Chapter 1

Introduction

India launched a series of economic reforms in 1991 in response to a severe balance of payment crisis, many of which directly or indirectly led to a substantial liberalization of the corporate sector. The reforms aimed at easing restrictions on firms' activities and enhancing overall competition by putting an end to the 'license raj', liberalizing the foreign trade regime, and opening the financial sector. The freeing of capital markets and entry of foreign investors brought new financing and ownership opportunities and significantly raised the volume of new equity issues. The 1990s were a dynamic period for most Indian companies, especially in the first half of the decade, which was characterised by high sales growth, improved profitability, and strengthened finances. The second half of 1990s witnessed some reversal of these trends as firms were forced to compete in the new economic environment, with the variation in the performance of Indian companies increasing and the gap between the best and the worst performers growing substantially. An examination of the balance sheets of Indian companies suggests that an increasing number of firms could face problems servicing their debt obligations, which may pose some risk to the lenders.

The principal aim of the 1991 reforms was to strengthen Indian market and promote competition by putting an end to the 'license raj' through the abolition of the Industries Development and Regulation Act (1951) and amendments to the Companies Act and several other major laws, which had imposed a heavy legal and regulatory burden on the corporate sector. In addition, the foreign trade regime was liberalised through cuts in tariff rates,
reductions in non-tariff barriers and a streamlining of import license. As a result foreign investment opportunities were increased and shareholder's rights were improved. Indian companies were allowed to enter into joint ventures with multinational enterprises more freely, import new technologies and capital goods, expand productive capacity, and introduce new products without obtaining industrial licenses. More recently, steps have been taken to de-reserve a number of small-scale industries, particularly those industries with the greatest export potential. A more modern competition law has also been enacted that focuses more on anti-competitive practices, by giving greater consideration to abuse of market dominance rather than through firm size per se. Further progress is needed in reforming labour laws to allow flexibility in employment decisions in line with the market conditions. The financial sector has also experienced a considerable opening. Recognizing the poor health of the financial sector, a host of reforms were implemented (as laid out by the Narasimham Committee on Financial Sector Reforms), including the deregulation of interest rates, easing of restrictions on private and foreign banks, removal of consortium lending requirements, liberalizing of bank branch licensing, and entry of private sector mutual funds and foreign institutional investors. Financial sector reforms, in particular, have acted to induce firms to improve their cash and debt management during reform period.

The Indian Corporate Sector consists of government owned companies, non-government companies (both limited by shares), companies with unlimited liability, companies limited by guarantee and associations not for profit and foreign companies. These companies have been registered under the Companies Act, 1956. The Companies Act 1956 is an Act of the Parliament
of India, enacted in 1956, which enabled companies to be formed by registration, and formulated the roles and the responsibilities of companies, their directors and secretaries. The Companies Act 1956 is administered by the Government of India through the Ministry of Corporate Affairs and the Offices of Registrar of Companies, Official Liquidators, Public Trustee, Company Law Board, Director of Inspection, etc. The Registrar of Companies (ROC) handles incorporation of new companies and the administration of companies at work. The size of both the components has grown rapidly in the past few years. Generally speaking the public limited companies are large and widely held whereas the private limited companies are small and closely held in terms of shareholding. Non-Government Private limited companies comprise the majority of firms in the corporate sector, whereas the government owned companies both public as well as private are comparatively few in number but large in size. The total number of government companies in 2011-12 was 1,349 with Rs. 3,66,339 crores as paid up capital. The total number of non-government companies (limited by shares) in 2011-12 was 7,99,412 with Rs. 1,204,289 crores as paid up capital. The number of companies with unlimited liability stood at 428, companies limited by guarantee and association not for profit at 3,956 and foreign companies at 3,191.

**UTTAR PRADESH – State Profile**

Uttar Pradesh (UP) is situated in the northern part of India and is surrounded by Bihar in the east, Madhya Pradesh in the south, Rajasthan, Delhi, Himachal Pradesh and Haryana in the west and Uttarakhand in the north. The state has a population of 166 million. The state has the longest network of
rivers and canals at 28,500 km fostering the agriculture sector. The mineral resources in the state are mainly limestone, dolomite, glass-sand, marble, bauxite, non-plastic fireclay and uranium. Endowed with fertile land, salubrious climate and perennial river systems, the state has long been the granary of India. Agriculture is the major source of income for most of the population. The state is one of the leading producers of food grains and other commercial crops in the country.

The state has a well-developed traditional industry besides mineral based industry. UP is now flexing its status as the leading agricultural state in the country and also emerging as a preferred destination for the food-processing industry in the country. The state has some of the oldest powerhouses and currently it is one of the largest power producers in the country. The state has good communication network including one of the longest rail and road lengths. The state is keen to improve the industrial infrastructure and has developed integrated industrial townships like Noida with state-of-the-art facilities. Noida export zone enjoyed a good inflow of investment from many domestic and international players. The state has also established four agro export zones and three Special Economic Zones (SEZs) are under implementation.

Uttar Pradesh is the largest producer of electronic goods and is the fourth largest exporter of software products from the country. With a productive and cost effective manpower, the state has attracted some of the largest MNCs to set-up their manufacturing facilities such as Coca-Cola, Pepsi, Glaxo, Daewoo, Honda, and Piaggio to name a few.

The state with its human resource potential, proactive policies and commitment to ensure encouraging climate to the investors is poised to emerge as a manufacturing hub in the country. The state has become a hub for
corporate Research & Development with many domestic players and MNCs establishing their facilities.

Uttar Pradesh is the second biggest state economy in the country, with a share of 10.7 per cent in aggregate domestic product. Area-wise it is the fourth largest state in the country. Among the major states, Uttar Pradesh ranks fourteenth in per capita income. It is the most populous state in India, with more than 16 per cent of India's total population. The western region is more urbanised than the rest of the state and has 622 industrial workers per thousand in registered factories, against 443 in the state. The density of population in the western region is 762 per thousand against 689 in the state. Agriculture is the primary sector of the state's economy, employing about 72 per cent of the total workforce. The share of agriculture in the total income of the state is 33 per cent.

Being one of the largest producers of sugar cane, the state is India's sugar bowl. Uttar Pradesh accounts for 28.03 per cent of India's sugar production. The affluence of agriculture spurred the growth of allied industries like cold storages and warehousing. In addition to industrial areas, many centres like Kanpur, Ghaziabad and Lucknow have an established traditional industry. The large livestock population allowed the leather industry to flourish in the state. Kanpur and Agra emerged as the hubs for leather goods in the country. Textile industry is the other promising sector in the state.

Uttar Pradesh produces 38 per cent of India's wheat, 20 per cent of paddy and 21 per cent of sugarcane. The state boasts of the highest irrigation intensity at 66 per cent. The state is the largest producer of wheat, pulses, sugarcane, tobacco, potato and milk in the country. It also has the highest yield in the country of pulses and tobacco. The state has a well-
developed agro-based and food processing industry. It is one of the leading producers of dairy and horticulture.

The availability of good natural resources and abundant manpower spurred the growth of the industry in the state. About 3,89,000 Small Scale Industries (SSIs) like hand-knitted woollen carpets, woodcarving, brass metal industries, terracotta, etc. provide large employment opportunities. Three most important industries in the state are sugar, cotton fabrics and diversified food preparations. The state has fifth highest share in the country in manufacturing value of nearly 7 per cent. The electronics, leather, textiles and mineral-based industries have shown a promising growth over the years. The services sector is the key emerging sector in the state. Uttar Pradesh emerged as a hub for IT companies and ranks fourth in terms of software exports. Several MNCs have established their facilities in Noida industrial area, which is in close proximity to the national capital. Tourism is one of the promising sectors in the state. With a range of pilgrimages, the state is the favourite destination for the domestic tourists. The state enjoys the highest domestic tourist visits in the country.

Uttar Pradesh has always been in the forefront in the area of industrial development. During the Vth, VIth, VIIth Five Year Plan, the industrial growth rate was 9.4%, 11.8% & 10.9% respectively. In the post liberalization period the industrial growth somewhat dropped. However, the state was able to meet the challenges. The industrial growth rate during the Xth five year plan however revived and has been to the tune of 6.6%. The industrial growth rate was targeted at 10% and that of manufacturing sector at 12% for XIth Five Year Plan, in order to achieve overall 8.5% GSDP growth. The targeted rate of growth in the XIIth five year plan has been pegged at 10% with the growth rate of the industrial sector kept at 11.2%. This requires huge investment in the
industry sector along with up-gradation of the existing technology and modernization as well as creation of world class infrastructure. The state growth rate of GSDP as well as Industrial sector is as shown below:

Table 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth rate of gross state domestic product in Industry (at constant prices)</th>
<th>Growth rate of gross state domestic product (at constant prices)</th>
</tr>
</thead>
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<tr>
<td>2000-01</td>
<td>-0.85</td>
<td>2.19</td>
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<tr>
<td>2005-06</td>
<td>10.57</td>
<td>6.51</td>
</tr>
<tr>
<td>2006-07</td>
<td>13.47</td>
<td>8.07</td>
</tr>
<tr>
<td>2007-08</td>
<td>8.6</td>
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<td>7.86</td>
</tr>
<tr>
<td>2011-12</td>
<td>5.17</td>
<td>6.45</td>
</tr>
<tr>
<td>2012-13</td>
<td>2.39</td>
<td>5.52</td>
</tr>
</tbody>
</table>

Source: planning Commission data handbook 2010-11

The state has contributed 7.88 per cent to the GDP of India in F.Y. 2012-13 as the country’s second largest economy after Maharashtra. The tertiary sector has been a major contributor to the GSDP, followed by the primary sector and the secondary sector. It is felt that industrial growth of the State largely depends on the infrastructural facilities available in the state. In order to enhance industrialisation in the state, Uttar Pradesh is continuously improving infrastructure facilities by providing speedy transportation of goods by constructing expressways, up-gradation of highways, more availability of power to the industrial units, and so on. PPP model has also been adopted by the State in various sectors like Road Sector, Power Sector and Urban Rejuvenation. Uttar Pradesh proposes to bring investment through PPP mode worth Rs. 2,64,204 crores in the 12th Five Year Plan. As per a FICCI report on
status of PPP projects in the country, Uttar Pradesh is amongst the top five States of the country, in the implementation of PPP Projects.

An investment of Rs. 42,942 crores has already been generated through part implementation of Yamuna Expressways, Municipal Solid Waste Management Projects and some of the power projects. UPSHA has been sanctioned a grant of Rs. 1,042.93 crores for their six highway projects under Viability Gap Funding (VGF) scheme of Government of India specially meant for promoting PPP projects and making them financially viable. Developer for Delhi-Saharanpur Yamunotri Road, Bareilly-Almora-Bagheswar, Varanasi-Shaktinagar and Meerut-Karnal Road state highways has been selected.

STATE POLICY

Vision & Mission

The state government of UP has laid thrust on the following key areas:

- Create facilitative administrative systems
- Reduce lead time in setting up of industries
- Remove bureaucratic hindrances
- Provide internationally competitive infrastructure
- Unfetter industries in the conduct of their business
Industrial policy

Incentives for investment

- Subsidy of 20 per cent of fixed capital investment for new units in most backward areas
- Subsidy of 15 per cent of fixed capital investment for new units in less backward areas
- Subsidy of 10 per cent of fixed capital investment for new units in least backward areas
- Deferment of luxury tax in thrust areas for 5 years
- Octroi rebate on plant, machinery and building material for new units for 5 years
- Exemption from minimum power demand charges for sick units during the closure period
- Land at 20 per cent of market prices for starred hotels
- Special incentives, including electricity, equity participation and Other assistance, for NRI entrepreneurs

IT policy

The state government announced the Uttar Pradesh IT Policy in 2004. The government aims at increasing the penetration of internet in the state supported with high-speed telecom backup. The state has committed to improve IT infrastructure by developing electronic cities and gateways to global destinations. Special incentives have been offered to the investors ensuring supportive climate. The state government also plans to rope in the Software Technology Parks of India (STPI) to set up software technology parks
at Noida, Agra, Kanpur and Allahabad. The government is also trying to partner with the Indian Institute of Technology (IIT), Kanpur; Indian Institute of Management (IIM), Lucknow and Indian Institute of Information Technology (IIIT), Allahabad for developing the Kanpur-Lucknow corridor as a cyber-corridor in the state. The state government has announced plans to establish backbone network or the Uttar Pradesh-wide Area Network (UPNET) for voice, data and video transmission and dissemination. UPNET will extend to all government departments, state secretariat, division and districts to spread awareness of IT in the state.

**Infrastructure policy**

Under the road policy, the active role of the private sector is encouraged in construction and maintenance of roads, bridges, over bridges, under passes, expressways and highways etc. A road fund of nearly US $ 87 million, set up for the first time by any state in India, seeks to upgrade infrastructure facilities to world-class standards. The National Highways Authority of India (NHAI) is upgrading the national highways under the Golden Quadrilateral and East-West-North-South corridor areas in the state. Uttar Pradesh Public Works Department (PWD) is upgrading 3,500 km of state highways as part of a World Bank aided project. The World Bank has approved a US $ 488 million loan to improve the capacity, quality and safety of the existing state road network. The Uttar Pradesh State Roads Project will also enhance the capacity of PWD, the state’s main road agency, to manage and deliver quality road services. The state has built an infrastructure development fund with a corpus of US $ 42.5 million under the upcoming industrial and
service sector investment policy, 2004. A hi-tech airport at Saifai with proposed investment of US $ 9.5 million is to be completed within two years.

**Biotech policy**

The state government announced the Uttar Pradesh Bio-Tech policy 2004 that seeks to establish a pre-eminent position for the state in this sector. The ultimate aim is to bring greater prosperity to the farmers through use of biotechnology and to generate job opportunities in this field. Lucknow is home to 20 institutions and 22 scientific academic bodies with multi-disciplinary specialities in the field of biological sciences. In view of this, Lucknow was declared as a “Biotechnology City” in 2002, during the 89th annual meeting of the Indian Science Congress. The state also has a large agricultural base to provide raw materials and a large market for the finished products. The bio-tech park in Lucknow will offer start-up and incubation facilities. The state is planning a much bigger biotechnology park in Noida.

**Power policy**

With a projected investment of over US $ 5.3 billion in the next 5 years and the largest base of potential consumers in India, Uttar Pradesh could emerge as the mecca of power sector in the country. Uttar Pradesh was one of the first states to undertake power reforms. New Power Policy of the state has provisions for increasing the plant load factor (PLF) by creating additional power capacity, modernisation of power stations and improving the transmission system. Reliance Industries Ltd is planning to build world’s largest
gas-based power plant involving a total investment of US $ 2 billion and generating capacity of 3,500 MW in the state. The state is planning energy parks in various districts to create awareness among the people about alternate energy sources. The main state park will be set up at Allahabad and one such district-level energy park would be established in Lucknow. Uttar Pradesh’s power industry is offering great opportunities to private sector entrepreneurs.

The major incentives announced in the power policy are:

- Subsidy towards cost of land and rehabilitation ranging from 40-60 per cent
- Government land, if available, to be given for 99 years lease at the rate of US $ 2.13 per acre, stamp duty on registration waived
- Deferment of entry tax as well as trade tax for a period of 7-12 years
- Water resources to be made available for thermal and nuclear power plants

Uttar Pradesh has large coal reserves in the form of open cast mines in Sonebhadra district. Abundance of water makes this district an ideal location for thermal power plants. The state government commits power purchase from new power plants, if other network is not available.

Governance

The state introduced a single window registration system to speed up transactions. Entrepreneurs of industries involving investment of up to US $ 5.5 million, export-oriented units set up by NRIs with investment above US $
5.4 million and electronic and food industries with investment above US $ 2.2 million are provided with the single window registration by Udyog-Bandhu (friend of industry) for all the clearances. All 100 per cent export oriented units, which export over 50 per cent of production, are declared as public utilities to free them from the threat of flash strikes. The state plans to make the entire tax system more progressive to ensure greater profitability for entrepreneurs. Rules, procedures and practices are being liberalised to bring them at par with global standards.

PROFILE OF KEY PLAYERS IN UTTAR PRADESH

Dabur India Ltd

Dabur India Ltd. is the fourth largest Fast Moving Consumer Goods' company in India with interests in health care, personal care and food products. Dabur was formed by way of amalgamation in 1986. The company has several leading brands. Dabur Chyawanprash, a health tonic, has a market share of 70 per cent and Hajmola, a digestive tablet, has a share of 88 per cent. The company recorded a net turnover of Rs. 1,748.81 crore in 2013.

Daewoo Motors

Daewoo Motors, one of the leading South Korean based manufacturers of cars and heavy automobiles was taken over by General Motors. Daewoo Motors has its manufacturing facility in Surajpur near Greater Noida. Daewoo's car manufacturing unit is expected to generate employment
for over 100,000 persons, besides providing revenue of nearly US $ 450 million over the next five years.

Delphi Automotive System

Delphi is a global supplier to every major Original Equipment Manufacturer (OEM) in the automotive sector. Delphi India operates as a wholly owned subsidiary of Delphi Automotive Systems Private Ltd. and was founded in 1995. The company has two manufacturing facilities in Noida. Delphi India exports its supplies to the European OEM market.

Adobe Systems India Pvt Ltd

Adobe India commenced its operations in 1998 to augment engineering resources of the company. Currently the company has a headcount of around 250. An achievement of the subsidiary was the release of PageMaker 7.0 from the India campus in 2001, the first major international desktop product being engineered from India, which had more than a million downloads. The company has partnered with many Indian software giants like TCS and Wipro. The Indian campus has significant contribution in developing world-class products. The company has invested US $ 100 million till date and accounts for more than 20 per cent of Adobe’s annual revenues.
HCL Technologies

Headquartered in Noida, HCLT is the fifth largest exporter of software from the country currently operating with a workforce of 2,500. HCLT has witnessed significant growth in the past few years. HCLT partners with 370 prestigious organisations in the world. The HCL Technologies' BPO has bagged an ISO 9001:2000 and Purdue Benchmark.

Indo Gulf Fertilisers Ltd

Indo Gulf Fertilisers Ltd, an Aditya Birla Group company, is among the largest and most cost-efficient private sector fertiliser companies in India. Strategically located in the heart of the Indo-Gangetic plain in Uttar Pradesh, Indo Gulf manufactures and markets urea, a nitrogenous fertiliser. The company enjoys a leadership position in the nitrogenous fertiliser sector, with its strong brand of "Shaktiman" urea, supported by a strong distribution and customer service network. Its marketing areas include Uttar Pradesh, Bihar, Jharkhand and West Bengal, which together account for over 40 per cent of the total urea consumption in the country.

Goodlass Nerolac Paints Ltd (GNPL)

Goodlass Nerolac Paints Ltd, the Indian subsidiary of Japan based Kansai Paint Co. Ltd, is the second largest paint company in India with presence in decorative paints as well as industrial paints & marine paints, enamels etc. It
is the market leader in the industrial paints segment. The company had a strong presence in automotive paints with a manufacturing plant at Jainpur, Kanpur Dehat. The company operates with net sales of US $ 164 million.

Jaypee Group

The Jaypee Group is a well-diversified infrastructure industrial group of India with a turnover of over US $ 650 million and employs a total workforce of over 25,000. The group commenced its operations in 1972 and has interests in civil engineering, private hydropower, cement, design consultancy, information technology and hospitality.

LG Electronics India Ltd (LGEIL)

LG Electronics India Ltd established in 1997, is a wholly owned subsidiary of LG Electronics, South Korea. It is one of the leading companies in consumer electronics, home appliance and computer peripherals in India. Headquartered in Noida, Uttar Pradesh, LGEIL operates out of 30 locations across India. LG is a market leader in various segments like Colour TVs, microwave ovens, frost-free refrigerators, washing machines and air-conditioners with market shares of 16.4 per cent, 35 per cent, 32.9 per cent, 24.1 per cent and 34 per cent respectively. It has a turnover of almost US $ 1 billion in India. LGEIL’s sales are increasing with a CAGR of 40 per cent over the past five years.
LML Scooters

LML Scooters Ltd. is the second largest manufacturer of two wheelers. The company was incorporated in 1972 in Panki Industrial Estate, Kanpur. The company claims a 30 per cent market share in volume terms with its popular scooter brand “Supremo”. The company is working towards setting up five training schools in different parts of the country to train mechanics and service personnel. The company is also planning to convert half its scooter manufacturing capacity of half a million units per year to manufacture motorcycles.

Yamaha India Ltd (YML)

Yamaha India Ltd. had its presence in India for two decades as a technology provider and later became a 100 per cent subsidiary of Yamaha Motor Company, Japan in 2001. Research & Development division of the company involves model conception, designing, aesthetics, clay making, and proto-type development. YML’s manufacturing facilities comprise a state-of-the-art plant at Surajpur producing 10 models. The company follows 5-S and TPM in its manufacturing processes.

Scope of the study

The New Economic Policy was introduced in India from 1991 onwards hence the period of the research work spreads from 1991 to 2011 for which comparable data is available. The study is limited to the government company and non-government company (both limited by shares) and
companies with unlimited liability. Amongst the government and the non-government companies, only public limited companies have been selected for the purpose of the research work. These companies have been registered under The Companies Act, 1956.

**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 the 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.

The research work has been divided into following chapters to cover various aspects of the corporate sector in Uttar Pradesh –

- Introduction
- Organisational Constitution and management of the Corporate sector in Uttar Pradesh
- Financial Management of the corporate sector in Uttar Pradesh
- Redefining the role of the corporate sector post 1991 reforms in Uttar Pradesh
- A comparative analysis of the corporate sector in Uttar Pradesh
- Problems and bottlenecks faced by the corporate sector in Uttar Pradesh
- Conclusions and suggestions
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.

For the purpose of research work, a sample base of 10 companies has been undertaken out of which 5 are Non-Government Public Limited Companies and other 5 are Government Public Limited Companies.

Detail of Hypothesis

The present research work will be based on the following hypothesis –

Null Hypothesis – Corporate sector has failed to contribute in the economic development of Uttar Pradesh, with special reference to post 1991 period.

Alternative hypothesis – Corporate Sector has succeeded in the economic development of Uttar Pradesh, with special reference to post 1991 period.
Limitations of the research work

In the process of data collection the research work faced limitations such as unavailability of data pertaining to Uttar Pradesh’s corporate sector growth post 1991 and absence of annual reports on the websites of private limited companies. Further the companies declined face to face interactions or even disclosure of information regarding management structure and other relevant documents.

References:

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2) Indian Brand and Equity Foundation report on “Indian States – Economy and Business with reference to Uttar Pradesh.”

3) P. Nomita Kumar, Uttar Pradesh’s Manufacturing Sector State, Structure and Performance, working paper for uttarpradeshstat.com.
