximum growth rate in terms of paid-up capital while the sub-period 1982-87 witnessed the maximum growth in terms of number of companies.

The government companies recorded maximum growth during the sub-period 1957-62, both in terms of number as well as paid-up capital. The Indian private corporate sector (representing 99.7% of the total number of all companies as on 31st March 1977) has registered a significant growth after 1972. Among the various sub-periods, the private corporate sector recorded the maximum growth during 1982-87 in terms of number and during 1992-97 in terms of paid-up capital.

The non-government public limited companies recorded the maximum growth during 1992-97 both in terms of number and paid-up capital. But the non-government private limited companies registered maximum growth during 1992-97 in terms of paid-up capital and during 1982-87 in terms of number. As on 31st March, 1997, only about 14% of the private corporate setor were public

limited companies, yet they accounted for about 76% of the total paid-up capital of the non-government companies and about 43% of the total paid-up capital of all companies.

Starting from the 5th plan period, the western region occupied the first position in terms of number of companies and the Northern region in terms of paid-up capital. On the contrary, the share of the Eastern region is fast declining both in terms of number and paid-up capital.

In 1993, the corporate sector consisted about 2.8 Lakh registered companies. About half of them are engaged in processing and manufacturing activities and about a quarter in finance, insurance, real estate and business services group.

Notes

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2. Ahluwalia, Isher Judge, Industrial Growth in India-Stagnation Since the Mid Sixties, Oxford University Press, New Delhi, 1985.
3. Corporate Statistics : Statistical Profile of the Indian Economy, Stock Exchange Official Directory, Mumbai 1997.