UGC - MAJOR RESEARCH PROJECT

ON

THE EMERGING DIMENSIONS OF CORPORATE CAPITAL FORMATION IN INDIA

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EXECUTIVE SUMMARY OF THE PROJECT REPORT

ON

THE EMERGING DIMENSIONS OF CORPORATE CAPITAL FORMATION IN INDIA

The study reveals that the major Gross Domestic Savings are generated from household sector and private corporate sector. The contribution of public sector is very meager and the share of public sector in Gross Domestic Savings has not been stable and as exhibited wide fluctuations during the period of the study. It is observed that the total Gross Domestic Savings are drastically increasing year by year. During the period under review the total Gross Domestic Savings are increased by 321 per cent. Whereas, the contribution of household sector increased by 255 per cent but the private corporate sector contribution increased by 550 per cent.

The analysis to the Gross Capital Formation and its two components such as Gross Fixed Asset Formation and Inventory Formation reveals that they are growing with an increasing rate from year to year. The study of the data reveals that the average rates of Inventory Formation were highest at 27.7 per cent as compared to 25.1 per cent and 24.5 per cent of Gross Capital and Gross Fixed Asset Formation respectively during the period under review.

The rate of Gross Capital Formation in Motor Vehicles and other Transport increased abnormally by 1555 times in the year 2011-12 when compared to 2002-03, followed by Machinery and Machine Tools, Electrical Machinery and Apparatus, Chemicals and Chemical Products and Food Products and Beverages have increased by 453 times, 328 times, and 241 times respectively in the year 2011-12 when compared with the year 2002-03. It is witnessed that there is no clear cut trend of increase or decrease in the Industry-wise rates of Gross Capital Formation. The Government policies towards the industrialization are the main reasons for these fluctuations from year to year. It is concluded that there was no clear cut trend emerged in the size-wise rates of Gross Capital Formation during the period under review. This was mainly on account of reduced tax burden on the companies, since the effective tax rate (Tax provision as a percentage of pre-tax profits) declined for companies with paid-up capital of below Rs.5 Crore, but registered fractional increase for companies in the paid up capital range of Rs.5 Crore and above.

On the basis of the analysis of the components of Internal Sources of Funds, it can be pointed out that the provisions accounted for more than 41.6 per cent of Internal Sources of Funds and of these the depreciation claimed around 33.0 per cent. Hence, this went to highest that in the case of Large Public Limited Companies the provisions including depreciation have become a predominate sources of funds in the current economic scenario. It is can be concluded that the Large Public Limited Companies were depending to the major extent on External Sources of funds in 6 out of 10 years of the study and these were ranged from a lowest at 27.3 per cent to a highest of 65.8 per cent. As against to this the Internal Sources were more than 50 per cent of total sources of funds in 4 out of 10 years of the study and these varied between a lowest of 34.2 per cent to a highest of 72.7 per cent during the period under review.

There were a significant variations in Bank Borrowings of Large Public Limited Companies during the study period and which moved between -6.4 per cent in the year

2002-03 to 76.9 per cent in the year 2007-08, the rate of increase in the bank borrowings was at 74.2 per cent in the year 2005-06 and declined to 48.2 per cent in the year 2006-07 and followed by an increase at 76.9 per cent in the year 2007-08. It can be concluded that the total bank borrowings of the Large Public Limited Companies are not only sufficient to meet the increased requirements of inventory, but also used for financing long-term requirements such as financing of various fixed assets and permanent working capital. The analysis of inter-industry diversities has revealed that the Traditional Industries have been borrowed relatively less amount of bank funds for financing their requirements as compared to Modern industries such as Constructions, Computer and Related Activities, Real Estate, Transport, Storage and Communication, Electrical Machinery and Apparatus and Chemicals and Chemical Products.

Sd/-

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