Strategy for Development Programme for Small Scale Industries in Backward Areas", should get top priority. The growth centre approach has been heavily emphasized with the expectation that within a time span of 5 years some concrete results may be achieved.

The complete proceedings of the seminar centres mainly around financial consideration in a rather isolated way. A little more stress on the planned growth of industrial infra-structure and related problems of executions of project in relation to small and ancilliary industries could have made the proceedings more interesting. While the success of backward area development at Kalol in Gujarat State (p. 229) is well described one would like to know the reasons of failures at certain places with specific data.

Such a compilation of opinions of experts most of whom are directly responsible for policy planning make the book an unparallel publication in the field of backward area development. Complete credit should go to the Management Development Institute, New Delhi, for arranging such a seminar — "in an informal and quasi-autonomous setting". Everyone concerned with backward area development will definitely wish that such seminars will be regularly held followed by similar publications with a feed back system to analyse the earlier recommendation and evolve a flexible approach for the development of backward areas.

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Report on a Study of the Debt-Equity Ratio Norms. B. K. Madan. New Delhi, Management Development Institute, 1978. Rs. 40.00.

As the title suggests, this book brings into public the findings of a study carried out by the Management Development Institute (MDI), New Delhi, on the subject of Debt-Equity ratio norms. MDI were commissioned by Department of Economic Affairs, Ministry of Finance during end 1976 to conduct this study in response to representations made to the Central Government by the State Government and others such as Association of Industries, for relaxing the existing debt : equity norms of 2 : 1. The brief of the study envisaged "a detailed study .....on the debt-equity ratio norms and the criteria for and extent of relaxations of the norms in different conditions and for various categories of industries".

The study has been carried out at two levels. The first is through analysing published data from RBI and other financial institutions, the other is through analysing the data obtained through a questionnaire survey among various All India Financial Institutions and State Financial Institutions. While doing this, Mr. Madan has also critically examined some of the definitional issues relating to debt and equity and has pointed out some of the inconsistencies that are prevailing in the definitions of debt and equity among various Governmental agencies such as controller Capital Issue IDBI and other financial institutions. Understandably, the study puts forward the views and experiences of the financial institutions regarding the debt-equity norm, but this book is perhaps the first of its kind to do so in such a comprehensive manner. Special mention needs to be made of the chapters 2 and 5 (section B) which outlines, the 'formal basis and broad trend in operation' and 'operations of the norms', and while doing so acquaints the reader with the various complex requirements of various financial institutions and authorities regarding debt-equity ratio. These chapters are rich in information and will be of immense interest to enterpreneurs, management practitioneres, as well as to the academic community engaged in studying the capital market and corporate finance in India. Chapter 5 brings out the normative requirements of capital structuring by the financial institutions and other authorities which are sometimes self conflicting. The author has proceeded to show that all the requirements put together i.e., (a) Debt-equity ratio, (b) Proportion of promoters contribution to project cost, (c) Stock Exchange and CCI's regulation of equity holding by the promoters : presents an apparently irreconcilable picture whereby the industry is unable to take the maximum advantage even within the framework of these norms. Although the author has suggested the reconciliation which is adopted in practice, the reader is left with no doubt that this is one of the major areas of anomyly in the requirement structure of the entire normative requirements of capital structuring by the institutions and Government.

Chapter 3 discusses the experience of the Financial Institutions regarding the debt–equity ratio. The analysis centres around plotting the frequency distribution of the various types of project i.e., New project, Expression/diversification, Modernization etc. or whether situated in backward areas or not, or of projects of various sizes, against various ranges of debt-equity, starting from less than 1 : 1 upto above 3 : 5 : 1 in a class internal of 0.25 of debt/equity, for each financial institution. The author has computed the percentage of the number of projects within a class interval or a range of class intervals and drawn conclusions on those. Comparison of these percentages between two groups of project have also been done and the conclusions arrived at from the values of those percentages. Such a methodology leaves some doubts regarding the validity of the conclusions as these are not confirmed by statistical tests. In places higher or lower correlation of debt equity has been claimed with some attributes with the help of such visual observations about the percentages, but no correlation coefficient has been computed. For example : let us take the following findings in support of IDBI's claim of relaxation of debt equity norms for projects in backward area "during the period 1972-76, 27% of all projects located in backward areas had debt-equity ratio above 2 : 1 ; in the case of other areas the corresponding figure is 8%. The modal range of debt-equity ratio in regard to the units in the backward areas was 1.75 to 2 as compared to 1.5 to 1.75 in the case of units in other areas" (p.25). Questions that remain to be answered are as followes : (a) Are these two ratios 18% and 27% statistically different ? or in other words, are these difference statistically significant so as to warrant such a conclusion ? (b) How reliable are these values of average as an indicator of behaviour towards each class of project ? or in other words, What is the standard error of the estimates ? For answering these questions, standard deviation of the samples should have been computed and appropriate statistical tests should have been carried out. No doubt in many cases the tests would have confirmed the conclusion drawn by visual inspection but the test would have provided an unbiased yardstick of comparison and conclusion and therefore added strength to the conclusions of the study as a whole. The same can be said about the correlation coefficients.

Chapter 4, outlines some of the trends, as analysed by the author, in debt equity ratio in the corporate sector. The conclusion has been arrived at based on the RBI data of debt-equity for various industries for a period of 1960-61 to 1974-75. A general conclusion of increase in debt equity ratio has been drawn, on visual inspection of these ratio. The question however remains that in some cases, for example, in cement industry, the increase is quite apparent (0.07 : 1 in 1960-61 to 0.58 : 1 in 1974-75) where as in some cases, for example, in paper and paper products, it is not quite so (0.33 : 1 to 0.38 : 1 during the same period). No attempt has been made to explain such differences. Perhaps the main point that has been missed in this regard is, for an industry, for all companies manufacturing the same products, change of average over a period of time may mean something quite different, such as re-distribution in the age profile of the companies. The debt-equity ratio is a function of time for any company, as with time, the company should progressively liquidate its longterm loan. Hence the overall increase of debt-equity over a period of time may just indicate several new projects taken during the later part of the period and may have nothing to do with application of debt-equity ratio norm by financial institutions. The age analysis of the company's in the industry, therefore, may provide the clue to its absolute value of debt–equity ratio as well. Perhaps if the debt-equity ratio of companies of same age group were compared between these periods, any conclusion regarding the application of debt-equity ratio norm could have been established. Without this, the observation of increase in debt equity ratio, remains just that without any meaningful conclusion on the subject.

Another question that remains unanswered is, that although the norm suggests a debt–equity ratio of 2 : 1. Why should the average debt-equity ratio of all new units receiving assistance from the institutions be much less than 2 : 1 ?

The cardinal issue that needs focussing is that what should be the rationale of the norm of debt-equity, or how should industry go about deciding this issue. The first question is eco-political in nature and the second is eco-mangerial in nature.

The fundamental logic of the first question has not been discussed although a glimpse of the answer to the second question appears in chapter 5 (p 91). But although the phenomenon of financial leverage is explained, no decision, rule or guideline is offered for finding out an workable level of financial leverage for new companies.

Another way of understanding the problem could be to establish empirical relationship of debt-equity ratio with other financial ratios in order to establish a financial management profile of an industry (for example see, Chakraborty, S. K. *Corporate Capital Structure* *and Cost of Capital.* Calcutta, Institute of Cost & Works Accountant, 1977, Chapter 5). Such an analysis could provide an incissive look at the manner in which the debt-equity ratio is being managed by the industry. However, such an analysis would perhaps have been beyond the scope of this study, and further the study made by Chakraborty is from the viewpoint of the industry, and in that sense, a complimentary one to the present study.

In the conclussion, Mr. Madan recommends maintaining a status quo in the debt equity ratio norm, although he concedes that relaxation within the norm is due. Question remains, what prevents relaxations now ? (within those norms) and how can it be achieved ? Some of the recommendations include value loaded statement which may raise controversies. For example, the one on price controlled industry — "Special attention to the debt-equity ratio in the case of price-controlled industry — happily a shrinking list — is due." could raise many eyebrows. The conclusions and recommendations on the definitional issues are definitely thought provoking, and have potentials to bring about fundamental change in the application of the debt-equity ratio norm. The recommendation on moving norm and its tie up with the repayment schedule is also a fundamental one, which may help to provide the institutions yet another useful follow up tool for its loans.

In the ultimate analysis this study has examined some of the issues related to debt-equity ratio in detail and the conclusions on the qualitative analyses are thought provoking. On the quantitative side, the emphasis has been more on interpretation of data rather than its analysis, and that has rendered certain weaknesses in the conclusions in the related area. The reader may not feel convinced about the logic, through which the status-quo of the debt-equity ratio norm has been suggested.

The book has been well produced by the MDI, New Delhi. The exposition of the contented and the orientation of the chapter are good, and the information content and the tables are well presented. On the whole inspite of some of the weaknesses, the author and the MDI deserves unreserved congratulations for bringing to the public such a comprehensive presentation of the Governmental and institutional points of view on the issue of the debt-equity ratio norm, This study no doubt adds to the understanding of some of the basic variables which determines the working of the Indian Capital Market.

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