CHAPTER - 1

INTRODUCTION
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1.1 Evolution of Joint Stock Company

Joint Stock Company is a well-known form of business enterprise considering many other forms of business like individual proprietorship, partnership; co-operative from and others. Every form of business enterprise has their own strength and weakness merits and demerits. The limitations of each form of business have given birth to next developed form of business. In spite of having limitations each business form has its own qualities as a result even today we can see different firm under each form of business.

To know about evolution of Joint Stock Company we have to go back in the history of company.

Company form of business organization came into existence long back in 16th century. New geographical path were discovered in 16th century, which increased the foreign trade. To meet with the increased demand of products, a group of persons or association of person or a syndicate of persons contributed stock for the purpose of trade and profit was distributed after each voyage. The stock contributed by all members was called as joint stock. Later on this form of trade becomes permanent. Such trading association was called as companies' whey they got legal rights to trade. When the business of companies got separate legal status by the order of "crown" they were known as JOINT STOCK COMPANY. Thus the word of Joint Stock Company were derived from Joint Stock in trade and not form contribution of capital as 'stock or share'.

According to J. Micklethweit and A. Woodridge (2003) Russian Company or Moscory Company is regarded as the first joint stock company. It was chartered in 1555 with a monopoly of trade routes to Russia and was able to raise capital by issuing tradable shares. Other early companies formed around this time were the Guinea adventures (1553) and the Levant Company (1581).

Between 1616 and 1621 the Virginia Company established numerous subsidiary companies to make glass and beads, fish, trade furs, publish an
apparel magazine build boats and even import "maids to Verging to be made wives".

These two companies (two of the earliest joint stock companies) reflect two fundamentally different strategies. The East India Company was first and foremost a trading company, intent on making profits through trading in the Far East. Capital was invested in merchandise rather than in the fixed asset such as ships or factories. Permanent factories were grudgingly established only to the extent they facilitated trade. The traders' bargaining power was enhanced if they could negotiate when the demand for their goods was high rather than when a shipment happened to arrive. For the first century and a half the strategy was to carry favour with local rulers. In India there was an extensive established but complex political and economic society for the East India Company there was no thought of colonization.

During 17th century (as per Ron Harries) these practices co-existed within different syndicates where by the entire capital was dividend at the end of voyage or the initial investment was returned and the profits reinvested in next voyage or the profits were dividend and the capital was retained by the company for the term of joint stock. The East India Company used joint stock 'per voyage' between 1600-1613 and per year joint stock between 1613-1657, after which joint stock became permanent. The East India Company traded for nearly 17th century across the world. Before independence, mainly steel and shipping companies were established. The Tata Iron and Steel Company (now known as Tata Steel) 1907, Iron and Steel Company 1908, Mysore Iron and Steel works (1923) and still Corporation of Bengal (1937) were the steel companies established before independence.

Shipping companies like India Co-Operative Navigation and Trading Co. Ltd. (1905), Scandia Steam Navigation Company Ltd (1919), The Eastern Steam Navigation Co. Ltd (1919), The Merchant Steam Navigation Ltd (1921), The Bengal Burma Steam Navigation Co. Ltd. (1928), The Ratingen Steam Navigation Co. Ltd. (1928), The Malabar Steam Navigation Co. Ltd. (1928) and The Haj Line Limited (1937) were established before independence to impart and export the goods through sea route.

Companies from other sectors, which were established before independence were central India Shipping weaving and manufacturing
company limited (1874), South India Industries Ltd. (1904), Tata Hydro-electric power supply co. (now Tata power) in 1910, India cement company ltd in 1914. Tata oil Mills Company in (1917) ACC (1936), Tata chemicals in 1939, Hindustan motors ltd in 1942, Tata engineering and locomotive company (renamed Tata motors) in 1945, Baiaj Auto in 1945 and Hyderabad Industries ltd in 1947.

1.2 Role of NSE and BSE

After Liberalisation, Privatisation and Globalisation policy by central government the fund circulation had been accelerated to greater extent. Interest of common investor in the primary market had been activated sharply and it had resulted into increase in number of companies registered and listed with respective stock exchange. During the span of five years time the listed companies in the BSE (Bombay Stock Exchange) has been doubled from 2861 companies to 5849 companies. Similarly the number of cash brokers had been raised from 5200 brokers to 9069 brokers. Due to favorable policies and good performance of corporate sector confidence level of the small investor had been triggered up. Due to such situation as mentioned in above the number of mutual fund registered were 41 in 1999 from 12th in 1994. During 1999 Capital Market of the company became capable to create market capitalization upto 35% of GDP.

After the year 2000 growth in number of listed companies in BSE had been achieved very marginally but capital obtain by companies through primary market through issue of equity shares, preference shares and debentures was very high causing fruitful mobilization of funds.

Financial institutions that provide finance to the corporate sectors and individuals had been increased to greater extent. In a span of 1993 to 2000. FII had been raised @ 25%. Not only this but the financial institutions had been double in a span of just seven years.
In last six years span the total 300 new companies had been registered with BSE and this figure had touched 500 companies in case of increased in registered companies with NSE.

Table -1.1
CAPITAL MARKET SNAP SHOT

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Stock Exchanges</th>
<th>Listed Companies on BSE</th>
<th>Mutual Funds (in numbers)</th>
<th>Market capitalization (BSE) (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>21</td>
<td>2861</td>
<td></td>
<td>21.7</td>
</tr>
<tr>
<td>1994</td>
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<td>27</td>
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<td>41.3</td>
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<td>1999</td>
<td>23</td>
<td>5849</td>
<td>41</td>
<td>35.4</td>
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<td>2000</td>
<td>23</td>
<td>5815</td>
<td>38</td>
<td>46.8</td>
</tr>
<tr>
<td>2001</td>
<td>23</td>
<td>5869</td>
<td>39</td>
<td>29.3</td>
</tr>
<tr>
<td>2002</td>
<td>23</td>
<td>5762</td>
<td>38</td>
<td>26.9</td>
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<tr>
<td>2003</td>
<td>23</td>
<td>5650</td>
<td>38</td>
<td>23.3</td>
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<tr>
<td>2004</td>
<td>23</td>
<td>5528</td>
<td>37</td>
<td>43.6</td>
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<td>2005</td>
<td>22</td>
<td>4731</td>
<td>39</td>
<td>52.4</td>
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<tr>
<td>2006</td>
<td>22</td>
<td>4781</td>
<td>38</td>
<td>81.8</td>
</tr>
<tr>
<td>2007</td>
<td>21</td>
<td>4821</td>
<td>40</td>
<td>82.6</td>
</tr>
<tr>
<td>2008</td>
<td>19</td>
<td>4887</td>
<td>40</td>
<td>103</td>
</tr>
<tr>
<td>2009</td>
<td>19</td>
<td>4929</td>
<td>44</td>
<td>55.3</td>
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<tr>
<td>2010</td>
<td>19</td>
<td>4875</td>
<td>47</td>
<td>94.1</td>
</tr>
<tr>
<td>2011</td>
<td>19</td>
<td>5067</td>
<td>51</td>
<td>86.3</td>
</tr>
</tbody>
</table>

1.3 SNAPSHOT OF INDIAN CAPITAL MARKET

Table- 1.2
SNAPSHOT OF INDIAN CAPITAL MARKET

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>On 31st Dec.</th>
<th>1946</th>
<th>61</th>
<th>71</th>
<th>80</th>
<th>91</th>
<th>95</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of st. Exchanges</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>2</td>
<td>No. of Listed Companies</td>
<td>1125</td>
<td>1203</td>
<td>1599</td>
<td>2265</td>
<td>6229</td>
<td>8593</td>
</tr>
<tr>
<td>3</td>
<td>No. of Securities issued by listed companies</td>
<td>1506</td>
<td>2111</td>
<td>2838</td>
<td>3697</td>
<td>8947</td>
<td>11784</td>
</tr>
<tr>
<td>4</td>
<td>Capital of listed companies CIRI (Crore Rs.)</td>
<td>270</td>
<td>753</td>
<td>1812</td>
<td>3973</td>
<td>32041</td>
<td>59563</td>
</tr>
<tr>
<td>5</td>
<td>Market Value of Capital of listed companies (Crore Rs.)</td>
<td>971</td>
<td>1292</td>
<td>2675</td>
<td>6750</td>
<td>110279</td>
<td>478121</td>
</tr>
</tbody>
</table>


The primary capital market in India has shown rapid growth in last ten years. The confidence level of small investors and corporate result had fuel it. Fund mobilization policies have mobilised fund towards the Indian corporate sector to greater extent in last ten years. The table below shows that total 110 issues had been brought in the primary market in first five years from 2001-02 to 2004-05 out of which 97 issues were belonging to Equity shares which had diverted more than Rs. 240000 cores towards Indian corporate sector. The primary market’s positive sing affects the secondary market very positively leading to investment in the capital market by the mutual fund and financial institutions. The span of six years from 2005-06 to 2010-11 had witness tremendous growth in the investment in the Indian corporate sector. During 2005-06 and 2006-07 Indian corporate sector had launched 248 equity issues and five issues of Debenture in primary market and diverted more than Rs.51000 cores towards corporate sector. Indian security market had witnessed great pace in collecting idle fund and divert it in the most fruitful manner. In the span of last five years the total 297 issues of equity shares and 7 issues of debt had been launched and diverted more than Rs. 157000 cores in the Indian corporate sector. The strong figures shows positive result of Indian corporate sector’s attraction in the small investors, effect of transparent and better utilization of opportunity by the managers of corporate sectors, right policy building by the regulating authority SEBI and of course
support from central government. The study shows that the corporate sector is very conservative in obtaining fund in the debt from general public at large. Corporate sector prefer to get debt from bank rather than debentures from general public at large.

*After the tough 2008 and lack luster 2009, the year 2010 was an action packed year for the Indian primary market, which saw not only revival of the Indian primary market, but also setting of several new records in the Indian Public issue market.*

As much as Rs. 71,114 crores was raised during 2010 through 70 public issues, that is, 62 Indian Public Issues (IPOs) and 8 Follow-on Public Offers (FPOs). Of this, fund raising through 62 IPOs was to the tune of about Rs Rs. 39,710 crores and Rs 31,403 crores through 8 FPOs.

The fund mobilization through IPOs were three and a half times higher than the previous year (19,567 crore) and 53% higher than the earlier record year of 2007 (Rs. 45,142 crore).

The public issues were seen across the industries such as reality, healthcare, banking, infrastructure, minerals and power, etc. One of the special features of the 2010 primary market was that, there were public issues from the new-age modern industries such as Fitness Centres, Micro Finance companies, etc.

Coal India IPO hogged the limelight turning out to be the largest public issue of the year 2010 with the issue size exceeding Rs 15000 crores, the smallest public issue of the year was Thangamayil Jewellery IPO with the issue size of Rs 29 crores. As a coincidence, Coal India IPO has also made history being the largest public issue of the Indian capital market.

The Government's disinvestment activity led to the Public Sector Undertakings (PSUs) having a lion's share of 70.2% of the fund raising through IPOs in 2010, while the private sector fund raising was about 29.8%.

While there were several exciting public issues during the year 2010, the 'big boss' of all remains to be the IPO of Coal India. Almost everything went
perfect for that public issue, ranging from pricing, timing, industry and topping all, listing. All the investor classes made healthy returns in this IPO, and this public issue probably can prove to be the 'game changer' in bringing the retailers back into the market.

The year 2010 has also seen one more historic record being created in the IPO market. Coal India IPO, Power Grid FPO and Manganese Ore IPO have become the first trio of public issues in the Indian history that could attract number of applications in excess of 10,00,000 each. Coal India IPO had got about 16,64,977 applications, Power Grid FPO got about 14,27,845 applications and Manganese Ore IPO had got about 13,01,938 applications.

Even the participation from all the classes of the investors had picked up in the year 2010. The overall subscriptions received from all the classes of the investors for the year 2010 was about 7,06,800 crores indicating the overall subscription of 9.94 times. The QIB portion has got oversubscribed by 13.80 times, the HNI portion by 17.85 times and the retail portion by 6.88 times.

In the calendar year 2009, the overall subscription was about 9.48 times, and in 2009 the QIB oversubscription was about 14.46 times, the HNI portion by 12.02 times and the retail portion by 1.47 times. This indicates that the QIB response has more (or) less maintained similar for the public issues in the calendar years 2009 and 2010. However, the HNI and the retail response in the public issues have definitely improved in the calendar year 2010 in comparison to that of the calendar year 2009. There was one more record during 2010. The week starting September 24, 2010 had featured 11 public issues, becoming the 'busiest week' for Indian primary market after 1995. Even during the red-hot bull market of 2007, no single week featured 11 public issues.
Table – 1.3
NEW CAPITAL ISSUED BY THE INDIAN PRIVATE COMPANIES

<table>
<thead>
<tr>
<th>Type of Issues</th>
<th>Total No.</th>
<th>Rs. Crores</th>
<th>Equity Shares No.</th>
<th>Rs. Crores</th>
<th>Preference Shares No.</th>
<th>Rs. Crores</th>
<th>Debentures No.</th>
<th>Rs. Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-82</td>
<td>438</td>
<td>598</td>
<td>357</td>
<td>305</td>
<td>5</td>
<td>3</td>
<td>73</td>
<td>290</td>
</tr>
<tr>
<td>1991-92</td>
<td>514</td>
<td>61931</td>
<td>366</td>
<td>1916</td>
<td>3</td>
<td>2</td>
<td>145</td>
<td>4275</td>
</tr>
<tr>
<td>2001-02</td>
<td>19</td>
<td>5692</td>
<td>6</td>
<td>860</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>4832</td>
</tr>
<tr>
<td>2002-03</td>
<td>9</td>
<td>1878</td>
<td>5</td>
<td>460</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>1418</td>
</tr>
<tr>
<td>2003-04</td>
<td>38</td>
<td>3722</td>
<td>35</td>
<td>2471</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>1261</td>
</tr>
<tr>
<td>2004-05</td>
<td>54</td>
<td>13079</td>
<td>51</td>
<td>11452</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>1627</td>
</tr>
<tr>
<td>2005-06</td>
<td>131</td>
<td>21154</td>
<td>128</td>
<td>20899</td>
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<td>10</td>
<td>2</td>
<td>45</td>
</tr>
<tr>
<td>2006-07</td>
<td>117</td>
<td>30606</td>
<td>114</td>
<td>29753</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>847</td>
</tr>
<tr>
<td>2007-08</td>
<td>115</td>
<td>63638</td>
<td>111</td>
<td>56848</td>
<td>1</td>
<td>5481</td>
<td>3</td>
<td>1309</td>
</tr>
<tr>
<td>2008-09</td>
<td>45</td>
<td>14671</td>
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<td>2009-10</td>
<td>67</td>
<td>25299</td>
<td>68</td>
<td>25479</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>180</td>
</tr>
<tr>
<td>2010-11</td>
<td>70</td>
<td>24830</td>
<td>70</td>
<td>24830</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>


The primary market enables the government as well corporates in raising the capital that is required to meet their requirements of capital expenditure and/or discharge of other obligations such as exit opportunities for venture capitalist/ PE firms. The most common primary mechanism for raising capital is an Initial Public Offer (IPO), under which shares are offered to the public as a precursor to trading in the secondary market of an exchange. The price at which the shares are to be issued is decided with the help of the book building mechanism; in the case of oversubscription, the shares are allotted on a pro rata basis. When securities are offered exclusively to the existing shareholders of company, as opposed to the general public, it is known as Rights Issue. Another mechanism whereby a listed company can issue equity shares, as well as fully and partly convertible debentures that can be later converted into equity shares, to a Qualified Institutional Buyer (QIB) is termed as Qualified Institutional Placement. In addition to raising capital in the
domestic market, companies can also issue securities in the international market through the ADR/GDR/ECB route to raise capital.

**Latest Trends**

The issuers mobilize resources through public issues and private placements. The resources that are raised by corporate and the government from domestic as well as international markets are presented in Table. The total resources mobilized through corporate and government securities in 2010–2011 decreased by 15 percent compared to the figures of the previous year. The resources mobilized in 2010–2011 amounted to 8,561,863 million (US $ 191,755 million) as against 10,083,446 million (US $ 223,382 million) in 2009–2010. The development of the primary market is highly depending upon the government policy, positive performance of corporate sector.

**1.4 FUND MOBILIZATION BY INDIAN PUBLIC COMPANIES AND PRIVATE COMPANIES**

After radical changes in the Indian capital market by the regulating authority SEBI the demand of private placement has been raised. Intercompany holding, investment by the financial institutions and mutual fund had adopted private placement way of acquiring fund in the other company. From the study of above mentioned table it is concluded that in the span of last five years there had been increase in fund transfer to greater extent. The growth of investment in the corporate sector is creeping. In span of last five years the total fund mobilised had been raised more than 300%. More surprisingly the pattern shows that private placement had been utilized for nearly 99% debt instrument of corporate sector.
Table – 1.4
RESOURCES MOBILIZED BY CORPORATE SECTOR

<table>
<thead>
<tr>
<th>Issues</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Securities</td>
<td>2,235,161</td>
<td>3,847,256</td>
<td>2,725,653</td>
<td>43,870</td>
<td>85,229</td>
<td>61,067</td>
</tr>
<tr>
<td>Domestic Issues</td>
<td>2,187,281</td>
<td>3,667,586</td>
<td>2,632,243</td>
<td>42,930</td>
<td>81,692</td>
<td>58,953</td>
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<tr>
<td>Public Issues</td>
<td>146,710</td>
<td>254,790</td>
<td>248,300</td>
<td>2,879</td>
<td>5,644</td>
<td>5,561</td>
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<tr>
<td>Private Placement</td>
<td>2,040,571</td>
<td>3,432,796</td>
<td>2,383,943</td>
<td>40,050</td>
<td>76,048</td>
<td>53,392</td>
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<tr>
<td>Euro Issues</td>
<td>47,880</td>
<td>159,670</td>
<td>94,410</td>
<td>3,537</td>
<td>2,114</td>
<td></td>
</tr>
<tr>
<td>Government Securities</td>
<td>4,366,880</td>
<td>6,236,190</td>
<td>5,835,210</td>
<td>85,709</td>
<td>138,152</td>
<td>130,688</td>
</tr>
<tr>
<td>Central Government</td>
<td>3,185,500</td>
<td>4,924,970</td>
<td>4,794,820</td>
<td>62,522</td>
<td>109,104</td>
<td>107,387</td>
</tr>
<tr>
<td>State Governments</td>
<td>1,181,380</td>
<td>1,311,220</td>
<td>1,040,390</td>
<td>23,187</td>
<td>29,048</td>
<td>23,301</td>
</tr>
<tr>
<td>Total</td>
<td>6,602,041</td>
<td>10,083,446</td>
<td>8,561,863</td>
<td>129,579</td>
<td>223,382</td>
<td>191,755</td>
</tr>
</tbody>
</table>

This kind of growth of corporate sector leads to undertake performance evaluation of Indian corporate due to several reasons like

1. To examine efficiency of different aspects like profitability, liquidity etc.
2. To examine Economic and Social benefits from corporations.

The modern co-operations is a highly effective device for combining large amounts of resources for productive activity under unified management. Its many advantages over other forms of ownership have attracted the back of capital fund and assets available to business. Its professionalized management and research have provided both administrative and scientific leadership in private industry. The end result of these various factors is speeded out in our steadily rising level of national output and per capita income.

With the tremendous development of corporate form and resulted unlimited competition small scale industries and co-operative form has to suffer a lot some of our corporations are large in evident in statistic from their annual reports. Assets and sales volume runs in to multimillions and sometime in billions rupees. This proves that there is great concentration of economic power in Giant Corporation.
1.5 ROLE OF LIBERALIZATION IN THE DEVELOPMENT OF CORPORATE BUSINESS:

A developing country needs to grow as fast as possible. The desired growth in real terms can be achieved only when there is properly structured financial and other mechanism. There should be realistic degree of regulations and not excessive regulations. The country India or Indian condition is no exception. Liberalization is designed to re-engineer the Indian economy. The economic liberalization will have its own impact on the financial liberalization which has made the Indian Stock Market to remain no more insulated from the world market. The economic liberalization had more impact on capital markets of India. The change in market was reflected by factors like savings, investments performance of the industry and the economy. The savings of house hold sector has increased and channelized towards the capital market. This was the successful contribution of economic liberalization in India.

After independence the concept of planned economic development was accepted (envisaged) by the government as a result control and regulations were formed on business activities. There after the necessity to liberalize the economy was realized by the government and the first was witnessed during the mid eighties. The pace was slow, the severe foreign exchange crises during 1990 was caused by the rise in price of oil and gulf war more over disintegration of the soviet union also have adversely affected the exports of India. In such a situation certain fiscal and monetary measures were introduced between October 1990 and May 1991. Followed by devaluation of Indian rupee. A set of comprehensive liberalized policy was adopted for industry and international trade in July 1991. Some of the important measures announced in July 1991.

(a) Virtual de-licensing of industries except for selective core industries.

(b) The ceilings on investment for small scale industries and ancillary units were raised.

(c) Import of capital goods and raw materials were liberalized.

(d) Free entry for all companies into permitted industry groups.
Other steps like devaluation of rupee, trade liberalization and financial deregulation, privatization of public sector units, free flow of foreign investment and new foreign trade policy have boosted the market of market and motivated capital market. Stock market has responded well to the liberalized measures. The liberalized measures have brought about transformation of restrictive controls into promotional regulations. The reforms also were reviewed with good intention. This was necessary to adopt the new situation to bridge the transition from regulated to open market economy.

The liberalized measures introduced in July 1991 have facilitated the process of globalization and internationalization of Indian markets. The subsequent measures and guidelines have helped the process of globalization.

The opening up of the Indian market will have a healthy impact on the economic policies of our country. The economy became more viable and outward looking. Indian capital market would become global in the true sense with the easy movement of funds into country and from the country.

Still there are certain obstacles in the path of globalization like, lack of liquidity, delay in settlement, procedural problems, lack of proper infrastructural facilities and inadequate equity research etc may slow down the pace of globalization.

In addition to many measures the step of privatization played important role, privatization of Public Sector Units (PSUs) have changed the ownership from the hands of government to that of private individuals, under taking get, free from grip of bureaucrats which resulted into improved of efficiency: Further it eliminated political interference in the management of public sector units. It helps in widening of the ownership of economic assets. It has the benefit of enlarging the shareholder base. During 1991-92 and 1992-93 the government of India raised ` 3720 crores in three stages by disinvesting shares of 31 PSUs, HPCL, SAIL, HMT and others. The amount raised during 1993-94 is ` 2.291 crore. This latest privatization is different in that the shares were sold at or even higher than the current market price. Privatization in the earlier rounds involved issue of shares at a discount.

In fact privatization in India has not increased the investor base. The number of share holders is very small in these privatized PSUs. The
government being the major share holder; the virtual absence of floating stock in the privatized PSUs results in liquidity of their shares.

**Liberalization has accelerated the process of development through capital creation and its investment in different industries.**

1.5.1 Impact of Liberalization on Automobile Sector

India became an independent nation on 15th August, 1947 and a republic on 26th January, 1950. At that time Indian economy was dependent mainly on agriculture and cottage industries. In order to accelerate the rate of economic growth and speed up industrialization, Government of India on 20th April 1956 adopted a new Industrial Policy which replaced 1948 policy. Industries were classified into three schedules as A, B & C. All the core and basic industries like Arms & Ammunition, Atomic Energy, Power, Transport, Heavy Engineering and Pharmaceuticals were put under Schedule A and were to be either state owned or in the Public Sector. Mainly the investments coming into the country were from the Socialist Block.

In 1980 Government of India introduced new Industrial Policy Resolution mainly to meet the new socio economic needs of the country. Role of Private sector was enhanced and they were permitted in the schedule a industries also. In March 1985 GOI reviewed the 1980 policy and introduced de-licensing in a big way. MRTP act was also made more rational. This gave push up and easier access to foreign collaborations. With this new policy, investors from all over the globe looked India as a potential platform for foreign investments.

In 1991 GOI brought another industrial policy which had the following major aspects:-

- Delicensing of major industries with enhanced investment limits
- Liberal foreign investment allowed.
- Technology up gradation was the prime concern that is Indian Goods must be produced to the latest cost effective competitive technologies.
- Doing away with MRTP act.

This policy opened up the gates of the Indian Economy to all the foreign investors. There was a spurt of foreign collaborations in all the industrial
sectors of India. A need was therefore felt to carry out a comprehensive and systematic study to understand the impact of foreign collaborations on Indian Industry. The present study sponsored and catalyzed by National Science & Technology Management Information System (NSTMIS), GOI has been undertaken to assess the impact of foreign collaborations on Indian Automobile Industry in the liberalized era*. This study covered the period from 1985 (Pre-liberalized Era) to 2005 (Post WTO Era), that is, a period of 20 years. 100 firms from the Automobile sector were covered in the sample, out of 368 firms as of universe.

The major findings of the study are:-

1. Out of 100 firms surveyed, 80 firms (23 large size, 56 medium size and 1 small size) signed 93 foreign collaborations (32 by large size, 60 medium size and 1 small size) and implemented the same. Highest numbers of collaborations were signed with Japanese followed by US, out of which maximum collaborations were signed during the post liberalized / post WTO era (1995-2005).

2. Due to liberalization, major impact of foreign collaborations had been in the areas like Technological Developments—R&D & New Product Development, Productivity Enhancement, Reduction in Imports, Increase in Exports, Improvement in Quality Standards, Decrease in Net Foreign Exchange Outflow, Increase in Return on Capital Employed, Enhancing Marketing Base (Domestic & International) and overall Profitability.

3. By virtue of liberalization and consequent foreign collaborations, the Indian Market is booming with new technologically advanced Automobile products, meeting the international standards in all spheres including emission norms. This also enabled various well known multinational brands to be produced in the country.

4. Technological Developments have emerged as one of the main reasons for foreign collaborations and is also established by the case studies given in the report of M/S RICO Auto Industries, Gurgaon, M/S Lumax Industries Ltd, New Delhi and M/S TVS Suzuki, Hussar, where many critical components and machines like clutch assemblies, ferrous
die casting machines were indigenized fully with engineering and design support from the collaborators.

5. Foreign collaborations also enabled the Indian firms to enter the international markets due to the well established brand image of the collaborators. In many cases, in order to improve the productivity the collaborators also provided training to the Indian workers both in India and at their works abroad as is evident from the case study of M/S Allied Nippon Ltd., New Delhi

6. Many foreign collaborators also participated by contributing towards equity and marketing tie ups which enabled faster expansion of the plants in India. This is established from the case study of M/S HUF India (P) Ltd., Pune manufacturing Auto Locks for two wheelers and four wheelers and M/S Allied Nippon Ltd., New Delhi manufacturing Brake Linings, Brake Shoes and Disc Brake Pads.

7. Other major benefits accruing from the foreign collaborations were establishment of the state of the art design & engineering facilities, marketing to worldwide customers, implementation of latest designs to avoid environmental degradation over the entire manufacturing life cycle, identification of various KR as to enhance productivity in the shortest possible time and improvement in other quality standards to meet domestic & international market requirements.

8. Rapid expansion of the Indian Automobile Industry due to foreign collaborations also resulted in large employment opportunities for the Indian Managers, R&D Specialists and Workers. This is also established from all the case studies in the report

9. Although it is reported by all the respondents that the present environment is conducive for foreign collaborations; but at the same time they have reported certain bottlenecks like Competition from Taiwan and China both in domestic market and International Market (Rico Auto & TVS Suzuki), Labour Unrest in many parts of the country (Rico Auto), Steep rise in the fuel prices (TVS Suzuki) Lack of availability of skilled technical man power especially suiting the Automobile sector (HUF India), Sub standard quality of components supplied by
10. The ancillaries (HUF India & RICO Auto), lack of training and R&D institutes in India (HUF India & TVS Suzuki), poor infrastructure like power, availability of adequate quantity of water & ports (RICO Auto, Allied Nippon, Lumax Industries & TVS Suzuki). All these problems are well established from the case studies given in the report.

11. From the data given in the report and from the case studies, it also emerges that still Government Procedures and Customs & Excise Duty Regimes need rapid stream lining and reforms to avoid delays. In some of the states, Law and order also needs attention.

12. The study shows that some of the firms (20 Nos.) could not implement the foreign collaborations. The main reasons for non implementation of the foreign collaborations are:

- **Financial**: Like funds could not be arranged for transfer to the collaborator within the stipulated time and cost of technology was found to be on the higher side.

- **Procedural Delays**: Like delay in allotment of land in the industrial complex by the state Government.

- **Technical**: Like technology was not found to be the latest and up-to-date. Above reasons are also established from the two case studies given in the report viz M/S Suntech Gears (P) Ltd., Pune and M/S Zenox Technologies Ltd., Coimbatore.

In an earlier study entitled "Foreign Collaborations in India" undertaken by IIM-Lucknow, which was not sector specific, in the year 2000-2001, the main findings of the IIM-Lucknow study are similar to the findings emerging from the present study like maximum number of foreign collaborations signed in the post liberalized era and mainly for bridging the technology gaps and meeting various requirements of the customers in India and Abroad.

13. In another study undertaken in 1998 by Massachusetts Institute of Technology, USA, the main findings of this study highlighted that Indian Automobile Firms entered into foreign collaborations for accelerated training of Indian managers & workers and improvements in quality standards.
14. Comparing to other emerging economy like China, in a study by Prof. Kelly Sims, it is observed that foreign direct investment in the automobile sector has contributed to the economic success of this industry in China in a number of ways. It has created desirable and stable jobs for Chinese workers in the joint venture firms and strongly benefited the wider economy especially through spillovers into the parts and components sector. By having to meet the requirements of the foreign-invested joint ventures, Chinese parts suppliers were forced to improve the quality of their products, reduce costs, and become more competitive exporters.

15. In the end, it can conclude that foreign collaborations have resulted in building faster, cost effective technologically competitive Automobile industrial base in the country and have also bridged the gaps in technology wherever they existed. This provided the Indian customers with various alternatives and options. In short we can say that the foreign collaborations have contributed to knowledge flows to India's advantage. We can also infer that developing economies like India have used foreign collaborations for accelerated economic development, build strong industrial and managerial base. This has also increased India's marketing base globally by offering various products and services with advanced international technologies in the Automobile sector.

This has enabled the Indian Automobile industry to rapidly integrate into the global Automobile supply chains.

1.5.2 Impact of Liberalization on Drug & Pharma Sector

India's pharmaceutical sector is gaining its position as a global leader. The pharma market in India is expected to touch US$ 74 billion in sales by 2020 from the current US$ 11 billion, according to a PricewaterhouseCoopers (PwC) report.

Growth of Indian pharma companies will be driven by the fastest growing molecules in the diabetes, skincare and eye care segment, as per a report by research firm, Credit Suisse. The market share of a drug company is
directly related to the number of fast growing molecules in the company's pipeline, the report highlighted.

The Indian pharmaceutical market is poised to grow to US$ 55 billion by 2020 from the 2009 levels of US$ 12.6 billion, as per a McKinsey & Company report titled "India Pharma 2020: Propelling access and acceptance realising true potential". The industry further holds potential to reach US$ 70 billion, at a compound annual growth rate (CAGR) of 17 per cent.

The Indian pharmaceutical market is expected to grow at a CAGR of 15.3 per cent during 2011-12 to 2013-14, according to a Barclays Capital Equity Research report on India Healthcare & Pharmaceuticals.

The outlook on the Indian pharmaceutical industry remains favourable, according to a report by ICRA and Moody's. Domestic formulation market stood at Rs 58,300 crore (US$ 10.54 billion) and has been ranked third in terms of volume and tenth in terms of value, globally. From 2011, trends are changing, MNCs are focusing on chronics, branded generics and launching patented products, besides expanding their field force and focusing on tier-II as well as tier-IV towns. Domestic market grew at 15 per cent, while pharma multinational companies (MNCs) revenue grew at 18.7 per cent.

India's exports of drugs, pharmaceutical and fine chemicals grew by 27 per cent to Rs 60,000 crore (US$ 10.85 billion) for the year ended March 2012, according to data compiled by Pharmaceutical Exports Council of India (Pharmexcil). Moreover, the size of the Indian formulations market, which currently stands at around Rs 62,000 crore (US$ 11.21 billion), is growing at 15-20 per cent annually.

"India-Brazil health and pharmaceutical collaboration holds the potential of being key contributor for assuring affordable healthcare for our people," as per Mr Anand Sharma, Union Minister for Commerce, Industry and Textiles. Mr Sharma further called for better understanding between the pharmaceutical regulatory regimes in the two countries.

The Export-Import (Exim) Bank of India has agreed to provide loans to fund the setting up of common infrastructure facilities at Sriperumbudur, Tamil Nadu, which will help boost exports of medicine products from India. Following are the leading effect of liberalization on Pharmaceutical Industry.
1. Out of 105 firms surveyed, 84 firms (39 large size, 31 medium size and 14 small size) signed 98 foreign collaborations (51 by large size, 32 by medium size and 15 by small size) and implemented the same. Maximum collaborations were with USA followed by Germany. Highest numbers of collaborations were signed during the post liberalized / post WTO era (1995-2005).

2. Due to liberalization, major impact of foreign collaborations had been in the areas like Technological Developments—R&D & New Product Development, Productivity Enhancement, Reduction in Imports, Increase in Exports, Improvement in Quality Standards, Decrease in Net Foreign Exchange Outflow, Increase in Return on Capital Employed, Enhancing Marketing Base (Domestic & International) and overall Profitability.

3. By virtue of liberalization and consequent foreign collaborations, the Indian Market is booming with new technologically advanced drugs, meeting the international health standards in all spheres. This also enabled various well known multinational brands of drugs to be produced in the country.

4. Technological Developments have emerged as one of the main reasons for foreign collaborations and is also established by all the case studies given in the report like M/S Biocon Bio Pharmaceuticals Pvt. Ltd., Bangalore, M/S Emcure Pharmaceuticals Ltd., Pune and M/S Fermenta Bio Tech. Ltd, Thane, etc. where many new drugs and combinations thereof and some bio generic medicines have been developed.

5. Foreign Collaborations have enabled many R&D centers of Indian Drug industry to be recognized internationally as one of the best state of the art centers like that of M/S Biocon Bio Pharmaceuticals Pvt. Ltd., Bangalore and M/S Emcure Pharmaceuticals Ltd. Pune. Biocon are also perusing a path of break through innovation through Phase III human critical trials to develop the worlds’ first oral insulin. Similarly, M/S Fermenta Bio Tech Ltd., have developed expertise in pharmaceutical bio catalysis for enzyme purification and immobilization from the classical betalactam intermediates.
6. Indian drug companies like M/S Vantech Industry Ltd., (a SME) and M/S Alembic Ltd, Vadodara have developed many generic drugs which provide cheaper health care facilities for the masses.

7. Many Indian firms like Biocon and Emcure have developed high grade contract research facilities of international standards. This had been possible due to collaborations.

8. Foreign collaborations also enabled the Indian Firms to enter the international market due to the well established brand image of the collaborators including approvals from the FDA like M/S Biocon Bio Pharmaceuticals Pvt. Ltd.

9. In many cases foreign collaborators also participated by contributing towards equity enabling faster expansion of the manufacturing plants in India. This is established from the case study of Alembic manufacturing items like basic drugs, pharmaceuticals and antibiotics.

10. Other major benefits accruing from the foreign collaborations were to market the latest drugs for critical illnesses like Cancer etc., with the shortest lead time and also marketing worldwide particularly to developing countries.

11. Rapid expansion of the Indian Drug & Pharma Industry due to foreign collaborations also resulted in large employment opportunities for the Indian Managers, R&D Specialists and Workers. This is also established from all the case studies in the report.

12. Although it is reported by all the respondents that the present environment is conducive for foreign collaborations but at the same time they have reported certain bottlenecks like drug price control policy and lack of availability of animals locally and the policy in that regard. This is evident from the case studies of Biocon and Alembic. Other bottlenecks reported are Lack of trained skilled man power, power & water shortage & labour unrest.

13. 21 firms signed the foreign collaborations but could not implement them. The main reasons for non implementation of the foreign collaborations are :-

- Financial: Like high cost of technology and non participation of foreign collaborator in the equity although agreed earlier.
• Technical: Like technology not being latest and competitive.

Above reasons are also established from the two case studies given in the report viz M/S Paras Pharmaceuticals Ltd, Ahmedabad and M/S Aurobindo Pharma Ltd., Hyderabad.

14. In an earlier study entitled “Foreign Collaborations in India” undertaken by IIM, Lucknow, which was not sector specific, in the year 2000-2001, the main findings of the IIM-L study are similar to the findings emerging from the present study like maximum number of foreign collaborations signed in the post liberalized era.

15. Similarly In another earlier study, conducted by KPMG, India in 2004-2005 entitled “The Indian Pharmaceutical Industry: Collaboration for Growth”, the findings match the present study findings particularly in areas like Emphasis on R&D for innovative new products, to offshore (outsourcing) R&D activities, discovery research and undertaking clinical trials activities and in the production of high-quality generic medicines.

16. In a study conducted by IHS Global Insight, China is expected to become the fifth largest drug market in the world by 2010. China remains an attractive location to foreign drug companies, because China offers many advantages in terms of the size of its marketplace, the relatively easy access to patients who are available for clinical trials, and lower clinical trial costs. China has made considerable progress towards an improved standard of living for its population, including better health, reduced levels of poverty, and strong macroeconomic growth. The market for high quality, patient oriented healthcare services is small, but growing steadily. Currently, there are many successful foreign and joint venture healthcare service providers in China. Their experiences point to growing opportunities for foreign companies looking to invest in this segment of the market. In China’s competition with India for the position of world’s top outsourcing destination, the country’s manufacture and export of active pharmaceutical ingredients (APIs) has played an important role. Antibiotics remain the largest category in China’s API exports.
17. In the end, we can conclude that foreign collaborations have resulted in building faster, cost effective, technologically diverse industrial base of medicines in the country and have also brought newer drugs for Indian populace at affordable prices.

We can also infer that developing economies like India have helped our drug industry to broaden its manufacturing base not only in India but also in many of the developing countries. This has increased India’s marketing base globally by offering various drugs manufactured as per latest technologies.

1.5.3 Impact of Liberalization on Cement Industry

From just around 28 million tones installed production before 1982, India's cement sector has gone a long way to reach to a level where production capacity is much more than the country of more than 120 crore people can actually consume.

However, it is not just the quantity of production, where the country stands only second to China in the world; Indian cement industry is inferior to none when it comes to quality and the technology it uses for making cement. Thanks to liberalization, India has around 300 million tons per annum cement manufacturing capacity now.

The cement sector came out of the clutch of government-control in two phases. It was in 1982 when the sector was liberalized partially and from 1989-onwards, it became fully decontrolled. During the partial-control phase, cement makers were to sell two-thirds of their product to the government as "levy cement". The rest they could sell in the open market at the price they determined themselves.

"The Dark Age of the grey product ended on February 28, 1982. That date represents a milestone in the history of cement. The industry had writhed for four decades under the crushing burden of wholly irrational price control. Politicians and bureaucrats in public administration, and racketeers and buccaneers in private deals, made fortunes at the expense of the common man and the exchequer, while the honest manufacturer was left with no resources even to maintain his plant," said Nani Palkhivala, Chairman, the
Associated Cement Company (now ACC Ltd.) in his address to the shareholders on November 12, 1982.

The wheel of fortune for the sector changed drastically in just one year. Palkhivala, in his address at the company’s Annual General Meeting in 1983, said: “In March 1982 came partial decontrol. The spectacular performance of the cement industry during 1982-83 bears eloquent testimony to the truism that government policies can make or unmake an industry and that in economics there are no miracles but only consequences.

The cement industry has left behind the decades when it was festooned with red tape and awash with black money. It has started its arduous march on the road to growth”.

However, the scenario was just the reverse in the pre-liberalization era. Though a Kolkata-based company started production of cement as early as 1889, India started cement production in an organized way since 1914 with 1,000 tonnes capacity. In the next ten years, production capacity reached just over 2.5 lakh tonnes. A lot of ups and downs later, India’s production capacity touched 3.2 million tonnes in 1951. In the next thirty one years, capacity grew to 28 million tonnes. India added a little over 7.5 million tonnes in that year itself. In the next three years, another 10 million tonne capacity brought into operating, bringing the total installed capacity to about 45 million tonnes.

“The industry's capacity grew five-fold in the first two decades after controls were partially lifted. Today after three decades of liberalization, the industry has multiplied its capacity to 290 million tonnes — a ten-fold increase. India’s cement industry has completely transformed for being an inefficient, shortage ridden one to the world’s second largest cement industry in size and best in terms of technology, quality, energy efficiency and carbon footprint,” R Nandkumar of ACC said.

An industry insider said that sans the liberalization of the sector, India would have been nowhere in the global cement map. Before liberalization, India used to import cement to meet its domestic need. Had it continued till now, India’s pace of overall growth in general and infrastructure in particular would still have remained inferior. Thus the liberalisation was much-needed to give the sector the real fillip for growth.
Incidentally, Aditya Birla Group’s flagship, Grasim Industries, now the single largest cement maker in the country forayed into the cement sector in 1985 with the commissioning of its first plant at Jawad in Madhya Pradesh. Aditya Birla Group had in 2010 consolidated its cement business under UltraTech. Now, it is one of the top 10 cement makers in the world with over 50 million tonnes per annum cement making capacity.

"While the decontrol of cement ensured better profitability, the economic liberalization ensured steady rising demand for this core infrastructure product. The demand generation was also aided by the free availability of cement. The result is there for all of us to see. While it took 82 years for 100 million tonne to materialize the next 100 million tonne came in just 10 years between 1997-98 to 2007-08. What is more, the second 100 million tonne capacity has come only in three years, i.e. during the year 2008 to 2011,” said Shailendra Chouksey, Whole Time Director, JK Lakshmi Cement.

The continuous capacity addition, though resulting in sporadic surplus situation, is a reflection of the expectation of the industry that notwithstanding the cyclical fall in demand the general tenor would that be of a high trajectory growth in cement demand arising out of the huge infrastructure gap that Indian economy has and which needs to be addressed in the coming years. If we ignore FY 10-11 and 11-12 the four years prior to that the industry achieved an average growth of about 9 to 10 per cent while prior to that the demand growth has been in the range of 8 to 8.5 per cent.

Irrespective of the political party in the governance, it is expected that construction activity would get the desired focus, be it that of the infrastructure or that of houses and as such one can reasonably expect that the cement industry would clock demand growth in double digit for at least next two decades.

1.5.4 Impact of Liberalization on Steel Industry

Iron and steel industry in the country has experienced a sustainable growth since the independence of the country. A humble beginning of the modern steel industry was reached in India at Kulti in West Bengal in the year
1870. But the outset of bigger production became noticeable with the establishment of a steel plant in Jamshedpur in Bihar in 1907. It started production in 1912. The new township was named after Jamshedji Tata. This venture was followed by Burnpur and Bhadrawati Steel plants in 1919 and 1923 respectively. It was, however, only after Independence that the steel industry was able to find a strong foothold in the country. Excluding the Jamshedpur plant of the Tatas, all are in the public sector and looked after by Steel Authority of India Ltd. (SAIL). Bhilai and Bokaro Steel plants were set up with Soviet alliance. Durgapur and Rourkela came up with British and West German technical expertise, respectively.

The finished steel production in India has grown from a mere 1.1 million tonnes in 1951 to 23.372 million tonnes in 1997-98. During the first two decades of planned economic development, i.e. 1950-60 and 1960-70 the average annual growth rate of steel production exceeded 8%. However, this growth rate could not be maintained in the decades to follow. During 1970-80, the growth rate in steel production came down to 5.7% per annum and picked up marginally to 6.4% per annum during 1980-90. Though India started steel production in 1911, steel exports from India began only in 1964. Exports in the first five years were mainly due to recession in the domestic iron and steel market. Once domestic demand revived, exports declined. India once again started exporting steel only in 1975 touching a figure of 1 million tonnes of pig iron export and 1.4 million tonnes of steel export in 1976-77. Thereafter, exports again fell rapidly to meet rising domestic demand. Only after liberalisation of the steel sector the exports of iron and steel have once again started increasing. Though the country's production of iron and steel is sufficient to meet the domestic demand, however, some quantity of steel is always needed to be imported especially those grades and qualities which are required in small quantities, and therefore do not justify setting up of production capacities.

The current global steel industry is in its best position in comparison to last decades. The price has been rising continuously. The demand expectations for steel products are rapidly growing for coming years. The shares of steel industries are also in a high pace. The steel industry are
enjoying its 6th consecutive year of growth in supply and demand. And there is many more merger and acquisitions which overall buoyed the industry and showed some good results. The supreme crisis has lead to the recession in economy of different countries. However steel production and consumption have been supported by continuous economic growth.

### Table-1.5

**WORLD CRUDE STEEL PRODUCTION IN 2010**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Production (million tonne)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>626.56</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>109.60</td>
</tr>
<tr>
<td>3</td>
<td>USA</td>
<td>80.59</td>
</tr>
<tr>
<td>4</td>
<td>Russia</td>
<td>67.00</td>
</tr>
<tr>
<td>5</td>
<td>India</td>
<td>66.80</td>
</tr>
<tr>
<td>6</td>
<td>South Korea</td>
<td>58.45</td>
</tr>
<tr>
<td>7</td>
<td>Germany</td>
<td>43.82</td>
</tr>
<tr>
<td>8</td>
<td>Ukraine</td>
<td>33.56</td>
</tr>
<tr>
<td>9</td>
<td>Brazil</td>
<td>32.82</td>
</tr>
<tr>
<td>10</td>
<td>Turkey</td>
<td>29.00</td>
</tr>
</tbody>
</table>

*Source: World Steel Association: Annual Report 2010*

Global crude steel production reached 1414 million tonne in calendar year 2010, a growth of 15% over 2009. China was the largest crude steel producer in the world with production reaching 626.56 million tonne, a growth of 9.2% over 2009. India once again emerged as the 5th largest producer in 2010 and recorded a growth of 11.3% as compared to 2009. India also emerged as the largest sponge iron producing country in the world in 2010, a rank it has held on since 2002. If proposed expansions plans are implemented as per schedule, India may become the second largest crude steel producer in the world by 2015-16.

The rapid pace of growth of the industry and the observed market trends called for certain guidelines and framework. Thus was born the concept of the National Steel Policy, with the aim to provide a roadmap of growth and
development for the Indian steel industry. India is one of the few countries where the steel industry is poised for rapid growth. India’s share in world production of crude steel increased from 1.5% in 1981 to around 3.5% in 2004. While plant closures and privatization are rare in India, the private sector is considered to be the engine of growth in the steel industry and technological changes and modernization are taking place in both the public and the private sector integrated steel plants in India.

Table-1.6

TOTAL FINISHED STEEL (ALLOY + NON ALLOY) (’000 TONNE)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production for sale</th>
<th>Import</th>
<th>Export</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>46566</td>
<td>4305</td>
<td>4801</td>
<td>41433</td>
</tr>
<tr>
<td>2006-07</td>
<td>52529</td>
<td>4927</td>
<td>5242</td>
<td>46783</td>
</tr>
<tr>
<td>2007-08</td>
<td>56075</td>
<td>7029</td>
<td>5077</td>
<td>52125</td>
</tr>
<tr>
<td>2008-09</td>
<td>57164</td>
<td>5841</td>
<td>4437</td>
<td>52351</td>
</tr>
<tr>
<td>2009-10</td>
<td>60892</td>
<td>7296</td>
<td>3235</td>
<td>57675</td>
</tr>
<tr>
<td>April-Dec</td>
<td>47296</td>
<td>5359</td>
<td>2462</td>
<td>44275</td>
</tr>
<tr>
<td>2010-11</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Joint Plant Committee (JPC), Annual report 2010.

Table-1.6 explains about the production, consumption and growth of steel industry in India. The Production of steel in India is a constant growth every year since 2005-10. Whereas, the maximum import of the steel from the foreign countries occupied first place during the year 2009-10 and it can be found that the maximum exports are during the year 2006-07. While the consumption pattern of steel in India is a constant demand for every year.

India is also a leading producer of sponge iron with a host of coal based units, located in the mineral-rich states of the country. Over the years, the coal based route has emerged as a key contributor to overall production; its share has increased from 69% in 2005-06 to 70% in 2009-10. Capacity in sponge iron making has also increased over the years and currently stands at 32 million tonne. The table below shows the production of sponge iron in the country in the last five years and 2010-11 (April-December 2010) indicating the break-up of the share of coal and gas based route of production:
### Table 1.7
**PRODUCTION OF SPONGE IRON**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal based</td>
<td>10.28</td>
<td>13.08</td>
<td>14.53</td>
<td>15.57</td>
<td>14.58</td>
<td>15.52</td>
</tr>
<tr>
<td>Gas based</td>
<td>4.54</td>
<td>5.26</td>
<td>5.84</td>
<td>5.52</td>
<td>6.16</td>
<td>4.48</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14.82</strong></td>
<td><strong>18.34</strong></td>
<td><strong>20.37</strong></td>
<td><strong>21.09</strong></td>
<td><strong>20.74</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

*Source: JPC, Annual Reports 2010*

India is also an important producer of pig iron. Post-liberalisation, with setting up of several units in the private sector, not only imports have drastically reduced but also India has turned out to be a net exporter of pig iron. The private sector accounts for nearly 90% of total production for sale of pig iron in the country. The domestic availability situation of pig iron is given in the table below:

### Table 1.8
**PIG IRON DOMESTIC AVAILABILITY SCENARIO (’000 Tonne)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>4695</td>
<td>4953</td>
<td>5284</td>
<td>6207</td>
<td>5734</td>
<td>4217</td>
</tr>
<tr>
<td>Import</td>
<td>3</td>
<td>3</td>
<td>11</td>
<td>8</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Export</td>
<td>440</td>
<td>707</td>
<td>560</td>
<td>350</td>
<td>278</td>
<td>209</td>
</tr>
<tr>
<td>Consumption</td>
<td>4136</td>
<td>4336</td>
<td>4621</td>
<td>5870</td>
<td>5465</td>
<td>3937</td>
</tr>
</tbody>
</table>

*Source: JPC, Annual Reports 2010*

Traditionally, Indian steel industry has been classified into Main Producers (SAIL plants, Tata Steel and Vizag Steel/ RINL), Major Producers (plants with crude steel making capacity above 0.5 million tonne - Essar Steel, JSW Steel, Jindal Steel & Power and Ispat Industries) and Other Producers. The latter comprises of numerous steel making plants producing crude steel/finished steel (long product/flat product)/ pig iron/ sponge iron and are spread across the different states of the country. The following table highlights the total as also the contribution of the private and public sector in crude steel production in the country:
TABLE-1.9
TRENDS IN PRODUCTION OF CRUDE STEEL

<table>
<thead>
<tr>
<th>Year</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11 Jan-Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>29.496</td>
<td>33.814</td>
<td>36.766</td>
<td>42.065</td>
<td>48.161</td>
<td>38.015</td>
</tr>
<tr>
<td>Total Production</td>
<td>46.46</td>
<td>50.817</td>
<td>53.857</td>
<td>58.437</td>
<td>64.875</td>
<td>50.594</td>
</tr>
</tbody>
</table>

Source: JPC; Annual Reports 2010

It is observed from the table we can see that in public sector the trend per cent in production of crude steel in India is a constant growth during the year 2005 to 2007. (i.e. an average of 17%). But, from the year 2008 onwards the trend in the production of steel was in decline stage. The private sector of the Steel Industry is currently playing an important role in production and growth of steel industry in India. There is a constant growth rate every year in production since 2005-10. It can be concluded that the trend percentage of public sector crude steel is in decline stage when it is compared with private sector.

India's current steel production capacity is 62 million tonne per annum, including both public and private producers. According to the Ministry of Steel, by 2011-12, the capacity is expected to touch 124 million tonne per annum on the back of major expansion plans announced by the steel producers. According to the Steel Ministry, around 222 MOUs have been signed with various states for planned capacity of around 276 million tonne. Major investment plans are in the States of Orissa, Jharkhand, Chattisgarh, West Bengal, Karnataka, Gujarat and Maharashtra.
TATA Steel has also envisaged massive expansion at Jharkhand, Orissa and Chattisgarh. The company is planning to increase its capacity of hot metal and steel production by 3 million tonne to reach 10 million tonne per annum. The capacity expansion of JSW Steel's Vijayanagar plant is in progress and is likely to be completed by 2010, with a total installed capacity of 9.6 million tonne per annum. Essar Steel is also planning to increase its capacity of Hazira plant (Gujarat) from 4.6 million tonne per annum to 8.5 million tonne per annum. Bhushan steel is planning to enhance the capacity of the Orissa plant from 1.90 million tonne per annum of HR coils to 3.60 million tonne per annum and total steel making from 3.0 million tonne per annum to 6.0 million tonne per annum.

1.5.5 Impact of Liberalization on Textile Industry

The removal of the quota system has brought the strong players in full swing. China and Korea are the biggest threats to India. In India the big firms are gaining from the phase out as they have the capacity to stand boldly and fight the fierce competition. On the other hand the medium and small firms are more vulnerable as they are finding it difficult in survive in the tough competition. Small scale exporters need further support from the government. Lack of capital and technology has always been a big hurdle in India. Our exporters are suffering badly from this limitation. Though FDI limits have been raised but the share of textiles sector is not that great. Yet more capital is required for the sector. We find lots of financial as well as technical support
from the government but the bureaucratic system spoils everything. Exporters have to face long procedural steps before availing these benefits. How can they spare so much time here when they have to concentrate on the market situation?

Very small scale firms find it most difficult to survive. They can enlarge their scale either by merging or amalgamating together. The Indian exporters need to be more responsive to the market requirements. There is slow adaptability to the new market situation. They have to be more vigilant and follow the market trends if they need to remain in the market for long period as strong players.

The textile sector, especially cotton textiles, was one of the least profitable industries, in spite of being strongly tariff protected and in spite of its success in export markets. This apparent contradiction can be explained by two further observations: First, de-facto protection based on price comparison was significantly lower than the nominal tariff. Second, in spite of relatively low production cost, the industry has been submitted to intense competition with imports under the reforms, especially due to imports from China. Garments, on the other hand, are in the middle range of profitability. While cotton textiles have seen their share in GDP decline, the share of wool & silk products, as well as that of garments, has increased. While textile products occupy the second rank in Indian exports (following other products including jewellery), garment exports have held fourth rank (following food products) in the late 1990s. The ratio of exports to output has gone up in the combined three textile branches, from 15% in 1987/88 to 25% in 1997/98, while it has gone down in clothing. Finally, employment in textiles has grown less rapidly than in other manufacturing (at about 1%), but in clothing it has grown at 10%, significantly above the manufacturing average of 2.2%. Labour productivity rose by 7.5% in textiles, but only 5.5% in clothing. The reforms had a positive impact, through reduced red tape and increased availability of new technology.

The increase of exports was also related to the abolition of quotas of the Multi-fibre agreement (MFA). A smaller number of firms reported either no or a negative impact of the reforms, due to increased competition of imports.
This was particularly emphasized by producers of silk products, who blamed cheap silk imports from China for the reduction in silk production. Subcontracting is particularly prevalent in the clothing industry, where many firms have much of their output produced by a large number of families in the villages. Among the complaints and recommendations for change most respondents mentioned the labour laws, infrastructures, the need for export incentives, tax and interest rate policies, as well as bureaucracy and corruption. Although infrastructure improvements in recent years were recognized, more needs to be done in the view of most of the responding firms.

1.6 REFORMS INITIATED BY THE GOVERNMENT:

The weed of the society at domestic and at international level does not remain unchanged. Several factors leads to undertake changes in the system. These changes gradually bring better quality and good volume of production and services. In this regard government has to play vital role.

Thus under the new economic policy of government of India certain reform measures were initiated by government of India since July 1991. The reforms are broadly enumerated below:

1.6.1 Industrial Policy Reforms:

- Liberalization of Industrial Licensing Policy by removal of licensing controls for most of the industries except certain low priority industries.
- Public Sector Policy – Disinvestment of equity of public sector enterprises permitted upto 49%.
- Liberalization of MRTP Act to abolish controls on monopolies which required Government approval for substantial expansion, setting up of new undertaking and mergers and amalgamations by industrial houses.
- Foreign equity investment permitted up to 51% in all industries, with automatic approval of Government for investment in high priority industries specified in Annexure III of the Industrial Policy Statement.
- Substantial liberalization of Foreign Exchange Regulation Act, 1973 to provide for relaxation to FERA companies.
• Existing foreign companies permitted to increase their stake to 51% in accordance with SEBI and RBI guidelines.
• Small Scale Industries Policy
• Deregulation of Steel Sector
• Private and foreign investment allowed in Coal production – National Coal Policy.
• Private (and foreign) investment allowed in mining of major minerals – National Mineral Policy.
• Rehabilitation of Labor of Industrial Restructuring – National Renewal Fund.
• Entry of private sector permitted in infrastructure sector – telecom, railway, roads, ports and bridges.

1.6.2 Trade Policy Reforms:
• Import – Export Licensing and procedural reforms
• Import of almost all raw materials, components and capital goods permitted under open general license.
• Further liberalization in Import-Export Policy from 1st April, 1994.
• Major concessions to different categories of Trading Houses
• Round-the-clock Customs inspection for exports.
• Advance licensing procedure modified.

1.6.3 Banking and Monetary Sector Reforms:
• Opening of banking to private sector.
• Private equity permitted in Public Sector Bank by permitting banks to float public issues.
• Progressing liberalization / decontrol of bank interest rates.
• Refinance facilities (Other than export credit refinance facility) withdrawn.
• Ceilings on large borrowers.
• Changes in Consortium financing procedures.
• Gradual reduction of statutory liquidity ratio and cash reserve ratio.
• Changes in priority sector lending norms
• Implementation of Narasimham Committee recommendations.
• Reduction in Government borrowings from Banks
• Introduction of prudential norms for income recognition, asset classification, provisioning norms and other related matters for banks and non banking finance companies.

1.6.4 Capital Market Reforms:
• Abolition of Office of Controller of Capital Issues.
• Securities and Exchange Board of India conferred statutory powers to regulate the securities market.
• Free pricing of issues permitted subject to the guidelines announced by SEBI.
• Opening of Mutual Funds to the private sector
• SEBI registered Foreign Institutional Investors permitted to invest in the primary and secondary market up to 15% of the equity of the company with a sub limit of 5% for each FII.
• Non-resident Indians permitted to invest in the primary and secondary market up to 24% of the equity / FII's up to 49%
• Indian Companies with track record permitted to float equity issues in the international market through the Global Depository Receipt issues and Foreign Currency Convertible Bonds.

1.6.5 Stock Exchange Reforms:
• Increase in trading hours in almost all the stock exchanges from \(2 \frac{1}{2}\) hours to 5 hours per day.
• Shorter settlement cycles by reducing the time between the execution of trade and delivery and realization of proceeds.
• Greater transparency in broker-client relationship
  a. To disclose the transaction price and brokerage separately in the contract notes issued by them to their clients
  b. The brokers to keep the money of the clients and their own money in separate accounts and not under any circumstances use clients’ money for taking positions as principals in the market.
c. Contract notes to be issued to the clients within 24 hours of the execution of the contracts;
d. Time-limits for payments of sale proceeds and deliveries of securities by the broker to the client and deliveries of securities and payment for execution of contracts by the client to the brokers, in respect of sales and purchase transaction respectively;
e. Payment of margins by the clients to the brokers in respect of their purchases and sales, to ensure that speculative investors do not hurt the position of the brokers.

- Capital Adequacy norms for brokers both in regard to the base minimum capital and position risks.
- Corporate Membership on the Exchange to professionalize the stock broking business and provide better service to the investors
- Restructuring of the Governing Boards of the Stock Exchanges
- Compulsory Audit of Brokers Books and filling of the audit report with SEBI.
- Notification of regulation for insider trading and unfair trade practices.
- Strengthening of the investor grievance redressal system
- Inspection, Enquiries and Monitoring of the Stock Exchanges
- Computerized trading system on the Bombay Stock Exchange.
- Formation of National Stock Exchange of India for providing a nationwide market in securities.

1.6.6 Foreign Exchange Policy Reforms:
- Enactment of FEMA
- Devaluation of the rupee progressively
- Making the rupee fully convertible on current account in phases
- Near complete liberalization and repatriation of foreign direct investments
- Policy regarding repatriation of foreign direct investments
- Liberalization of establishment of Indian Joint Ventures Abroad.
- Disintermediation in Externally Assisted Projects – passing on of the Exchange Risk to Projects Costs.
- Import of gold and silver allowed for returning NRIs.
• Foreign Exchange Coins totally exempted from all exchange control regulation – unlimited holding of coins permitted along with limited holding of foreign exchange in currency notes for numismatic purpose.
• Exchange Earners’ Foreign Currency Accounts permitted for resident Indians.
• Returning Non-Resident Indian totally exempted from the requirement of declaration and/or surrender of all foreign currency assets, and permitted to maintain Bank accounts in foreign currencies in India and/or abroad throughout their life.
• “Forfeiting” introduced as a new instrument of export finance.

1.6.7 Tax Policy Reforms:
• Implementation of the Chelliah Committee Report in phases.
• Rationalization of Direct Taxes
• Reduction of indirect taxes
  a. Customs duties brought down to international levels
  b. Rationalization of Excise duties
• Significant tax concessions for NRI’s and FI’s.
• Concessional rate of tax on long term capital gains for individuals.

1.6.8 Other Reforms:
• Public Distribution System reforms.
• Agriculture Sector reforms
  a. Pricing of Fertilizers,
  b. Pricing of other farm inputs
  c. Pricing of electricity for farming sector
  d. Reduction of interest subsidies
• Liberalization of price and investment controls in drug industry
• Restructuring of price and technology policy in fertilizer industry.
• New Textile Policy
• Restructuring of Indo-Soviet Trade Mechanism
1.6.9 Pending Reforms:

- Exit Policy
- Support to workers’ cooperatives to turn around sick companies (and PSUs).
- Withdrawal of Public Sector from non-strategic and non-core areas.
- Changes in labour legislations
- Retaining and redevelopment of workers on industrial restructuring
- Further sale of Public Sector equity
- Reduction of shareholding of financial institutions in already established companies.
- Educating the State Governments about Economic Reforms
- Restructuring foreign investment approval process
- Strengthening Investment Promotion

1.6.10 Reforms in Last Ten Years

1991-92:

- Prime Minister Narasimha Rao abolishes licensing for almost 80 per cent of all sectors. Only 18 industries remain licensed.
- Monopolies and Restrictive Trade Practices Act amended to allow industries to grow without government approval.
- Phased manufacturing program discontinued
- Sectors reserved for the public sector cut from 12 to 8
- Industry location, except in major cities, does not need government clearance.
- SICA amended to bring PSUs under its ambit
- PSU disinvestment program starts
- Disinvestment target Rs. 2500 crore; achievement Rs. 3038 crore

1992-93:

- National Renewal Fund to fund layoff costs
- PSUs allowed to access capital markets. IPCL the first to so
- ONGC corporatized
- Disinvestment target Rs. 2500 crore, achievement Rs. 1913 crore
• Government reduces stake in Maruti from 60 to 50 per cent making Suzuki an equal shareholder

1993-94:
• Car and white goods manufacturing delicensed
• Large scale ready made garment making opened up for foreign equity, subject to export obligations
• Some petroleum products, like kerosene and LPG, decanalised
• Disinvestment target Rs. 3500 crore, and still no initiatives have been taken.

1994-95:
• Almost all bulk drugs delicensed
• Automatic 51 per cent foreign equity allowed in bulk drug making
• Disinvestment target Rs. 4000 crore, achievement Rs. 4843 crore

1995-96:
• Disinvestment target Rs. 7000 crore; achievement, Rs. 362 crore.
  Daewoo starts manufacturing the Cielo in July 1995 – the foreign first car manufacturer to do so

1996-97:
• Delicensing brings the number of licensed industries down to 14. consumer electronics is the latest sector to be delicensed
• Investment ceilings for SSIs raised from Rs. 75 lakh to Rs. 3 crore
• Disinvestment Commission set up to identify PSUs for dilution of government stake
• Disinvestment target Rs. 5000 crore; achievement Rs. 380 crore
• FIPB revamped to make FDI policy ‘more transparent’

1997-98:
• Number of industries under compulsory licensing cut from 14 to 9. eleven profitable public sector companies are named ‘Navaratnas’ (or nine jewels). This gives them more freedom to invest, set up JVs, raise overseas funds as well as greater managerial autonomy.
• Disinvestment Commission recommends 50 PSUs for sell of
• Disinvestment target Rs. 4800 crore; achievement Rs. 902 crore.
  Software export boom starts
1998-99:

- Coal, lignite, sugar, mineral oils, bulk drugs delicensed. Petroleum (not crude, though) also delicensed
- Corporates allowed to buy back up to 25 per cent of their total net worth
- Patent Bill approved in parliament and promulgated by ordinance
- SSI list shorted by removing tools and farm implements
- Disinvestment target Rs. 5000 crore; achievement Rs. 5371 crore, including Rs. 3500 crore worth of share swaps among state owed energy companies.
- Hyundai launches the Santro in October 1998 and becomes the first small car to challenge Maruti, Tata Indica launched, Wipro, Infosys emerges as major Indian corporate success stories

1999-2000:

- IT Bill introduced in Parliament
- Tax provision for housing liberalized
- Disinvestment target Rs. 10000 crore; achievement Rs. 1584 crore.
- Modern Foods privatized for Rs. 105 crore

2000-2001:

- Bank reforms allow banks to enter insurance sector with partners
- IRDA finalizes entry norms for private insurers. Eleven insurance joint ventures enter the market.
- Maruti Udyog added to the list of companies up for privatization. Telco runs up huge losses because of Indica.
- Disinvestment target Rs. 10000 crore; achievement zero. (Source: Economic Times)
1.7 ROLE OF SEBI IN CAPITAL MARKET:

The role of a regulatory body for securities market in a country is determined by the stage of development of securities market in the country. In the Indian context, having regard to the emerging nature of the market, the regulatory body must necessarily have the twin role of development and regulation. Regulatory and developmental functions are strongly interlinked and have the same objectives in the long run, and very often, rapid and healthy development is an outcome of well-regulated structures. The twin role of SEBI has accordingly been enshrined in the preamble of the SEBI Act, 1992. The regulatory measures taken by SEBI therefore would always be subservient to the needs of market development and enough to enforce the required degree of discipline and foster high standards of fairness and integrity of the market and thereby protect the interest of investors.

SEBI’s efforts are to create an effective surveillance mechanism for the securities market, and encourage, responsible and accountable autonomy on the part of all players in the market, who should discipline themselves and observe the rules of the game. This would be possible, if the intermediaries set themselves up as effective self-regulatory bodies. Self-regulation is therefore the cornerstone of the regulatory framework advocate by SEBI, which like management by exception would result in regulation by exception. However, self regulation can work only if there is an effective regulatory body overseeing the activities of self regulatory organizations.

SEBI endeavors to provide a regulatory framework which would facilitate an efficient mobilization and allocation of resources through the securities market a framework, which would promote efficiency of the market so that it could provide the necessary services to industry and commerce and private investors in the most efficient economic way, stimulate composition and encourage innovation, be responsive to international developments framework which is flexible and cost effective so that it has clarity to guide and not cramp the changes, and finally, inspire confidence on the part of the investors and other users of the market by ensuring the market place is, and is also seen to be, clean to do business in a fair, transparent and efficient manner.
In accomplishing these objective SEBI would be responsive to the needs of the three groups which basically constitute the market: (I) the investors, (II) the issuers of securities, and (III) the market intermediaries.

- **To the investors**, it should provide a high degree of protection of their rights and interests, through adequate, accurate and authentic information and disclosure of such information on a continuous basis.
- **To the issuers**, it should afford a market place in which they can confidently look forward to raising all the finance they need in an easy, fair and efficient manner;
- **To the intermediaries**, it should offer a competitive, professionalized and expanding market with adequate and efficient infrastructure so that they are able to render better and more responsible service to the investors and the issuers.

### 1.7.1 Objectives, Powers and Functions of SEBI

The objective of SEBI is to protect the interests of investors in securities and to promote the development of and to regulate the securities market through appropriate measures. For meeting the above objectives, the SEBI Act provides, *inter alia*, for the following measures:-

- Regulating the business in stock exchange and any other securities markets;
- Registration and regulation of the working of stockbrokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registers to an issue, merchant bankers, underwriters, portfolio managers, investment advisors and such other intermediaries

### 1.7.2 The role or functions of SEBI are discussed below.

- To protect the interests of investors through proper education and guidance as regards their investment in securities. For this, SEBI has made rules and regulation to be followed by the financial intermediaries such as brokers, etc. SEBI looks after the complaints received from investors for fair settlement. It also issues booklets for the guidance and protection of small investors.
• To regulate and control the business on stock exchanges and other security markets. For this, SEBI keeps supervision on brokers. Registration of brokers and sub-brokers is made compulsory and they are expected to follow certain rules and regulations. Effective control is also maintained by SEBI on the working of stock exchanges.

• To make registration and to regulate the functioning of intermediaries such as stock brokers, sub-brokers, share transfer agents, merchant bankers and other intermediaries operating on the securities market. In addition, to provide suitable training to intermediaries. This function is useful for healthy atmosphere on the stock exchange and for the protection of small investors.

• To register and regulate the working of mutual funds including UTI (Unit Trust of India). SEBI has made rules and regulations to be followed by mutual funds. The purpose is to maintain effective supervision on their operations & avoid their unfair and anti-investor activities.

• To promote self-regulatory organization of intermediaries. SEBI is given wide statutory powers. However, self-regulation is better than external regulation. Here, the function of SEBI is to encourage intermediaries to form their professional associations and control undesirable activities of their members. SEBI can also use its powers when required for protection of small investors.

• To regulate mergers, takeovers and acquisitions of companies in order to protect the interest of investors. For this, SEBI has issued suitable guidelines so that such mergers and takeovers will not be at the cost of small investors.

• To prohibit fraudulent and unfair practices of intermediaries operating on securities markets. SEBI is not for interfering in the normal working of these intermediaries. Its function is to regulate and control their objectional practices which may harm the investors and healthy growth of capital market.

• To issue guidelines to companies regarding capital issues. Separate guidelines are prepared for first public issue of new companies, for public issue by existing listed companies and for first public issue by existing private companies. SEBI is expected to conduct research and publish information useful to all market players (i.e. all buyers and sellers).
• To conduct inspection, inquiries & audits of stock exchanges, intermediaries and self-regulating organizations and to take suitable remedial measures wherever necessary. This function is undertaken for orderly working of stock exchanges & intermediaries.
• To restrict insider trading activity through suitable measures. This function is useful for avoiding undesirable activities of brokers and securities scams.

1.8 FINANCIAL REPORTING

1.8.1 Meaning

Financial data or records prepared by an accountant should be presented to the stakeholders of the company. It should be expressed in a real sense of reporting it has direct concern with disclosures. It should contain fact, opinions, views, interpretation and footnote also so that a reader can understand the report properly.

American Accounting Association (1972) has explained meaning of disclosure saying that “Financial disclosure connects communication of published financial statements and other related information from an enterprise to third parties including shareholders, creditors, customers, government agencies, public financial disclosure is the communication of accounting information of an entity to a user or a group of user.

American accounting association (1977) defined disclosure as the movement of information from private domain to public domain.

The Accounting standards steering committee (1975) have examined certain corporate reports and in their report committee stated certain findings. According to committee the fundamental objective of corporate report is the communicate economic measurement of information about the resources and performance of reporting entity to those having reasonable right to show information. They concluded that the corporate report should be relevant, reliable complete, understandable, objective, timely and comparable.

As this is corporate reporting government intervention is obvious and necessary by many provision in acts and regulatory actions. Government and other professional body has enforced business units for specific disclosure. Such disclosure is known mandatory disclosure. In addition to the aim of profit maximization corporate units considers the aspect of social
responsibility also as a result with the objective of satisfaction of all stakeholders company provides some additional information i.e. said voluntary disclosure (in their annual reports).

Nowadays information available in annual reports becomes very useful (immense) question arise here about

1. What type of information and How much information should be provided in reports?
2. Is it enough and objective of the users?
3. Does it serve the purpose of stakeholders or users.

In short the report should be qualitative, useful and meaningful. Before preparing a report the preparer must consider following aspects.

1. Use centered attribute
2. Internal user and external user
3. Expectations of user should be considered.
4. Understand the capacity or reader to understand, reading habit, investor's skill and interest also should not be ignored.

Hendrickson (1993) stated that the preparer of the report who composes with users point of view in mind is user centered as opposed to preparer centered. The user-centered need to identify the audience need by asking following questions.

1. Who will use the documents? Who will read the report?
2. Could there be other users?
3. What is the knowledge of Accountancy processed by users?
4. What is the need of users?
5. What is the users attitude towards the subject matter?
6. What is the expectation of user regarding information?
7. What should the user know after reading the report?
8. How will the user use the information?

Considering above questions a report should be prepared by a preparer than only purpose of report can be served.
1.8.2 Essential Qualities of good Financial Report

To justify all dimensions of financial report, to eliminate all limitations of reporting to satisfy the objective of all type of users, to prepare an ideal effective and useful report seven qualities (7 – F) should be considered.

7 F for transparent – effective disclosure :

1. FAIR (Objective Oriented)
2. Full (All Inclusive)
3. FIT (Acceptable)
4. Faithful (Dependable)
5. Fruitful (Productive-Useful)
6. Factual (Authentic)
7. Fetching (Up lift)

1.8.3 Objectives of Financial Report

As all corporate units are separate entity and they are the part of the society. They have got their own responsibilities toward the society. Following are the main objectives of corporate reports by whole corporate units can contribute to the society.

1. To measure the earning efficiency and effectiveness of the organization.
2. To know financial strength and soundness of the corporate unit.
3. To meet legal requirement of nation, government and other statutory bodies of the country.
4. To meet international legal, requirement of business
5. To provide information which is useful to investors and other interested parties.
6. To assist investors and creditors in assessing future cash flow position of company.
7. To identify resources (assets) and liabilities of corporate unit.
8. To provide information about enterprise performance and earning potentialities.
9. To show how an enterprise obtains resources and in what way resources are used.
1.8.4 Significance of Corporate Report

The most important components of corporate disclosure are the balance sheet, profit and loss account and directors' report. Corporate disclosures are based on the philosophy of pursuing the activities of the company. This enables the investor and others to assess the success of the company and its prospects.

The use of corporate report is not confined to internal purpose only. Since in a corporate organization, shareholders and management are separate entities, the availability of corporate report is a basic legitimate right of shareholders. In addition to these two parties some other parties also have direct and indirect stake in corporate report. The significance of corporate can be considered in reference to three categories: (a) for company (b) for shareholders (c) for others.

For Company:
(i) To meet legitimate requirements:
The basic element of corporate entity is disassociation of ownership and management. When management and ownership are separate, the protection of the interest of the shareholders is of great importance. Consequently, the intervention of the government is necessary for the company to prepare and provide annual account to the shareholders in the prescribed form. The provisions of Indian companies act 1956 are for the preparation of accounts. Besides these, other legal requirements have also influenced the preparation of and disclosure in the annual reports. With incorporation of other acts like Income Tax, Sales Tax, Central Sales Tax etc. legitimate shape can be given to annual accounts.

(ii) Measurement of Business Performance:
The success of any organization is based on business performance. Therefore, any big or small organized business unit always contemplates to know the efficiency of unit through revenue surplus. Theoretically higher the surplus, better is the performance. To know the status of business performance, it should be compared either with a predetermined target or with competitor performance or with performance of industry. Through this
comparison, a company can frame policy for future plan to enhance the business performance. Hence, from this point of view preparation of financial report is useful to the company.

(iii) To Know financial status:
The measurement of business performance would deal with revenue incomes and expenses. Financial status is a concept, which has considerable influence on business activities. Theoretically, better business performance would lead to better financial status. The term financial status can be referred as debt equity ratio. This ratio has inverse relation with financial status. This information is available only through corporate report. This is another area where corporate report is useful.

(iv) For the Purpose of Inter-firm Comparison:
The preparation of corporate report makes comparison feasible with the reports of the competitors. The Inter-firm comparison helps to know the status of profitability and financial soundness amongst other equal competent competitors.

(v) To attract potential Investors:
The need of funds can be met in two ways i.e. externally and internally. If the entity is unable to raise the funds through internal source of finance, external sources are to be used. It means invitation of general public to buy securities of the company. A rational investor would contemplate to examine past performance and future plan of the company and this is only possible if corporate reports are prepared and provided. The potential investors are one of the significant sources of finance. Hence, the preparation and disclosure of accounts are very essential.

(vi) Image:
The presentation of accounts is considered as a key factor, to create positive image in the mind of users. After 1991, all good Indian companies have started the practice to make corporate report more attractive and useful. For best accounts presentation, the professional body like institute of chartered Accountants of India (ICAI) gives award in four categories. Since the areas of
activities are spread out throughout the world, accounts are required, to be prepared in domestic and as well as in the international context. Infosys Ltd., is one of the best illustrations, who does its own business at global level and provides required by ICAI for presentation of best corporate report for last five consecutive years.

For Share Holders:
(i) To know results:
Like management, the shareholders would like to see business performance and financial status of the company. It is legally binding for the management to prepare and provide accounts in prescribed forms and time. At the same time it is the lawful right of shareholders to get annual reports in prescribed forms and time. The duty of management and the right of shareholders in reference to providing and acquiring the corporate report respectively is the result of disassociation of owners and management, being a corporate firm. Hence availability of corporate report is basic right of shareholders.

(ii) Evaluation of Investment decision:
A significant (as well as interesting) provision for the investor in corporate form is, easy transfer of ownership. A shareholder has got full freedom to transfer his right of ownership in favour of anybody, anywhere, anytime. The availability of corporate report to the shareholders is a base to evaluate their investment decision. True and fair disclosure provides a platform to the investors as to whether they should maintain their investment in the company or not. Therefore, continuity of investment decision of investors is based on corporate reports.

(iii) Future Plans:
Compulsory provisions are made to disclose information since the inception of corporate form. As per the need of time, necessary amendments were incorporated. The reference to corporate disclosure, what is to be disclosed? How is to be disclosed? When is to be disclosed? To whom is to be disclosed? By whom is to be disclosed? All these questions are taken care of in mandatory norms of corporate disclosure. As part of compulsory disclosure, the directors' report is mandatory including qualitative disclosure of
corporate report. In their report it is the tradition to mention future plans of the company and evaluation of these plans can be done by shareholders with help of available information from corporate reports.

(iv) Queries - Reply:
The availability of corporate report is the media and annual general meeting is the place to get answer of queries of shareholders and thoughts from the board of directors. It is a right if every shareholder to examine the books of the company on demand but it is practically not feasible. Hence almost entire questions are based on publication of annual report. Therefore publication of corporate report is unavoidable.

For Others:
(i) Potential Investors:
The publication of corporate report is the best source to attract investors. The corporate reports help to decide investment by potential investors. These investment decisions are based on profitability, financial soundness, future plans etc. of the company and those disclosure are mandatory and are also useful to the investors.

(ii) Academicians, Researchers, Analysts:
It is this group of users which provides serviceable information and constructive suggestions to the society, by using corporate report. Non disclosure of information in reports creates doubts and severely limits the usefulness of the reports. Thus, availability of report with all the information is very useful to the academicians, researchers and analysts in carrying out their activities. This is the most authentic source of financial information related to a company available in the public domain.

(iii) Employees:
There are two main categories of corporate report users (i) direct category (ii) indirect category. The Direct category consists of shareholders, the company itself and third key party is the employees. Like management and shareholders, employees would also like to assess the business performance and financial status of their company. Employees can visualize their own growth in all along with the growth of their company. The growth of their
company. Through corporate report – the basis of business performance and financial status, they can frame their future strategy for their demands. Hence, availability of corporate report can be considered as a significant base for negotiation with the management for their wages related problems.

(iv) Government: The development of any country is based on contribution of different industries. Which industries are flourishing? Which are having downward trend? To whom support is required? To whom support / assistance should be provided? All these questions are to be solved by the government. It is possible only when full financial information is available to the government about the industries and companies in the form of reports. Government's various policies are based on the profitability disclosed by respective industries.

1.9 ANALYSIS OF FINANCIAL STATEMENTS

Accounting is a service activity. One of its function is communication of information at a specific interval, usually at the year ended by the financial statements. In accounting, financial statements are the means of conveying to management, owners and to interested outsiders a concise picture of profitability and financial position of the business. The preparation of financial statements is not the first step in the accounting process but they are the end products of the accounting process which give a concise accounting information of the accounting period after the accounting period is over. All financial transactions are recorded first in subsidiary books and subsequently they are posted to relevant ledger accounts. The balances of ledger accounts at the end of the year are ultimately presented through financial statements. These statements are called final accounts because they are prepared after the accounting period is over and they give final picture of the financial transactions of an accounting period.
1.9.1 Meaning of Financial Statements

Financial statements at least refer to the three statements which are prepared by a business concern at the end of the year. These are: (i) Income Statement or Trading and Profit and Loss Account which is prepared by a business concern in order to know the profit earned and loss sustained during a specified period; (ii) Position Statement or Balance Sheet which is prepared by a business concern on a particular date in order to know its financial position. (iii) Cash Flow Statement. It gives the various items of inflow and outflow of cash flow operating, investing and financing activities. To these statements are added the statement of Retained Earnings and schedules of fixed assets, investments, current assets etc. to give a full view of the financial affairs. All these statements are collectively called as package of financial statements. Statement of retained earnings (when prepared separately) or Profit and Loss Appropriation Account shows the utilisation of profits of the company i.e., dividend declared, amount transferred to general reserve or any other reserve are shown in this account. Various schedules of fixed assets are prepared by companies to show as to how the figures shown in the balance sheet have been arrived at.

1.9.2 Definitions of Financial Statements

According to John N. Myer "The Financial Statements provide a summary of the accounts of a business enterprise, the Balance Sheet reflecting the assets and liabilities and the Income Statement showing the results of operations during a certain period." This definition emphasises the importance of Balance Sheet and Profit & Loss Account, but ignores the importance of other financial statements like Cash Flow Statement and Statement of Retained Earnings.

Smith and Ashburne define Financial Statements as "the end product of financial accounting is a set of financial statements, that purports to reveal the financial position of the enterprise the results of its recent activities, and an analysis of what has been done with earnings." From this definition it is clear that financial statements are the outcome of preparing financial accounts and
these statements reveal financial position and profitability of the concern and the utilization of retained earnings.

1.9.3 Nature of Financial Statements

Financial statements are prepared for the purpose of presenting a periodical review or report by the management and deal with the state of investment in business and result achieved during the period under review. They reflect a combination of recorded facts, accounting concepts and conventions and personal judgements. From this it is clear that financial statements are affected by three things i.e., recorded facts, accounting conventions and personal judgements. Only those facts which are recorded in the business books will be reflected in the financial statements. For example, fixed assets are recorded in the books at cost price and shown in the balance sheet at cost price irrespective of their market or summarized price. Again, financial statements are prepared by following certain principles which are in use from a long time. For example, the conservatism principle indicates that all anticipated losses are to be provided whereas anticipated profits are not to be taken into account while preparing financial statements. Such convention will not reflect the true position of the business as the actual position of the business will definitely be better as compared to the position depicted from the financial statements. Personal judgement of the accountant again will reflect the preparation of financial statements. For example, the choice of the method of depreciation or which expenditure is to be summarized or not will also affect the preparation of the financial statements.

Following points reflect truly the nature of financial statements of business entities:

(i) These are reports or summarized reviews about the performance, achievements and weaknesses of the business.

(ii) These are prepared at the end of the accounting period so that various parties may take decisions of their future actions in respect of the relationship with the business.

(iii) The reliability of financial statements depends on the reliability of accounting data. These statements cannot be said to be true and fair
representative of the strength or profitability of the concern if there are numerous frauds and defalcations in the accounts.

(iv) The figures in the financial statements are a combination of recorded facts. There may be certain developments and factors which may be very important for the business are not taken into account as these are not recorded in the routine of accounting. Moreover, fixed assets are recorded at historical values without taking into consideration the changes in their values due to price level fluctuations.

(v) These statements are prepared as per accounting concepts and conventions.

(vi) These statements are influenced by the personal judgement of the accountant though he is expected to be more objective in his approach. These judgments may relate to valuation of inventory, depreciation of fixed assets and while making distinction between capital and revenue.

1.9.4 Attributes of Financial Statements

Financial statements should possess the following attributes if they are to serve properly to different category of persons.

(i) **Relevance.** Financial statements prepared should be relevant for the purpose they are supposed to serve. As far as possible, relevant and material information should be disclosed properly but confusing and irrelevant disclosures should be avoided.

(ii) **Accuracy and Freedom from Basis.** Financial statements should be prepared accurately so that these may convey a full and correct idea about the progress, position and prospects of an enterprise. Inaccurate financial statements prepared, besides invoking legal consequences, may defeat the objectives for which then are meant. Those persons, who prepare and present financial statements, must keep themselves free from personal basis.

(iii) **Comparability.** Comparison is the foundation of financial analysis as it increases the utility of financial statements. Comparison of present statements, with previous statements, helps in assessing the performance and knowing the trends in progress and position of the business enterprise. Inter or intra firm comparison reveals the strength
and weaknesses of the enterprise vis-a-vis other departments, firms and industry.

(iv) **Analytical Presentation.** Financial statements should be presented in analytical and classified form so that a better and meaningful analysis can be made. It also helps in tracing and understanding in causes of the results as shown in these statements, in revealing inefficient performances and wasteful activities and in speedier analysis of these documents.

(v) **Promptness.** Financial statements should be prepared after the end of the accounting period without any delay as undue delay may present difficulty in tracing the causes of the results as disclosed by these statements. Such delays and the delayed action thereon, may do more harm than good to the enterprise.

(vi) **Generally Accepted Principles.** Financial statements must be prepared in accordance with the generally accepted accounting principles to have wider acceptability and understandability by the clients. This will also increase the reliability of these statements and adds confidence to the users.

(vii) **Consistency.** Financial statements must be prepared on consistent basis following the same rules, procedures and principles in successive periods, unless the situation demands otherwise. Consistency also affects the comparability of these statements.

(viii) **Authenticity.** Financial statements prepared must be authenticated by an independent and capable person (called auditor) in order to make them more reliable and acceptable by the users. Unaudited statements are unreliable and give room to doubt.

(ix) **Compliance with Law.** Financial statements must meet the requirements of law, if any, in the matter of form, contents and disclosures, procedures and methods. Non-compliance with legal provisions impairs the confidence of the public investors besides invoking penalties. In India, these statements are required to be prepared according to provisions of Section 211 of the Companies Act, 1956.
1.9.5 Objectives of Financial Statements

The Accounting Principles Board of America mentions the objectives of financial statements as follows:

(i) To provide reliable financial information about economic resources and obligations of a business enterprise.
(ii) To provide reliable information about the net resources (resources less obligations) of an enterprise that results from its activities.
(iii) To provide financial information that assists in estimating the earning potentials of a business.
(iv) To provide other needed information about changes in economic resources or obligations.
(v) To disclose, to the extent possible, other information related to the financial statements that is relevant to the needs of the users of these statements.

1.9.6 Importance of Financial Statements

The information given in the financial statements is very useful to a number of parties as given below:

1. Owners. The owners provide funds for the operations of a business and they want to know whether their funds are being properly utilised or not. The financial statements prepared from time to time satisfy their curiosity.

2. Creditors. Creditors (i.e., suppliers of goods and services on credit, bankers and other lenders of money) want to know the financial position of a concern before giving loans or granting credit. The financial statements help them in judging such position.

3. Investors. Prospective investors, who want to invest money in a firm, would like to make an analysis of the financial statements of that firm to know how safe proposed investment will be.

4. Employees. Employees are interested in the financial position of a concern they serve, particularly when payment of bonus depends upon the size of the profits earned. They would like to know that the bonus being paid to them is correct; so they become interested in the preparation of correct Profit and Loss Account.
5. **Government.** Central and State Governments are interested in the financial statements because they reflect the earnings for a particular period for purposes of taxation. Moreover, these financial statements are used for compiling statistics concerning business which, in turn, help in compiling national accounts.

6. **Research Scholars.** The financial statements, being a mirror of the financial position of a firm, are of immense value to the research scholar who wants to make a study into financial operations of a particular firm.

7. **Consumers.** Consumers are interested in the establishment of good accounting control so that cost of production may be reduced with the resultant reduction of the prices of goods they buy.

8. **Managers.** Management is the art of getting things done through others. This requires that the subordinates are doing work properly. Financial statements are an aid in this respect because they serve the manager is appraising the performance of the subordinates. Actual results achieved by the employees can be measured against the budgeted performance they were expected to achieve and remedial action can be taken if the performance is not upto the mark.

1.9.7 **Limitations of Financial Statements**

The following are the main limitations of the financial statements:

(i) **Interim and Not Final Reports.** Financial statements do not depict the exact position and are essentially interim reports. The exact position can be only known if the business is closed.

(ii) **Lack of Precision and Definiteness.** Financial statements may not be realistic because these are prepared by following certain basic concepts and conventions. For example, going concern concept gives us an idea that business will continue and assets are to be recorded at cost but the book value at which the asset is shown may not be actually realisable. Similarly, by following the principle of conservatism the financial statements will not reflect the true position of the business.

(iii) **Lack of Objective Judgement.** Financial statements are influenced by the personal judgement of the accountant. He may select any method for
depreciation, valuation of stock, amortisation of fixed assets and treatment of deferred revenue expenditure. Such judgement if based on integrity and competency of the accountant will definitely affect the preparation of the financial statements.

(iv) **Record Only Monetary Facts.** Financial statements disclose only monetary facts, i.e., those transactions are recorded in the books of accounts which can be measured in monetary terms. Those transactions which cannot be measured in monetary terms such as, conflict between production manager and marketing manager may be very important for a business concern but not recorded in the business books.

(v) **Historical in Nature.** These statements are drawn after the actual happening of the events. They attempt to present a view of the past performance and have nothing to do with the accounting for the future. Modern management is forward looking but these statements do not directly help them in making future estimates and taking decisions for the future.

(vi) **Artificial View.** These statements do not give a real and correct report about the worth of the assets and their loss of value as these are shown on historical cost basis. Thus, these statements provide artificial view as market or replacement value and the effect of the changes in the price level are completely ignored.

(vii) **Scope of Manipulation.** These statements are sometimes prepared according to the needs of the situation or the whims of the management. A highly efficient concern may conceal its real profitability by disclosing loss or minimum profit whereas an inefficient concern may declare dividend by wrongly showing profit in the profit and loss account. For this under or over valuation of inventory, over or under charge of depreciation, excessive or inadequate provision for anticipated losses and other such manipulations may be resorted to. Window dressing may also be resorted to in order to show better financial position of a concern than its real position.

(viii) **Inadequate Information.** There are many parties who are interested in the information given in the financial statements but their objectives and requirements differ. The financial statements as prepared under the
provisions of the Companies Act, 1956, fail to meet the needs of all. These are mainly prepared to safeguard the interest of shareholders.

The above limitations of financial statements must be taken into consideration before making their analysis.

1.9.8 Meaning of Analysis of Financial Statements
Analysis is the process of critically examining in detail accounting information given in the financial statements. For the purpose of analysis, individual items are studied, their interrelationships with other related figures established, the data is sometimes rearranged to have better understanding of the information with the help of different techniques or tools for the purpose. Analysing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of firm's position and performance. In the words of Myer, "Financial Statements Analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements". The analysis of financial statements thus refer to the treatment of the information contained in the financial statements in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned. For this purpose financial statements are classified methodically, analysed and compared with the figures of previous years or other similar firms.

Analysis and Interpretation of Financial Statement
Analysis and interpretation are closely related. Interpretation is not possible without analysis and without interpretation analysis has no value. Various account balances appear in the financial statements. These do not represent homogeneous data so it is difficult to interpret them and draw some conclusions. This requires an analysis of the data in the financial statements so as to bring some homogeneity to the figures shown in the financial statements. Interpretation is thus drawing of inference and stating what the figures in the financial statements really mean. Interpretation is dependent on
interpreter himself. Interpreter must have experience, understanding and intelligence to draw correct conclusions from the analysed data.

In the words of Kennedy and Memullar, "The analysis and interpretation of financial statements are an attempt to determine the significance and meaning of the financial statements data so that a forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long-term), and probability of a sound dividend policy."

The most important objective of the analysis and interpretation of financial statements is to understand the significance and meaning of financial statements data to know the strength and weakness of a business undertaking so that a forecast may be made of the future prospects of that business undertaking.

1.9.9 Objectives (or Uses) of Financial Statement Analysis

Financial analysis is helpful in assessing the financial position and profitability of a concern. This is done through comparison by ratios for the same concern over a period of years; or for one concern against another; or for one concern against the industry as a whole (called inter-firm comparison): or for one concern against the predetermined standards; or for one department of a concern against other departments of the same concern (called intra firm comparison). Accounting ratios calculated for a number of years show the trend of the change of position, i.e., whether the trend is upward or downward or static. The ascertainment of trend helps us in making estimates for the future. For example, ratios of gross profit to sales for the last five years indicate a rising trend, we can safely estimate that ratio of gross profit to sales for the next year will also rise.

Keeping in view the importance of accounting ratios the accountant should calculate the ratios in appropriate form, as early as possible, for presentation to the management for managerial control.
In short, the main objectives of analysis of financial statements are to assess:

(i) the present and future earning capacity or profitability of the concern,
(ii) the operational efficiency of the concern as a whole and of its various parts or departments,
(iii) the short-term and long-term solvency of the concern for the benefit of the debenture-holders and trade creditors,
(iv) the comparative study in regard to one firm with another firm or one department with another department,
(v) the possibility of developments in the future by making forecasts and preparing budgets,
(vi) the financial stability of a business concern,
(vii) the real meaning and significance of financial data, and
(viii) the long-term liquidity of its funds.

1.9.10 Methodological Analysis

The data given in the financial statements are to be suitably arranged. The objective to be achieved should be kept in mind at all times while arranging the data of financial statements properly. The statements are usually prepared in single vertical column or 'T' form statements by adding or subtracting the significant figures of financial records. This also helps to show the information side by side for comparison purposes of number of firms or number of years. An analysis of Profit and Loss may be as follows:
| Sales : Cash | Rs. | Rs. |
| Sales : Credit | |
| Less : Sales Returns | |
| Net Sales | |
| Less : Cost of Goods Sold : | |
| Opening Stock | |
| Add : Purchases including incidental Expenses | |
| Manufacturing Expenses | |
| Less: Closing Stock | |
| Gross Profit | |
| Operating Expenses : | |
| Administrative Expenses | |
| Selling and Distribution Expenses | |
| Depreciation | |
| Net Profit before Interest and Tax (or Operating Profit) | |
| Less : Interest | |
| Net Profit before Tax | |
| Less: Income Tax | |
| Net Profit after Tax | |
| Share Capital | |
| Reserves and Surplus | |
| Less: Fictitious assets | |
| Shareholders' Fund or Net Worth | |
| Add : Long-term Liabilities | |
| Capital Employed | |
| Represented by : Fixed Assets Less Depreciation | |
| Add : Working Capital : | |
| Current Assets Less : | |
| Current Liabilities | |

The above presentation of profit and loss account and balance sheet is known as vertical presentation of financial statements. The vertical presentation of financial statements facilitates comparison of figures with that of previous year and also helps us to calculate ratios which interpret the position of the company in a better way. This presentation brings out many
additional facts like cost of goods sold, gross profit, operating profit, etc. in case of Profit and Loss Account and shareholders’ funds, capital employed, working capital etc. in case of Balance Sheet.

In addition to the analysis, interpretation also requires comparison to draw meaningful results. Mere examination of the various components of financial statements like current assets, current liabilities, long-term liabilities, shareholders’ fund, working capital, gross profit, operating profit, cost of goods sold etc. will not lead to definite conclusion in regard to the financial status of a business. Comparison of related components like current assets with current liabilities, long-term liabilities with shareholders’ fund, gross profit with sales etc. is required to draw meaningful conclusions about the position of a company. Therefore, to interpret the position of a company, it is necessary not only to separate the totals given in its financial statements into various components of like nature but also to make comparisons of the related components. In addition to this comparison of various components with that of previous year, analysis should be made to know the changes that have taken place in the business over several years.

1.9.11 Types of Financial Statements Analysis

Different types of financial statements analysis can be made on the basis of—

(i) the nature of the analyst and the material used by him,
(ii) the objective of the analysis, and
(iii) the modus operandi of the analysis.

(i) According to the nature of the analyst and the material used by him

On this basis, the financial analysis can be external and internal analysis:

a) External Analysis. It is made by those persons who are not connected with the enterprise. They do not have to access the enterprise. They do not have to access the detailed record of the company and have to depend mostly on published statements. Such type of analysis is made by investors, credit agencies, governmental agencies and research scholars.
b) **Internal Analysis.** The internal analysis is made by those persons who have to access the books of accounts. They are members of the organisation. Analysis of financial statements or other financial data for managerial purpose is the internal type of analysis. The internal analyst can give more reliable result than the external analyst because every type of information is at his disposal.

(ii) **According to the objectives of the analysis**

On this basis the analysis can be long-term and short-term analysis.

a) **Long-term Analysis.** This analysis is made in order to study the long-term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. The purpose of making such type of analysis is to know whether in the long-run the concern will be able to earn a minimum amount which will be sufficient to maintain a reasonable rate of return on the investment so as to provide the funds required for modernisation, growth and development of the business and to meet its costs of capital. This type of analysis helps the long-term financial planning which is essential for the continued success of a business.

b) **Short-term Analysis.** This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. The purpose of this analysis is to know whether in the short run a business concern will have adequate funds readily available to meet its short-term requirements and sufficient borrowing capacity to meet contingencies in the near future. This analysis is made with reference to items of current assets and current liabilities (working capital analysis) to have fairly sufficient knowledge about the company's current position which may be helpful for short-term financial planning and long-term planning.

(iii) **According to the modus operandi of the analysis**

On this basis, the analysis may be horizontal analysis and vertical analysis.

a) **Horizontal (or Dynamic) Analysis.** This analysis is made to review and analyse financial statements of a number of years and, therefore, based on financial data taken from several years. This is very useful for
long-term trend analysis and planning. Comparative financial statement is an example of this type of analysis.

b) **Vertical (or Static) Analysis.** This analysis is made to review and analyse the financial statements of one particular year only. Ratio analysis of the financial year relating to a particular accounting year is an example of this type of analysis.

**Techniques (Tools or Methods) of Analysis and Interpretation**

The following techniques can be used in connection with analysis and interpretation of financial statements:

1. Comparative Financial Statements (or Analysis)
2. Common Measurement Statements (or Analysis)
3. Trends Percentages Analysis
4. Funds Flow Statement (or Analysis)
5. Net Working Capital Analysis
6. Cash Flow Statement (or Analysis)
7. Ratio Analysis.

1. **Comparative Financial Statements (or Analysis)**

These statements are prepared in a way so as to provide time perspective to the consideration of various elements of financial position embodied in such statements. This is done to make the financial data more meaningful. The statements of two or more years are prepared to show absolute data of two or more years, increases or decreases in absolute data in value and in terms of percentages. Comparative statements can be prepared for both income statement as well as position statement or balance sheet.

(i) **Comparative Income Statement.** This statement discloses the net profit or net loss resulting from the operations of business. Such statement shows the operating results for a number of accounting periods so that changes in absolute data from one period to another period may be stated in terms of absolute change or in terms of percentage. This statement helps in deriving meaningful conclusions as it is very easy to ascertain the changes in sales volume, administrative expenses, selling and distribution expenses, cost of sales etc. This will be more clear from the following illustration:
(ii) **Comparative Balance Sheet.** This statement, prepared on two or more different dates, can be used for comparing assets and liabilities and to find out any increase or decrease in these items. This facilitates the comparison of figures of two or more periods and provide necessary information which may be useful in forming an opinion regarding the financial position as well as progressive outlook of the concern. This will be more clear from the following illustration:

2. **Common Size Financial Statements**

Common size financial statements are those in which figures reported are converted to some common base. Vertical analysis is required for an interpretation of underlying causes of changes over a period of time. For this, items in the financial statements are presented as percentages or ratios to total of these items and a common base for comparison is provided. Hence vertical analysis becomes the relation of individual items to its respective total. Common size statements may be used for balance sheet as well as income statement.

**Common Size Income Statement**

In such a statement, sales figure is assumed to the equal to 100 and all other figures of cost or expenses are expressed as percentage of sales. Comparative Income Statements for different periods help to reveal the efficiency or otherwise of incurring any cost or expenses. If it is being prepared for two firms it shows the relative efficiency of cost items for the two firms.

**Common Size Balance Sheet.** In a common size balance sheet, total assets or liabilities is taken as 100 and all the figures are expressed as percentage of the total. Comparative common size balance sheet for different periods helps to highlight the trends in different items. If it is prepared for different firms in an industry, it facilitates to judge the relative soundness and helps in understanding their financial strategy.

3. **Trend Percentages Analysis**

This analysis is an important tool of horizontal financial analysis. This analysis enables to know the changes in the financial function and operating efficiency
between the time period chosen. By studying the trends of each item we can know the direction of changes, and based upon the direction of changes, the opinions can be formed. This method is immensely helpful in making a comparative study of the financial statements of several years. Under this method trend percentages are calculated for each item of the financial statements taking the figure of base year as 100. The starting year is usually taken as the base year. The trend percentages show the relationship of each item with its preceding year’s percentages. These percentages can also be presented in the form of Index Numbers showing relative change in the financial data of certain period. This will exhibit the direction, (i.e, upward or downward trend) to which the concern is proceeding. These trend ratios may be compared with industry in order to know the strong or weak points of a concern. These are calculated only for major items instead of calculating for all items in the financial statements.

Calculations of Trend Ratios
While calculating trend percentages, the following precautions may be taken:

(i) The accounting principles and practices must be followed constantly over the period for which the analysis is made. This is necessary to maintain consistency and comparability.

(ii) The base year selected should be normal and representative year. Every item in the base statement should be stated as 100.

(iii) Trend percentages should be calculated only for those items which have logical relationship with one another.

(iv) Trend ratios of each item in other statement is calculated with reference to the same item in the base statement by using the following formula:

\[
\frac{\text{Absolute value of item in the statement under study}}{\text{Absolute value of the same item in the base statement}} \times 100
\]

(v) Trend percentages should also be carefully studied after considering the absolute figures on which these are based. Otherwise, they may give misleading conclusions.
To make the comparison meaningful, trend percentages of the current year should be adjusted in the light of price level changes as compared to the base year.

**Limitations of Trend Ratios**

Following are the main limitations of the trend ratios:

1. Trend ratios become incomparable if the same accounting practices are not followed.
2. Trend ratios do not take into consideration the price level changes.
3. Trend ratios must always be read with absolute data on which they are based, otherwise the conclusions may be misleading.
4. Trend ratios have to be interpreted in the light of certain non-financial factors like economic conditions, government policies, changes in income and its distribution etc.

**1.10 INDUSTRY ANALYSIS**

**1.10.1 Indian Automobile Industry:**

India is the world's second fastest growing auto market and boasts of the sixth largest automobile industry after China, the US, Germany, Japan and Brazil. According to Vikas Sehgal, Global Head of Automobile industry, Rothschild, the Indian automobile market, which includes cars, trucks and auto parts, is pegged at 3.5 million units by the end of 2011-12. Rothschild is a UK-based global financial advisory firm.

India's car market is evolving at a great pace. A car is not only a utility, but also represents aspirations and image of its owner. Hence, auto giants across the globe are leaving no stone unturned to attract Indian consumers by offering luxury, value, utility and convenience in their products.

**Market Dynamics**

Indian domestic passenger vehicle market is increasingly getting dominated by smaller cars. For the quarter ended December 2011, Maruti Suzuki India Ltd held a share of 34.3 per cent in domestic passenger vehicle pie while Hyundai India enjoyed 15.8 per cent of it. Tata Motors (standalone operations)
and Mahindra & Mahindra (M&M) had a market share of 14.6 per cent and 12 per cent respectively during the reported period.

**Key Statistics**

The Society of Indian Automobile Manufacturers (SIAM) anticipates 11-13 per cent growth in car sales during 2012-13

The overall Indian automobile sector recorded a growth of 14.25 per cent (16.9 million units from 14.8 million units in 2010) in 2011. Passenger car sales increased by 4.24 per cent to 1.946 million units (from 1.867 million units in 2010), two-wheeler sales by 16.22 per cent to 13 million units and three-wheeler sales by 4.74 per cent to 525,000 units

For 2011-12, passenger cars sales are expected to grow at 0-2 per cent, two-wheelers at 13-15 per cent and commercial vehicles at 18-20 per cent

The cumulative production for April-December 2011 registered a growth of 14.94 per cent over same period in 2010. Production in December 2011 increased by 10.91 per cent year-on-year (Y-o-Y)

Overall automobile exports registered a growth rate of 28.97 per cent during April-December 2011. Passenger Vehicles registered grew 18.14 per cent in this period while two-wheelers, commercial vehicles and three wheelers segments recorded growth of 29.75 per cent, 24.66 per cent and 42.63 per cent respectively

**Indian Automobile Industry: Major Developments & Investments**

Ford Motor Co's Indian subsidiary has placed an order with its Indian counterpart - major constructor Kajima Corp's subsidiary – to develop an auto factory in the city of Sanand in Gujarat. With an estimated outlay of 77 billion yen (US$ 1 billion), the facility is expected to get completed by 2014 with an initial annual capacity of 240,000 units.

Bajaj Auto – India's second largest automaker – has made a debut in four-wheeler segment by launching a low-cost, eco-friendly automobile - RE60. The four wheeler vehicle has three-wheeler customers as its target market and is available in three fuel variants (petrol, CNG and LNG). The company sees Sri Lanka and Africa as potential export markets for RE60.
Indian auto major M&M is looking to develop enough infrastructure to run electric cars in India. The first company to commission solar power projects under the Jawaharlal Nehru National Solar Mission (JNNSM), M&M is on a look-out for solar powered charging stations to fuel electric cars. The company offers electric cars under the Mahindra-Reva brand.

Luxury car maker Mercedes Benz AG's Indian subsidiary Mercedes Benz India Ltd (MBIL) has set itself an ambitious target to sell over 70,000 cars in the Indian market by 2020; aiming for 1000 per cent growth in the next 9-10 years and hence leading the luxury car segment. The company will launch its A Class concept in India in 2013 and has already invested Rs 700 crore (US$ 135.85 million) in a new assembly plant in India.

With an intention to take on Maruti Suzuki India Ltd's largest-selling Alto hatchback, Nissan Motor Pvt Ltd is planning for a small car for Indian markets. The company is studying the market currently and would come up with a crisp plan in 2-3 years.

Auto Expo: A Grand Success

India's 11th Auto Expo jointly hosted by SIAM, Confederation of Indian Industry (CII) and Automobile Component Manufacturers Association (ACMA) took place at Delhi's PragatiMaidan during January 5-11, 2011. A grand success in terms of footfall, the exhibition embraced 1,500 participants from 24 countries and witnessed launch of over 50 new products.

Indian automaker Maruti Suzuki unveiled its XA Alpha concept sports utility vehicle (SUV) while Hyundai showcased its new Sonata and its concept multi-purpose vehicle Hexa Space. German automobile major Volkswagen launched new versions of its SUV Touareg and its small car Beetle along with its concept hybrid car XL 1. Japanese auto giant Nissan Motor Company showcased its seven-seater car, the Evalia along with its zero-emission electric car Leaf, the Nissan GTR and the Compact Sports Concept.

Similarly, other auto makers like Mercedes-Benz, M&M, BMW and Ford unveiled their new products. In the two-wheeler space, Suzuki Motorcycles, Yamaha India unveiled their offerings while Royal Enfield and Harley Davidson made their bike launches.
Thus, it can be reasonably stated that major auto makers - Indian as well as foreign – are making all the efforts to please Indian auto enthusiasts and Auto Expo is a perfect platform for them where they can reach out to masses in the most effective way.

**Government Initiatives**

The Government of India is in the process of forming a National Automobile Board (NAB) which would become a formal set-up to look into the issue of recall of vehicles and hence improve manufacturing standards. The prospective body, to oversee technical and safety aspects of vehicles, will have representatives from all the nodal ministries and Automobile bodies such as the Automobile Research Association of India (ARAI).

The Government of Gujarat has always been on a high to promote its industrial space especially its the automobile sector. In order to boost the State Government’s efforts in this regard, Gujarat Government’s Industrial Extension Bureau, along with Automobile Components Manufacturers Association, French Vehicles Equipment Industries (FIEV) and French auto-major Peugeot, organised a seminar and business meeting on January 9, 2011 wherein 60 French automobile component makers were briefed on opportunities to set up vendor park near Sanand (Gujarat’s auto hub) in Ahmedabad district.

Similarly, the Government of Gujarat has announced its plan to disburse 240 acres of land at Sanand to the All India Plastic Manufacturers Association (AIPMA) to set up a plastic park that could attract an investment of about Rs 5000 crore (US$ 970.33 million). The Government's move marks its eye for detail as the measure has come in the light of the fact that a finished car would require about 150 kgs of plastic.

**Road Ahead**

According to a study by Rothschild, India would become the third largest auto industry by volumes after China and the US by 2015. Three-fold increase in investments by auto makers would boost car production capacity from 4.8 million units in 2010 to 12 million in 2018. The firm anticipates that the forecast would come to reality through 30 new factories that are estimated
to come up in next eight years. The firm holds a bullish outlook on Indian auto industry and predicts a row of mergers and acquisitions in the coming years.

1.10.2 Cement Industry

With 153 cement plants and a total installed capacity of around 209 million tonnes per annum (MTPA), taking both as of March 2009, the Indian cement industry is the second largest in the world. In 2008-09, total cement consumption in India stood at 178 million tonnes while exports of cement and clinker amounted to around 3 million tonnes. The cement industry holds a significant place in the national economy because of its strong linkages to various sectors such as construction, transportation, coal and power. The cement industry in India is also one of the major contributors to the exchequer by way of indirect taxes.

Even during the global economic slowdown in 2008-09, growth in cement demand remained robust at 8.4 per cent. In 2009-10 cement consumption has shot up, reporting, on an average, 12.5 per cent growth in consumption during the first eight months with the growth being fuelled by strong infrastructure spending, especially from the Government Sector.

India produces variety of cement based on different compositions such as Ordinary Portland cement, Portland Pozzolana, Portland Blast Furnace Slag cement, white cement and specialised cement. Cement in India is produced as per the Bureau of Indian Standards (BIS) specifications and the quality is comparable with the best in the world.

Some of the major players in the cement industry include Ultratech Cement, Gujarat Ambuja Cement Limited, JK Cements, ACC Cement, Century Cements, Madras Cements, Holcim and Lafarge to name a few.

Market Size

The Indian cement industry can be divided into five geographical zones—North, South, East, West and Central—based on localised differentiation in the consumer profile and supply-demand scenario.

Demand in the cement industry has seen wonderful growth on the back of infrastructure, residential and commercial projects. Cement production in India is anticipated to increase to 315-320 million tonne (MT) by end of this
fiscal year from the current 300 MT. "The target was 290 MT by the end of this year, which we have already achieved. So, we expect the capacity to increase up to 320 MT by the year end," according to N Aviswanathan, Secretary General, Cement Manufacturers Association (CMA). CMA is targeting to achieve 550 MT capacity by 2020.

This industry has seen constant modernisation and implementation of latest technologies during past few years. About 93 per cent of the total capacity is based on eco-friendly dry process technology. Progressive liberalization and easing of foreign direct investments (FDI) norms in various sectors paved the way for growth in FDI, which led to growing demand for office space from multinational companies (MNCs) and other foreign investors. Total FDI in the cement sector between April 2000 and August 2010 stood at US$ 1.9 billion.

**Government Initiatives**

The cement industry in India is known for its linkages with other sectors. The Government of India has taken various steps to provide the required impetus to the industry. At present 100 per cent FDI is allowed in this industry. Both the state and export policies promote cement production. Exporters can claim duty drawbacks on imports of coal and furnace oil up to 20 per cent of the total value of imports. Most state governments offer fiscal incentives in the form of sales tax exemptions/deferrals in order to attract investment.

A contract worth Rs 1,200 crore (US$ 228.59 million) has been awarded to the Perth based India Resources by Prism Cement towards development of a captive coal mine, emphasizing the growing trend of Indian companies outsourcing their mining operations to foreign entities.

Rajasthan State Industrial Development and Investment Corporation Limited (RIICO) and Ambuja Cement Limited (ACL) have signed a memorandum of understanding (MOU) for a 7 km long railway siding. The approximate cost of land, laying of tracks and developing other infrastructure will be around Rs 150 crore (US$ 28.57 million).
JK Cement of India has announced a US$ 14.9 million deal to set up a white cement plant in Fujairah. The plant will have a capacity of 600,000 t/y of white cement, with the flexibility of producing up to 1m t/y of grey cement.

India Cements has acquired a coal mine in Indonesia for US$ 20 million. It is expected to be operational by January 2012.

German cement giant Heidelberg and domestic cement majors including Ultratech and Reliance Cements have shown interest to be the joint venture partner in state-run Rashtriya Sapat Nigam's proposed Rs 1,000 crore (US$ 190.45 million), 3 mtpa cement plant at Vizag.

Road Ahead

According to a recent research report titled 'Indian Cement Industry Forecast to 2012' published by research firm RNCOS, cement industry in India witnessed massive growth on the back of various industrial developments and pro-economic policies of the Union Government. This has helped attracting the attention of various global cement giants, thereby sparking off a wave of mergers and acquisitions in several states. The report has estimated India's cement consumption to grow at a compound annual growth rate (CAGR) of 11 per cent, between 2011-12 and 2013-14.

The research, which focused on the demand-supply outlook and the cement pricing in various regions of the country revealed that Andhra Pradesh topped the chart in 2008-09 in terms of large plants and its installed capacity in India.

Fast growing economy and the regulatory support is expected to further encourage the industry players to embark on expansion plans. Furthermore, it is estimated that the Government's assistance to several infrastructure projects, road networks and housing facilities will boost the growth in cement consumption in the near future.

1.10.3 Indian Pharmaceutical Industry
The Indian pharmaceutical market is expected to grow to US$ 55 billion by 2020 from the 2009 levels of US$ 12.6 billion, as per a McKinsey & Company report titled "India Pharma 2020: Propelling access and acceptance realising..."
true potential”. The industry further holds potential to reach US$ 70 billion, at a CAGR of 17 per cent.

India's pharmaceutical industry constitutes of about 8 per cent of the world's pharmaceutical production. Over the last couple of years, Indian pharma companies have been increasingly targeted by multinationals for both collaborative agreements and acquisition, as per a Espicom report titled, “The Pharmaceutical Market: India Opportunities and Challenges”.

**Sector Structure/ Market Size**

The US$ 12 billion valued pharmaceutical industry in India is expected to grow at an annual compound annual growth rate (CAGR) of 10-11 per cent. The industry spends around 18 per cent of its revenue on research and development (R&D).

India is one of the most significant emerging markets for the global pharmaceutical industry. Moreover, India is expected to join the league of top 10 global pharmaceuticals markets in terms of sales by 2020 with the total value reaching US$ 50 billion, according to a report by Price Waterhouse Coopers (PwC).

The domestic pharma market is expected to grow at a CAGR of 15 to 20 percent to reach a value anywhere between USD 50 and 74 billion by 2020, says a PwC report titled ‘India Pharma Inc: Enhancing Value through Alliances & Partnerships’.

**Exports**

India’s exports of drugs, pharmaceutical & fine chemicals stood at US$ 9.26 billion during April 2010–Feb 2011, up 16.15 per cent as compared to US$ 7.97 billion in the same period during the previous year. India’s exports has recorded a growth rate of over 20.07 per cent, during the period of the two financial years in the study, the exports to rest of the world has grown by 9 per cent, according to DGCIS data from Pharmexcil Research.

India and Russia signed a memorandum of understanding (MOU) last year. Another has been signed in December 2011, as per Mr. Devendra Chaudhry, Joint Secretary, Department of Pharmaceuticals. Indian pharma companies export drugs worth US$ 600 million to Russia every year. Pharma sector accounts for the largest Indian export to Russia.
Growth
The drugs and pharmaceuticals sector attracted foreign direct investments (FDI) worth US$ 4.89 billion between April 2000 and August 2011, according to the latest data published by Department of Industrial Policy and Promotion (DIPP).

Indian pharmaceutical market is predicted to grow to US$ 55 billion by 2020 from US$ 12.6 billion in 2009, according to a report by McKinsey.

On back of a high middle-class population base, improvements in medical infrastructure and the establishment of intellectual property rights, the Indian pharma industry is estimated to grow manifold.

Generics
Generics will continue to dominate the market while patent-protected products are likely to constitute 10 per cent of the pie till 2015, according to McKinsey report ‘India Pharma 2015 - Unlocking the potential of Indian Pharmaceuticals market’. Moreover, as per a press release by research firm RNCOS, the report titled ‘Booming Generics Drug Market in India’. The report further projects the Indian generic drug market to grow at a CAGR of around 17 per cent between 2010-11 and 2012-13.

India tops the world in exporting generic medicines worth US$ 11 billion. Currently, the Indian pharmaceutical industry is one of the world’s largest and most developed, according to Mr Srikant Kumar Jena, Union Minister of State for Chemicals and Fertilisers.

Dr Reddy’s Laboratories Ltd has entered into a MOU with Tokyo-based Fujifilm Corporation to form a joint venture (JV) in Japan. The venture would develop, manufacture and promote generic drugs in Japan.

Ranbaxy Laboratories announced that it is on track to launch the generic version of the world’s largest-selling drug, Lipitor-the anti-cholesterol pill, on November 30, 2011 in the United States (US), as per Tsutomu Une, Chairman, Ranbaxy.

Natco Pharma has applied for India's first compulsory licence to sell a generic version of Bayer's patented medicine, stating in its application that the German company's drug was unaffordable for the average Indian.
Natco Pharma has also entered into an exclusive agreement with Mabxience, part of Chemo Sa Lugano of Switzerland. Natco will purchase four drug substances (biogenerics) from Chemo Sa Lugano and use them for manufacturing finished dosage pharma formulations.

British consumer goods major Reckitt Benckiser is converting its Baddi plant in Himachal Pradesh into a global hub for manufacturing over-the-counter (OTC) pharmaceutical products. The facility, will export Reckitt brands as well as domestic Paras brands.

Diagnostics Outsourcing/ Clinical Trials

In India, the clinical research industry is estimated to be a US$ 2.2 billion with a healthy CAGR of 23 per cent. India is ranked as the third largest emerging market and is growing fastest in conducting number of trials. The Indian diagnostic market is projected to grow at a CAGR of more than 22 per cent between 2010 and 2012, as per a RNCOS research report “Indian Diagnostic Market Analysis.”

Investments

A six-member pre-trade mission from Maryland, US, visited the Ticel Biotechnology Park and the biotechnology infrastructure facility, to explore areas of collaboration in biotechnology and pharmaceuticals. The advance planning team met with industry representatives and officials to explore partnerships and investment opportunities.

Aurobindo Pharma Ltd has received final approval from the US Food & Drug Administration (USFDA) to manufacture and market Gabapentin tablets. Gabapentin tablets are the generic equivalent of Neurontin tablets of Pfizer Pharmaceuticals, indicated for the treatment of partial seizures and other nervous system disorders. Aurobindo now has a total of 139 abbreviated new drug application approvals including 110 final approvals and 29 tentative approvals from the US.

Strides Arcolab Ltd, maker of intellectual property led pharmaceutical products announced that it has received US FDA approval for clindamycin injection, USP, an antibiotic used to treat bacterial infections.
Sanofi-aventis Group is setting up its largest vaccine making facility in Hyderabad. "The new plant, our biggest facility in the world, is coming up here," according to Christopher A Viehbacher, Chief Executive Officer, Sanofi-aventis.

GlaxoSmithKline (GSK) has set aside US$ 1-2 billion to support its expansion plans in India. "We can afford a deal worth US$ 1- US$ 2 billion in the Indian pharmaceutical space," as per Andrew Witty, global CEO, GSK.

Lupin is set to enter the US oral contraceptive market. The company has received final approval from the US Food and Drug Administration (USFDA) to market a generically similar version of Watson’s oral contraceptive NOR-QD tablets.

Singapore-based pharmaceuticals company Invida has agreed to acquire New Delhi’s Shalaks Pharmaceuticals for US$ 25 million.

A three-day pharma business meet of India, Latin America and Caribbean (LAC) took place on September 28, 2011. "The objective of the meeting was to provide business opportunity to Indian pharma exporters, especially Small and Medium Enterprises," as per P V Appaji, Executive Director, Pharmaceutical Export Promotion Council.

Daiichi Sankyo Company Ltd and Ranbaxy Laboratories Ltd have announced expansion of their business in Mexico, to maximise their hybrid business model. As a part of the plan, the two companies will launch Olmesartan Medoxomil, used to treat high blood pressure, in Mexico before the year-end.

Aventis Pharma Ltd, a unit of France's Sanofi, plans to acquire unlisted Universal Medicare's nutraceuticals business to boost its consumer healthcare and wellness segment in India. Aventis was close to buy the over-the-counter (OTC) business of Universal Medicare for about US$ 109.5 million.

**Government Initiative**

A high-level inter-ministerial group chaired by the Prime Minister Mr. Manmohan Singh has decided to continue with the 100 per cent foreign direct investment (FDI) regime in the pharmaceuticals sector. "There is going to be no cap. 100 per cent FDI would be allowed," as per Arun Maira, Member, Planning Commission.
Marking a new trend of investments from foreign players in the Indian pharma sector, the need for overseas investors to get a no-objection from their JV partner before venturing out on their own or roping in another local firm has been removed by the Pharmaceuticals Export Promotion Council. It is expected that this measure will promote the competitiveness of India as an investment destination and be instrumental in attracting higher levels of FDI and technology inflows into the country.

The Union Minister of Commerce and Industry and Minister of Trade and Industry, Singapore, have signed a 'Special Scheme for Registration of Generic Medicinal Products from India', which seeks to fast-track the registration process for Indian Generic medicines in Singapore.

The Department of Pharmaceuticals has prepared a "Pharma Vision 2020" for making India one of the leading destinations for end-to-end drug discovery and innovation and for that purpose provides requisite support by way of world class infrastructure, internationally competitive scientific manpower for pharma research and development (R&D), venture fund for research in the public and private domain and such other measures.

Road Ahead

On back of aggressive marketing initiatives, the pharma companies witnessed rural market sales doubling. India's rural drug market grew by 18.8 per cent in the 12 months period ended April 2011 as compared with 10.9 per cent in the previous year.

With the focus of companies shifting to smaller deals catering to niche segments and markets, partnerships seems to be the new norm in the pharmaceutical sector. Today, domestic pharmaceutical majors are talking less of patent litigation and more of patent settlements. The fight seems to be giving way to partnerships and experts consider this the new way forward. Companies such as Ranbaxy and Dr Reddy's were known for big acquisitions.

Interestingly, the international drug-makers have introduced generic or low-priced version of popular medicines and have also decreased prices of their existing products - in order to increase their share in the globally important market - in India. The Indian-makers business model is built around selling large volume of cheap generic medicines at lower margins in the country, to add to twin purpose of affordability and popularity.
"The industry posting healthy growth consecutively for the second year reflects the inherent strengths of the industry and improving healthcare standards in the country... demand for drugs and pharmaceuticals is on the rise, and is likely to continue next year as well. The nutraceutical segment will continue to have better-than-average growth with people getting more conscious of their general health and well-being," as per Ganesh Nayak, Executive Director, Zydus Cadila.

1.10.4 Indian Steel Industry

Introduction

India is among the top producers of all forms of steel in the world. Easy availability of low cost manpower and presence of abundant reserves make India competitive in the global setup.

The steel industry in India has witnessed an increase in demand due to expanding oil and gas sector, huge spending on infrastructural facilities coupled with growth in housing, consumer durables and auto sectors. According to the World Steel Association (WSA), India was the fourth largest producer of crude steel during January 2010–September 2010 and produced 50.1 million tonne (MT) crude steel during this period. At present, with the Government's increased emphasis on infrastructure, it is estimated that the sector is poised for significant growth.

India has acquired a central position on the global steel map with its giant steel mills, acquisition of global scale capacities by players, continuous modernisation& up gradation of old plants, improving energy efficiency, and backward integration into global raw material sources. Major steel giants from across the world have evinced interest in the industry due to its phenomenal performance.

The economic reforms started by the Government since 1991 have added new dimensions to industrial growth in general and steel industry in particular. Licensing requirement for capacity creation has been abolished, except for certain locational restrictions. The Indian steel industry has been removed from the list of industries reserved for the public sector. Automatic approval of foreign equity investment up to 100 per cent is now available. Price and distribution controls have been removed from January 1992, with a
view to make the steel industry efficient and competitive. Restrictions on external trade, both in import and export have been removed. Import duty rates have been reduced considerably. Certain other policy measures such as reduction in import duty of capital goods, convertibility of rupee on trade account, permission to mobilise resources from overseas financial markets and rationalisation of existing tax structure for a period of time have also benefited the Indian Steel Industry.

A lot of new steel plants have been set up in the country due to huge foreign investments and the state-of-the-art technology. Tata steel was the first steel plant established in the year 1907 in India. Some of the other steel plants in the country include Bhilai Steel Plant at Chattisgarh, Rourkela Steel Plant at Orissa, Durgapur Steel Plant at West Bengal to name a few.

Steel producers have signed 222 memorandum of understanding (MOUs) with the State Governments for a planned capacity addition of about 275.7 MT by 2020.

Construction and infrastructure’ is the largest consumer of steel in India, accounting for 61 per cent of total consumption in 2010. The Government expects steel production to rise to 100 million tonnes per annum (MTPA) by 2019-20.

**Government Initiatives**

100 per cent foreign direct investment (FDI) through the automatic route is allowed in the sector

Large infrastructure projects in Public-Private Partnership (PPP) mode are being formed

Government is encouraging research and development (R&D) activities in the sector Reduced custom duty and other favourable measures Government of India has framed the National Steel Policy (NSP) to encourage the steel industry to reach global benchmarks in terms of quality, cost and efficiency

**Market size**

The market grew to an estimated US$ 55.1 billion in 2011 from US$ 22.8 billion in 2006. Compound annual growth rate (CAGR) of the market over
the period was 19.3 per cent. Steel Authority of India Ltd (SAIL) is the leading player in the Indian steel market with a market share of 20.1 per cent and Tata Steel accounts for 10.2 per cent of the market.

Total demand for steel grew to 65.2 MT during FY-11 as against 46.8 MT in FY-07. The demand expanded at a CAGR of 8.6 percent over FY 07.....11.

Investments

RashtriyaIspat Nigam Ltd (Visakhapatnam Steel Plant) has announced that Rs 5,000 crore (US$ 970.39 million) worth of new units would come up in the plant as a part of its expansion project. The board's approval includes setting up of a seamless tube mill and installation of a new coke oven battery.

India’s largest iron ore miner, National Mineral Development Corporation Limited (NMDC) and Russian steel maker Severstal signed the implementation protocol in Moscow for setting up a joint venture steel plant in Karnataka.

The Steel Authority of India Ltd (SAIL) would be setting up processing units in Barabanki, LakhimpurKheri, Gonda and Mirzapur to boost industrial activity in Uttar Pradesh (UP). The RashtriyaIspat Nigam Ltd, (RINL) would also be setting up steel processing units in rural areas.

Road Ahead

According to a Research report by research firm RNCOS titled "Indian Steel Industry Outlook to 2012" the Indian crude steel production will grow at a CAGR of around 10 per cent during 2010-2013. Additionally, with the proactive incentive plans by the Government to boost economic growth by injecting funds in various industries, such as construction, infrastructure, automobile, and power will drive the growth of steel industry in future.
1.10.5 Indian Textiles Industry:

The textiles industry in India enjoys a distinctive position due to the pivotal role it plays by way of contribution to industrial output, employment generation (second largest after agriculture) and export earnings of the country. The industry is rich and varied, embracing the hand-spun and hand-woven sector at one end and the capital intensive, sophisticated mill sector at the other. Its association with the ancient culture and tradition of the country lends it a unique advantage in comparison with textiles industry of other countries, thus giving it an uncommon edge to cater to a vast variety of products and market segments both domestically, as well as, globally.

According to Mr. Anand Sharma, Union Minister of Commerce, Industry & Textiles, “The Indian textile industry is a key pillar of Indian manufacturing, contributing to 14% of industrial production and over 10% of Indian exports. More significantly, the industry is the second largest employment generator next only to Agriculture engaging 35 million people across various segments in the entire value chain”.

The industry currently contributes about 14 per cent to industrial production, 4 per cent to GDP, and 17 per cent to the country’s export earnings, according to the Annual Report 2010-11 of the Ministry of Textiles. The industry accounts for nearly 12 per cent share of the country’s total exports basket. It provides direct employment to more than 35 million people.

Industry sub-sectors

The textile industry comprises the following:

- Organised Cotton/Man-Made Fibre Textiles Mill Industry
- Man-Made Fibre / Filament Yarn Industry
- Wool and Woollen Textiles Industry
- Sericulture and Silk Textiles Industry
- Handlooms, Handicrafts, the Jute and Jute Textiles Industry
- Textiles Exports

Market size

The Vision Statement for the textiles industry for the 11th Five Year Plan (2007-12) sees India securing a 7 per cent share in the global textiles
trade by 2012. At current prices, the Indian textiles industry is valued at US$ 55 billion, 64 per cent of which caters to domestic demand.

Total textile exports during April-March 2010-11 stood at US$ 12.5 billion as against US$ 11.3 billion during the corresponding period of the previous year, according to the latest data released by DGCI & S, Kolkata.

**Technical Textile Segment**

The technical textiles segment is expected to grow by 11 per cent per annum till 2012-13 and is likely to grow at 6-8 per cent per annum till 2020 without any policy interventions. If the government intervenes by way of regulatory push, the growth of technical textiles industry can be estimated at 12-15 per cent per annum till 2020, according to Rita Menon, Secretary, Union Ministry of Textiles. She added that the technical textiles segment in India has the potential to attract investment and create additional employment opportunities in coming years. She further said that investments of US$ 1.1 billion are expected by 2012 and employment is expected to increase to 1.2 million by 2012.

**Government Initiatives**

Government in the 11th Five Year Plan has restructured the Technology Upgradation Funds Scheme (TUFs), the Scheme for Integrated Textiles Park (SITP) and formulated the National Fiber Policy. Government has enhanced allocation under restructured TUFs from US$ 1.5 billion to US$ 3.0 billion to catalyze investments in hitherto low investment areas like processing, weaving, knitting, technical textiles and skill centres. Under the SITP scheme, US$ 78.5 million allocation was made for sanction of new Integrated Textiles Parks. The National Fiber Policy has been formulated as a fiber neutral policy in a decadal perspective to attract to US$ 33.3 billion of investment in the next decade.

The Scheme for Integrated Textile Park (SITP) - The scheme was approved in July 2005 to facilitate setting up of textiles parks with world class infrastructure facilities. Government has sanctioned 21 new Textiles Parks under the Scheme with a project cost of US$ 397.8 million to be implemented over a period of 36 months. Mr. Anand Sharma, Commerce, Industry and
Textiles Minister, said that new Textiles Parks would leverage an investment of over US$ 1.7 billion and provide employment to 4 lac textiles workers. Government would finance common infrastructure with a subsidy upto US$ 7.5 million per Textiles Park.

Integrated Skill Development Scheme - The Government launched the Integrated Skill Development Scheme for the T&C Sector, including Jute & Handicrafts, in September 2010. The main objective of the scheme is to address the trained manpower needs of textiles and related segments. The Scheme would target to train approximately 2,56,000 persons during 2010-11 and 2011-12.

Fiscal incentives are provided for exports of T&C items under various provisions of the Foreign Trade Policy 2009-14.

India has the most liberal and transparent policies in Foreign Direct Investment (FDI) amongst emerging countries. Under the automatic route, 100 per cent FDI is allowed in the textile sector. FDI in sectors to the extent permitted under automatic route does not require any prior approval either by the Government of India or Reserve Bank of India (RBI).

The government has proposed some more relaxations for the branded garments sector, besides enhancement of duty abatement from 40 per cent to 55 per cent.

In pursuance of the Jute Packaging Material (JPM) Act, the Cabinet Committee on Economic Affairs has approved the packaging of 90 per cent of the production of food grains and 90 per cent of the production of sugar in the jute packaging material for the Jute Year 2011-12 (July, 2011 to June, 2012), with a few exemptions. The decision will provide relief to 3.7 lakh workers employed in jute mills and ancillary units as well as support the livelihood of around 40 lakh farm families. Besides, it will help to protect the environment because jute is natural, biodegradable and reusable fibre.

**Investment trends**

India’s liberalisation of its foreign investment regulations, buoyant domestic demand for textiles, and strong export potential have led to growing foreign investment in the country. The country has become one of the fastest growing destinations for FDI inflows and collaboration. India’s Special
Economic Zones (SEZs) attract foreign investment by providing tax incentives, assistance with bureaucratic and administrative problems, and access to reliable infrastructure.

Foreign companies have been motivated to enter into collaborations with Indian firms by the increasing profits gains that can be made by producing brands in India and selling them into the Indian market. Indian companies, on the other hand, have been motivated by the scope for gaining technical and marketing expertise from foreign partners.

The textiles industry has attracted FDI worth US$ 1,011.52 million between April 2000 and September 2011, according to data released by the Department of Industrial Policy and Promotion (DIPP).

In last two years, the Rs 650 crore (US$ 143.72 million) garment e-tailing business has attracted investments worth US$ 70 million. The segment is expected to grow almost ten-fold to nearly Rs 6,000 crore (US$ 1.33 billion) by 2015, as per a study by management consultants Technopak Advisors.

Funds like Tiger Capital, Indo US Venture Partners, Helion Venture Partners, Sequoia Capital and Accel India have invested in the range of $5 million to $52 million in portals like Letsbuy, Flipkart, Fashion And You, Yehbhi, and Snapdeal.

Maharashtra will get its first technical textiles park at Ichalkaranji off Kolhapur in the state's western region. The project entails an investment of US$ 20.8 million, of which Government subsidy will total US$ 9.5 million: four-fifth of this by the Centre and the rest US$ 1.8 million by the State Government.

Ahmedabad-based textile company Arvind Ltd. has tied up with another major international brand, Geoffrey Beene, LLC for apparel and non-apparel products. Geoffrey Beene has licensed Arvind Retail Ltd. to manufacture and market its men's apparel and non-apparel products.

The Road Ahead

India's T&C industry has great potential, and is one of the mainstays of the country's economy. The industry has enormous opportunities for domestic as well as international investors given its consistent growth performance, abundant cheap skilled manpower and growing domestic demand. With the
abolition of quotas, India has surged ahead of other countries and positioned itself as a value-added manufacturer with a varied material base, an educated and English-speaking class of executives with high product development and design orientation.

On the global front, India is set to become an even bigger participant, both as a consumer and as a producer. The country offers an attractive combination of a large domestic market, and a base for low cost production. The industry has gained a strong position in cotton based products, especially in the readymade garments and home furnishings segment, which are expected to be the key drivers of growth for the industry.

Besides this, the T&C industry is contributing towards promoting inclusive growth. It has been contributing to broad based socio-economic development by providing employment opportunities at local level.

The government envisions building state-of-the-art production capacities and achieving a pre-eminent global standing in the textile sector by 2020, which includes manufacture and export of all types of textiles.

Factor obtaining fundamental information about development of Indian corporate, Liberalization and growth of Indian corporate, and several other corporate development related issues are discussed in chapter No-1. Apart from this concept like financial reporting pattern to examine financial performance is also discussed. Meaning, Types, Techniques, needs and limitations of financial analysis are covered in this unit. There are four main components of measurement of financial performance is profitability, liquidity, solvency and efficiency.

After having this information, the inclusion of literature review is relevant. The subsequent chapter is pertaining to literature review. Different studies on different aspects of financial performance are quoted with appropriate research. These studies cover domestic as well as international studies. The inclusion of literature review provides academic and practical base for selected problem.

Moreover the study of literature review also focus the research methodology of selected study can be decided in the right direction.

Thus in second chapter of this study contains Literature Review of relevant studies.