

CHAPTER - I

INTRODUCTION

The pattern of economy that India has fostered since the announcement of its first Industrial Policy in 1948 is known as mixed economy. In a mixed economy, the entire economy remains divided into two segments namely Public and Private Sector. Private Sector consists of all industries owned and controlled by an individual or a group of individuals and the Public Sector all enterprises that are owned and controlled by the State. Again, in view of the Federal structure of the State of India, the industries under Public Sector commonly known as Public Enterprises, also admits two-fold classifications, namely those which are owned and controlled by the Central Government and those which are owned and controlled by the State Government, the former being described as the Public Enterprises under the ownership and control of Central Government and the latter Public Enterprises under the ownership and control of the State Government, the criterion in each case being holding of 51 % of the Equity shares of an Enterprise.

The Public Enterprises at present occupy a pivotal position in the economy of the country. They function predominantly in the key areas supplying basic inputs such as coal, steel, minerals, metals and heavy equipments

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including those needed for generating power. There are also Service Enterprises operating in the fields of trading and marketing, shipping and transportation, contracting and consulting, tourism and development of small Industries. The present health of these undertakings, their growth, performances - and future development are therefore, of general concern and interest. On their success depends substantially the performance of the economy practically in every field of endeavour.

To appreciate the growth of Public Enterprises in different fields over the decade between 1975-76 and 1984-85, the changing profile of the same has been projected in the discussions that follow in terms of its contribution to capital formation, national income, employment, net savings and lastly exports from the economy.

Capital Formation :

An important goal of the Public Sector in India is to accelerate the capital formation in the country. In this respect the public sector has been playing a strategic role. This can be gauged easily from the following Table.

Table - 1 : Showing the Relative Share of Public Sector in
The Capital Formation of the Economy Between
1975-76 and 1984-85

(Crores of Rupees)

Y e a r s	Public Sector	Private Sector	Total	Percentage share in the capital formation	
				Public	Private
1	2	3	4	5	
1975-76	5641	7990	13631	45	55
1976-77	7101	8673	15774	45	55
1977-78	7851	9493	17344	45	55
1978-79	8987	10955	19942	45	55
1979-80	9974	10928	20902	48	52
1980-81	11629	13588	25217	46	64
1981-82	14489	15227	29716	49	51
1982-83	18841	16220	24661	53	57
1983-84	20649	19529	40178	51	49
1984-85	24269	20685	44954	54	46

Source : I. Commerce Year Book of Public Sector Edit.
Vadilal Dagli, Commerce Publication Ltd.,
Manek Mahal, Bombay , 1980-81.... p.4
1984-85 p.4

II. Economic Survey of India 1988-89. Ministry
of Finance, Government of India. p.107.

It will be observed from the Table that since 1975-76 though the share of the Public Sector is on an average 45% of the total, nevertheless compared to 1975-76, it shows an improvement by 20 % over the position in 1975-76.

National Income :

The share of Public Sector Enterprises in the total national income, it is true, is not very high at present. Nevertheless, there can be no denial of the fact that its position is improving gradually. The following Table shows the relative position of the Public Sector in the national economy in this respect.

Table - 2 : Showing the Share of the Public and Private Sector Over the Decade Between 1975-76 and 1984-85 in the Gross Domestic Product at Factor Cost at Current Prices

(Crores of Rupees)

Y e a r	Public Sector	Private Sector	Total	Percentage Share	
				Public Sector	Private Sector
1	2	3	4	5	
1975-76	12220	54150	66370	18	82
1976-77	14379	57085	71464	20	80
1977-78	15693	65033	80726	19	81
1978-79	17449	69523	89672	20	80
1979-80	20028	74842	94870	21	79
1980-81	23511	90510	114021	21	79
1981-82	28897	101686	130583	22	78
1982-83	35351	109042	144393	25	75
1983-84	40208	133212	173420	23	77
1984-85	49140	158641	207781	24	76

- Source :
- I. National Accounts Statistics, Central Statistical Organisation, Government of India February 1980 ... p.44 , January 1985 pp. 12 and 56.
 - II. India 1988-89, Statistical Abstract. Central Statistical Organisation. Govt. of India, p.282

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From the analysis of the Table it will be found that in the decade between 1975-76 and 1984-85 the share of Public Sector has increased by $33\frac{1}{3}$ %

Employment :

Creation of employment opportunity is one of the basic objectives of Public Sector in India. Data in Table 3 below show the progress that Public Sector has made in this arena over the decade between 1975-76 and 1984-85.

Table - 3 : Showing the Share of the Public Sector in the overall employment position in the country over the period from 1975-76 to 1984-85

('000 number)

Y e a r	Public Sector	Private Sector	Total Number of Employment	Percentage Share	
				Public Sector	Private Sector
	1	2	3	4	
1975-76	13363	6843	20206	66.1	33.9
1976-77	13876	6867	20743	66.9	33.1
1977-78	14441	7043	21484	67.2	32.8
1978-79	14980	7174	22154	67.6	32.4
1979-80	15697	7236	22933	68.4	31.6
1980-81	15484	7395	22879	67.6	32.4
1981-82	15946	7547	23493	67.8	32.2
1982-83	16456	7522	23978	68.6	31.4
1983-84	16866	7343	24209	69.6	30.4
1984-85	17269	7309	24578	70.3	29.7

Source : India 1978 p.379
 India 1984 p.342
 Economic Survey 1985-86. Ministry of Finance
 Government of India. pp.142-143.

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It will be observed from the Table that in respect of the creation of employment opportunities the Public Sector had always the lion's share in India. And it had always been able to maintain its steady increase throughout the decade under the analysis, the overall increase being by 6.1% over that of the base year 1975-76.

Net Savings :

Public Sector in India has also been conceived as an agency for attaining self sustained economic growth of the country through generation of net savings by it. The role that Public Sector plays in this respect can easily be visualised from Table 4. It will be observed that though the share of Public Sector has not been as impressive as was expected, nevertheless it is gradually gaining height. In absolute terms the savings of the Public Sector was Rs.2835 crores in 1975-76. It increased to Rs.3369 crores by the end of 1984-85. In terms of percentage, it means a 18.8% increase over that of the position obtaining in 1975-76. The peak year of increase being the year 1982-83.

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Table - 4 : Showing the share of the Public Sector in Total Net Savings for the Period from 1975-76 to 1984-85

(Rupees in crores)

Y e a r	Public Sector	Private Sector	Total	Percentage share in net Savings	
				Public Sector	Private Sector
1975-76	2835	8328	11163	25.4	74.6
1976-77	3474	10412	13886	25.0	75.0
1977-78	3350	12041	15391	21.8	78.2
1978-79	3221	14281	17502	18.4	81.6
1979-80	3124	13910	17034	18.3	81.7
1980-81	2380	17518	19898	11.9	88.1
1981-82	4712	18183	22895	20.6	79.4
1982-83	4929	21151	26080	18.9	81.1
1983-84	3900	27131	31031	12.6	87.4
1984-85	3369	23117	26486	12.7	87.3

Source : Commerce Year Book of Public Sector, Edited by Vadilal Dagli, Commerce Publication Ltd., Manek Mahal, Bombay

1980-81 P.A. - 5 | Results computed
1984-85 P.A. - 5

Exports :

Most of the Public Sector Enterprises in India have done wonderful job in the field of exports also. Instances on this point are, the

Bharat Electronics Ltd., Hindustan Machine Tools Ltd., etc. Total exports from Bharat Electronics Ltd., amounted to Rs.0.44 crores and that from Hindusthan Machine Tools Ltd., had been Rs.10.09¹ crores in the year 1984-85. The list can be multiplied. Some of the public enterprises started specially to produce goods which were formerly imported and thus to save foreign exchange. For example, Hindusthan Antibiotics Ltd., Indian Drugs and Pharmaceuticals Ltd., Oil and Natural Gas Commission, Indian Oil Company Ltd., etc. This is mainly directed towards increasing self-reliance of the economy and reducing risk inherent in depending on foreign supplies. Foreign exchange earnings by these public enterprises through exports of goods and other activities, as has been depicted in Table 5, amounted to Rs.5831 crores in 1984-85 as against Rs.1640 crores in 1975-76. Thus an increase of Rs.4191 crores was recorded over the period of ten years which is significant in the context of net growth of Rs.11555 crores in the country's total exports during the same period.

Table - 5 : Showing the Share of the Public Sector in The Total Exports of This Country over The Years Between 1975-76 and 1984-85
(Rupees in Crores)

Year	Public Sector	Private Sector	Total	Percentage Share	
				Public Sector	Private Sector
1975-76	1640	2402	4042	41	59
1976-77	1753	3589	5142	34	66
1977-78	1562	3842	5404	32	71
1978-79	1834	3892	5726	32	68
1979-80	1913	4536	6449	30	70
1980-81	2212	4499	6711	32.9	67.1
1981-82	2746	5060	7806	35.1	64.9
1982-83	4694	4140	8834	53.1	46.9
1983-84	5418	4309	9727	55.7	44.3
1984-85	5831	5724	11755	50.5	49.5

Source : 1. India 1984, Table 20.1 ; 2. Public Enterprise Survey 1984-85, BPE, New Delhi, Volume 1, pp.6-7

1. Public Enterprise Survey 1984-85, Vol. II, BPE, New Delhi, pp.116 & 121.

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The foregoing discussion clearly demonstrate how important is the position of Public Sector in the national economy of India at present. Public Sector is no longer confined to its activities for providing overheads. It has stretched its arms far beyond that. Leaving its traditional fold, it has entered into what is known as commercial and industrial activities. And organisationally commercial and industrial undertakings of the Central Government have taken three different forms ; namely, the form of the Departmental Undertakings, the Public Corporation and the Government Companies. Of these three, it is however the form of Government Companies which is by far the most important. This is borne by the fact that leaving aside the traditional departmental undertakings, the number of Government Companies in the total number of commercial and industrial undertakings under the ownership and control of the Central Government had been 216 with 3911 crores of rupees out of total investment of 4201 crores of rupees during the period 1984-85². In other words it means 93.1 % of the total investment were in the Government Companies.

In view of this predominance of the Government Companies in the Central Public Enterprises, the term Public

2. Public Enterprise Survey 1984-85, Vol.I, BPE, Ministry of Industry, New Delhi, pp.167-171, [Figures computed]

Sector and the Government Company is presumed to be mutually interchangeable for the purpose of the present study.

In Table 6 that follows attempts have been made to focus the relative importance of the Government Companies in general and the Central Government Companies in particular first in the Corporate Sector of the country then relative importance of Central Government Companies in the same over the period between 1975-76 and 1984-85.

Attempts have also been made in this Table to locate the place and importance of the Central Government Companies amidst Government Companies over the same period. It will be observed from the Table that the shares of the both Government Companies and Central Government Companies had always been on the increase in absolute number in all the years under analysis. In case of percentage increase, however, there have been ups and downs in both the cases, because of the relatively larger number of increase in absolute number of the private sector companies in relation to the Central Government Companies in some years.

Table - 6 : Showing the Growth and Importance of Government Companies in General the Central Government Companies in Particular First in the Corporate Sector and Finally amidst the Government Companies During the Period 1975-76 to 1984-85

Year	Total no. of companies (Public and Private Sector)	Total no. of government companies (State and Central Government companies)	Share of the government companies in the total no. of companies (in percentage)	Yearwise increase of government companies (in percentage)	Total no. of Central Government companies	Share of Central Government companies in the total no. of companies (Public Sector and Private Sector (in percentage)	Share of Central Government companies in the total no. of Government companies (in percentage)	Year-wise percentage increase in the Central government companies over 1975-76
1975-76	43265	651	1.50	-	121	0.28	18.59	-
1976-77	45632	701	1.54	7.68	149	0.33	27.26	23.14
1977-78	47955	745	1.55	14.44	155	0.32	20.81	28.10
1978-79	51051	782	1.55	20.12	158	0.31	20.20	30.58
1979-80	55780	825	1.48	26.73	169	0.30	20.48	39.67
1980-81	61863	851	1.36	30.72	185	0.29	21.74	52.89
1981-82	71508	894	1.24	37.33	205	0.28	22.93	69.42
1982-83	81960	943	1.14	44.85	209	0.25	22.16	72.72
1983-84	93261	973	1.03	49.46	217	0.23	22.30	79.34
1984-85	106386	980	0.91	50.54	223	0.21	22.76	89.30

Source : 1. Company News and Notes - January 1982 (Vol. XX No. 1). The Growth of Corporate Sector in India by Shadi Lall Joint Director, Research & Statistics in the Department of Company Affairs, pp. 1-4

2. Public Enterprise Survey 1980-81 BPE, New Delhi, Vol. I, p. 8

3. Figures for share (In Percentage) are computed

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Table - 7 : Showing the Importance of Government Companies in terms of Their Shares in the Paid up Capital of the Corporate Sector and the Share of the Central Government Companies in The Total Paid up Capital of the Government Companies Between 1975-76 to 1984-85

(Paid up Capital in Crores of Rupees)

Year	Total amount of paid up capital in the Corporate Sector (Private and Public Sector)	Total amount of paid up capital in Government Companies	Total amount of paid up capital in the Central Government Companies	Share of the Government Companies in the total paid up capital of the Corporate Sector (In percentage)	Share of the Government Companies in the total paid up capital of the Corporate Sector (In percentage)	Share of the Government Companies in the total paid up capital of the Government Companies	Share of the Government Companies in the total paid up capital of the Government Companies	Share of the Government Companies in the total paid up capital of the Government Companies	Rate of increase in paid capital in the Central Government Companies per year over 1975-76 (In percentage)
1975-76	9441.6	6122.2	4533.0	64.84	48.01	74.04	74.04	-	14.33
1976-77	10548.2	7144.5	5185.6	68.02	49.16	72.29	72.29	14.33	39.04
1977-78	12024.3	8527.6	6303.3	70.92	52.42	73.92	73.92	39.04	57.22
1978-79	11878.1	8315.2	7127.0	70.01	60.76	85.71	85.71	57.22	72.14
1979-80	13411.6	9753.3	7803.0	72.72	58.18	80.00	80.00	72.14	92.92
1980-81	16144	11443	8745	70.88	54.17	76.42	76.42	92.92	134.83
1981-82	18270	13309	10645	72.85	58.26	79.86	79.86	134.83	179.02
1982-83	21921	16536	12648	75.43	57.69	76.48	76.48	179.02	237.11
1983-84	24962	19511	15281	78.16	61.22	78.32	78.32	237.11	287.47
1984-85	27331	21443	17564	78.46	64.26	81.90	81.90	287.47	

Source : 1. Company Notes and News. January 1982 (Vol. XX. No. 1), pp. 1-4

2. Percentage Figures - computed

Table 7 contains a projection of the importance of the Government companies in terms of its share in the overall paid up capital in the Corporate Sector of the country. It also highlights the importance of the Central Government Companies in terms of its share in the overall paid up capital, first of the corporate sector and then of the Government Companies with annual rate of increase of the same. It will be observed from the Table, that, the share of the Government Companies in the overall paid up capital of the Corporate Sector had been 64.84 % in the year 1975-76. Since 1975-76 it had always been on the increase, and it accounted for 78.46 % of the total paid up capital of the Corporate Sector at the end of 1984-85. This appears to be quite significant particularly when the share of the Government Companies had been found to be only 0.91 % of the total number of Companies (Private and Public Sector taken together) operating in India as shown in Table 6 earlier. It becomes more revealing when Central Government Companies are brought into picture. As observed from the same Table, the share of the Central Government Companies had been only 0.21 % of the total number of Companies at the end of 1984-85. Nevertheless, it accounted for 64.26 % on the total amount of paid up capital in the Corporate Sector of the country.

Considered in juxtaposition with the government companies, with a share of only 22.76 % of the total, the share of Central Government Companies in the overall paid up capital of the Government Companies comes round as high as 82 % . This shows that the Government Companies in general and the Central Government Companies in particular are by nature capital intensive.

Despite this dominating position of the Central Government Companies in the Corporate Sector their performance measured by the various indices of profitability as can be read from Table 8 , that follows has been very dismal one.

Since efficient management of inventory has bearing upon profitability of any firm, an investigation into the present state of inventory management in the Public Sector and how to improve it appears to be a fascinating area of empirical research. The present study aims to do that with reference to a selected number of Central Government Companies having their Registered Offices in the State of West Bengal. The Companies that have been selected for the purpose, on a random basis from a heterogeneous group of industries such as Heavy Engineering, Medium and Light Engineering, and Minerals and Metals, are :

1. Braithwaite & Company Ltd.
2. Hindusthan Cables Ltd.
3. Jessop & Company Ltd.
4. Mining & Allied Machinery Ltd.
5. Hindusthan Copper Ltd.

The period covered in the study is a span of ten years i.e. from 1975-76 to 1984-85. Data for the purpose will be culled from the Published Reports of the B.P.E., Annual Reports of the Companies concerned, RBI study, Reports of the Committee on Public Undertakings and also from various published and unpublished sources having bearing on the study. Information relating to the inventory management in the public sector will also be collected by the issue of Questionnaire to the companies under analysis. Extensive reliance will also be on the tools and techniques of inventory management that are widely discussed in the available literature on the subject, including the use of ratios where necessary.

Scheme of the Work :

The study has been divided into seven Chapters. The first chapter is an introductory one wherein discussions are made highlighting the importance of Public Sector in various dimensions in general and Central Government Companies in particular.

In Chapter 2, the term inventory in general and in the context of the Central Government Company has been defined. In this Chapter attempt has also been made to develop a framework for efficient management of inventory after highlighting the bearing of inventory management on the profitability of firms. Here the approach has been a normative one with the tools and techniques of inventory management.

In Chapter 3, contains an appraisal of the present state of inventory management in the Central Government Companies with the help of various relevant accounting ratios by way of case studies.

Chapter 4 studies the effect of Inventory Management on the profitability of a firm with normative and empirical focus.

Chapter 5 highlights the present technique of financing inventories in the Central Government Companies, and also deals with Tandon and Chore Committee Reports and their relevance specially on financing of inventories by the Central Government Companies.

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Chapter 6 evaluates the application of tools and techniques for inventory management by the Companies under study in the context of Government Circulars and directives.

Chapter 7 is a concluding Chapter wherein observations have been made regarding present state of Inventory Management in the Central Government Companies with suggestions for future improvement.