INTRODUCTION

One of the five great questions asked by God Dharma to king Judisthir was "who is the happiest person in this earth"? The answer was "A man residing in his homeland, not being indebted to any body is the happiest man in this earth" (Arini, Aprabasee). This age-old concept of real happiness and prestige in debtlessness, has been proved to be ineffective at least so far as the financial happiness of business undertakings are concerned. One can not at present dream of a capital structure of a corporate or non-corporate body in the absence of debt or loan fund. Absence of debt in the capital structure indicates weak financial management. The financial strength of a firm depends to a great extent on its balanced mix of capital. Capacity of raising finance for future investment necessarily rests on the existing capital structure or debt-equity mix of a firm. The prevailing general norm followed by the private sector for such debt-equity mix is 2:1. The private sector is in favour of raising this ratio to have a faster economic growth while FICCI has already suggested a relaxation of this present norm. Public sector on the other hand, is to follow a debt-equity ratio of 1:1 as per govt. decision. It has been suggested that unless there are exceptional circumstances to the contrary, the equity-debt ratio should be

1. Krisna Dwaipayana Vedavyas : Mahavarata (Barna Parba).
111 for all public sector undertakings. Of course the current trend in public sector also favours the increased use of debt in the capital structure. Our present study concerns the steel industries in India which also are not an exception to this general trend.

Steel industry is an old and established industry of our country with enormous capital investment both in the form of equity and debt. There are steel manufacturing companies in both public and private sectors. Differences in technology and those in management (resulting in different capital cost) apart, the companies in the two sectors have differences in their mode of financing and in the degree of difficulties with which finances are raised.

One of the principal allegations against the public sector is its poor performance, which is largely due to lack of proper financial discipline. It is not our concern to observe the finance function in general in the present study but the implications of some financial decisions (e.g. capital structure decisions) on the status of a firm in both public and private sector is not outside the scope of our comment. In order to decide the acceptability of an investment decision in either sector scientific appraisal methods should be followed. It is said that the management of a public sector

unit instead of following the scientific investment appraisal methods follows the ad hoc process of adjustment with the govt. to arrive at its capital structure decision. Private sector on the other hand applies the techniques of capital budgeting process for evaluation of alternative methods of finance. It is expected that firms in both the sectors will aim at reaching the level of a balanced capital structure with most effective combination of debt and equity so that lowest average cost of finance can be achieved. The object of carrying on this research work is to observe the efforts of the private sector and public sector steel manufacturing companies in India to arrive at this aim.

Methodology and Source:

Before the formation of Steel Authority of India Limited, public sector steel manufacturing companies included Hindustan Steel Ltd. and Visvesvaraya Iron & Steel Ltd. After the emergence of SAIL as a holding company all the public sector steel manufacturing companies acted as subsidiaries of SAIL. In May 1978 after the passing of Public Sector Steel Companies (Restructuring) And Miscellaneous Provisions Act, SAIL became an operating company and all the erstwhile subsidiaries to SAIL stood dissolved and were merged with SAIL as its own divisions.

Upto 1975-76 Tata Iron & Steel Company at Jamshedpur and
Indian Iron & Steel Company at Burnpur were the two large scale steel manufacturing companies under private sector. With effect from 1976 after the complete takeover of IISCO by the Central govt. through SAIL, IISCO also became a unit under public sector leaving TISCO alone in the private sector.

Therefore the units studied under the present research work are TISCO in the private sector and HSL and SAIL in the public sector. The period of our study broadly related to the ten financial years beginning from 1970-71 and ending with 1979-80. But the period of seven years starting from the financial year 1973-74 (when SAIL started functioning) ending with 1979-80 will receive our particular attention in as much as this period has been considered as landmarks in the history of modern steel industry of our country.

Let us frankly confess that we have collected the necessary information for our research study mainly from secondary source. Published annual reports with copy of audited accounts of the relevant companies under both the two sectors were amongst other sources. Some important information have been collected from Reports On The Working Of Industrial & Commercial Undertakings of the Central Govt., published annually by the Bureau Of Public Enterprises and Annual Reports Of the Govt. of India, Ministry Of Steel & Mines, while the periodical R.B.I studies on the performance of selected Central Govt. and State Govt. undertakings in the public sector and selected private
limited and public limited companies in the private sector, have also been taken into account. Besides, Govt. Policies For The Management Of Public Enterprises (Vol.1, Financial Management Section) published by the Standing Conference Of Public Enterprises in association with the Bureau Of Public Enterprises also, has helped us much in supplying relevant data and circulars concerning the Govt.'s policy decision in regard to the financial management of public enterprises.

The Stock Exchange Official Directory, Bombay, has been another principal source of data from which information relating to private sector companies were confidently accepted. Information from other secondary sources have been cross-checked with relevant stock exchange data and any discrepancy has been decided in favour of stock exchange figures. A questionnaire had been prepared and sent to SAIL and TISCO which contained pertinent information relating to our study. We have been pleased to receive mailed response from SAIL while it is regretted that no response has come from TISCO. The replies to the questionnaire received from SAIL have come to considerable help to the researcher to complete his study. The questionnaire with replies has been reproduced in appendix at the end of our study. As regards TISCO we had to depend fully on the stock exchange data (given in the Stock Exchange Official Directory, Bombay) for computation of Debt/Equity ratio, Cost of capital etc. as TISCO did not respond to our questionnaire.
The study is based on seven chapters. Chapter I deals with the evolution of the iron and steel industry in India and its present position. Chapter II presents the existing theories of capital structure. Chapter III gives an analysis of the share capital (equity & retained earnings) of H.S.L. and S.A.I.L. in the public sector and T.I.S.C.O. in the private sector while the borrowed funds of the said units have been analysed in Chapter IV. Chapter V observes the dividend policy of T.I.S.C.O. and S.A.I.L. after a brief look on the existing dividend theories. The concept of cost of capital of the business enterprises is described in Chapter VI. Chapter VI also includes practical computation of cost of capital of the units studied while conclusions and observations are made in Chapter VII.