This research work began in late eighties, when the Indian Industrial scenario was witnessing an economic and social change - on one hand there was declination in the rate of industrial growth and on the other hand the availability of industrial finance mainly from financial institutions and public at large. The usual reasons for the setback in the industrial growth were attributed to market behaviour and segments and investment climate. I felt that for a deeper understanding of this situation, a micro level analysis of firm was highly necessary.

It has been recognised that the important factor of such analysis was the internal financial management. But the general discussion on internal financial management is focussed on concepts like capital structure, rate of returns and government policies. These concepts, though very useful, fail to perceive an important aspect namely the link between investments and earnings. Unless earnings of the business firm are not put in a proper focus, the generalisation of financial performance of the firms will lack credibility. This suggests the importance of empirical analysis at the micro level of earnings of the companies. Unfortunately such data is generally absent. Apart from this there is no systematical information about the earnings of the companies in the private sector. In this thesis a modest attempt has been made to fill this information gap.
Empirical analysis of such nature encounters the difficulties in collection of necessary data. Because the use of financial data required by this study is confidential and primary data is not available, it was decided to use only published data. The main sources of financial data for this study are Stock Exchange Directory and Annual Reports of the companies. The seventy-five Private Sector Companies included in this study were first identified individually. However, in the interest of maintaining business confidence it was decided to delete the identify of these companies as it is a common practice in business research.

The heterogeneous nature of corporate scenario from the point of view of size, product and technological variations was tackled by selecting a meaningful sample of seventy-five companies. The representative characteristic was ensured by selecting companies from three products generally used by commonmen i.e. TEA, FOOD AND PHARMACEUTICAL. Further these companies are size-wise classified into three categories namely large, medium and small size. The usual definition of the small size used by the government for administrative purpose was found unsuitable for our purpose of study.

We were mainly concentrating on earnings of companies in the Private Sector, which are generally much larger than those defined as small industries. Therefore, for the purpose of this study, we took the cut off line of Rs. 1 crore of capital employed to demarcate the small companies. Those having more than 1 crore but less than 3 crores of capital employed, were
classified as medium size companies. The large companies were those having more than 3 crores of capital employed. This size structure was in conformity with general size appraisal used by various administrative organisations like banks and financial institutions.

Taking into account the difficulties of relying heavily on Stock Exchange data any temptation to generalise is strictly avoided. However, the analysis only serves as the pointer to the independent and functional role of earnings as a determinant of investment behaviour.

I must gratefully acknowledge my debt to my guide, Dr. R.G. Bapat, Head of the Department of Accountancy B.M. College of Commerce, Pune, who played the key role in designing and planning this research study. I immensely benefited under his able tutelage. Many others helped me and it is difficult to list them all. I must, however, mention, by way of grateful acknowledgement, the assistance received from Prof. Sharad Vaze, Chartered Accountant, who provided me suggestions in this regard and I’m grateful to Dr. M.C. Dixit, Head of the Department of Commerce, Ness Wadia College, Pune, who has helped me in interpreting various methods. I am also wish to express my gratitude for the help I received from Dr. M.V. Phadake, Librarian, B.M.C.C., who had shown interest in my research by providing data I needed to complete this work as I had to consult innumerable books and annual reports of the companies.
I am also appreciative of the help provided by Mr Prakash Tambe and Mrs Chhaya Tambe in preparing the text and graphical representation of this work.

My profound gratitude, of course, to my father without whose persistent encouragement and support I would not have been able to pursue the report.

OSAMA OMAR K/A ALI