INDUSTRIAL SECTOR

Defination - Industry refers to an economic activity concerned with the processing of raw materials & manufacture of goods in factories.

Industrial Policies -

- Industrial policies were launched in 1948, 1956, 1977, 1980 & 1991.

Industrial policy of 1948 -

- The industrial policy resolution of 1948 marked the begining of the evolution of India industrial policy.

Salient features of (IPR 1948) -

- Development of mixed economy.
- State programmes, for the development of industries.
- Promotion of small scale & cottage industries.
- Foreign investment was allowed, but effective control should be with indians.
- Classified industries into 4 categories.
  (a) Public sector.
  (b) Mixed sector.
  (c) Controlled private sector.
  (d) Private & co-operative sector.
- The IPR 1956 called the "economic constitution" of India, gave the public sector a strategic role in the economy.
- The objective of the IPR 1956 was establishment of socialistic pattern of the society in the country.
- Presently there are two areas which are reserved for public sector.
  1. Atomic energy.
  2. Railway transport.

New Industrial Policy, 1991 -

- Formed the basis for the economic reforms in India which proved to be a watershed in the history of Indian economy.
- The main aim of the new industrial policy 1991 was -
  1. To unshackle the Indian industries from the cobweb of unnecessary bureaucratic control.
  2. To introduce liberalisation with a view to integrate Indian economy with the world economy.
  3. To remove restrictions on FDI & to abolish MRTP Act. 1969.
  4. To shed the load of the public enterprises.

Public Sector -

- In terms of ownership public sector enterprise (PSE) comprises, all undertakings that are owned by the government, or the public, whereas private sector comprises enterprises that are owned by private persons.

The main objectives of Public Sector -

- To promote rapid economic development through creation & expansion of infrastruture.
- To generate financial resource for development.
- To promote redistribution of income & wealth.
- To create employment opportunities.
- To encourage the development of small scale ancillary industries.
- To promote exports on the new side & import substitution on the other.
- To promote balanced regional development.

Disinvestment & privatisation -

- There is a difference between privatisation & disinvestment. Privatisation implies a change in ownership resulting in a change in managment. Disinvestment is a wider term extending from dilution for the stake of government to the transfer of ownership.
- The govt. of India constituted the "disinvestment commission with Mr. G.V. Ramakrishna as the chairman in August 1996 to aduise it on disinvestment programme of public sector enterprises. It has suggested classification of PSE into core & non core. In core sector maximum of 49% disinvestment would be allowed while in non core disinvestment would be upto 74% PSEs shares will given to small investors and employees to ensure wide dispossal of shares thus introduce mass ownership workers shareholding. It has also suggested greater autonomy to PSEs.
- To minimize the financial burden on the PSE the govt. has started voluntary Retirement scheme (VRS) for the employees. This is called "Golden handshake scheme."
- Privatisation refers to a general process of involving the private sector in the ownership, or operation of a state owned enterprise. Thus it refers to private purchase of all or part of a company.

Component of New Economic Policy / Economic Reforms (LPG) - Main components of new economic policy are liberalisation, privatisation & globalisation of the economy.

Liberalisation - Liberalisation of the economy means freedom of the producing units from direct or physical controls by the government.

Privatisation - "Privatisation in the general process of involving the private sector in the ownership or operation of a state owned enterprise. It implies parting with government ownership or management of the public sector enterprises.

Globalisation - Globalisation means integrating the economy of a country with the economies of other countries in an environment of free frlow of goods & services across the border.

Policy of Navratnas - Navratna was the title given originally to nine public sector enterprises (PSEs), identified by the government of India in 1997, as it most prestigious which allowed them greater autonomy to complete in the global market.

Criteria for Navratna status for PSUs -

- ♦ The company must obtain a score of 60 (of the total 100).
- ♦ The score is based on six parameters which included net profit to net worth, total manpower cost to total cost of production, profit before depreciation, interest & Taxes (PBDIT) to capital employed, PBDIT to turnover, earning per share & inter-sectoral performance.
- ♦ The company must first be a miniratna - 1 & must have four independent directors on its boards.
- ♦ The navratna status empowers a company to invest upto Rs. 1000 crore on 15% of their net worth overseas without government approval.
- ♦ At present there are 16 Navratnas.

List of Navratnas -

1. Bharat electronics limited.
2. Bharat heavy electrical limited.
3. Bharat petroleum corporation limited.
4. GAIL (India) Limited.
5. Hindustan Aeronautics Limited.
6. Hindustan petroleum corporation Limited.
7. Mahanagar Telephone nigam limited.
8. National Aluminium company limited.
9. National mineral development corporation.
10. Nevyeli lignite corporation limited.
11. Oil India Limited.
12. Power finance corporation limited.
13. Power grid corporation of India limited.
14. Rashtriya ispat nigam limited.
15. rural elecrification corporation limited.
16. Shipping corporation of India limited.

Policy of Miniratnas -

The govt. has also accorded the satus of miniratna to some profit making PSEs. There are two types of miniratnas - category. I and category - II.

Category Miniratna - I

Public sector enterprises (PSEs) that have made profit continusouly for the last 3 years or earned a net profit of Rs. 30 crores ore more in one of 3 years.

- ♦ At present there are 51 miniratna - I

Category Miniratna - II

- ♦ PSEs that have made profit for the Ist 3 years & should have a positive net worth.
- ♦ At present there are 14 miniratna-II.

Policy of Maharatnas -

- ♦ In 2009, the government established the maharatnas status, which raised the PSEs investment ceiling from Rs. 100 crore to Rs. 5000 crore.
- ♦ The maharatnas firm can now decide on investments of UP to 15% of their net worth.

Criteria of Maharatna - There are 6 criteria for eligibility of Maharatna are -

1. Having navratna status.
2. Listed on Indian stock exchange.
3. An average annual turnover of more than Rs. 20000 crore during the last three years.

- ♦ An average annul net worth of more than Rs. 10000 crore during the last 3 years.
- ♦ An average annual net profit after tax of more than Rs. 2500 crore during the last 3 years.
- ♦ And should have significant global presence.

List of Maharatnas - There are 5 maharatnas in India.

1. Oil & natural gas corporation (ONGC).
2. Steel Authority India limited (SAIL).
3. Indian oil corporation (IOC).
4. National thermal power corporation (NTPC).
5. Coal Indian Limited (CIL).

Monopodies & Restrictive trade practices Act, 1969 -

- ♦ MRTP act was enacted in 1969 & MRTP commission was constituted in 1970, to prevent the concentration of economic power & to prohibit restrictive or unfair trade pratices.

- Under the act, companies having assests beyond the threshould limit (i.e. Rs. 20 crores in 1985) were placed under the preview of the act.
- Certain restrictions are imposed on such companies like prior approval of the MRTP commission for establishment of new undertakings, expansion of undertaking, mergers & acquisitions.

Competition Act, 2002 -

- The competition Act was enacted by the government in 2002. On the recommendation of the SVS Raghavan committee. It replaced the MRTP act & the MRTP commission was replaced by the competition commission of India (CCI).
- The objectives of the act are to encourage competition, prevent abuse of dominance & to ensure a level playing field for all the enterprises in the Indian economy.

Competition Amendment Bill 2007 -

- Parliament on Sept. 10, 2007 finally passed the long pending competition amendment bill 2007 that empowers the competition commission of India (CCI) to act as the competition regulator & to deal with a host of contemporary economic issues including monopolies & taking overs of corporate firms.
- According to the bills provision, the CCA will replace monopolies & restricitive trade practice commission (MRTPC). The CCA was established in 2003.
- Under new provisions, the MRTPC will continue till two years after the constitution of CCA for dealing with pending case but after two years MRTP will be disolved.
- However, MRTPC would not entertain any new cases after the CCI is constituted. Cases pending with MRTP after two years of setting UP of CCI will be transfered to the latter.

Industrial Finance -

- Indian industries need 3 types of finance.
  1. Long term.
  2. Medium term.
  3. Short term.

Long term - It is requires to purchase permanent assests like land, building machinery etc.

- Industrial unit also need this finance for their extension & re-establishment.

Medium term - It is generally a part of long term finance.

- Besides industrial unit has to arrange raw material, intermediate goods & to meet our daily expenses -

Short - term - It required for all these purpose.

- Industrial finance in India include the major sources like shares & debentures deposits from public, credit from bank & industrial finance institutions. The major industrial finance institution are -
  1. Industrial development bank of India (IDBI).
  2. Industrial finance corporation of India (IFCI).
  3. ICICI (on the recommendation given by mumbai high court on April 3, 1997, SCICI has been merged with ICICI w.e.f. April 1, 1996).
  4. Small industrial development bank of India (SIDBI).
  5. UTI.
  6. IIBIL.
  7. NABARD.
  8. EXIM bank.
  9. SFCs.
  10. LIC.
  11. GIC.
- All the above mentioned financial institution arrange medium & long term finances for industrial units.
- Schedule commercial banks play the important role in providing short term finance to industrial units.
- Deposits from public & indegenous bankers are also the important sources of short term finance.

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