SUMMARY OF THE FINDINGS

CONCLUSION

CHAPTER - 7

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Summary of findings

Pattern of Investment and Finance: RBI data

- The average annual rate of growth of Net Fixed Assets (NFA) increased in the post-reform period (1992-2003) compared to the pre-reform period (1983-1991). It declined in the case of Current Assets (CA) and Other Assets (OA) during the same periods.

- The asset ratios explained that, the ratio of Net Fixed Assets to Total Net Assets (NFA/TNA) increased in the post-reform period compared to the pre-reform period. The relative share of Other Assets also increased while that of Current Assets declined in these periods.

- This pattern of change has been found true at constant prices (1993-94) also. The relative shares of Net Fixed Assets in Total Net Assets (NFA/TNA) and Other Assets in Total Net Assets (OA/TNA) progressed in the post-reform period whereas the share of Current Assets in Total Net Assets (CA/TNA) deteriorated.

Financing Pattern: RBI data

- The changes in the composition of Total Long-term Finance revealed that, the share of Total External Finance declined in the post-reform period compared to the pre-reform period. The Total Internal Finance on the other hand, enhanced. (Here, RBI data includes Share Premium Reserves under Reserves and Surplus)

- In Total External Finance, the share of Borrowings (including Debentures and Long-term Loans) progressed in the post-reform period compared to the pre-reform period while the part of Share Capital declined.
Pattern of Investment of 150 NGNF Public Ltd Companies in India

Aggregate Level Analysis

- The compound rate of growth of Net Fixed Assets increased from 13.2% in the pre-reform period to 14.9% in the post-reform period. The rate of growth of Current Assets declined from 16.6% to 11.7% while it increased from 20.4% to 41.9% in the case of Other Assets.

- At constant prices, the rate of growth of Net Fixed Assets advanced from 3.4% in the initial period to 9% in the reform period. It declined in the case of Current Assets from 6.5% to 6%. The rate of growth of Other Assets progressed from 9.9% to 34.6% during the same periods.

Asset Ratios

- The Asset Ratios at the aggregate level showed that the share of Net Fixed Assets in Total Net Assets declined marginally in the reform period. The fraction of Current Assets in Total Net Assets also declined whereas the role of Other Assets in Total Net Assets augmented in the post-reform period.

- The asset ratios at constant prices also demonstrated that the shares of Net Fixed Assets and Current Assets with respect to Total Net Assets declined in the post-reform period. The share of Other Assets progressed.

Industry-wise: Aggregate Level

- The trend of Net Fixed Assets, Current Assets and Other Assets were upward slopping in all the industry groups in the overall, pre and post-reform periods. The rate of growth of Net Fixed Assets of five groups out of ten groups advanced in the reform period. It declined in all the groups in the case of Current Assets whereas it enhanced in all the groups in the case of Other Assets.

- To see whether there is industry specific growth of investment, the intra-industry rate of growth of investment in the pre and post-reform periods were computed. It revealed that the rate of growth of investment is not industry specific.
Asset Ratios

- The periodical changes of asset ratios showed that the share of Net Fixed Assets in Total Net Assets of four industry groups out of ten groups increased in the post-reform period. The part of Other Assets of all the groups progressed whereas it declined in the case of Current Assets in nine groups.

Size-wise: Aggregate Level

- The rate of growth of Net Fixed Assets of size group 5 (PUC Above Rs 100 Crores) advanced in the post-reform period. The rate of growth of Current Assets of all the five size groups declined in the latter period whereas it enhanced in the case of Other Assets.
- To observe whether the rate of growth of investment is size group specific, we have obtained the intra-size rate of growth of Net Fixed Assets in the two periods. It explained that the rate of growth of investment is not size group specific in the reform period.

Asset Ratios

- The relative share of Net Fixed Assets in Total Net Assets of one group out five groups increased in the reform period, the part of Current Assets declined in all the groups whereas the fraction of Other Assets advanced in all the groups in the post-reform period.

Pattern of Investment: Firm Level

- At the firm level, the compound rate of growth of Net Fixed Assets accelerated in the reform period. Its rate of growth was in the range of 5-20% in 63% of firms in the overall period. It grew up from 48% of firms in the pre-reform period to 59% of firms in the post-reform period. The rate of growth of Current Assets was above 15% in 58% of companies in the pre-reform period, declined to 15% of firms in the post-reform period. In the overall period it was 37%. The rate of growth of Other Assets
was above 20% in 48% of firms in the overall, 27% in the pre-reform and 52% in the post-reform periods.

Asset Ratios

- The firm level asset ratios indicated that the relative share of Net Fixed Assets (NFA/TNA) was more than 40% in 49% of firms at the overall and post-reform periods against 45% of companies during the pre-reform period. The share of Current Assets in Total Net Assets which was above 50% in 73% of firms before the reforms declined to 63% of firms after the reforms. It was 65% of firms in the overall period. The ratio of Other Assets to Total Net Assets was less than 10% in 99% of firms in the initial period. It grew up to more than 10% in 25% firms in the latter period. It was more than 10% in 20% of companies in the overall period.

Financing Pattern of 150 NGNF Public Limited Companies in India

Aggregate Level

- The financial structure of 150 NGNF Public Limited Companies revealed that in Total Long-term Finance, the share of Total External Finance progressed from 57% in the pre-reform period to 66% in the post-reform period. The share of Total Internal Finance on the other hand depleted from 43% to 34%.
- The ratio analysis showed that the ratio of Debt-Equity and Total External Finance to Total Long-term Finance increased in the post-reform period compared to the pre-reform period. The share of Total Internal Finance in Total Long-term Finance on the other hand depleted.

Industry-wise

Financial Ratios

- The industry-wise analysis of financial ratios brings out that, the role of capital market enhanced in the reform period. The Debt-Equity ratio of six industry groups and the share of Total External Finance (TEF/TLF) of eight groups progressed in the post-reform period.
Size-wise

Financial Ratios

- The size-wise cataloguing also witnessed the growth of capital market financing in the reform period. The Debt-Equity ratio of three size groups and the share of Total External Finance (TEF/TLF) of all the five groups augmented in the latter period.

Financing Pattern: Firm Level

- At the firm level, the role of capital market was more than 50% of Total Long-term Finance in 65% of companies in the overall period. It was 59% of companies before the reforms and progressed to 65% of companies after the reforms.
- The Debt-Equity ratio was more than 70% in 38% of companies in the overall period. It was 37% in the reform period against 32% of companies before the reforms.

Financial Management Ratios: Firm Level

Liquidity Ratio: Current Ratio

- The Current Ratio was more than 200% in 4% of companies in the pre-reform period which improved to 13% of companies after the reforms. It was 9% in the overall period.

Capital Structure Ratios

Debt-Equity Ratio

- The Debt-Equity ratio was more than 70% in 32% of companies in the former period, progressed to 37% of companies in the latter period. 38% of companies were above 70% in the overall period.

Solvency Ratio

- This ratio was in the range of 50-100% in 89% of firms in the pre-reform period, declined to 76% of firms in the reform period; showing that Total Assets enhanced in the latter period.
Activity Ratio

Fixed Assets Turnover Ratio

- The ratio was above 50% in 98.7% of companies in the pre-reform period, improved to 99.3% of companies in the post-reform and overall periods.

Profitability Ratio

Net Profit Ratio

- At the firm level this ratio was more than 5% in 35% of companies in the reform period against 28% of companies before the reforms. It was 33% of companies in the overall period.

Cost of Capital

Interest Rate

The interest rate of debt capital was less than 20% in 38% of companies in the overall period. It was less than 20% in 39% of companies in the post-reform period against 27% of companies in the pre-reform period.

Dividend Rate

Dividend rate was less than 10% in 93% companies in the overall period. It declined from 95% of companies in the pre-reform period to 92% of companies in the reform period. Moreover, the dividend rate of 3% of companies was higher than 20% in the second period in contrast to less than 1% of companies in the initial period.

The impact of capital market reforms on corporate investment in India

In order to analyse the impact of capital market reforms on corporate investment in India, we have observed the rate of growth of investment, the role of capital market, the cost of capital in terms of interest rate and dividend rate and the weighted average cost of capital of 150 NGNF Public Limited Companies in the pre and post-reform periods. It revealed that, capital market reforms helped to reduce the cost of capital and accelerate the rate of growth of corporate investment in India.
The Determinants of Investment

To observe the determinants of corporate investment, a regression function was fitted for the overall, pre and post-reform periods. The function for pooled data illustrated that, Net Profit Ratio (NPR), the ratio of Share Premium Reserves to Total Long-term Finance (SPR/TLF), Debt-Equity ratio (D/E), the ratios of Debenture to Total Long-term Finance (Deb/TLF), and Total Internal Finance to Total External Finance (TIF/TEF) are significantly affecting the rate of growth of investment. It explains about 62% of variations in the rate of growth of investment in the overall period, 47% of variations in the pre-reform and 40% of variations in the post-reform periods.

Conclusion

The study on ‘Capital Market Reforms and Corporate Investment Behaviour in India’ is an attempt to answer certain questions like, how far capital market reforms helped to ameliorate the resource mobilization pattern and investment behaviour of the private corporate sector? Or what financial sector reforms contributed to our real sector? Or what globalization contributed to our real economy? We have analysed (i) RBI data of different sets of companies over the period 1983-2003 and (ii) the balance sheet and profit and loss account data of 150 Non-Government Non-Financial Public Limited Companies for the period 1983-2003 in general and the pre-reform (1983-1991) and post-reform (1992-2003) periods in particular by using Bombay Stock Exchange Official Directory (BSEOD) data base. The analysis was done on three levels: the aggregate level, group level (industry-wise, size-wise) and firm level. For investment, the variables such as Total Net Assets and its components Current Assets, Net Fixed Assets and Other Assets were considered. The broad measures of financing like Total External Finance, Total Internal Finance and Total Long-term Finance was computed. The components of Total External Finance include Debenture, Long-term Loans, Share Capital and Share
Premium Reserves. Retained Profits other than share premium reserves was the main component of Total Internal Finance. The absolute and relative measures of the variables and rates of growth were computed.

**Investment Behaviour**

The analysis of the pattern of investment using RBI data revealed that the rate of growth of investment increased in the post-reform period. The share of Net Fixed Assets in Total Net Assets also enhanced during this period. The data of 150 companies at the aggregate level brings out that the compound rate of growth of Net Fixed Assets and Other Assets progressed while that of Current Assets depleted in the post-reform period compared to the pre-reform period. This trend has been found true at constant prices also. The asset ratios at the aggregate level explained that the share of Net Fixed Assets in Total Net Assets declined marginally in the reform period. The fraction of Current Assets in Total Net Assets also declined while the role of Other Assets in Total Net Assets augmented in the post-reform period.

The industry-wise analysis at the aggregate level disclosed that the rate of growth of Net Fixed Assets of five out of ten groups advanced in the reform period. It declined in all the groups in the case of Current Assets whereas it enhanced in all the groups in the case of Other Assets. To see whether there is industry specific growth of investment, the intra-industry rate of growth of investment in both the periods were observed. It revealed that the rate of growth of investment is not industry specific. The size-wise analysis at the aggregate level disclosed that, the rate of growth of Net Fixed Assets of size group 5 (PUC above Rs 100 Crs) advanced in the post-reform period. It declined in all the groups in the case of Current Assets in contrast to Other Assets during these periods. To observe whether the rate of growth of investment is size-group specific, the intra-size rate of growth was obtained. It explained that the rate of growth of investment is not size-group specific.
The pattern of investment at the firm level highlighted that, the compound rate of growth of Net Fixed Assets of a majority of firms accelerated in the reform period. The firm level asset ratios demonstrated that the share of Net Fixed Assets in Total Net Assets of more firms advanced in the reform period. The share of Current Assets declined during these periods. The fraction of Other Assets also appreciated in the reform period. The analysis viewed that the instantaneous effect of reforms was the spurt in Other Assets.

**Financing Pattern**

The analysis of RBI data revealed that the share of Borrowings including Debentures and Long-term Loans progressed in the reform period whereas the part of Share Capital declined. The financing pattern of 150 companies at the aggregate level illustrated that, Share capital which occupied a predominant position (30.7%) in total external finance in 1984, declined steadily to 8.9% in 2003. Debentures also declined from 45.3% in 1983 to 25.2% in 2003. Long-term loans, though expressed a declining tendency at the end of 1980s, improved after 1995. The part of share premium reserves moved considerably in the upward direction since 1983. It has grown from 3.6% in 1983 to 36.1% of total external finance in 2003. The ratio analysis explained that the ratio of Debt to Equity (D/E) and Total External Finance to Total Long-term Finance (TEF/TLF) increased in the post-reform period compared to the pre-reform period. Debt-Equity ratio improved from 60.4% in the initial period to 62% in the second period and Total External Finance to Total Long-term Finance augmented from 57% to 66.4% in these periods. The share of Total Internal Finance in Total Long-term Finance on the other hand depleted from 43% before the reforms to 33.6% after the reforms.

In industry-wise analysis, the part of Total External Finance which was more than 50% of Total Long-term Finance in 7 out of 10 groups during the pre-reform period increased to 9 out of 10 groups in the post-reform period. Among the components of external sources, Long-term Loans possesses a lion’s share in 7 out of 10 groups in the post-reform period whereas it was only 5 out of 10 groups during the pre-reform period.
Its status appreciated in 9 groups during this period. The role of Debentures and Share Capital deteriorated after the reforms whereas Share Premium Reserves enhanced in all the groups in the latter period. Debt-Equity ratio of all the groups improved in the post-reform period. Its value increased in 6 groups during this period. In size-wise cataloguing the status of Total External Finance was more than 50% of Total Long-term Finance in 3 groups out of 5 groups in the pre-reform period which grew up to all the five groups in the post-reform period. Among the components of Total External Finance, Debentures of three groups were significant in the pre-reform period, declined to only one group in the post-reform period. Long-term Loans played a key role in three groups in the post-reform period in contrast to two groups in the pre-reform period. The part of Share Capital to Total Long-term Finance (SC/TLF) declined in all the groups in the post-reform period while Share Premium Reserves to Total Long-term Finance (SPR/TLF) increased. The Debt-Equity ratio of 3 groups progressed in the latter period.

The firm level analysis demonstrated that the position of Debenture, Share Capital, and Total Internal Finance to Total Long-term Finance weakened whereas, Long-term Loans, Share Premium Reserves and Total External Finance to Total Long-term Finance progressed. The Debt-Equity ratio of firms increased in the latter period. The analysis further revealed that the abrupt effect of reforms was the upsurge in Share Premium Reserves. The financial management ratios illustrated that, liquidity ratios, capital structure ratios (leverage ratios) and investment analysis ratios enhanced in the reform period whereas activity ratios and profitability ratios have made only moderate improvement. While analyzing the impact of capital market reforms on corporate investment in India, we could find that the capital market reforms helped to reduce the cost of capital and thereby accelerated the rate of growth of investment.

To identify significant financial variables that determine corporate investment, we have used stepwise multiple regression analysis. The results illustrated that in the overall period (1983-2003), Net Profit Ratio, the ratio of Share Premium Reserves to Total Long-
term Finance, Debt-Equity ratio, the ratios of Debenture to Total Long-term Finance and Total Internal Finance to Total External Finance have significant impact on investment. Thus, we come to the conclusion that capital market reforms helped to augment the private corporate investment in India. It helped to ameliorate the resource mobilization pattern of the corporate entities in the post-reform period.

Limitations of the study

The study mainly used Bombay Stock Exchange Official Directory Database. The BSEOD data does not provide separate entries of paid-up capital under external and internal sources of finance. Moreover, the study does not properly answer why Other Assets (including investment in subsidiaries, miscellaneous assets and intangible assets) and Share Premium Reserves shoots up in the reform period. It has not taken into account the other factors affecting investment.

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