Chapter 7

Conclusions and Suggestions
Conclusions

If Uttar Pradesh were a country, it would be the world’s seventh largest. It is the most populous state of India and is host to one-sixth of the country’s population. The state of Uttar Pradesh presents the best paradoxical example of poverty amidst plenty. It has abundance of natural and mineral resources but still its economy and people are most backward from all the indicators of social and economic development. Uttar Pradesh ranks second in mineral wealth and second in food production in the country. Uttar Pradesh’s large size relative to other Indian states and the professed goals of its leaders and policy makers make it imperative for industries in the state to develop fast. However the objective of faster industrialisation needs to be addressed by a strategically-oriented industrial policy. Often an important element of this task is determining which industries should receive favourable treatment.

The large size of Uttar Pradesh is indicative of the large contribution that its manufacturing sector can make to the country’s economic growth. However, at present, the value added to the state’s manufacturing sector is Rs. 143 billion at 1996-97 prices, roughly 40% of that of India’s most industrialised state, Maharashtra. This indicates that much of the potential is untapped. Further, there has not been any improvement in harnessing that potential.

In the 1980s the economy of the state grew at a rate of 4.8% while industrial growth was 7.7%, higher than the all-India rate of 6.9%. In the 1990s, the rates of economic and industrial growth declined significantly to 3.2% and 3.6% respectively whereas the national average was 6.6% for the same period.
The Liberalisation of the Indian economy in the 1990s saw Uttar Pradesh lose the economic edge it formerly enjoyed over other Indian states. In the 1950s, the per capita income in Uttar Pradesh was at par with that in other states. Today it is around two-thirds of the national average with a per-capital economic growth rate of less than one-percent. Through the late-1970s and the 1980s, large doses of public investment (both Central and State) stimulated private sector participation in the state’s industrial growth and kept Uttar Pradesh ahead of the national average. A world bank study on Uttar Pradesh attribute the subsequent slowdown to the policy competition for direct investment from other states. The 1990s saw the states competing each other for direct investment by formulating exclusive industrial policies based on their needs and competitiveness.

The main highlights of the present industrial economy of Uttar Pradesh are summarised below –

- The state’s industrial economy is predominately agro-processing based with significant strengths in the chemical and engineering sectors.

- Up to 1980s, Uttar Pradesh had a significant presence in textile processing and mineral based industrial sectors of India, but this declined in the 1990s.

- Uttar Pradesh’s presence increased significantly in basic goods, declined marginally in consumer goods and declined in intermediate goods.

- The state’s agro-processing strengths lie in refined sugar, vanaspati, indigenous sugar and grain milling.
In textiles, Uttar Pradesh continues to have strength in composite mills weaving cotton, handlooms weaving silk and cotton, production of blankets, shawls, carpets and made-ups but marginal edge in weaving and man-made fibres.

The dairy sector of Uttar Pradesh retained its competitiveness in the 1990s as did the tanneries and their footwear downstream.

The state's cement and other mineral-based industries declined.

There was an increase in the production of petroleum-based products, fertilisers and pesticides.

Capacities in steel rolling industrial machinery (both electrical and non-electrical) and in transport equipment and spare parts increased.

The state's vintage position in aluminium manufacturing was eroded.

Manufacture of two-wheelers, consumer electronics, household electrical appliances and other consumer durables increased considerably.

Uttar Pradesh continues to be an important manufacturing base for fast moving consumer non-durables such as perfumes, toothpaste and cosmetics.

In the previous chapters an analysis is made of the growth, composition and structure of the corporate sector in Uttar Pradesh, during the past two decades. In this chapter, an attempt is made to summarize the main findings of the study. This micro level study would prepare an empirical and true picture of the performance of the corporate sector in Uttar Pradesh. The
present part of the composition has been dedicated to the conclusions and main findings followed by valuable suggestions for policy implications flowing from the study. The chapter has been divided into two sections. Section-I deals with the conclusions emerging out of the present study, while the suggestions and policy implications have been carried out in Section-II.

Section I

Objective of the study

The purpose of the research is to project the achievements and shortcomings of the corporate sector with respect to the economic development of Uttar Pradesh post 1991 reforms. It also aims at highlighting the various problems faced by the corporate sector in terms of policy constraints, infrastructural inadequacy, bureaucracy, political interference, unavailability of labour, lack of technical know-how and support etc. Needless to say the work also makes an attempt to suggest some measures to overcome such problems.

Research Methodology

The process of collecting information and data for the purpose of undertaking a research work is called research methodology. The methodology may include primary data such as surveys, interviews and questionnaires and secondary data such as government publications, company's reports, internet and other research techniques, and could include both present and historical information.
The present research work has mostly utilised secondary sources of data such as:

- Annual Survey of Industries
- Reports of Ministry of Corporate Affairs and Planning Commission
- Uttar Pradesh State Government reports
- Annual and Financial reports of the companies
- State developmental reports by IBEF, CII and PHD Chamber.
- Uttar Pradesh state planning commission reports and state development reports for various years.

The ASI is principal source of industrial statistics in India. The ASI covers all the factories registered under sections 2m(i) and 2m(ii) of the Indian Factories Act of 1948, which refer to the factories using power and employing 10 or more workers; and those not using power but employing 20 or more workers on any day of preceding 12 months, respectively. The present study is based on Factory Sector’s data and covers the period 1991-92 to 2011-12. Besides, the study has also used state GDP data culled out from the state planning commission reports. For the purpose of research work, a sample base of 10 companies has been undertaken out of which 5 are Non-Government Companies and 5 are Government Companies (both limited by shares). The organisational structure and the financial management of these companies were then analysed to unveil the structure of different companies in Uttar Pradesh. This analysis is very crucial to understand the profitability and the management of the major companies in the state. Also, it reflects the impact of the state policy and the investment climate on the growth of the companies in the state over the past two decade. The analysis of financial statements consists of a study
of relationships and trends to determine whether or not the financial position, results of operations and the financial progress of the company are satisfactory or unsatisfactory. The analytical methods and techniques are used to ascertain or measure the relationships among the financial statement items of a single set of statements and the changes that have taken place in these items as reflected by successive financial statements. The objective of any analytical method is to simplify and reduce the data under review to more understandable terms. This involves computation and organizing the data and then analysing and interpreting them to make them more meaningful. The main year end statements summarized from the accounting system are

(1) Balance Sheet (the position statement) and

(2) Profit & Loss Account (the income statement).

The data contained in these statements are analysed for some purpose. The analysis of financial performance is being done by using the technique of ratio analysis. A ratio is defined as the indicated quotient of two mathematical expressions and the relationship between two or more things. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

The financial analysis covers the following:

a) Profitability: the ratios such as net and gross profit margin, EBITDA, return on assets, return on equity and operating income margin are calculated to assess the profitability of the companies over the past few years.
b) Liquidity or solvency: the ratios such as current ratio, quick ratio and working capital are calculated to evaluate the short term liquidity of the companies.

c) Debt ratio: the ratio such as debt-equity ratio and long term debt-equity ratio are also calculated to evaluate the capital structure of the companies taken for the analysis.

The performance of this selected group of companies has been analysed with the help of above mentioned ratios and the trend of various financial parameters studied with the help of this analysis. The overall analysis can be summarised as follows –

- Amongst the non-government companies limited by shares; LML, J K Cotton and Spinning Mills, Rama Paper Mills have been performing badly over the past few years whereas BCML and Mirza International Ltd. have shown good financial performance from 2010 to 2013.

- Amongst the Government Companies limited by shares; the Central government companies such as BIBCOL, Scooters India Ltd. and ALIMCO fared well as against the State government companies such as KESCO and UPECL.

- When we compare the performance of the Non-Government Companies against the Government Companies, we conclude that the Central and the State government companies had been showing good financial results as compared to the Non-Government companies.
• Fixed capital per factory is indicative of average size of factory, but in investment terms. The fixed capital per factory has declined from 1998-99 to 2002-03 but after this year it has grown till 2010-11.

• Number of workers per factory has a vital bearing on the performance of the industrial sector. Apart from reflecting concentration of workers, it also impacts productivity. On average factory size, not only the pattern is fairly consistent but Uttar Pradesh also compares favourably with the overall factory size of India. The number of workers per factory has declined in 1999-2000 but after this year it has increased till 2007-08.

• Invested capital is the total of fixed capital and physical working capital. Working Capital is the sum total of the physical working capital and the cash deposits in hand and at bank, the net balance of amounts receivable over amounts payable at the end of the accounting year. The invested capital shows a gradual decline from 1998-99 to 2002-03 and a steady increase from there onwards till 2010-11. The invested capital had been the lowest in the year 2002-03 depicting lowest investment in the state hence lowest growth of the industry in the state.

• The growth of input and output has grown consistently grown over the selected time period. In the year 2008-09 the number of factories has increased but the number of workers per factory has declined.

• Net Value added (NVA) is defined as the increment to the value of goods and services that is contributed by the factory and is obtained by deducting the value of total inputs and depreciation from gross value of output. NVA has decreased till 2000-01 and after which it has steadily increased till 2005-06. It has dropped in 2008-09 and again bounced
back in 2009-10. The NVA curve very stoutly shows that at the state level few fluctuations could be gauged but after the implementation of reforms steady directional change could be seen. Increase in cost of input and depreciation is mainly responsible for the decline in the NVA.

- Similarly profit has also shown a consistent growth throughout except for 2000-01 and 2008-09. Growth in profit indicates increase in gross output over the total input. It is an indicator of productivity of the industry in an year.

- Fixed capital per factory is indicative of average size of factory, but in investment terms. The fixed capital per factory has declined from 1998-99 to 2002-03 but after this year it has grown till 2010-11.

- NVA per worker curve has dropped in 2000-01 and 2008-09. However it has shown a rising trend during the rest of the period. This reflects that the incremental increase in the net value added is more than the increase in the incremental increase in the number of workers.

- Fixed Capital output ratio is the best coefficient that explains the growth in value of output along with an increase in the productive efficiency. This technical ratio’s changes justify the investment in fixed capital. We know that investment in fixed capital is carried out with the intention of building capacity for higher growth, capital intensive innovations and diversification, with the intention to bring about changes in composition of output. Fixed capital to output ratio has declined till 2004-05 and afterwards it has fluctuated in its value.
• Fixed capital to net value added has also declined till 2006-07 and after this year it has fluctuated in its value.

• NVA to output is one of the significant technical coefficients which shed light on the type of economic organization that exists within the industry. Higher the vertical integration in the sector, more production takes place in house or within the firm. Value added to output is derived to highlight this phenomenon existing in the industry. Net value added to output has declined till 2004-05 and afterwards it has increased and remained stable in 2006-07 and 2007-08. Its value fluctuated in the remaining years. Net value added to output shows the component of raw material cost, manufacturing cost and services required for the output. If the total cost is increasing more than the gross output, NVA will decrease in its value. The cost efficiency of the manufacturing unit is measured by NVA to output.

• Output to input ratio curve has declined from 1998-99 to 2004-05 but from 2004-05 it has fluctuated in its value. The decline in the ratio indicates that the figures of output are not more than the input in these factories. It is a strong indication of the weak productivity of the factories and their poor efficiency.

• Profit to working capital ratio depicts the amount of profit generated from the working capital employed by the factory. The higher the ratio higher the profitability of the factory. The ratio has increased marginally from 1998-99 to 2003-04 but after this year the value of the coefficient has moved up and down and thus presents an inconsistent trend. The reason for this inconsistent growth is global recession, reduced
profitability due to increase in manufacturing cost and provisions along with taxes.

- The industry sector has performed badly in the years 2000-01 and 2001-02 reporting negative growth of GSDP. From 2002-03 onwards it has shown an increasing trend in GSDP as compared to the GSDP of the state. The industry has worked exceptionally well in the years 2005-06 and 2006-07 where it has recorded a growth of 10.57% and 13.47% respectively. The growth has again slowed down in the years 2008-09 and 2012-13.

**Conclusion regarding the Hypothesis**

We can conclude from the analysis presented above and in the previous relevant chapters that the Corporate Sector has succeeded in the economic development of Uttar Pradesh with special reference to post 1991 period. Thus, we accept the alternate hypothesis thereby rejecting the null hypothesis.

**Section II**

**Suggestions**

The previous chapter looked at the various problems faced by the different sectors of the economy in Uttar Pradesh. In this concluding section of the last chapter, we would be highlighting the general problems faced by the economy of Uttar Pradesh followed by suggestions to improve them.
Some of these problems are enumerated below:

- **Infrastructure bottlenecks**: The physical as well as social infrastructure in Uttar Pradesh needs immediate attention. Physical infrastructure includes roads, railways, airports etc. The development of physical infrastructure is very crucial for the growth and development of the industry as well as the state. Proper connectivity of the cities and towns ensures easy and cheap availability of raw material and transport of the finished goods. Further, the social infrastructure includes setting up of training institutes, vocational training centres and universities to facilitate learning and skills in those areas which would help create skilled manpower for different sectors of the economy.

- **Power Generation**: There has been an increasing lag in the demand and supply of the power in the state. Frequent and long power cuts have added to the problems of the corporate sector. The tariff structure of the power supply is also not well balanced. The power supply companies have not been able to control the theft of power which is going on on a large scale in the state. Unless the state takes immediate action in this area, the problem of power will deteriorate further.

- **Financial restructure**: The financial restructure is closely related to all economic activities, particularly industrial and trade activities require extensive support in terms of financial markets. It includes not only the development of commercial and rural banks, but also, clearing houses, trade centres, world exposition centres, and exhibition parks. Uttar Pradesh should plan financial and commercial complexes at Lucknow.
with modern amenities and research facilities through public private participation. This will help attract major corporate houses to the city.

**Labour reforms:** The need for labour reforms are felt by most progressive states. Significant changes have already been made in selected sectors such as information technology, special economic zones and export processing zones. States such as Maharashtra and Karnataka have already initiated reforms on a limited scale. Besides, the central government is also in the process of changing legislation. Labour reforms are needed to meet new economic challenges, where efficiency and competition are the key considerations in policy formulation. The reforms include amendments in working hours, exit policy, contractual labour, minimum wage, inspections related to labour disputes, trade unions and prevention of unfair labour practices and paper works related to labour laws.

**Administrative obstacles:** Red tape barriers have added to the corruption in the government departments. The government officials are not investor friendly. The information regarding the documentation and approvals is not readily and comprehensively available. Multiple clearances and delay in the approvals further detract the investors. It becomes difficult to keep a track of the vast amount of paper work and its processing.

**Policy formulation:** The state should formulate such industrial policy which promotes faster growth of the corporate sector. Radical changes in the tax structure, investment incentives and export-import policy is imperative to enhance the growth of the industries in the state. The
trade tax structure should be simplified and multiple tax structure should also be rectified.

**Law and order problems**: Poor state law enforcement has been an important disincentive for producers. Some parts of the state are infamous for their criminal background and extortion activities. Unfortunately, these elements work hand in glove with the politicians and the diplomats. Such issues have led to a skewed development of the state prohibiting the investors to invest in such areas.

**Research and development**: The state should undertake intensive research and development in evolving better technologies and processes and making them available to the investors at a competitive cost. This not only improves productivity, but also enhances the quality of products available in the market. The state should also take up various training programmes in different fields so that the workers get benefitted on a large scale with regards to skill enhancement.

**Privatisation and competition**: Most of the state level public enterprises are incurring huge losses. The primary reason being inefficiency, lack of accountability and absence of competition. This has taken an adverse toll on the entire economy of the state. Introducing privatisation in most of the state enterprises is the urgent need of the hour.

**Information and technology**: Most of the state departments have yet not been able to maintain computer records of most of the yearly reports. The available scarce data is full of anomalies and discrepancies. This also calls for making the people aware of the various changes and updations happening all over the world in different fields of economy.
and technology. All the departments should be extensively computerised and all the transactions be made online.

Public relations and mass campaigns: The state has not been able to maintain strong public relations across different states as well as outside the country. Road shows, conferences, exhibitions and media campaigns should also be given high priority. The domestic investor as well as the FDIs should also be aware of the various policy provisions and fiscal or tax incentives given for investments. The use of internet and its various applications can be a major source of publicity.

Underutilised factor capacities: Economies of scale are said to exist if the average cost of producing output declines as the level of output increases. The cement industry and the automobile sector are the two sectors which display economies of scale. However, these economies of scale have not been exploited in the state as compared to the other states. The number of factories with 500+ workers as a percentage of the total number of factories is very less as compared to other states such as Punjab and Haryana. The percentage of employment accounted for by these factories is also less as compared to the all-India average. The story is the same for even 100+ workers employed by the factories.
Recommendations

In the previous chapter we had discussed various problems faced by the different sections of the industry. The current chapter attempts to discuss various recommendations for improving the performance of the industry sector as a whole.

State Level Reforms

The precise approach to State level reforms and the relative emphasis on its many diverse aspects vary greatly from country and state to state, however, some common themes that may affect the industry sector’s performance are discussed as under:

❖ Privatisation and deregulation: Privatising the state owned enterprises or confronting the state level enterprises with a competitive economic environment may force them to become more productive, efficient, competitive and responsive to consumer preferences.

❖ Facilitating Foreign Investment in the State economy: Financial integration with world capital markets-the macro-economic counterparts of trade liberalisation, achieved by replacing state government control of the capital allocation process with more efficiently functioning markets.

❖ Fiscal consolidation and tax reforms: Reducing the level of government expenditure and shifting the finance of continuing expenditure away from money creation towards government borrowing and taxes.
Investment Finance and Debt: Evolving rules for sound debt management (i) to avoid insolvency crisis (ii) to avoid liquidity crisis, synchronising loan maturity with the project maturity, and (iii) addressing uncertainty, risk premium.

Re-engineering Government

a) Reduce amount of expenditures: Decrease in unproductive expenditures, subsidies and tax incentives can facilitate the reduction in the size of the government expenditures.

b) Quality of Governance: Computers and computerised information systems are perhaps the most important productivity enhancing tools for provision of such intangible services. A comprehensive programme should be drawn up with the help of professional consultants for computerising the operations of government and all related institutions especially related to industrial sector. These systems should make it possible for the government to provide quick and efficient service to stakeholders in the sector.

c) Administrative Practices: Many of our administrative practices have not changed since the colonial times. We need to urgently modernise management practices in the departments that provide well-defined objectives such as tax collection. Management consultants should be hired by large departments to assist them in the thorough re-examination of objectives, methods and procedures using BPR or ERP or any other recognised method. Departments can also benefit from the application of modern cost accounting techniques like ABC. There is also need for
decentralisation of financial powers to subsidiary institutions along with systems and procedures for greater responsibility.

d) Public procurement: A sustained decrease in unproductive expenditures and enhanced effectiveness of desirable expenditures requires greater transparency in purchase and procurement. The rules and procedures for public procurement should be brought up to international standards.

e) Natural Resources: Unlike normal goods and services, which can in principle be produced in quantity and in which production cost determines price, resources are finite and have a scarcity valve called resource rent, which is an additional element in its market price. Efficiency in the use of natural resources requires that the optimal resource rent and extraction cost be competitively determined and prices follow competitive pricing. This needs to be factored-in, in the design of the state level policies.

f) Regulation for infrastructure: All infrastructure sectors, which have natural monopoly segments, require a regulator. The most common monopolies are networks such as roads, canals, pipelines and electricity. The regulatory law must provide for autonomy and independence of the regulatory authority, with full authority over pricing and conditions and quality of supply.
Recommendations regarding Infrastructure

a) Development of Industrial Corridors: A viable approach for the development of infrastructure is to identify industrial corridors so those regions which are relatively better off in terms of infrastructure could be targeted to grow faster in the new competitive environment. An industrial corridor is a selection of contiguous districts that are fairly developed. The contiguity facilitates the realisation of benefits associated with the economies of scale, scope and agglomeration. The delineation is based on the premise that the first three categories of development, (very high, high and moderate) are most suitable to be part of the industrial corridors because of the presence of environs conducive to industrial activities.

b) Overcoming Infrastructure Bottlenecks: The NCAER field survey team had identified power shortages and non-availability of land as the likely key infrastructure bottlenecks. Land was considered as the most important element of infrastructure. Transportation and power were considered the next two on their scale of priorities. Water and incentives were not given importance when it came to locate a production plant. Ideally, the problem of power shortage should be addressed by attracting fresh investment into power generation or allowing captive generation of power by new industries. The tariff structure should also be revised. The experience of the industry is that the captive generation of power works out to be cheaper than the power from the grid. The state government should think of ways to make cheap-power available to the industry. Special incentives should be given to the power sector companies for setting up mega projects in the state.
c) Improving Social Infrastructure: The private sector could be roped in for investment into education and health care. Incentives should be offered in this sector at par with those for the industry.

**Recommendations regarding the incentives**

It is important to watch the behavior of units, which have received incentives. This helps gauge the success of the policy as well as monitors its implementation. We make the following important points about incentives:

❖ Industries can be encouraged so that their distinctive capabilities can be turned into 'competitive advantages' at the state level. This option can be implemented by either entering into a Memorandum of Understanding for mega projects in thrust areas or through announcing a policy outlining promotional features for new industries in the identified “thrust” areas.

❖ The trade tax structure should be simplified and the multiple tax structure needs to be addressed.

❖ Only deferment schemes need to be in place. Existing waiver schemes can be replaced by deferment schemes. No capital or interest subsidy needs to be provided.

❖ Fiscal incentives can be addressed to fixed investments. The option of basing incentives on the amount of investment and employment generation potential for unskilled labour needs to be researched.

❖ Incentives should be given only to deserving investors by ensuring that only those who actually bring fresh capital and new machinery get them.
They should also be limited to a period of between 8 to 12 years, as technology tends to become obsolete after that.

- Poor law and order is an important disincentive for producers. Eastern Uttar Pradesh has a negative image for breeding 'goonda raj' where various forms of crimes and extortion thrive. The state should take serious steps to combat crime if it is interested in attracting the industrialists to the state.

Apart from announcing incentives, the state government should make efforts to emphasise Uttar Pradesh’s comparative advantages as a host base in terms of availability of resources and markets. Suitable promotional activities should be taken up like undertaking public relations drives, sending missions to other parts of India and abroad for conducting road-shows and taking out advertisements. Udyog Bandhu will have to play a crucial role in this exercise.

The heart of working in the above mode is how the three elements-purpose, process and people-link together. It is important to understand these links for better execution of things, which had been sorely lacking in the state of Uttar Pradesh. Hence, it is of vital importance to master three individual processes- the strategy process, the operations process and the people process- and also the way they work together as a whole. They are the foundation for effective execution, and are the centre of conceiving and executing any strategy. It is these that differentiate between a leading state and a laggard state.
References:

1. Annual report of the companies.

2. N.P. Singh, Sugar Industry in Uttar Pradesh: Efficiency Still Holds the Key.

3. Parliament Library and reference, research, documentation and information service, Promotion of the Textile Industry in India.


5. Shivam Gupta, Rocky Gupta, Ronak Tamra, Challenges faced by leather industry in Kanpur.


8. www.efytimes.com

9. www.indiancementreview.com