S. P. Mandali's

R. A. Podar College of Commerce and Economics

Celebrating 75 years of Excellence

OCTOBER, 2015

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P.J. FOUNDATION, BOMBAY STOCK EXCHANGE –

INVESTORS' PROTECTION FUND

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**CHANGING SHAREHOLDING
PATTERN IN COMPANIES
ESTABLISHED PRIOR TO
LIBERALIZATION AND THE IMPACT**

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INVESTORS' PROTECTION FUND**

DECLARATION

This is to hereby declare that the Research project titled, **“Changing Shareholding Pattern in Companies established prior to Liberalization and the impact”** is our own original work.

Due sources in the Research Project have been cited and acknowledged wherever necessary.

The information submitted is true and original to the best of our knowledge.

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October 2015,

Mumbai.

ACKNOWLEDGEMENT

Our sincere thanks to the P.J. Foundation, Bombay Stock Exchange- Investors' Protection Fund for supporting and funding the research activity of the Research & Development and Consultancy Cell, R.A.P.C.C.E.

We would also like to express our heartfelt gratitude towards our Principal Dr. (Mrs.) Shobana Vasudevan for supporting us in the process of our research work and for the assistance extended from time to time in completing the research project.

We also thank the faculty of R.A. Podar College of Commerce & Economics who have helped us in our work.

We are also thankful to the library staff of our college for making the library resources easily accessible to us for reference work.

Research Team

October 2015

Mumbai

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ABSTRACT

Changing shareholding pattern in companies established prior to liberalization and the impact.

Prior to 1991, the Indian economy was averse to policies that diluted the government's control over the companies established in the country. A closed economy of sorts, the Indian economy perceptibly faced the pressure of global forces as well as internal turbulences resulting in negative economic indicators. As a result of the same, the government yielded to the situation and began the process of liberalization. The 1980s saw the advent of these policies through the delicensing of certain key industries which was then followed by the introduction of the New Economic Policy which laid down the framework of liberalization as a formal reform in the economy in 1991.

Clusters of business groups in India formed around ethnic, religious and social communities, for example, the Marwaris of Rajasthan formed businesses in Bengal and elsewhere; the Gujaratis in the West, the Chettiars in the South, etc. There is a vast diversity in the Indian economy, comprising of listed as well as unlisted, regional as well as foreign, private as well as public companies. The indigenous entrepreneurs in the Indian markets have now become veterans in their respective industries. Over the years, from government monopolies to family owned business structures to the emergence of 'corporations', the shareholding patterns in the Indian industrial fora have transitioned through various stages.

This research study tracks the movements in the shareholding patterns of Indian Companies spanning over a period from the 1980s up to 2015 to examine the impact of liberalization as an economic policy. The key objectives of this study are:

1. To describe the evolution of India's listed companies' shareholding structure.
2. To study the evolution of India's industrial structure at the firm level as a result of the reforms.
3. To analyze the industrial composition by ownership before and after reforms.

This study offers a captivating kaleidoscope of shareholding trends across the companies in the different industries over the years. This study is organized as follows:

Section 1: Overview of evolution in Company incorporations in India pre and post liberalization.

Section 2: Description of trends in Industrial Structure in Non-Government Companies' incorporations and the corresponding sectorial contributions to the GDP.

Section 3: Study of various ownership patterns in Indian Companies and the trends therein.

Section 4: Analysis of shareholding structures in listed companies (SENSEX.)

Section 5: Study of impact of foreign investments in the Indian Corporate Sector.

Section 6: Brief comparison of the shareholding patterns of business organizations as well as liberalization policies among the BRIC nations.

The last unit of the study sets out the findings, interpretations, conclusions and recommendations on the subject.

INTRODUCTION

Indian corporate sector has experienced a paradigm shift over the last two decades with the initiation of certain measures of financial liberalization. India, formerly facing the fear of being categorized as “the loath globalizer” embarked on a deviation from her traditional strategy of being self-reliant, towards following a phased path of economic reformation through the systematic implementation of liberalization as a formal economic policy, in the year 1991.

With the balance-of-payment crisis glaring at the economy, raising alarms of economic catastrophe, the New Economic Policy, popularly known as the LPG (Liberalization, Privatization, and Globalization) Policy was enacted on 24th July, 1991.

The 1980s and 1990s marked a period of widespread economic reforms in India, which consisted of industrial de-licensing from the mid-1980s onwards as well as trade and investment liberalization from 1991 onwards. These reforms, thus, were mainly aimed at macro-economic stabilization programmes addressing the programmes of fiscal as well as current-account imbalances. The exchange rate regime was also a major aspect which was to be covered through these reforms to correct the international trade exposure of the economy. Identifying the need for a drift in the regressive processes of industrialization and trade in the economy, these reforms also sought to develop a framework to promote efficiency, to provide an environment conducive for trade offering equitable growth opportunities, to reduce the bias in favour of excessive capital intensity and to encourage an employee-oriented industrialization.

Phase 1: Industrial de-licensing

After acquiring independence, in 1947, the Indian economic policy was influenced and formulated by leaders with socialistic ideologies which were outcomes of the colonial experience. Hence, the policies inclined towards protectionism, with a strong emphasis on import substitution, industrialization under state monitoring, and state intervention at the micro level in all businesses. Steel, mining, machine tools, water, telecommunications, insurance, and electrical plants, among other industries, were effectively nationalized in the mid-1950s. Elaborate licenses, regulations and the accompanying red tape, commonly referred to as License Raj, were hurdles to be traversed to set up business in India between 1947 and 1990.

Industrial de-licensing was a prelude to the introduction of trade liberalization as an economic reform. This phase began in the 1980s and lasted up to 1990. Industrial de-licensing meant freedom from constraints on output, inputs, technology, and location as well as free entry into de-licensed industries, thus, allowing industries to take advantage of economies of scale, increased efficiency of combinations, and new technology. Further, greater domestic competition as a result of free entry into de-licensed industries provided plants with incentives to innovate, increase productivity, and improve product quality.

Phase 2: Trade Liberalization:

India faced acute Balance of Payment crisis during 1991 with bankruptcy staring at it. In return for an IMF bailout, gold was transferred to London as collateral, the rupee devalued and economic reforms were forced upon India. That low point acted as the catalyst calling for the transformation of the economy through reforms for unshackling the economy. State control and monopolies were diluted; tariffs, taxes and duties were lowered progressively with a view to open the economy to trade and investment from private sector enterprise. Competition was encouraged and globalization was slowly embraced. 24th July, 1991 marked the beginning of the modern economic framework of India with the introduction of the New Economic Policy. The Five Year Plans were to be executed in a phased manner with short term targets to be achieved through the planned agenda for each plan.

Some of the major policy changes are removal of industrial licensing, opening up of public sector reserved areas to private participation, reduction in the number of items reserved for the small scale sector and thus drastically circumscribing the scope of Industries (Development & Regulation) (IDRA) Act, 1951; abolishing the Monopolies & Restrictive Trade Practices (MRTP) Act, 1969; removal of the restrictions under the Foreign Exchange Regulation (FERA) Act, 1973 and finally scrapping it, permission to use foreign brand names and positive policy framework towards attracting foreign investment; freedom to invest abroad; greater scope for raising capital directly from investors instead of depending upon the development financial institutions and being constrained by the Capital Issues Control Act, 1948, freedom from import licensing, etc. The essence of these changes was to minimize bureaucratic intervention, reduce the bias towards public sector, reduce protection and let the entrepreneurs take decisions according to their best judgment.

Graph 1.1: GDP growth in India (annual %) 1960 – 2014.

Source: Data compiled from World Development Indicators available at www.data.worldbank.org/indicator.

Graph 1.2: GNI Growth in India (annual %) 1960 – 2014.

Source: Data compiled from World Development Indicators available at www.data.worldbank.org/indicator.

As illustrated in Graphs 1.1 and 1.2 the GDP and GNI growth show a fluctuating, but upward trend through the phases of delicensing and liberalisation over the years.

Graph 1.3: Value Addition to GDP (Industry wise) 1960 – 2014.

Source: Data compiled from World Development Indicators available at www.data.worldbank.org/indicator.

As illustrated in Graph 1.3, the delicensed manufacturing, industry and service sectors have been consistently reporting an increased value addition over the years. Thus, the traditional composition of the sectors in their contribution towards the GDP has changed over the phases to support the agenda behind the establishment of the New Economic Policy.

Over the years, along with the various dynamics, one key change that has occurred in the Indian economy is the variation in the ownership structures and patterns of the Indian Companies which are by-products of the trade liberalization policy. From state controlled/owned monopolies in different industries to very few industries being open, i.e., having free entry, the closed economy of the then “loath globalizer” has over the years, not only opened up to domestically, but has also thrown open the markets to international players. Increased competition, conducive environment, and lesser litigation hassles led to the flourishing of several industries with a large chunk of the population investing such companies.

Trade liberalization paved the way for an economic independence of sorts with the control being divulged from the regressive Government rule to the formation of several independent and specific Boards/Bodies to overlook the liberated areas. These Boards/Bodies were governed by respective Acts in law with a view to accomplish the agenda in the right manner while promoting the interests

of the citizen-stakeholding in these new forms of companies. Several new forms of entities have been formed over the phases giving rise to diverse forms of ownerships and controls maintained in them. Societies across the globe (represented by their governments) have expedited and encouraged the growth of corporations as instruments of their own well-being and competitive advantage among the comity of nations. As vehicles of private enterprise and personal enrichment, corporations can be at cross purposes with societal expectations of how they are to be run, especially in terms of their positive contributions and negative externalities of operation. Ownership and control of corporations under the watchful stewardship and surveillance of their boards have significant influence in shaping corporate behaviour as well as the equitable management of relationships among themselves, the society and communities they serve, and the governments of the countries they operate in.

Looking back at the evolutionary history of the ‘corporation’ as known today, one could discern at least three major defining developments. First, being the artificial creation of the corporate entity by a legal sleight; second, the introduction of limited liability, the acceptance of the corporations’ right to invest in and hold stock of another corporation, and third, the shift from democratic to plutocratic voting rights, moving away from one vote per shareholder to one vote per share and thence to even more skewed differential voting rights.

In this research study, we investigate the interrelationship between industrial de-licensing, trade liberalization and changing shareholding patterns in Indian Companies. To justify our enlisted objectives, we have divided the study into the following sections which will illustrate the study and influence of trade liberalization on ownership trends in the economy.

Section 1: List of Companies registered (up to 2011)

Section 2: Industry wise trends of Non-Government Companies incorporated along with trends in sector wise contribution to the GDP.

Section 3: Ownership pattern wise trends of Companies incorporated (up to 2011)

Section 4: Sensex Analysis (Level 1 & Level 2)

Section 5: Impact of FIIs and FDIs on the Indian Corporate Sector

Section 6: Comparison of India with the BRIC Nations

EVOLUTION OF CORPORATES IN INDIA

In the case of India, business groups – large, often family-controlled organizations consisting of legally independent, listed and unlisted firms operating across diverse industries and controlled through pyramidal ownership structures – are ubiquitous in emerging economies¹. Business groups have been criticized as pre-modern forms of economic organization, at best a second-best substitute for weak institutions (the legal system, public capital and legal markets) and for weak governments in coordinating Big Push growth programs to establish numerous interdependent industries simultaneously².

These groups place the governance of large swathes of many countries' big business sectors in the hands of a few of their wealthiest families. These have too cozy a relationship with the government and opaque corporate governance arrangements, being in fact synonyms of corruption and crony capitalism. The pervasiveness of such structures – despite a decade of reforms to promote convergence towards dispersed share ownership, contestable markets for corporate control and Anglo-American management and governance practices – suggest that agency problems and political rent-seeking, while they exist, are not the only features of these groups. Missing or underdeveloped economic institutions still provide a rationale behind their remarkable resilience and ability to adjust to economic and political turbulence, international competition, and technological change.

Despite profound changes in the operating environment, indigenous business groups have shown both resilience and continuous adaptability at the margin with respect to strategy and structure and remained the dominant players. Policies and state actions – especially regulatory policies and overall development strategies – promote and sustain business groups³. The Tata and Birla groups in India, created by indigenous entrepreneurs during the time of the British Empire, confirm the value of interested owners whose overriding aim is to ensure the long-term health of the company. Tata, possibly the quintessential family-owned business group, reduced the number and range of sectors in which it is active, but has also continued to explore new possibilities and promote interesting business⁴.

1. Colpan et al. 2010.

2. Khanna and Yafeh 2007

3. Schneider 2009

4. Goldstein 2009

As a matter of fact the success of TCS in the globally competitive software industry is a vivid testimony that business groups can coexist with specialist firms (e.g. Wipro and Infosys) focused on a particular industry¹. On the other hand, the Reliance soap opera also shows that a feud between heirs may jeopardize the stability and credibility of a nation's corporate sector². Clusters of business groups in India formed around ethnic, religious and social communities, for example, the Marwaris of Rajasthan formed businesses in Bengal and elsewhere; the Gujaratis in the West, the Chettiars in the South, etc.

1. Khanna and Palepu 2005

2. McDonald 2010

WHAT DID LIBERALIZATION BRING TO INDIA

Manmohan Singh, in his 1991 Budget Speech, remarked, “No power on earth can stop an idea whose time has come... India is now wide awake. We shall prevail. We shall overcome.”

Rising to present his maiden Budget on July 24, 1991, Manmohan Singh dismantled the License Raj and ushered in a gradual lowering of tariffs. More importantly, he devalued the rupee to make exports competitive. The initial result was euphoria. The stock market rallied (the rally had begun a little before the Budget) and foreign investors rushed in. The office of the Controller of Capital Issues was abolished and foreigners were allowed to invest in the stock market. Companies like Coca-Cola and IBM, which had left the country in the 1970s, came back.

Graph 3.1: Employment in India (Sector-wise)

Source- NSSO 66th Nationwide Survey, Planning Commission, Government of India (June 3, 2014), pp 116

Patterns in the above graphs explain the inequity of the Indian growth story.

At the India release of the Global Human Development Report “The Real Wealth of Nations”: Pathways to Human Development in New Delhi last year, Syeda Hameed, Member of India’s Planning Commission summarised the dilemma facing Indian policy makers when she noted that “India had moved one notch higher in the Human Development Index. I feel we have a long way

to go. Far too many people are being left out in India's growth story." India is ranked 119 out of 169 countries on the HDI and is one of the world's top ten movers in income growth. However, it loses 30 percent of its value when adjusted for inequality.

Growth of past decade was limited to upscale areas of the countries as almost whole service industry, operates from these areas. Majority of India got spill-over or trickle-down growth from here. This accelerated migration to urban areas. This in turned created array of social problems associated with urbanization.

India's annual average growth rate from 1990 – 2010 has been 6.6 % which is almost double than pre reforms era. GDP growth rate surpassed 5% mark in early 1980's.

Share of agriculture in domestic economy has declined to about 15%. However, people dependent upon agriculture are still around 53%. Cropping patterns has undergone a huge change, but impact of liberalization can't be properly assessed.

IT industry

Software, BPO, KPO, LPO industry boom in India has helped India to absorb a big chunk of demographic dividend, which otherwise would have been wasted. Best part is that export of services result in export of high value. There is almost no material exported which consume some natural resource. Only thing exported is labour of Professionals, which doesn't deplete, instead grows with time. Now India is better placed to become a true Knowledge Economy. Exports of these services constitute big part of India's foreign Exchange earnings. In fact, the only three years India had Current Account surplus, i.e. 2000-2002, was on back of this export only.

Banking

Further, in banking too India has been a gainer. Since reforms, there have been three rounds of License Grants for private banks. Private Banks such as ICICI, HDFC, Yes Bank and foreign banks have also raised standards of the Indian Banking Industry. Now there is cut throat competition in the banking industry, and public sector banks have become more responsive to customers.

Here too IT is on path of bringing banking revolution. New government schemes like Pradhan Mantri Jan Dhan Yojana aim to achieve their targets by using Adhaar Card. Having said this, Public Sector Banks still remain major lenders in the country.

Similarly Insurance Industry now offers variety of products such as Unit Linked Insurance plans, Travel Insurance etc. But, in India life Insurance business is still decisively in hands of Life Insurance Corporation of India.

Telecom Sector

Conventionally, Telecom sector was a government owned monopoly and consequently service was quite substandard. After reforms, private telecom sector has reached the pinnacle of success and the trend is only moving upward. And Indian telecom companies went global. However, corruption and rent seeking marred growth and outlook of this sector.

Entry of modern Direct to Home (D2H) services saw improvements in quality of Television services on one hand and loss of livelihood for numerous local cable operators.

Regional Disparities

The policy of liberalisation and New Industrial Policy (1991), however, could not reduce the regional inequalities in economic development. In fact, investments by the Indians and foreign investors have been made in the states of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Rajasthan, Tamil Nadu, and West Bengal. The states like Bihar, Himachal Pradesh, Jammu and Kashmir, Kerala, Meghalaya, Mizoram, Nagaland, Orissa, Tripura, Uttar Pradesh, and Uttarakhand are lagging behind (Refer. This has accentuated the regional imbalance. The maximum investment so far has been done in Maharashtra, Gujarat, Andhra Pradesh, West Bengal, and Tamil Nadu. This uneven industrial development has resulted into many socioeconomic and political problems. The Naxal Movement, ULFA, and political turmoil in Jammu and Kashmir may be partly explained as being caused due to the less industrial and economic development of the regions.

Table 3.3.1: State-wise FDI received from 2000 to 2015

Sr. No.	State	Inflows	Percentage to Total Inflows
1	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	3,53,022	29%
2	Delhi, Part Of U.P. And Haryana	2,49,023	20%
3	Tamil Nadu, Pondicherry	88,766	7%
4	Karnataka	82,121	7%
5	Gujarat	53,797	4%
6	Andhra Pradesh	49,240	4%
7	West Bengal, Sikkim, Andaman & Nicobar Islands	14,627	1%
8	Chandigarh, Punjab, Haryana, Himachal Pradesh	6,360	1%
9	Rajasthan	6,795	1%
10	Madhya Pradesh, Chattisgarh	6,096	0%
11	Kerala, Lakshadweep	6,150	0%
12	Goa	3,867	0%
13	Uttar Pradesh, Uttaranchal	2,444	0%
14	Orissa	1,961	0%
15	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	381	0%
16	Bihar, Jharkhand	267	0%
17	Jammu & Kashmir	26	0%
18	Regions Not Indicated	3,08,060	25%

Source: Statement On RBI's Regional Offices (With State Covered) Received FDI Equity Inflows

Section 1: List of Companies registered (up to 2011)

Objective: To study the trend in incorporation of companies, pre and post liberalization.

With the gradual phasing out of the entry barriers for new companies into previously state-controlled industries, there has been an increase in the number of registrations of companies in India indicating a willingness in the economy to enter the industries. This data set comprises of all forms of companies, irrespective of their ownership type, and it covers only the incorporations and not the deletions or closures occurred during the years.

Graph 3.1.1: Cumulative total of company registrations in India (year wise)

Graph 3.1.2: Percentage increase in the number of registrations of companies

Source: Data compiled from the online portal of MCA

Analysis:

As illustrated in Graphs 3.1.1 and 3.1.2, there is an increase in the overall number of registrations; however, this increase is at a diminishing rate. The trend shows a decline from point A to point B in Graph 3.1.2 which indicates the repercussions of the oppressive license raj. The eventual phasing out of the licenses, the first phase of liberalization resulted in minor rises in this trend through that phase in 1984 and 1987. As evident from the graph, the trend between points B and C is rising with the peak being achieved in 1994, which symbolizes the immediate impact of the trade liberalization. This peak is followed by another patch of slowdown which could have been influenced by internal political issues, inflationary pressures, taxation policies etc. within the economy. There could be several other factors for the decline too, including global economic factors which played a role in the slowdown. Unlike pre-liberalization conditions, where the economy was affected only by the domestic factors, after liberalization, due to increased foreign exposure of the economy through the New Economic Policy, several international variables have begun to influence the Indian Economy. As is evident in graph 3.1.1., at point D, the economic crisis of the United States of America in 2008, shows an impact on the Indian economy as well. However, from point D onwards, the rising trend has picked up again, showing greater economic might in the international front.

Section 2: Industry wise trends of Non-Government Companies incorporated along with trends in sector wise contribution to the GDP.

Objective: To study the trend in delicensed industries and their contribution to the GDP of the economy without the participation of the Government, i.e., the trends established by Non-Government Companies.

Graph 3.2.1: Industry Wise Trends Of Non-Government Companies Incorporated

Source: Data compiled from the online portal of MCA

The share of non-government entities entering into the Manufacturing sector vis-à-vis the total number of company incorporations during the year has declined over the years, while that in the Service sector has risen. The percentage of non-government entities engaging in Agriculture and Allied Activities has, more or less, remained the same over the years.

Table 3.2.1: Industrial Activity pattern of Non-Government Companies limited by shares at work

Industrial Classification	As on 31st March					
	1991	2009	2010	2011	2012	2013
Agriculture & Allied Activities	5,837	21,716	23,067	17,319	19,793	22,203
Industry	127,673	287,817	306,427	263,719	289,185	313,834
Manufacturing	112,658	204,726	214,042	171,112	183,823	196,314
Construction	11,606	68,160	75,293	75,244	85,592	95,286
Electricity, Gas, Water Supply	623	5,778	7,122	8,462	9,643	11,194
Mining & Quarrying	2,786	9,153	9,970	8,901	10,127	11,040
Service	89,775	397,015	434,104	386,440	446,601	502,166
Finance, Insurance, Real Estate Business Services	49,254	216,753	239,281	208,092	245,331	282,093
Trade, Hotels, Restaurants	24,153	115,110	126,240	116,263	130,272	139,951
Community, personal, social Services	9,432	39,167	40,621	38,676	45,060	51,642
Transport, storage, communications	6,936	25,985	27,962	23,409	25,938	28,480
Unclassified	-	78,635	70,620	45,761	43,833	44,027
Grand Total (I+II+III+IV)	223,285	785,183	834,218	713,239	799,412	882,230

Source: Annual Report on the Working & Administration of the Companies Act, 1956, March 31, 1991 and 2013.

Table 3.2.1 indicates the year-wise absolute number of non-government company registrations while Graph 3.2.1 illustrates the Industrial Activity pattern as a percentage of the total incorporations during the year.

Graph 3.2.2: Value Addition to GDP (Industry wise)

Source: Data compiled from World Development Indicators available at www.data.worldbank.org/indicator.

Graph 3.2.2 demonstrates the industry-wise value addition as a percentage of the GDP.

A combined reading of the graph 3.2.1 and 3.2.2 elucidates that given the change in the ownership pattern, i.e., the non-government companies in comparison to government owned companies, where the share of non-government companies is declining in the manufacturing sector, over the years; the contribution of the manufacturing sector has also been similar with no major rise or decline. However, the Industry and Service sector have witnessed an increased participation of non-government companies hinting at conducive ownership pattern shift with a steady rise in the contributions from these sectors respectively. Contribution from Agriculture as a sector has been declining with the non-government stake being maintained over the years.

The aforementioned comparison gives indications of better productivity or efficiency in companies/industries through a change in the ownership pattern, i.e., a shift from government owned companies to non-government based corporates with a sectorial preference in the same.

Section 3: Ownership patter wise trends of Companies incorporated

Table 3.3.1: Ownership Patter Wise Trends of Companies Incorporated

Year	Foreign Companies	Government Companies	Private Companies	Public Companies
1980	216	724	55,278	17,278
1981	14	39	7,987	1,378
1982	11	28	9,043	1,543
1983	12	28	9,582	1,969
1984	24	30	10,712	2,084
1985	15	27	12,640	2,353
1986	41	25	13,914	2,294
1987	17	29	15,096	1,839
1988	19	24	19,333	1,898
1989	22	20	19,701	2,218
1990	20	20	19,311	2,440
1991	12	12	22,221	2,965
1992	30	11	21,860	4,316
1993	31	29	24,330	4,368
1994	51	22	33,546	6,622
1995	59	23	48,947	10,088
1996	67	18	40,112	6,708
1997	87	13	32,741	4,595
1998	69	20	25,684	2,415
1999	71	34	26,549	2,257
2000	85	34	28,371	3,021
2001	115	27	20,650	1,338
2002	94	37	21,696	1,235
2003	50	49	26,781	1,356
2004	99	33	35,489	1,589
2005	132	19	49,249	2,048
2006	379	67	47,098	2,277
2007	663	94	59,698	2,724
2008	719	71	66,793	2,930
2009	678	69	58,884	1,998
2010	722	43	83,255	3,015
2011	1,028	50	97,166	3,605

Source: Data compiled from the online portal of MCA

As illustrated in table 3.3.1, over the years, the incorporation of Government companies has declined in comparison to that of private and foreign players in the Indian economy. In this data set, the figures for the year 1980 represent a cumulative number of company incorporations up to

the year 1980, while the other years' figures indicate the year on year registrations of incorporated companies.

Graph 3.3.1: Foreign Companies incorporated in India

Source: Data compiled from the online portal of MCA

The data set 'Foreign Companies' comprises not only of foreign entities' registration in India but also, of Subsidiaries of Foreign Companies registered in India as Private Limited Companies. Line ' E_f ' represents the trend line for the concerned data series based on a 5-Year moving average of the year-on-year rate of growth of the incorporations of foreign companies in India. As evident through the graph 3.3.1, the rate of growth of the entrance of foreign companies in the Indian economy has been increasing at a rate faster than the 5-Year moving average of the growth rate, post 1994 and at an even faster rate from 2006 onwards.

This higher rate of growth of foreign companies in India clearly evidences the impact of liberalization on the Indian economy. Thus, the participation of foreign ownership in Indian Corporates has been increasing at faster rate post liberalization and in the recent decade, it has accelerated further, enhancing foreign capital inflow into the economy.

A closer look at the growth of foreign ownership India provides an insight into the possible impact of the same on the other forms of ownership existent in India. An analysis of the correlation between the rate of growth of foreign ownership and the other forms of ownership gives the following results:

Graph 3.3.2: Rate of Growth of Foreign Companies

Source: Data compiled from the online portal of MCA

As represented in graph 3.3.2, the rate of growth of the foreign incorporations in India has substantially been rising over the years. The data points represent the five-year moving average of the growth rates of foreign companies based on the number of incorporations in India.

Table 3.3.2: Correlation analysis between Foreign Ownership and other forms of ownership

Ownership Type	Foreign		
	Government	Private	Public
1981 - 2011	0.54	(0.26)	(0.35)
1981 - 1985	0.15	(0.44)	0.09
1986 - 1990	0.29	0.21	0.94
1991 - 1995	0.46	0.65	0.90
1996 - 2000	(0.81)	0.66	0.67
2001 - 2005	(0.80)	0.06	0.26
2006 - 2011	0.91	(0.12)	0.12

The overall impact of the growth rate of foreign ownership in India has a positive correlation with that of Government ownership and negative with the other two forms of ownership.

Source: Data compiled from the online portal of MCA

However, in the 2 five year periods between 1996 and 2005, there exists a strong negative correlation indicating the immediate repercussions of liberalization of an accelerated growth rate in foreign ownership vis-à-vis a decelerating growth rate in government ownership in the Indian economy. However, in the period post 2006, there exists a strong positive correlation between foreign and government ownership growth rates. Thus, indicating that the direct bearing of liberalization on the Indian economy led to a rise in the growth rate of foreign ownership while simultaneously, decreasing the growth rate of government ownership. Post 2006, both these types of ownerships have been growing showing a strong positive correlation. However, as on 2011, foreign ownership is growing at a rate of 22.23% while that of Government ownership is growing at a rate of 2.91%. Despite the rates of growth being diverse, the correlation analysis shows the impact of the rate/speed of growth of foreign ownership with that of government ownership.

In case of the impact of foreign ownership's growth concerning the private and public forms of ownership, there exists an overall negative correlation indicating that faster the growth rate of foreign companies, slower is the growth rate of public and private companies in India. The period prior to liberalization shows negative or subtle positive correlation while that in the post liberalization phases indicates varying and declining positive correlations. Thus, in the current decade, the faster rate of growth of foreign companies seems to be negatively affecting the growth rate of public and private ownership types in the country.

Graph 3.3.3: Government Companies incorporated in India

Source: Data compiled from the online portal of MCA

‘Government Companies’ includes both, Central as well as State Government owned companies that have been incorporated and registered over the years. Although the absolute figures of Government ownership in India has increased over the years, graph 3.3.4 illustrates the fluctuations in the growth rate over the years based on a five-year moving average. The policy of gradually phasing out and moving towards liberalization can be seen upto 1991. Thereafter, the rate of growth shows a constant pace with fluctuations following in a rising trend again, from 2007 onwards.

Graph 3.3.4: Rate of Growth of Government Companies’ Incorporation in India

Source: Data compiled from the online portal of MCA

Table 3.3.3: Correlation analysis between Government Ownership and other forms of ownership

Type	Government		
	Foreign	Private	Public
1981-2011	0.54	(0.03)	(0.27)
1981-85	0.15	0.63	(0.77)
1986-90	0.29	0.38	0.07
1991-95	0.46	0.20	0.31
1996-00	(0.81)	(0.62)	(0.60)
2001-05	(0.80)	(0.64)	(0.78)
2006-11	0.91	(0.51)	(0.30)

As illustrated in table 3.3.2, there exists an overall negative correlation between the rates of growth of Government ownership in India and the Public and Private ownership formats. However, prior to liberalization, the data sets

indicate a weak but positive

correlation between the rates of growth of the companies under the respective ownership types. Post liberalization, from 1996 onwards, there is a strong negative correlation between the ownership types. Thus, it signifies that a slower rate of growth of Government ownership in India led the way for a faster rate of growth of companies under the private, public and foreign forms of ownership, i.e., non-governmental ownership.

The year on year growth rate of government ownership based entities has fallen from 5.39% in 1981 to 2.91% in 2011; while the growth rates of private and public ownership are at 10.05% and 3.43% respectively, as at 2011.

Graph 3.3.5: Private Companies incorporated in India

Source: Data compiled from the online portal of MCA

‘Private Companies’ includes companies registered with the following ownership statuses: General Association Private, Limited Liability Partnership, Not For Profits License Company, Private Limited Company, Private Limited Company with Unlimited Liability and Others.

Graph 3.3.5 explains the growth pattern based on the absolute number of incorporations of companies under the aforementioned ownership types, broadly grouped under the head ‘Private Ownership.’ The graph evidences the spurt in the growth rate of private ownership in the post liberalization phase from 1992 to 2001. Subsequently, from 2001, the growth rate dunked slightly towards slower growth. This change in the rate could be because of the corresponding upsurge in the growth rate of foreign ownership in India; indicating a shift in the preference of the economy over the decades from governmental ownership to increased participation of private players to the evolution of foreign ownership as a dominant market player across various industries, as evidenced in table 3.3.1 with deteriorating positive correlations between the forms.

Graph 3.3.6: Rate of Growth of Private Companies' Incorporation in India

Source: Data compiled from the online portal of MCA

Graph 3.3.6 exhibits the phases of fluctuation experienced in the growth rates of private ownership-based companies in the economy.

Graph 3.3.7: Public Companies incorporated in India

Source: Data compiled from the online portal of MCA

‘Public Companies’ includes the companies registered with the following ownership types: General Association Private, Public Limited Company, Public Limited Company with Unlimited Liability.

Graph 3.3.8: Rate of Growth of Public Companies’ Incorporation in India

Source: Data compiled from the online portal of MCA

The impact of liberalization is evidently grasped in graph 3.3.8 with the upswing in the growth rate post 1991. Like the other ownership patterns, there is a depression in the growth rate in the late 1990s which stabilizes in the early 2000s trending towards a steady increase in the following decade.

Graph 3.3.9: Comparison of Growth Rates of companies with different ownership patterns

Source: Data compiled from the online portal of MCA

To summarize the trends in ownership patterns of Indian companies through the phases of liberalization and de-licensing, based on the overall number of company incorporations through the years, the following can be pragmatically observed:

- **Foreign Ownership:** There is a rise in the overall foreign ownership in the economy with a steadily rising growth rate; indicating that the Indian economy is now open to foreign forms of ownerships in various styles, ranging from FIIs and FDIs to ADRs and GDRs and the likes. Further, with the present Government's stress on 'Make in India', these figures are inevitably going to rise further.
- **Government Ownership:** There has been a steady decline in the Government based ownership styles, however, a certain level has been maintained over the years with a few industries still being closed or subject to licensed entrance due to constraint to safeguard the same from various national and international factors.
- **Private Ownership:** The rise in the private ownership pattern has been counteracted by an even faster rise in the advent and development of foreign ownerships in India. Yet, after foreign ownership, private ownership styles are the most preferred among the others, in the mighty Indian economy.

- **Public Ownership:** This form of ownership has undergone several fluctuations over the years. In the present scenario, it is the penultimate form of ownership that is practiced in the economy, with a growth rate slightly above that of the government ownership.
- The decade starting around 1995 and continuing up to 2005 evidences a downward plunge in the growth rates of all the forms of ownership. This is an indication of the impact of the global economies and economic factors on the performance and expectations of the Indian economy as well.
- The period post 2005 shows a spurt in the trends of all the ownership types, in general, indicating better competence of the Indian economy to face global economic pressures as well as a conducive, national global environment for the development and growth of corporates.

Section 4: Sensex Analysis – An analysis into ownership patterns of Sensex Companies

This section of the research paper analyzes the ownership trends in SENSEX companies as on 31st March, 2015. Indian Corporates have undergone massive changes over the years and one of the vital changes has occurred in the ownership styles that have emerged over the years. In order to analyze this impact of liberalization along with the emergence of novel ownership compositions in the Indian Corporate representation, the contemporary ownership holding patterns have been analyzed.

Background of SENSEX (a flagship Index of the Indian Stock Market):

The SENSEX is a representative index encompassing the top corporates in different sectors and industries. In order to study the current forms of ownership in the Indian Corporates, the SENSEX companies provide an ideal base.

The SENSEX (SENSitive indEX) was introduced by the Bombay stock exchange on January 1 1986. It is one of the prominent stock market indexes in India. The Sensex is designed to reflect the overall market sentiments. It is composed of 30 of the largest and most actively-traded stocks on the BSE. These are large, well-established and financially sound companies from main sectors and are representative of various industrial sectors of the Indian economy.

The index is calculated based on a free-float capitalization method when weighting the effect of a company on the index. This is a variation of the market cap method, but instead of using a company's outstanding shares it uses its float, or shares that are readily available for trading. The free-float method, therefore, does not include restricted stocks, such as those held by company.

The data set comprises of holding compositions in the concerned SENSEX Companies during the period starting April 2001, up to March 2015.

The existing ownership patterns in the concerned corporates have been broadly classified into three sections, namely: Domestic, Foreign and Government for the purpose of the analysis. This study also indicates the correlation between market capitalization and ownership styles in the present economic and market conditions.

The aforementioned broad holding categories comprise the following components in their respective ownership confederacies:

Domestic Holding: Indian Promoters, Banks, Financial Institutions, Insurance Companies, Mutual Funds, Indian Public and UTI.

Foreign Holding: FIIs, QFIs, FPIs, Overseas Corporate Bodies, NRIs, GDRs and ADRs

Government Holding: Central-State Governments and Government Companies

Graph 3.4.1: Ownership Trends in Sensex

Source – Data collated from www.bseindia.com

Liberalisation opened up the Indian Economy to global players and investors in the fiscal year 1991-92. Graph 3.4.1 elucidates the trends in the ownership structures among the 30 SENSEX companies through the various phases from 2001 to 2015.

As evidenced from the graph, domestic holding in Indian Corporates is waning in comparison with the upsurge in foreign holding. Domestic and Foreign holding patterns mirror each other negatively as trends, over these years and illustrated in the graph, indicating an almost perfectly

negative correlation between the two. Government holding on the other hand appears consistent within the bottom 10%-15% range of holding in the top Indian corporates.

This movement and the corresponding variations in the holding patterns can be premeditated into three phases:

- Phase 1: Prior to 2008
- Phase 2: 2008 – The Subprime Crisis
- Phase 3: Post 2008

Graph 3.4.2: Phase wise holding Patterns in SENSEX Companies

Source – Data collated from www.bseindia.com

Phase 1 – Prior to 2008

From 2001 to 2007, Domestic Holding reduced significantly from 61% to 49% and there was a corresponding significant increase in the Foreign Holding from 26% to 38%.

During 2001 to 2008, the Services Sector including Financial, Banking, Insurance, Outsourcing, R&D, Courier, Testing and Analysis received the highest FDI. Construction, Telecommunications, Computer Hardware & Software, Drugs & Pharmaceuticals, Automobile and the chemical Industry also received significant FDIs.

Government Holding in this period, however, remained constant, indicating that Government had not let go off key sectors in which it intended to control.

Phase 2: 2008 – The Subprime Crisis

The global financial crisis began to affect India since early 2008 and India could not insulate itself from the aftermath of the same.

Capital began to be withdrawn from India's Financial Markets and the same is visible in the graph through a dip in the foreign holding from early 2008. FDI however, remained at a high of 27.3 Billion Dollars in 2008-09 despite the global crisis.

Source – http://articles.economictimes.indiatimes.com/2009-09-13/news/27640201_1_financial-crisis-india-s-gdp-gdp-growth

Financiers reversed capital flow into India but long-term projects investors completed their ongoing project. The dip in the above graph indicates foreign ownership in 2008 to 2009 plummeted from nearly 38% to 30%.

The fall in Foreign Holding gave opportunities to the Domestic shareholders to up their stakes. From nearly 49% in 2006, the domestic holding increased up to 58% in 2009.

Government holding in this period however did not change much and it remained around 12%.

Phase 3: Post 2008

Post 2008, a return of sorts was seen by Foreign Investors who withdrew their capital early on.

With the Indian Domestic shareholders also being heavily invested in the Sensex, Foreign holding has taken some time and slowly and steadily it has crawled back and achieved the pre 2008 holding stakes. From 30% in 2009, the foreign holding increased to 37% by the end of Fiscal year 2014-15.

Correspondingly, this period witnessed a fall in Domestic holding from 58% in 2009 to 49% at the end of Fiscal year 2014-15. The government stake marginally increased from 12.1% in 2009 to 13.5% for the same period.

Graph 3.4.2 explains in detail the ownership positions across the periods discussed above.

Section 5: Impact of FIIs and FDIs on the Indian Corporate Sector

Former Finance Minister, P. Chidambaram, in the 2013 Union Budget, said the government would follow the international practice with regard to defining foreign direct investment (FDI) and foreign institutional investors (FII).

Stating that government was in consultation with stock market regulator SEBI on a number of issues, Mr. Chidambaram said “In order to remove the ambiguity that prevails on what is FDI and what is FII, I propose to follow the international practice and lay down a broad principle that, where an investor has a stake of 10 per cent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 per cent, it will be treated as FDI.”

Globally, FDI is an Investment a parent company makes into a foreign country whereas FII is where investment is made as an investor in the foreign markets. FIIs can easily enter the stock markets and exit as per their plans and strategies.

FDI not only brings in capital but also good governance, better management and even technology transfers. FII however does not serve these purposes apart from good governance. FIIs primarily have to register themselves with the SEBI before entering the Indian Stock Markets.

Graph 3.5.1: FDI and FII trends in India:

Source – DIPP website, FDI Statistics

FDI, in India, is struggling to achieve its high point achieved in 2011-12, but there are indeed bright signs of revival with the Government's Make in India Campaign.

FII, on the other hand, has seen a lot of volatility in the Indian markets, with it going negative during the Sub-prime global economic crisis. Again, it experienced a fall during the end of the UPA-2 Government regime but soon picked up with the NDA gaining power and the launch of its various campaigns.

A further detailed insight into India's Foreign Ownership patterns can be gained from the DIPP data on countries investing into India via the FDI route.

Graph 3.5.2: Percentage FDI Equity into India (Country-wise)

Source – DIPP website, FDI Statistics

Mauritius accounts for 35% of FDI into India, followed by Singapore at 13%, USA at 5.5%, Netherlands at 6%, Japan at 7% and UK at 9%. These six countries together account for nearly 76% of India's FDI inflow.

Graph 3.5.3: Net FII Turnover on BSE

Source – BSE India Website, FII Turnover

FII turnover data on BSE alone from 2000 to 2015, again highlights the ownership patterns established earlier – the movements as per the three phases. During 2008 – 2010 the FIIs fall sharply due to the Global Economic Crisis and recover by the end of 2010 from the depression.

The effect of the crisis on the Indian economy was not significant in the beginning. The initial effect of the subprime crisis was, in fact, positive, as the country received accelerated Foreign Institutional Investment (FII) flows during September 2007 to January 2008. There was a general belief at this time that the emerging economies could remain largely insulated from the crisis and provide an alternative engine of growth to the world economy. The argument soon proved unfounded as the global crisis intensified and spread to the emerging economies through capital and current account of the balance of payments. The net portfolio flows to India soon turned negative as Foreign Institutional Investors rushed to sell equity stakes in a bid to replenish overseas cash balances. This had a knock-on effect on the stock market and the exchange rates through creating the supply demand imbalance in the foreign exchange market. The current account was affected mainly after September 2008 through slowdown in exports. Despite setbacks, however, the BoP situation of the country continues to remain resilient¹.

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1. Nirupam Bajpai, Global Financial Crisis, its Impact on India and the Policy Response, 2011

FDI – The Indian perspective

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers.

Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity. In the critical face of Indian economy the government of India with the help of World Bank and IMF introduced the macro-economic stabilization and structural adjustment program.

As a result of these reforms, India opened its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment¹.

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

1. Bhavya Malhotra, 2014

Based on the recommendations of Foreign Investment Promotion Board (FIPB), the Government, in a meeting held on July 15, 2015, approved 10 proposals of FDI amounting to approximately Rs 1,675 crore (US\$ 262 million).

Some of the recent significant FDI announcements are as follows

- Google plans to invest Rs 1,500 crore (US\$ 234.3 million) for a new campus in Hyderabad which will be focused on three key areas — Google Education, Google Fibre broadband services and Street view.
- Taiwan based Foxconn Technology Group, world's largest electronics manufacturer, will establish 10–12 facilities in India including data centres and factories by 2020.
- Warburg Pincus, a US based Private Equity (PE) firm, has planned to invest Rs 850 crore (US\$ 132.8 million) in Ecom Express – an India based logistics solutions provider.
- Gap Inc., a US based retail chain, opened its first store in Delhi and plans to open 40 more stores in the next 4–5 years which will be spread across the top 10 cities in India.
- Dalian Wanda Group, one of China's largest real estate firms, has planned to invest US\$ 10 billion in India in the next 10 years which will be used to construct retail properties and industrial townships.
- Microsoft Corporation has planned to establish three data centres in India which will have the ability to scale up easily without much of physical expansion. These data centres will be used by the firm to equip itself better towards the sectors such as government and financial services.
- Royal Dutch Shell PLC, a global oil and gas giant, is planning to expand its retail outlet network by utilizing its existing license to establish 2,000 fuel stations. Shell has already invested around US\$ 1 billion in India and currently has 75 operational outlets.
- Nando's, a South African restaurant chain, has planned to open 12 more restaurants in India which will require an investment of Rs 75 crore (US\$ 12 million) taking the total number to 20 by 2017.
- US based BrightSKY has planned to establish a plant in Naya Raipur India to manufacture 4G devices, Light Emitting Diode (LED) bulbs and telecom products. The proposed plan will require an investment of Rs 500 crore (US\$ 78.11 million) and would generate direct and indirect employment for over 600 citizens.

- Carlyle Group, a US based PE firm, will be investing US\$ 500 million in Magna Energy Ltd which is an India-focused upstream oil and gas company.
- Germany based multinational engineering and electronics company Bosch will invest Rs 650 crore (US\$ 101.54 million) in 2015 to expand its reach. The firm will establish a plant in Bidadi and convert its existing plant to a full-fledged technology centre and software development park.
- Japan's Softbank will form a Joint Venture (JV) together with Foxconn Technology Group and Bharti Enterprises to invest US\$ 20 billion in the renewable energy sector of India with an aim to set up 20,000 MW of projects in the next ten years.
- Wal-Mart India Pvt Ltd, a wholly owned subsidiary of Wal-Mart stores Inc, has planned to expand to 500 stores across India in the next 10 - 15 years, compared to 20 stores currently operating across eight states.

Government Initiatives

The Government of India has amended the FDI policy regarding Construction Development Sector. The amended policy includes easing of area restriction norms, reduction of minimum capitalisation and easy exit from project. Further, in order to provide boost to low cost affordable housing, it has indicated that conditions of area restriction and minimum capitalisation will not apply to cases committing 30 per cent of the project cost towards affordable housing.

Relaxation of FDI norms is expected to result in enhanced inflows in Construction Development Sector consequent to easing of sectoral conditions and clarification of terms used in the policy. It is likely to attract investments in new areas and encourage development of plots for serviced housing given the shortage of land in and around urban agglomerations as well as the high cost of land. The renewed policy is also expected to encourage development of low cost affordable housing in the country and of smart cities.

The Government of India recently relaxed the FDI policy norms for Non-Resident Indians (NRIs). Under this, the non-repatriable investments made by the Persons of Indian Origin (PIOs), Overseas Citizens of India (OCI) and NRIs will be treated as domestic investments and will not be subject to FDI caps.

The government has also raised FDI cap in insurance from 26 per cent to 49 per cent through a notification issued by the DIPP. The limit is composite in nature as it includes foreign investment in the form of foreign portfolio investment, foreign institutional investment, qualified foreign investment, foreign venture capital investment, and non-resident investment.

The Cabinet Committee on Economic Affairs (CCEA) has raised the threshold for foreign direct investment requiring its approval to Rs 3,000 crore (US\$ 469 million) from the present Rs 1,200 crore (US\$ 187 million). This decision is expected to expedite the approval process and result in increased foreign investment inflow.

India's cabinet cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the initiative does not allow foreign firms to operate trains, it allows them to invest in areas such as creating the network and supplying trains for bullet trains etc.

According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2015, India acquired ninth slot in the top 10 countries attracting highest FDI in 2014 as compared to 15th position last year. The report also mentioned that the FDI inflows to India are likely to exhibit an upward trend in 2015 on account of economic recovery.

India will require around US\$ 1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This would require support from FDI flows.

Correlation between FDI and GDP

Enhancing per capita income within a country through increasing current output level constitutes one of the primary objectives of economics. An increase in GDP, the market value of all the products and services produced annually within a country, can also be defined as economic growth. What is desirable in an economy is to increase GDP and achieving economic growth consequently.

Foreign Direct Investment (FDI) is the establishment of a new production line or buying an already established production line in a country different from its origin with the aim of diffusing its production abroad¹.

FDI has been started to be seen as a fundamental source of external financing both in developed countries and countries suffering from low capital in the last 20 years thanks to its positive effects in host country through level of capital, technology and other means. Many developing countries are trying to attract FDI by following outward-oriented industrialization policies in order to increase the growth of economy.

Foreign direct investment (FDI) has played an important role in the process of globalization during the past two decades. The rapid expansion in FDI by multinational enterprises since the mid-eighties may be attributed to significant changes in technologies, greater liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including developing countries like India. Capital formation is an important determinant of economic growth. While domestic investments add to the capital stock in an economy, FDI plays a complementary role in overall capital formation and in filling the gap between domestic savings and investment. At the macro-level, FDI is a non-debt-creating source of additional external finances. At the micro-level, FDI is expected to boost output, technology, skill levels, employment and linkages with other sectors and regions of the host economy².

1. Seyidoğlu, 1999: 664

2. IRJC : Vol.1 Issue 8, August 2012, ISSN 2277 3622

An analysis of FDI and GDP trends since 1992 of the BRIC Countries has been made. World Bank data on GDP figures and FDI inflows have been taken into analysis.

Table 3.5.1: Correlation between FDI and GDP in BRIC Countries:

Correlation between FDI and GDP			
Brazil	Russian Federation	India	China
0.91470	0.94883	0.88200	0.98213

Source: GDP and FDI figures taken from World Bank Database

The BRIC countries show a very high degree of positive correlation between FDI and GDP. This correlation, clearly, upholds the principles FDI stands for. By filling in the gap for Domestic Investments and also boosting the overall technology and skills, FDI, in terms of a package as a whole, clearly lifts the economy and the country's production levels.

Section 6: Comparison of India with the BRIC Nations

BRIC, the acronym was coined by Jim O'Neill from Goldman Sachs in a paper entitled "Building Better Global Economic BRICs." The economic potential of Brazil, Russia, India and China is such that they could become among the four most dominant economies by the year 2050. These countries encompass over 25% of the world's land coverage and 40% of the world's population and hold a combined GDP (PPP) of \$20 trillion. On almost every scale, they would be the largest entity on the global stage. These four countries are among the biggest and fastest-growing emerging markets¹.

The BRIC eventually became BRICS with South Africa being added in 2010.

The combined economic output last year of Brazil, Russia, India, China and South Africa almost matched the U.S.'s gross domestic product. Back in 2007, the U.S. economy was double the BRICS.

Graph 3.6.1: BRICS Economies Catch U.S.

Size Matters: BRICS Economies Catch U.S.

Largest developing economies gain influence amid turmoil, distance

■ BRICS ■ U.S.

\$18 Trillion

Source: www.worldbank.org; Annual GDP in Current US\$

1. Incal 2011

Also the New Development Bank (NDB), set up by five BRICS nations including India and chaired by former chairman of Infosys, will start lending in local currency by April next year and member countries will primarily be the focus of credit facility.

The NDB, with a capital of USD 100 billion, will look at various instruments of credit to the member countries -- Brazil, Russia, India, China and South Africa -- which require huge resources for development.

Russian President Vladimir Putin, while justifying the setting up of NDB, recently said that "The international monetary system itself depends a lot on the US dollar, or, to be precise, on the monetary and financial policy of the US authorities. The BRICS countries want to change this."

In this section, we have analysed and discussed ownership trends and patterns in BRIC Countries by studying research papers earlier published and attempted to understand key similarities and differences in the Ownership structures.

China

"Business groups are vertically integrated firms focused on a particular industry or sector, not diversified groups involved in a wide range of industries"¹. Lee and Jin (2009) show the market forces, state-activism, and the firm's voluntary responses have driven the growth of "vertical" business groups. The Party state initially encouraged companies to band together into industry

clusters by giving them preferential access to contracts and stock market listings. In recent years there is evidence that groups are becoming more “horizontal”.

After three decades of reform, China’s SOEs now comprise over 60 percent of the largest 500 companies in China and more than 10 percent of Fortune Global 500 companies in the world².

China’s leaders want the country’s industrial economy to gain increased value and competitiveness with a “mixed ownership” model, where private investors and the state jointly

1. Lin and Milhaupt 2011, p. 13

2. Global 500 2013, CNNMoney.com, http://money.cnn.com/magazines/fortune/global500/2013/full_list/

own companies. However, those goals can be achieved only if the state also cedes substantial control of mixed ownership enterprises to private investors, according to new research co-authored by Marshall W. Meyer. Meyer and his co-author, Changqi Wu, a professor at the Guanghua School of Management, presented the findings of their research in a paper “Making Ownership Matter: Prospects for China’s Mixed Ownership Economy¹.”

China’s mixed ownership model is not new, and is a hybrid outgrowth of the earlier model of the 1970s and 1980s where “almost everything of significance was state-owned,” said Meyer. In the economic reforms of later years, the Chinese government initially separated the state-owned enterprises (SOEs) from the government. In subsequent stages, it created a “halfway house” or a hybrid structure called a “legal person entity” that allowed the state to reduce its ownership but retain control of companies. Meyer added, “It’s a waffle. It’s a compromise between outright privatization to which the conservatives in the party object very strongly and maintaining the present system, which isn’t working very well².”

Brazil

There is a great concentration of capital, mainly of voting capital, in Brazil. The widespread issuance of non-voting shares allows a certain distance from the one share - one vote rule. The control is well-defined, which is to say that normally the shareholders (or more commonly the shareholder) controlling the company are easily identified. Even when there is no majority

shareholder, the major one owns a significant portion of the voting capital, and the company is, on average, controlled by its three major shareholders. Besides this, 82 percent of the voting capital of companies is in the hands of the five major shareholders. In Brazil companies are permitted to issue shares without voting rights in an amount up to two-thirds of the total capital stock (Law 6404 – Law of Corporations). This allows companies to issue shares without relinquishing control and is therefore a way of separating ownership from control.

Control of a company can be guaranteed with only one-sixth of its total capital.

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1. <http://www.paulsoninstitute.org/think-tank/paulson-policy-memoranda/2014/making-ownership-matter>
 2. <http://knowledge.wharton.upenn.edu/topic/management/> September 26, 2014

The issuance of non-voting shares is widely used by Brazilian companies. Despite the frequent presence of pyramidal ownership structures, their main objective does not appear to be to maintain control at a lower cost. The participation of other companies as shareholders is common and they are most often present in the direct control coalition of firms. Indirectly, individuals, followed by foreigners are most common.

In Brazil, the lack of protection creates a high value of control with a high concentration of ownership. One of the possible consequences of this situation is a less developed stock market.

Russia

As per Shabunina Anna, Russian companies have a high concentration of ownership by international standards. The control-ownership gap is among the highest in the world once we account for its full size. Less than a half of the control-ownership gap comes from pyramidal structures; the rest is exercised via less formal channels of control.

Andrei Kuznetsov, Rostislav Kapelyushnikov, Natalya Dyomina in their Paper “The impact of concentrated ownership on firm performance in an emerging market: Evidence from Russia”, suggested there may be a negative impact of ownership concentration on firm performance. When minority- shareholders are not well-protected, the markets are not very liquid, share prices do not convey the needed information to improve efficiency in allocation, and legal and political

institutions that protect the rights of all stakeholders are weak, ownership concentration will result in controlling owners choosing low-risk, low-productive projects if they feel that their position is threatened. The undeveloped state of Russian capital markets makes it difficult for owners to realize value accumulated in shares.

Andrea Goldstein, Senior Economic Affairs Officer, UN, in his paper ‘Big Businesses in the BRIC’, suggests the following:

“With the exception of Brazil, big business in the BRIC remains dominated by domestic firms. In view of the exclusion of foreign companies from the Chinese ranking, but it also reflects the fact that most inward FDI over the past 15 years or so has been export-directed. The private sector accounts for almost $\frac{3}{4}$ of the top 100 firms’ sales in Brazil and for slightly more than $\frac{1}{2}$ in India; it is marginally smaller than the government in Russia and almost non-existent in China.

Table 3.6.1: Top 100 Companies’ Sales in BRIC, by ownership

Holding	Brazil	Russia	India	China
Domestic	57.32	91.53	96.83	100.00
Government	28.02	51.74	47.96	95.25
Private Groups	29.30	39.79	41.02	4.75
Independent	-	-	7.85	-
Foreign	38.83	3.67	3.17	-
Joint Venture	3.85	4.81	-	-

Source: Exame, RA Expert, Fortune India and China.org.cn.

The landscape of big business in the BRIC at the end of the 2010s should bear little resemblance to the 1990s. Globalization, liberalisation, privatization, re-regulation, continuing government promotion have all shaped decisively the emerging corporate giants.

Corporate ownership remains highly concentrated in all BRICs, although with variance that reflects different ownership typologies.

CONCLUSION

The persistent and irksome domestic unrest and international economic pressures that India was confronted with towards the end of the 20th century made it imperative for the economy to introduce heavy economic reforms to salvage itself from distress and redeem the path of economic recovery to achieve its final goal of global supremacy.

One of the most striking features of India's liberalization has been the gradual and calibrated financial liberalization, contrary to the fast-paced and broad-based approach followed by several other developing countries.

Financial liberalization in India has gone through several phases; from delicensing of key industries in the 1980s to liberalization of the industries from the control of the government to opening up the economy to foreign players by acknowledging the sway of foreign components in the shareholding/ ownership composition of Indian companies, the liberalization policies in India have been leisurely yet constructively implemented by far.

Liberalization as an economic reform has positively impacted several industries including the IT industry, Banking Sector, Telecom Industry. India's annual average growth rate from 1990 – 2010 has been 6.6 % which is almost double than pre reforms era. GDP growth rate surpassed 5% mark in early 1980's.

Liberalization has affirmatively influenced the Indian Economy.

Section 1:

There is an increase in the overall number of Company and LLP registrations; however, this increase is at a diminishing rate. After liberalization, due to increased foreign exposure of the economy through the New Economic Policy, the number of company registrations in India shot up significantly. Similarly, the impact of the Global Economic Crisis in 2008 has influenced the number of companies being registered causing it to slow down.

The rate of growth of listed companies in India has experienced several ups and downs with it peaking post the introduction of liberalization, in 1994; followed by a slowdown which recovered post 2000s.

Liberalization as a policy has encouraged positive sentiments within the economy leading to a rise in the number of company incorporations over the years. Further, the fluctuations in the rate of this growth being in tandem with the global scenarios shows the association of the Indian economy at a global level facilitating mutual influences.

Section 2:

The Non-Government entities have managed to penetrate the Industrial and Services sectors much deeper as compared to the Government Sector. The increasing participation of the Non-Government entities in these sectors has also positively impacted the overall growth of the industries.

The changing shareholding structure, from government monopolies of ownership to the increased participation of Non-Governmental entities in the various sectors is evident as an impact of liberalization. Further, the positive correlation of increased GDP contribution and increased Non-Government stake in the companies involved in the respective economic and industrial sectors is a by-product of the phased liberalization policy in the economy.

Section 3:

The analysis illustrates that incorporation of Government companies has declined in comparison to that of private and foreign players in the Indian economy. As on 2011, foreign ownership is growing at a rate of 22.23% while that of Government ownership is growing at a rate of 2.91%. Thus, the rate of growth of the foreign incorporations in India has not only increased substantially over the years but is far above that of Government owned companies.

The ownership patterns in Indian Companies have changed over the years. From Government concentrated structures to the growth of private owners in the immediate years post liberalization to the rapid spurt in the rate of growth of Foreign owners in Indian Companies; liberalization as an economic reform has impacted the ownership patterns and shareholding structures significantly.

Section 4:

SENSEX represents the trends in the top most corporates of the Indian economy. Given the evolution of “Corporations” in India as a consequence of industrial liberalization’s impact on Indian Shareholding patterns, the analysis of the ownership patterns of the SENSEX Companies is inevitable.

In the SENSEX Companies, domestic holding in Indian Corporates is waning in comparison with the upsurge in foreign holding. Domestic and Foreign holding patterns mirror each other negatively, with inflows-outflows matching each other inversely. Thus, the leading players of corporate India are looking towards foreign stakeholders in ownership over the conventional Indian counterparts.

Section 5:

Both FDI and FII indicate an upward trend currently. The obvious repercussions of the global slowdown have been experienced in their trends with respect to India as well. However, FII has been more volatile and in sync with the Global Economic Trends and sentiments.

Acknowledging the growing acceptance as well as demand of foreign participants in the ownership structures of Corporations in India and their corresponding positive impact on the growth of these corporates, and also the economy as a whole, the government of India has rightly introduced a plethora of policies, measures, plans and strategies to lure foreign investors and encourage their investments in India. FDI has got a shot in the arm with the recent success of the “Make In India” campaign.

Section 6:

The economic potential of Brazil, Russia, India and China is extremely huge and the same has been identified by investors world over. Businesses have been dominated majorly by the Domestic Companies in BRICs. Also, these four countries have received a large amount of FDI.

However, corporate ownership remains highly concentrated in all BRICs, although with variance that reflects different ownership typologies. China seems averse to absolute Foreign Holding, while Brazil seems to be the most responsive to absolute Foreign Holding. India has maintained

a balance within its domestic holdings with private and governments groups having similar stakes. Though, India is still predominantly controlled by domestic establishments, the recent trends with respect to foreign holding hint a steady yet massive transition in these numbers.

As an extension to this, the recently launched campaign of the Indian Government – “The Make in India” Campaign evidences the observations of this study further. This campaign is an attempt by the Indian Government to promote India as the next global investment hub. This objective of attracting foreign investors into the economy as influential participants in the growth of several aspects, from encouraging competition in the domestic players to raising the standards of technological advancements in the various conventional processes, is targeted at elevating the New Economic Policy of 1991 by complementing as well as infusing the fundamentals, impacts and benefits of Liberalization, privatization and globalization in to one campaign.

The following write up in the next section is an overview of what this campaign holds in store for the Indian economy in the wake of the present global scenario. Thus, it is recommended that the “Make in India” campaign be strongly advocated aiming at an increased participation of foreign investors in the ownership structures of India and its implementation in the right direction be stressed upon, to enable faster and more productive growth and development of the Indian Companies and Economy as a whole.

Make In India – Its impact on Corporate Ownership

Liberalization began in the 1990s as an extension to the delicensing policy that commenced in the 1980s. This string has been heightened further with the 'Make in India' concept floated by the Government of India in 2014. This conception will pave the way to enhanced investments in the Indian economy, significantly impacting the ownership configurations further. This leap in the quest of complete liberalization has been analyzed in this segment of the research study to explicate its necessities and implications.

The campaign, 'Make In India' is aimed at making India a manufacturing hub and economic transformation in India while eliminating the superfluous laws and regulations, making bureaucratic processes easier and shorter, and Make In India is an international campaigning slogan coined by the current NDA-led Government to make itself more transparent, responsive and accountable.

An official statement in July by the Commerce Ministry of India declared that FDI into India saw a 48% growth in the seven-month period of September 2014 to April 2015 compared to corresponding figures of the last year. The statement also said that FII grew 717% to \$40.92 billion in 2014-15.

"The FDI inflow under the approval route saw a growth of 87 per cent during 2014-15 with inflow of \$2.22 billion despite more sectors having been liberalized during this period and with more than 90 per cent of FDI being on automatic route," the statement added.

Amitabh Kant, Secretary, DIPP, in an interview to CNBC TV-18 in August 2015, stated that there were 6-7 big-ticket investments coming up in India in the coming months without, however, divulging details of FDI quantum.

The Make in India policy defines various types of Investors, namely:

INDIVIDUAL:	FVCI, Pension/Provident Fund, Financial Institutions
COMPANY:	Foreign Trust, Sovereign Wealth Funds, NRIs / PIOs
FOREIGN INSTITUTIONAL:	Private Equity Funds, Partnership /
INVESTORS	Proprietorship Firm, Others

RECENT POLICY MEASURES

- 100% FDI allowed in medical devices
- FDI cap increased in insurance & sub-activities from 26% to 49%
- 100% FDI allowed in the telecom sector.
- 100% FDI in single-brand retail.
- FDI in commodity exchanges, stock exchanges & depositories, power exchanges, petroleum refining by PSUs, courier services under the government route has now been brought under the automatic route.
- Removal of restriction in tea plantation sector.
- FDI limit raised to 74% in credit information & 100% in asset reconstruction companies.
- FDI limit of 26% in defence sector rose to 49% under Government approval route. Foreign Portfolio Investment up to 24% permitted under automatic route. FDI beyond 49% is also allowed on a case to case basis with the approval of Cabinet Committee on Security.
- Construction, operation and maintenance of specified activities of Railway sector opened to 100% foreign direct investment under automatic route.

The FDI inflow during the financial year 2014-15 was spread across the sectors evidencing the fact of positive eco-system of investment opportunities which India is now providing.

Graph 4.1: Sector-wise FDI Inflow during 2014-15

Source: DIPP Website

Given the intensity of the Make in India Campaign and the positive sentiments about India over the globe, strategic investments through both FII and FDI are only expected to increase thereby increasing the share of foreign ownership across all sectors and industries.

India today is like an oasis across barren lands all across Americas, Europe and the Middle East. And the recent trends in FDI and FII only prove that.

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ABBREVIATIONS

The following are the fullforms of the abbreviations used in the research study, in the order of their occurrence:

ABBREVIATIONS	FULL FORM
GDP	Gross Domestic Product
GNI	Gross National Income
LPG	Liberalisation, Privatisation and Globalisation policy of the Government of India
IMF	International Monetary Fund
IDRA	Industries (Development & Regulation) Act
MRTP	Monopolies & Restrictive Trade Practices Act
NSSO	National Sample Survey Organisation
FERA	Foreign Exchange Regulation Act
BPO	Business Process Outsourcing
KPO	Knowledge Process Outsourcing
LPO	Legal Process Outsourcing
ULFA	United Liberation Front of Asom
MCA	Ministry of Corporate Affairs
FII	Foreign Institutional Investor
FDI	Foreign Direct Investment
ADR	American Depositary Receipt
GDR	Global depository Receipt
SENSEX	Abbreviation of the Bombay Exchange Sensitive Index
UTI	Unit Trust of India
QFI	Qualified Foreign Investor
FPI	Foreign Portfolio Investor
NRI	Non Resident Indian
MF	Mutual Funds
OCB	Overseas Corporate Bodies
MNC	Multi-National Corporation
FIPB	Foreign Investment Promotion Board
CCEA	Cabinet Committee on Economic Affairs
China's SOE	China's State Owned Enterprises
DIPP	Department Of Industrial Policy & Promotion