CHAPTER IX

COMPARATIVE RESULTS
It will be recalled that in Chapter I of the present study a brief survey was made of the changes in the capital structure of Jute, Cotton Textile and Tea industries in India between 1959 and 1968 and also of the Medium and Large Companies (Private and Public Limited Companies taken together) covering all industries in India in the private sector over the period between 1960-61 and 1969-70. The latter study was made, it may be pointed out, on the basis of the Reserve Bank investigation. In that context, for the purpose of comparison, the world trend in the changes of the capital structure of all industries as a whole with reference to two periods viz., 1900-1947 and 1947-1966 had also been referred to in brief. The aforesaid study on further analysis reveal as under:

**Jute Industries**

In the case of Jute Industry the salient features of the changes in its capital structure between 1959 and 1968 had been:

1) Decline in the share of equity to total finance by 41.8% i.e. from 27.3% in 1959 to 16.9% at the end of 1968.

2) Decline in the share of retention by 23.5% from 28.9% in 1959 to 22.1% in 1968.

3) Increase in the share of borrowed capital by 73.7% i.e. from 31.5% in 1959 to 54.8% in 1968.
Decline in the share of equity and retention on the one hand, and increase in the share of borrowed capital on the other, brought a change in the relative position of ownership and creditorship capital in the capital structure of Jute Industry. Initially, though ownership capital exceeded creditorship, towards the end of the position was just the reverse as the creditorship capital surpassed ownership capital in the total capital mix. A distinguishing feature of borrowed capital in the industry over the period was found to be that the major bulk of it was obtained from banks. In other words bank loan pre-dominated borrowed capital in general. Analysis in terms of the relative share of internal and external sources show that external sources which was higher than the internal from the very beginning went up further in view of the decline in the share of internal sources in the garb of retention.

Cotton Textile Industry

In case of Cotton Textile Industry the main features of the trend in the changes of capital structure over the same period had been:

1) Decline in the share of equity capital to total finance by 27.9% i.e. from 26.9% in 1959 to 19.4% at the end of 1968.

2) Decline in the share of preference capital by 36.5% i.e. from 5.3% in 1959 to 3.3% in 1968.
iii) Increase in the share of borrowed capital by 38.3% i.e. from 42.6% in 1959 to 58.9% in 1968.

The aforesaid decline in the share of equity and preference capital resulted in an increase of creditorship capital over ownership capital. Creditorship capital increased by 38.3% and ownership capital decreased by 28.4% in the period concerned when preference share capital is considered a part of ownership capital and by 30.1% and 27.6% respectively if preference share capital is considered a part of creditorship capital. The said changes also resulted in the increase of the proportion of external capital in the capital structure of Cotton Textile Industry and the same could be attributed to the increase of borrowed capital alone.

Tea Industry

The changes in the capital structure of Tea Industry in the period were characterized by:

1) Decline in the share of equity to total finance by 3.2% i.e. from 40.5% in 1959 to 39.2% in 1968. The smaller change in the percentage of equity was due to the highly equipped equity base of the industry.

ii) Decline in the share of preference capital by 42.8% i.e. from 4.2% of the total finance in 1959 to 2.4% in 1968.

iii) Increase in the share of borrowed capital by 12.7% i.e. from 12% of total finance in 1959 to 26.6% in 1968.
The changes in the relative share of equity, preference, and borrowed capital brought an increase in the proportion of external capital to total finance by 20.3% i.e. from 56.7% in 1959 to 68.2% in 1968 and decrease in the proportion of internal capital by 26.6% i.e. from 43.3% of the total finance in 1959 to 31.8% in 1968.

Analysis in terms of the relative proportions of ownership and creditorship capital shows that the aforesaid changes in the different components of capital in the Tea Industry brought a decline in the share of ownership capital by 16.6% i.e. from 88% of the total finance in 1959 to 73.4% in 1968, and increase in the share of creditorship capital by 121.7% i.e. from 12% in 1959 to 26.6% in 1968 if preference capital is tagged to ownership. The same occurs by 15.3 and 44.1% respectively if preference capital is tagged to borrowed capital. Needless to say that, the changes in the capital structure of tea industry described above also caused a change in the ratio between ownership capital to borrowed capital on the one hand and that between external capital and internal capital on the other. The former declined while latter increased.

Medium and Large Companies (Private and Public Limited Companies taken together) covering all industries in India in the Private Sector between 1960-61 and 1969-70.

The main features of the trend of changes in the capital structure of the above mentioned companies between 1960-61 and 1969-70 had been as follows:-
i) Decline in the proportion of share capital by 17.7% i.e. from 35.5% of the total capital in 1960-61 to 29.2% in 1969-70 due to decline in the share of both equity and preference capital.

ii) Increase in the proportion of borrowed capital by 18.3% i.e. from 42.1% of the total capital in 1960-61 to 49.8% in 1969-70.

iii) Decline in the share of retention by 6.3% i.e. from 22.4% of the total capital in 1960-61 to 21% at the end of 1969-70. The change in the share of retention had not been at a uniform rate. It had rather a zigzag course. Its share increased by 17.4% between 1960-61 and 1964-65. Thereafter, it had a declining trend as its share came down to 19.3% of the total finance. From 1968-69 it had again an upward trend and it reached to 21% of the total finance at the end of 1969-70.

Analysis of the capital structure of these companies with a reference to the relative shares of ownership and creditorship capital shows that in 1960-61 ownership capital accounted for 57.9% and the creditorship capital 42.1% of the total finance. But at the end of 1969-70 the proportion of ownership capital had been found to be 50.2% and the creditorship capital 49.8%. Thus, over a span of 10 years ownership capital declined by 13.3% whereas creditorship capital increased by 18.3%. Creditorship capital surpassed ownership capital in the consecutive two years of 1967-68 and
1968-69. But in the year 1969-70 there was a slight set back in the trend as the respective shares of ownership and creditorship capital were found to be 50.2% and 49.8%. A distinctive aspect of the creditorship capital in these companies had been that the major bulk of the same came from bank. That is to say, bank loan predominated in the creditorship capital of these companies. Another aspect of the behaviour of ownership and creditorship capital in the capital structure of these companies had been that, excepting slight reversion in the years 1963-64 and 1969-70 the decline in the share of ownership capital and corresponding rise in the share of creditorship capital had been gradual.

Scanning of the capital structure of the medium and large companies in the private sector in the period between 1960-61 and 1969-70 in terms of the relative share of external and internal capital to the same showed that right from 1960-61 external capital had always been higher than the internal capital (including bonus share) though at a declining rate. Between 1960-61 and 1965-66 external capital, despite maintaining its supremacy over internal capital, declined by 5.1% i.e. from 72.8% of the total capital in 1960-61 to 69.1% in 1965-66. Therefore, internal capital in the same period registered an increase by 13.6% i.e. from 27.2% of the total finance in 1960-61 to 30.9% at the end of 1965-66. But in the year 1966-67 there was a reversal trend, as the share of external sources recorded a rise in that year by 6.7% i.e. from 69.1% in 1965-66 to 73.7% in
1966-67. Consequently, internal capital registered a decline by 14.9% i.e. from 30.9% in 1965-66 to 26.3% in 1966-67. Since that year, the proportion of external capital again began to decline and the proportion of internal capital began to rise. Nevertheless, on the whole external capital was in excess of internal capital in the medium and large companies in the private sector as the percentage of the total the former had been found to account for 71.7% and the latter 28.3%. The higher percentage of external capital in the aforesaid companies in the face of declining percentage of share capital, was evidently maintained by the increasing percentage of borrowed capital among the external sources. Between 1960-61 and 1969-70 the share of share capital among external sources reduced by 28.1% i.e. from 42.4% in 1960-61 to 30.5% in 1969-70 and the share of borrowed capital increased by 20.7% i.e. from 57.6% in 1960-61 to 69.5% at the end of 1969-70.

The World Trend in the Capital Structure
Covering all Industries Between 1900-1966

The world trend in the capital structure covering all industries have been recognised with reference to two periods viz., between 1900 and 1947 and between 1947 and 1966.

Between 1900 and 1947 the main features of the world trend had been:

i) Relative increase in the share of internal finance specially of depreciation.
ii) Relative decline in external financing specially of the equities in relation to debt.

iii) Within the sub-category of debt, rise in short term debt in relation to long term debt.

The principal features of the world trend in the changes of the capital structure of the corporate undertakings covering all industries between 1947 and 1966 were:

i) Decline in the share of retention as a component of internal finance despite increase in the share of internal finance to total finance due to increase in the depreciation allowance. As a matter of fact, for all companies taken together, the share of retention came down over the period from 1/3rd to 1/5th.

ii) Decline in the share of equity among external sources and consequent decline in the proportion of external finance to total finance of these companies. In the period between 1962 to 1966 new equity issues could provide only 1% of additional finance required for financing their expansion.

Common Features Observed:

From the aforesaid discussions, it appears that there were some common features which typify the changes in the capital structure of Jute, Cotton Textile and Tea industries in India between 1959 and 1968 that of the Medium and Large companies (Private and Public Limited companies taken together) covering all industries in India in the Private sector between 1960-61 and 1969-70 and also
capital structure of all industries as revealed by the world trend between 1900 and 1966. And these features were:

i) Decline in the share of equity and preference shares resulting overall decline in the share of share capital in the total finance though the degree of changes in the relative position of preference and equity shares had not been uniform in all the cases.

ii) Increase in the share of borrowed capital in the total finance, though the degree of change in the share of borrowed capital had not been the same in all the cases.

iii) Decline in the share of retention in the total finance whether internal sources comprised retention alone or both retention and depreciation provision.

iv) Relatively higher percentage of external sources to the total finance maintained generally in the face of declining share of equity and preference, through increase in the percentage of borrowed capital.

v) Increase in the share of creditorship capital and gradual decline in the share of ownership capital as a sequel to the increase in the percentage of borrowed capital and decline in the percentage of share capital and retention in the total capital mix. Bulk of creditorship capital again came from Bank.

Central Government Companies between 1960-61 and 1969-70

As against these, the main trends in the changes of the capital structure of the Central government companies
in the period between 1960-61 and 1969-70 as found in Chapter IV-VIII of the present study have been:

i) Decline in the share of share capital in the total mix by 37.8% i.e. from 63.7% in 1960-61 to 39.6% at the end of 1969-70 and among total external sources by 37.4% i.e. from 70.4% in 1960-61 to 44.1% in 1969-70. Initial high equity base in the capital structure of these companies had been the outcome of desire for imparting flexibility in their working in favour of social needs; higher proportion of gross block in their asset structure; existence of capital-work-in progress including unallocated expenditure; expenditure for township in a number of projects and finally over emphasis on non-commercial obligation of Central government companies and consequent demand for capital free of fixed charges.

ii) Increase in the share of borrowed capital in the total capital mix by 127.9% i.e. from 26.5% in 1960-61 to 60.4% in 1969-70 and also increase in the share of borrowed capital in the total external sources by 88.9% i.e. from 29.6% of the total external sources in 1960-61 to 55.9% in 1969-70, following the decision of the government in June, 1961 to finance the capital requirements of the public sector undertakings (including the companies) by maintaining a ratio of 1:1 between debt and equity.

iii) Conversion of retention from a positive component of capital mix to the extent of 9.8% of the total
in 1960-61 to a negative component of the same to the extent of -8% at the end of 1969-70 under the impact of increasing burden of fixed cost capital and absence of profit due to a host of factors.

iv) Relatively high proportion of external sources in the initial two years of 1960-61 and 1961-62 and gaining of absolute command of the capital structure of Central government companies by the same following obliteration of retention as a positive component of capital mix and its conversion into a negative one since 1962-63. In the event of declining share of share capital in the total external sources, the domination of capital structure by external sources had been rendered possible by the increase in the percentage of borrowed capital.

v) Increase in the share of creditorship capital and decrease in the share of ownership capital consequent upon declining share of share capital together with the negative share of retention since 1962-63. Creditorship capital which had been on the increase following the government decision to maintain a fixed ratio between debt and equity in the capital structure of all public sector undertakings, surpassed ownership capital in 1966-67 and maintained the same position even at the end of 1969-70. The major bulk of this creditorship capital came from Central Government and that too in the form of unsecured loan.
A cardinal feature of the share capital of the Central government companies had been that almost the whole of it comprised of equity shares. Preference share capital had practically no role in the same. It was only 0.9% of the total share capital in the year 1960-61 and the same if taken into cognizance gradually declined to 0.1% of the total share capital at the end of 1969-70. Therefore, decline in the share of share capital was practically the decline in the share of equity capital (pp.147-148 Chapt.V).

Similarly, internal sources in the form of bonus shares had practically no role in the share capital of these companies. It had been 0.8% of the total share capital in 1960-61. It came down to 0.2% in 1962-63. Between 1963-64 and 1968-69 it accounted for only 0.1% of the total share capital. The position slightly improved in 1969-70 as its percentage to the total share capital had been found to be 0.3% of the total share capital, because of the slight increase in the absolute amount of bonus share in the total share capital of the Central government companies (pp.155-156 Chapter V).

Another significant aspect of the share capital of the Central government companies had been that it was conspicuous by the virtual absence of institutional holdings in the same since such holdings accounted for only 0.7% of the total share capital in 84 Central government companies as at the end of March, 1970 (p.160 Chapter V). Again, amidst this poor percentage of institutional holdings,
the share of financial institutions had been only 3.42% and
the balance 96.5% was held by companies (p.161 Chapter V).
On further analysis of the holdings of shares by the
companies showed that 85.9% of the total shares held by
the companies belonged to foreign companies and the
balance 14.2% to Indian companies. Among the Indian companies
again, there had been no participation in the share capital
of the Central government companies by the companies in
the private sector. All such participation came again from
the companies belonging to the public sector. Barring one
case, the public sector companies held these shares in the
capacity of their being holding companies. As such epitheting
such holding as institutional holding may as is commonly
understood, be misleading (p.162 Chapter V).

Similarly, even within the permissible limit, Central
government companies failed to inspire private participation
in their share capital. The private participation accounted
for only 0.2% of the total share capital in 84 Central govern-
ment companies at the end of 1969-70 and that too in many
cases, for historical reasons of their nationalisation from
out of private ownership in the past. The other significant
aspect of private participation in the share capital of
these companies had been that, even within the limited
scale of participation in their share capital, its distribu-
tion over the companies involved had not been uniform (p.168
Chapter V). And the entire amount of private participation
came from the members of the Indian National only. Foreign
nationals did not play any role in the participation in the share capital of these companies as share holders (p.172, Chapter V).

The role that borrowed capital played in the capital structure of the Central government companies had been the outcome of the government policy since June 1961 of financing their capital requirements, as pointed out earlier, by an attempt to maintain a ratio of 1:1 between debt and equity. Under the impact of the government policy of aiming maintaining 1:1 ratio between debt and equity, besides some companies having borrowed capital from their very inception, the proportion of loan in the total capital mix as well as that in the total external sources, have been on the increase though not uniformly. What has been most revealing in this connection is that the aforesaid increase in the borrowed capital took place in the face of adverse operational results particularly in case of the giant companies with their adverse impact on the overall performance of the Central government companies (pp.108-110 Chapter IV). The said increase in the percentage of borrowed capital in the Central government companies was neither the outcome of managerial effort to secure optimality in their capital structure, nor could it be ascribed to the desire for minimising the total or average cost of capital. The excessive borrowings on the part of the Central government companies, had, evidently been the result of their efforts to attain their target of 1:1 between debt and equity in
their capital structure (p.185 Chapter VI). Borrowed capital exceeded the equity among total capital mix as well as among the total external sources right from 1966-67 and it maintained the said position till the end of the present study i.e. 1969-70. It has also to be noted that, this trend, accompanied by falling percentage of equity coupled with the negative share of retention since 1962-63 systematically brought a fall in the long term solvency of these companies, as manifested in the rising ratio between debt to net worth. This ratio had been 1:2.77 in the year 1960-61 and it increased to 1:0.66 at the end of 1969-70 (pp.186-187 Chapter VI). Initially, i.e. in the year 1960-61, among total borrowed capital, as disclosed by a sample study of three companies, secured loan dominated the composition of borrowed capital as it accounted for 84.9% of the total borrowed capital in them. But towards the end i.e. in 1969-70, as disclosed by a sample study of another set of three companies, there appears to have been a significant change in the composition of borrowed capital. The proportion of unsecured loan took over the position of that of the secured loan by accounting for as much as 86% of the total borrowed capital in them. This was unlike the position in the private sector as revealed from the analysis of the composition of loan in the jute industry (pp.188-190 Chapter VI).

Central government companies did not go for market borrowings by the issue of bonds, though there was nothing to the contrary of the same in their Articles of Association.
Nor could they borrow above certain limit without the prior approval of the Central Government. They had rather a set pattern of borrowed capital in as much as these companies were required to obtain long term loans mainly from the Central Government and the working capital loan in the form of cash credit from the State Bank of India and its subsidiaries under a policy of the government. Thus, it was observed that unlike what is done in case of companies in the private sector the choice of the sources of borrowed capital and the negotiation of their terms and conditions were not left to the internal management of the company. It was rather determined externally by the Central Government itself (pp.190-191 Chapter VI). In the circumstances loan taken from the Central Government had been the main source of the borrowed capital in their capital structure. It accounted for 76.4% of the total borrowed capital at the end of 1969-70 (p. 193 Chapter VI). A significant aspect of Central Government's loan to the Central government companies, as disclosed by the analysis of the composition of loan in three Central government companies by way of samples with reference to their annual reports as at the end of 1969-70, that 96.7% of the same had been in the form of unsecured loan (p. 195 Chapter VI). Though, the rate of interest charged on the loans granted by the Central Government had not been kept divorced from the market rate of interest it varied with the maturity of loan from repayment. Granting of loans free of interest
charges, or against realisation of interest at a concessional rates, their conversion into equities or subjugation to the mechanism of national recovery of interest through its capitalisation also characterised Central Government's loan to the Central government companies in many cases. The mechanism of national recovery of interest through its capitalisation had obviously its adverse effect on the capital structure of Central government companies as it resulted in their over capitalisation (pp.196-200 Chapter VI). These, besides frustrating the basic objectives of having borrowed capital in the capital structure of Central government companies, suggested the hollowness of having the same with interest obligation from the very inception of these companies in disregard to the accepted principles of corporation finance both of private and public sector (pp.200-201 Chapter VI).

As already told bank loan had been obtained by the Central government companies in the form of cash credit from the State Bank of India and its subsidiaries for financing the working capital requirements of these companies (p.205 Chapter VI). But its percentage to the total borrowed capital had not been very significant, except in the initial two years when it consecutively accounted for 21.5% and 17.1%. But, at the end of 1969-70 there was a sharp decline in the position as said loan accounted for only 6.6% of the total borrowed capital in the Central government companies. The aforesaid decline had not been a steady one. There were reversal trends to the same as well. A cardinal feature of
bank loan obtained by the Central Government companies had been that the same was advanced in the form of cash credit against securities though unsecured cash credit was not altogether unknown to them (p.207 Chapter VI). The rates of interest charged by the banks varied with the nature of the cash credit. The decline in the percentage of bank loan to the total borrowed capital of the Central Government companies suggested that the government's policy of financing the working capital requirements of these companies was not altogether a success. These companies procured their working capital from other sources as well. The aforesaid trend was not, however, without reasons (pp.208-210 Chapter VI).

Loans from financial institutions to the Central government companies had been subjected to the government regulations right from December 1961. It was decided that industrial projects with more than 60% share capital participation would not be ordinarily assisted by the Industrial Finance Corporation. Projects with capital participation between 40% and 60% were to be considered for the purpose on merits in exceptional cases. While projects with less than 40% capital participation were to be treated at par with the projects in the private sector and as such were to be eligible for assistance from Industrial Finance Corporation. The aforesaid policy was reviewed in July 1967 and it was decided that the industrial
concerns where the Central Government and the State Government individually or collectively holds more than 50% of the equity share capital in them would not be entitled for accommodation from Industrial Bank of India and the Industrial Finance Corporation of India etc. The attitude of the government towards assistance to be granted by the financial institutions was slightly modified towards the end of 1967-68. It was held that the public sector enterprises could obtain assistance from financial institutions for their expansion programme provided they declared at least a maiden dividend, had sufficient internal resources and did not go to the government for financial assistance for their expansion programme. In the aforesaid circumstances, loans from financial institutions could not form significant part of the total borrowed capital in the Central government companies between 1960-61 and 1969-70. It was only 6% of the total borrowed capital in 1960-61 and gradually it came down to 1.3% of the same at the end of 1969-70 (pp.211-214 Chapter VI).

Borrowings from other sources comprising foreign private long term credits and deferred suppliers' credit in the case of Central government companies had been another segment of borrowed capital in them for financing foreign exchange cost of the projects though project - tied credit channelled through the government had also been used to finance the said cost (pp.216-217 Chapter VI). Its share had been only 1.6% of the total borrowed capital on the
year 1961-62 and it increased to 13.7% at the end of
1969-70 with the increase in the number of operating
Central government companies and also with the increase
in the foreign exchange components of the project cost
with the progress in the completion of the projects and the
enhancement of the rupee liability of foreign loans follow­
ing devaluation of rupee in June 1966. An interesting
point in this connection had been that project-tied credits
and deferred credits were not taken into consideration in
fixing the debt equity ratio of 1:1 in the Central Govern­
ment companies. In consequence loan contents in the capital
structure of companies having foreign projectied loan and
deferred credit had been higher than was contemplated
under 1:1 ratio between debt and equity. This lead to the
increase in the project cost and also affected the profita­
bility of these companies (pp.218-219 Chapter VI).

Progressively increasing share of borrowed capital
injected in their total capital mix or the portion of the
same that was due to the total external sources, though
aimed at attaining 1:1 ratio between debt and equity in
the capital structure of the Central government companies,
the same could, however, not be attained whether equity
was considered at their nominal values or at their current
values. The later was true specially because of the accumula­
tion of heavy deficits under the impact of fixed cost
capital among other factors against earning of inadequate
profits (pp.224-226 Chapter VI).
Internal sources in the capital structure of a company may be estimated comprising both depreciation provisions and retention or retention alone (pp.230-232 Chapter VII). Other provisions such as provision for tax and provision for dividends may serve as a source of working finance only as such are not included in the internal sources of capital (p.245 Chapter VII).

One time controversy over the desirability of utilising internal sources of capital comprising retention of profit for expansion of public sector units seems to have been settled now. Retention is now considered an acceptable source of capital development in the public sector undertakings so as to reduce their claims on the Nation's savings and bring down the burden on the National Exchequer. This is specially true in the developing countries where fiscal and monetary devices are inadequately equipped and where as a means of economic development reliance has to be made on the State Enterprises (p.253 Chapter VII).

It is a fact that, in view of the virtual absence of purchase and sale of shares of the Central government companies in the capital market and the possibility of earning a deflated rate of return on their capital under the spell of their so called social obligation the retention policy in case of the Central government companies cannot be determined with the help of market capitalisation rate and internal rate of return. The same, it appears, will have to be determined, as already indicated, with reference
to the savings in the cost of funds consequent upon retention at each enterprise level on the one hand and the relief that it can give to the Central Exchequer for the supply of funds to the Central government companies on the other (p.254 Chapter VII).

If internal sources are presumed to include both the depreciation provision and retention, then, this would bring change in the inter-relationship of share capital, borrowed capital and retention as well as in the relative position of external and internal sources including that between ownership and creditorship capital in the capital structure of Central government companies between 1960-61 and 1969-70 (pp.233-238 Chapter VII).

But the study hitherto made of the role of internal sources in the capital structure of the Central government companies assumed those resources to comprise retention alone (p.110 Chapter IV) as contained in various types of reserves not invested elsewhere including the credit balance of profit and loss account if any (pp.245-249 Chapter VII). Retention had been a positive component of capital mix in the Central government companies to the extent of 9.8% and 11.1% of the total in the year 1960-61 and 1961-62 respectively. The positive share of retention in these years is ascribed to good performance result with relatively smaller fixed cost capital in the companies which got the status of Central government companies under the Companies Act, 1956 after the commencement of the said
Act and also in the predominance of equity capital on which the government would forego current dividends in favour of retention (pp. 113-114 Chapter IV). But in 1962-63 retention turned to be a negative component of capital mix in the Central government companies to the extent of -2.5% with a chain of consequences on the relative position of share capital and borrowed capital, external and internal sources of capital as well as in the relative position of ownership and creditorship capital (pp. 255-256 Chapter VII).

Since 1962-63 the negative share of retention with varying intensity, in some years increasing and in some years decreasing, became a regular feature in the capital structure of the Central government companies. The same accounted for -8% of the total capital mix in the Central government companies at the end of 1969-70 (p. 259 Chapter VII). The persistent negative share of retention since 1962-63 is explained with reference to the increasing burden of fixed cost capital both under the policy of financing the capital requirement of these companies by intending to maintain a ratio of 1:1 between debt and equity and also under the necessity of borrowing for financing additional capital requirement of these companies in the event of their negative operational results and saturation in share capital in many of them since the entire amount of their authorised capital had been fully called up and paid up (pp. 260-261 Chapter VII).
Further, the basic condition for retention in a company is the presence of profit from operation. But there were serious snags in the same in the Central Government companies between 1960-61 and 1969-70, due to a number of factors such as their over capitalisation, under utilisation of capacities, high cost of production, inadequate earning power, because of absence of sound sales management and pricing policies having no relation with cost structure, overall operational loss of the companies and so on (pp.267-274 Chapter VII). Last but not least important factor that may be invoked to explain the negative retention in the Central government companies is the pursuance of dividend policy by them based on tradition, indifference and ignorance (p.293 Chapter VIII). It was marked with the absence of formulating the same with an eye to the expansion requirement of the companies concerned and savings in cost particularly when they had to borrow fund from the government to finance their capital requirements (p.308 Chapter VIII).

From the very beginning the proportion of external sources had been higher as against the internal sources in the capital structure of the Central government companies. And after the obliteration of the positive share of retention as capital mix and its conversion to the negative component since 1962-63 external sources got the absolute command of the capital structure of the Central government companies which it maintained till the end of the present study i.e. 1969-70. In the event of declining share of
share capital, among external sources gaining of the absolute command of the capital structure of Central Government companies by external sources had been made possible by the increasing percentage of borrowed capital alone (p.117 Chapter IV).

Similarly, from analysis in terms of respective share of ownership and creditorship capital in the capital structure of Central government companies it is found that initially it was the ownership capital which reigned supreme in the capital structure of the Central government companies. But gradual decline in the percentage of share capital coupled with the negative share of retention of varying magnitudes since 1962-63, brought a total change in the position. The percentage of creditorship capital began to increase at the cost of ownership capital, the former surpassing the latter in the year 1966-67. Maintaining of the same position continued till the end of the present study, i.e. 1969-70 (p.123 Chapter V). The bulk of this creditorship capital again was obtained from the Central Government in the form of unsecured loan as already mentioned.

From the foregoing analysis of the trend in the changes of the capital structure of Central government companies between 1960-61 and 1969-70 vis-a-vis changes in the capital structure of Jute, Cotton Textile, Tea industries in India between 1959 and 1968; Medium and Large companies (private and public Limited companies taken together) in the private sector covering all industries in
India between 1960-61 and 1969-70 and the world trend in the capital structure of companies covering all industries between 1900-1966, it appears as if there had been no difference between these two distinct types of companies, the former belonging to the public sector and the latter to the private.

But on minute analysis it will appear that the aforesaid similarity between the two had been more apparent than real. In actuality there were some marked differences between the two. First of all the companies operating in Jute, Cotton Textile and Tea industries in India, the Medium and Large companies covering all industries in the private sector and the companies covering all industries in the world in the period specified in the study were, unlike the Central government companies, not of recent origin. They had the tradition of being age-old industries. Naturally, the decline in the share of share capital in total finance and increase in the proportion of borrowed capital to the same with all its consequences on external sources as well as on the relative position of ownership and creditorship capital may be presumed to have been the result of managerial efforts carried through ages which had a cumulated effect beginning from a remote past. The managerial efforts referred to are most reasonably expected to have been undertaken to minimise their cost of capital and, by that process, to secure the optimality in their capital structure at which marginal real cost, that is the actual cost of each
available method of financing could be the same. Besides it the managements should have also other objectives. But the position in the case of Central Government companies had been altogether different. They were comparatively of new origin and, as such, they were free from having any burden of the past that could obliterate the trend in the change of the capital structure of companies taking place in recent times.

Further, in the case of Central government companies in the public sector, as the present study reveals, the decline in the share of share capital to the total finance and the increase in the share of borrowed capital to the same with all its effect on external sources as well as on the relative position of ownership and creditorship capital had been the result of government’s desire to have uniform policy of providing funds to the public sector undertakings with the intention of maintaining a debt-equity ratio of 1:1 in their capital structure. There might be other objectives as well. For instance to bring into record the true financial cost of a project at least partially, to bring in check on the operational activities of Central government companies so that they exert themselves to meet at least the fixed cost of debts and finally to see that managers in them may not have an easy time making profit. Like the companies in the private sector the Central government companies cannot bring about a rise in the proportion of borrowed capital, as the study reveals, possibly by any managerial efforts applied
at the unit level to minimise the cost of capital and, in the process, to secure optimality in their capital structure. Further, in contrast to the practices obtained in case of the private sector companies, it was not possible for the Central government companies to exercise their freedom in the choice of their sources of borrowed capital. They have to obtain the same from some specific sources under a directive of the government depending on the purpose of the loan. As such, whereas the main sources of borrowed capital in case of the private sector companies had been the banks and they had been in the form of secured loans, the same in case of Central government companies was the Central Government itself and they, on the contrary in the form of unsecured loan. They could obtain cash credit from a specific bank or its subsidiaries to finance their working capital requirements only.

Quite naturally, therefore, notional recovery of interest through its capitalisation, advancing of fresh loan to service the borrowed capital, interest free loans, interest at concessional rates are not generally encountered in the cases of companies in the private sector. They are also not characterised by being able to receive loan from the Central Government. What had been, perhaps most outstanding, in so far as the increase in the share of borrowed capital in case of the Central government companies is concerned, is that, unlike what is found in the private sector, the same did increase in the face of adverse operational results causing the large scale loss of capital.
Secondly, it is a fact that, as found in case of the private sector companies, retention as internal sources had a declining trend, contributing to the declining share of ownership capital and increasing share of creditorship capital and also to the further increase of external sources in the case of Central government companies also. But negative share of retention since 1962-63 seems to be a feature special to the capital structure of the Central government companies alone.

Thirdly, in the event of declining share of retention in the internal sources and its conversion from a positive to a negative component of capital mix since 1962-63, the proportion of external sources in the capital structure of Central government companies had not only been higher like that of the companies in the private sector, the same unlike what prevailed in the cases of latter categories of companies, also got the absolute command over the capital structure of Central government companies since the year specified above. It is true that in the case of companies in the private sector the proportion of external sources also recorded a gradual increase in their capital structure. Nevertheless, the same never could attain the absolute command over the capital structure in them.