

THE FINANCING-PATTERN OF NEW COMPANIES IN INDIA, 1955-63—An Analysis of Prospectuses *

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A STUDY OF the financing-pattern of new¹ industrial enterprises is of great economic and social interest. Such a study can throw interesting light not only on the system of promotion and financing of new enterprises but also on the institutional changes taking place in the capital market.

Regular data on the financing of the expansion of the existing companies are now being made available through Reserve Bank's annual studies of company finances. No published data, however, are available on the financing of new companies. This paper makes a modest attempt to fill this gap by presenting an analysis of the financing-pattern of the new companies floated in India in the public market during the years 1955-63.

The analysis is based on the information given in the company prospectuses. A company prospectus these days is a very informative and interesting document. Some details of financing, which are of particular interest in the case of new companies, can be found only in their prospectuses and nowhere else. Also the prospectuses give information in advance of actual financing. At the same time it is well to remember that the actual pattern of financing may differ from that contemplated at the time of issuing the prospectus.

The nine-year period 1955-63 covered by this study has been broken into two parts, 1955-59 and 1960-63, so as to reveal recent trends.

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¹ A rather ticklish problem was that of defining a new company. "New" and "old" are really speaking relative terms and a clear demarcation is in many cases difficult. Companies which are floated in the public capital market differ from one another in regard to the stage of development reached at the time of flotation. For the present analysis, only those enterprises were regarded as new which had not commenced production at the time of their public issue. An enterprise which had been in existence for some years before its flotation in the public market is also treated as new if the scale of its past operations appeared to be rather small or unimportant.