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### CHAPTER - III

#### INDUSTRIAL FINANCE IN INDIA

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### 3.1 INTRODUCTION :

This chapter deals with the causes of growth of financial institutions. It includes a brief study of Industrial Finance provided by various financial institutions. An attempt is made to do the comparative study of industrial finance provided by various financial institutions.

### 3.2 CAUSES OF GROWTH OF FINANCIAL INSTITUTIONS :

Before independence there were not adequate provisions for finance to industries. But after independence India has a number of institutions which supply small, medium and long term finance to various industries. The various factors responsible for the development of financial institutions are :

#### (1) Need for Promotion Service -

Without professional company promoters, quick industrialisation under our development plans would not have taken place. Private enterprises were reluctant to go into new and untried ventures on a large scale. Specialised institutions are expected to offer technical and managerial know-how in the formulation and evaluation of new industrial projects.

#### (2) Low Capital Formation -

A developing country like India suffers from shortage of finance. India has low rate of capital formation. Hence the

gap between saving and investment is intended to be filled up by the Finance Corporations.

### (3) Need of Replacement Finance -

After the second world war, the old and new enterprises required huge finance for renovation and modernisation. Special financial institutions were necessary to bring about rationalisation of Indian industries.

### (4) Organised Capital Market -

The finance and development corporations not only help in the promotion and financing of business enterprises but they also invigorate the capital Market. Financial institutions are necessary to offer institutional services of promotion, underwriting, finance and investment.

### (5) Planned Economic Development -

Planned economic development requires huge investment. The projects of national importance which may not be taken up by the private enterprises are entrusted to these Corporations. Scarce Financial resources can thus be planned to give the utmost utility. Certain basic industries can be organised by the government through these special bodies.

### (6) Finance For Small Business -

There is a great need of financial institutions to provide finance to small scale industries. Financial problem

of small business are of special character. Hence India established special institutions to solve their problems.

(7) Development of Backward Areas -

The Financial and Developmental Corporations have been assigned a significant role in the development of identified backward areas by providing finance of easy terms. In India, they have been active in this field after 1970.

(8) Need for Long Term Finance -

In India commercial banks do not provide long term loans to industries. They are concentrated on providing working capital only. Hence there is a need of long term finance to industries. Therefore, it is necessary to develop financial institutions.

The special financial institutions were established in India after 1951 in order to solve the problems of industrial finance with reference to small, medium and large industries. Out of these financial institutions some important institutions are mentioned in this topic.

### 3.3 A STUDY OF INDUSTRIAL FINANCE BY OTHER ORGANISATIONS:

Under this heading a brief study of Industrial Finance provided by various important financial institutions is given. Firstly, the assistance sanctioned and disbursed by all Financial Institutions is shown and then a study of industrial finance provided by some important institutions is taken into consideration.

(A) Assistance Sanctioned and Disbursed by All  
Financial Institutions -

Over the last two decades the Financial Institutions have emerged as significant sources of term financing of industrial sector. The total sanctions of the financial institutions increased from Rs. 254 Crores in 1970-71 to Rs. 6801 Crores in the year 1985-86. The aggregate sanctions of all the financial institutions upto March 1986 worked out to Rs. 32403.6 Crores and disbursements to Rs. 23747.9 Crores. These figures high light the important role of industrial financing to industry in recent years. The assistance sanctioned and disbursed by all financial institutions is shown in the following table.

Table 3.1

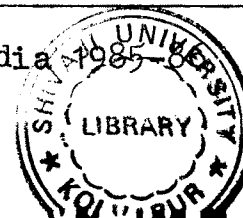
'Assistance Sanctioned and Disbursed by all

India Institutions '

Year March April	Sanctions		Disbursements	
	Amount (Rs. Crores )	% Increase	Amount (Rs. Crores)	% increase
1981-82	2743.3	8.7	2064.5	28.8
1982-83	3183.9	16.1	2358.3	14.2
1983-84	4043.8	27.0	2893.3	22.7
1984-85	5624.4	39.1	3408.3	17.8
1985-86	6801.0 P	20.9	4798.0 P	40.8

Source - Report on Development Banking in India 1985-86

P = Provisional.



The above table 3.1 shows that the term lending operations in all financial institutions in the country recorded a significant increase over the past five years. From a level of Rs. 2743.3 Crores in 1981-82 sanctions made by these institutions ( at the all India and State level put together ) went upto Rs. 6801.0 P Crores in the year 1985-86. During the year 1985-86 a growth rate was 20.9 percent. It was 8.7 percent in the year 1981-82.

Disbursements by all India and State level institutions put together amounted to Rs. 2064.5 Crores in the year 1981-82. During the year 1985-86 the disbursements went upto Rs. 4798.0P Crores. The growth rate of increase in disbursement was 28.8 percent in the year 1981-82 and it was 40.8 percent in the year 1985-86. It shows that there is substantial growth in disbursement during this period of five years.

#### 3.4 INDUSTRIAL FINANCE CORPORATION OF INDIA ( IFCI ):

Industrial Finance Corporation of India was set-up in 1948 with the object of providing medium and long term credit to industry. The role assigned to it was that of gap filler which implied that it was not expected to compete with the existing channels of industrial finance. An 'industrial concern' under the Industrial Finance Corporation Act has been defined to mean any limited company ( whether in private, Joint or Public Sector) or Co-operative Society, incorporated by an act of legislature and registered in India, engaged in the manufacture preservation or processing of goods, or in shipping or in mining or in the hotel industry, or in the generation of electricity or any other form of power. <sup>1</sup>

IFCI has an authorised capital of Rs. 20 Crores consisting of shares of Rs. 5000 each and paid-up capital of Rs. 10 Crores. It is authorised to issue bonds and debentures in the open market, accept deposits from the public, borrow from the Reserve Bank and borrow Foreign Currency from the World Bank and other institutions.

(A) Functions Of IFCI-

The Industrial Finance Corporation of India grants financial assistance in the following forms -

- 1) Guaranteeing loans raised by industrial concern
- 2) Guaranteeing the issue of stock shares, bonds or debentures by industrial concern
- 3) Granting loans or advances to or subscribing to debenture of industrial concern
- 4) Acting as agent for the Central Government and / or, with its approval, for the IBRD in respect of loans sanctioned by term to industrial concern.
- 5) Extending guarantee in respect of deferred payment by importers who are able to make such arrangements with foreign manufacturers.

(B) Operations of IFCI-

The IFCI completed 38 years of its working on June 30, 1986. During this period, as a pioneer in the field of long-term

industrial financing it played an effective role.

Table 3.2

Financial Assistance Sanctioned and

Disbursed by IFCI

Year March-April		Rs. Crores.			
Types of Assistance	1985-86		Cumulative Assistance as at the end of March 1986.		
	Sanction	Disbursement	Sanction	Disbursement.	
1 Rupee loans	341.7	347.7	2158.8	1776.5	
2 Foreign Currency loans	108.3	51.0	405.7	259.0	
3 Underwriting and indirect subscriptions	39.8	5.2	227.8	68.6	
i) Ordinary and Preference Shares	33.9	4.6	200.3	55.5	
ii) Debentures	5.9	0.5	27.5	13.1	
4 Guarantees	9.4	0.5	95.8	57.9	
Total 1 + 4	499.2	404.4	2888.1	2162.0	

Source - Industrial Finance Corporation of India -

The above table 3.2 shows that during the period of 38 years the IFCI sanctioned a net total financial assistance of Rs. 2888.1 Crores to various industrial projects. About 65% of this assistance was sanctioned in the setting up of new units,



the balance of 35 percent being for diversification, expansion and modernisation of existing units. Assistance disbursed during this period amounted to Rs. 2161 Crores which represented 75% of the total sanctioned.

Out of the assistance sanctioned in the year 1985-86 Rs. 499.2 Crores, an amount of Rs. 306.1 Crores was sanctioned for new project. Assistance sanctioned to projects in notified backward districts amounted to Rs. 294.2 crores. It is 58.9 percent of total sanctioned during the year. As on the past, important industries such as sugar, cotton textile, fertilisers, cement, power generations, paper, industrial machinery etc. accounted for 50.3 percent of total assistance sanctioned during the year.

### 3.5 INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA :

On the advice of the three-man World Bank Mission, a private limited company known as the Industrial Credit and Investment Corporation of India was registered in January 1955. It is a pioneer institution to provide foreign currency loans. It is also the pioneer and one of the lending underwriting agencies for underwriting of industrial securities. It offers long-term loans or guarantees. It provides managerials' tehcnical and administrative advice to promoter of new projects.

ICICI started with initial resources of about Rs.17.5 crores - Rs. 12.50 crores in rupees ( comprising Rs. 5-0 crores share capital and Rs. 7.50 crores Government advance ) and 10 million in foreign currencies. At the end of March 1983 the

paid up capital of the Corporation amounted to Rs. 27 crores while resources and surplus figured at Rs. 57 crores. Borrowing of the Corporation at the end of March 1983 aggregated to Rs.1122 crores.

(A) Objects Of ICICI-

The Corporation has been established for the purpose of assisting industrial enterprises within the private sector of industry in India. The important objects of ICICI are as follows:

- i) assisting in the creation, expansion and modernisation of enterprises
- ii) encouraging and promoting the participation of private capital
- iii) encouraging and promoting private ownership of industrial investment and the expansion of investment market.

(B) Operations of ICICI

In the thirtyone years of its operations, ICICI has made a remarkable progress in the field of finance. The financial assistance sanctioned and disbursed by ICICI is shown in the following table -

Table 3.3

Financial Assistance Sanctioned  
and Disbursed by ICICI -

Year March April		Rs. crores.		
Type of Assistance	1985-86		Cumulative Assistance as at the end of March 1986	
	Sanctioned	Disbursement	Sanctioned	Disbursement
1 Rupees loans	272.2	242.9	1643.1	1321.3
2 Foreign Currency loans	226.1	144.1	1794.7	1506.8
3 Underwriting and direct subscription	41.0	10.2	329.6	146.5
a) Ordinary and Preference Shares	33.9	5.2	247.2	88.0
b) Debentures	7.1	5.0	82.4	58.5
Total 1 + 2 + 3	539.3	397.2	3767.4	2975.1
4 Guarantees	15.1	0.5	120.1	1.4
5 Supplier's Credit	88.6	67.1	331.7	201.6
6 Leasing	65.2	17.4	102.5	37.1
Total ( 1 + 6 )	708.2	482.2	434.7	3215.2

Source - Report on currency & Finance 1985-86.

The above table 3.3 shows that the ICICI sanctioned and disbursed total assistance of Rs. 708.2 crores and Rs. 482.2 crores, respectively, during the year 1985-86. It shows rise of 14.1 percent in sanctions and 22.8 percent in disbursements over the last year 1984-85.

The cumulative assistance sanctioned by ICICI amounted to Rs. 4321.7 crores. Of these Rs. 1794.7 crores was in foreign currencies and the balance in rupees.

Upto the end of March, 1986 the Corporation had disbursed assistance amounting to Rs. 3215.2 crores. The foreign currency loans of Rs. 1506.3 crores were disbursed by ICICI. The total underwriting business of the Corporation at the end of March 1986 was estimated to be Rs. 329.6 crores.

The substantial part ( i.e 86 percent ) of the total assistance has gone to the private sector. In the same way the assistance provided is 9%, 3% and 2% to joint sector, co-operative sector and public sector respectively.

The ICICI has been giving special assistance to plan priority industries. Non-traditional and growth oriented industries, like chemicals, metal, products, machine manufacturers and electrical and import equipment received more than half of the total assistance sanctioned by the ICICI.

Although the ICICI provided assistance to units situated in different parts of the country, it appears to have had a strong preference for a few industrially advanced states like Maharashtra, Gujarat, Tamil Nadu, West Bengal, which together claimed as much as 57% of the total assistance.

### 3.6 INDUSTRIAL DEVELOPMENT BANK OF INDIA ( IDBI ):

Industrial Development Bank of India was established in 1964 to act as apex bank in the field of Industrial Finance

and capital market. In the beginning it was a subsidiary of the Reserve Bank of India and both had common board of directors. But since February 1976 the IDBI started functioning as a restructured development bank. " The Government restructured the IDBI to enable it to play a more positive role as an apex Financial Organisation to Co-ordinate the activities of other lending institutions."<sup>2</sup>

(A) Functions of IDBI-

Following are the important functions of Industrial Development Bank of India.

i) Refinancing loans granted by other special financial institutions, banks and co-operatives.

ii) Granting loans to industrial concerns

iii) Rediscounting bills of enterprises

iv) Guaranteeing loans and deferred payments

v) Planning and promoting industries

vi) Investing in other finance corporations

(B) Operation of IDBI -

The IDBI is the lending development bank in India. The following table shows the assistance sanctioned and disbursement by the IDBI.

Table 3.4

Financial Assistance Sanctioned  
and Disbursed by IDBI

(Rupees in crores )

Types of Assistance	1985-86		Cumulative Assistance as at the end of March 1986	
	Sanction	Disbursement	Sanction	Disbursement.
1 Direct Industrial assistance	1121.3	749.5	6158.9	3997.3
2 Refinance of Industrial loans	1564.0	1047.4	7225.3	5556.8
3 Rediscounting of bills	928.0	697.7	4199.9	3181.3
4 Subscriptions to Share and bonds of financial Ins	61.6	62.1	608.9	575.6
5 Seed capital	16.2	11.4	56.9	35.5
6 Guarantees for loans and deferred payments	23.7	146.6	301.9	173.4
Total :	3714.8	2759.7	18551.7	13559.9

Source - Report on currency and finance P. 33 1985-86

The above table 3.4 shows that the industrial development bank of India recorded further growth in its operations during 1985-86. The financial assistance sanctioned to various industries is Rs. 3714.8 crores and the disbursement during this period is Rs. 2759.7 crores.

The cumulative assistance sanctioned by IDBI is Rs. 18551.7 crores and the disbursement is Rs. 13559.9 crores.

The IDBI has taken the highest position in the field of Industrial Finance. It will surely maintain its leadership among development banks. Since its inception in July 1964 the IDBI has helped generate 31 lakh new jobs. The total investment provided by IDBI's cumulative sanctions is Rs. 18551.7 crores. Assistance outstanding in the year 1985-86 is Rs. 4991.2 crores.

IDBI is playing more dynamic role in promoting growth of industries as an innovator in the area of Industrial Finance. IDBI is the major source of Industrial Finance. Its sanctioned and disbursed amount is 47 percent and 43 percent respectively of the total sanctioned and disbursed amount of all the term lending institutions.

### 3.7 STATE FINANCIAL CORPORATIONS (SFC) :

The Industrial Finance Corporation of India was set-up to offer financial assistance to only large and medium sized undertakings. State Finance Corporations have been established to meet the medium and longterm financial requirements of medium and small scale industries in their own State. The first State Finance Corporation was set up in the Punjab in 1953. At present there are 18 State Financial Corporations in the country.

#### (A) Functions of SFCs -

The State Financial Corporations are permitted to provide assistance to industrial concerns by -

- i) Granting loans or advances or subscribing to the debentures of industrial concerns, loans to be repayable within 20 years.

- ii) Guaranteeing the loans raised by industrial concerns
- iii) Guaranteeing deferred payments of any industrial concern which purchases capital goods within India
- iv) Underwriting the issue of stocks, bonds or debentures of industrial concerns
- v) Providing foreign exchange loans under the World Bank Scheme
- vi) Participating in the equity capital of the Small Scale industrial units coming up in backward areas

Besides, the State Finance Corporation act as agents of the Central Government, State Government, the IFCI or any other financial institution for the grant of loans or advances to, or subscribing to the debentures of an industrial concern. The SFCs cannot grant assistance to concern whose paid up capital and free reserves together do not exceed Rs. 1 Crore.<sup>3</sup>

(B) Assistances of SFCs -

There has been considerable acceleration in the SFCs assistance to business enterprises during the last decade. Table shows the annual sanctions and disbursements by the State Financial Corporation.



Table 3.5Analysis of Financial Assistance Provided by SFCs -

Year	No. of Corporations	Loan sanctioned	Loan disbursed	Loan outstanding
1981-82	18	514	316	1207
1982-83	18	637	406	1503
1983-84	18	680	470	1706
1984-85	18	743	498	1824
1985-86	18	1009	607	2545

Source - Annual Report of SFCs

The above table 3.5 shows that loan sanctioned by the 18 SFCs amounted to Rs. 514 crores in the year 1981-82 and the amount substantially increased to Rs. 1009 crores in the year 1985-86. Aggregate assistance sanctioned by SFCs rose from Rs. 743 crores in 1984-85 to Rs. 1009 crores in 1985-86 recording a rise of 35.8 percent.

Disbursements of Rs. 607 crores were also higher in the year 1985-86 than Rs. 316 crores in 1981-82. Assistance disbursed by SFCs in 1985-86 at Rs. 607 crores was higher by 22 percent compared with that in the preceding year. Outstanding loans of SFCs at the end of March 1986 stood at Rs. 2545 crores. Out of 18 SFCs, 13 recorded rise in both sanctions as well as disbursements during the year.

Assistance sanctioned by SFCs during 1985-86 to backward areas aggregated Rs. 532.9 crores. Assistance sanctioned to the small scale industry (including small road transport operators ) amounted to Rs. 830.8 crores.

The State Financial Corporations played an important role in meeting the medium term financial needs of medium-sized industrial concerns. Food processing, services mainly road transport, chemicals, textiles, metal product, machinery and transport equipment industries have been the major beneficiaries of State Financial Corporation's assistance.

### 3.8 UNIT TRUST OF INDIA ( UTT ):

UTI was the first unit trust in the public sector in the world. There is no separation between management and trustees. The Unit Trust has an initial capital of Rs. 5 crores contributed by the following :

Reserve Bank of India	Rs. 2.50 Crores
L.I.C.	Rs. 0.75 Crores
State Bank of India and its subsidiaries	Rs. 0.75 Crores
Scheduled Banks and Other specified financial institutions	Rs. 1.00 Crore
Total :	<u>Rs. 5.00 crores</u>

#### (A) Objectives of UTI -

There are two primary objectives of UTI.

- i) to promote and pool the small savings from the middle income and under income people who cannot

have direct access to the stock exchange.

- ii) to give them an opportunity to share the benefits and fruits of prosperity resulting rapid industrialisation in India.

(B) Policy On Mobilisation of Savings -

The UTI's policy on the mobilisation of savings has its accent on the small and medium income groups of savers. The Unit Trust of India has so far offered as many as seven schemes, which came into existence from time to time. These schemes are as follows -

- i) Unit Scheme 1964
- ii) Reinvestment Plan 1966
- iii) Children's Gift Plan 1970
- iv) Unit-Linked Insurance Scheme 1971
- v) Unit Scheme 1976
- vi) Unit Scheme for Charitable and Religious Trusts, Registered Societies, 1981
- vii) Monthly Income Unit Scheme 1982
- viii) Growth of Income Unit Scheme 1983

(C) UTI and Financial Assistance -

Unit Trust of India has achieved a spectacular success in rendering financial support to programmes of rapid industrialisation in the country. The Trust's financial assistance to industries consists of the underwriting of shares and debentures subscriptions to shares and debentures issue and subscriptions

to privately placed debentures. These constituted the direct form of financial assistance provided by the trust. Besides, it rendered financial assistance of a short-term nature by way of bridging finance and by the placement of "advance deposits" against its own commitments to subscribe the privately placed debentures. The financial assistance sanctioned and disbursed by Unit Trust of India is shown in the following table :

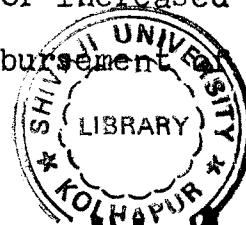
Table 3.6

Financial Assistance Sanctioned and Disbursed by UTI -

(Year March-April)		(Rs. in Crores )		
Type of Assistance	1985-86		Cumulative Assistance as at 31st March 1986	
	Sanction	Disbursement.	Sanction	Disbursement.
1 Subscriptions to privately placed debentures and special deposits	227.2	106.7	656.7	403.54
2 Underwriting and Direct subscription ( a + b )	469.4	422.1	1089.2	873.2
a) Ordinary and Preference Share	25.4	4.2	87.3	50.7
b) Debentures	440.0	417.9	1001.9	822.5
Total :	696.6	528.9	1739.9	1276.7

Source - Report on Currency & Finance Year 1985-86.

The table 3.6 shows that the financial assistance provided by the trust to the Corporate Sector increased substantially. The amount sanction and disbursement total



assistance to this sector increased from 357.3 crores and 236.2 crores respectively, in 1984-85 to Rs. 696.6 crores and 528.9 crores respectively in 1985-86. There was a marked rise in the trust's assistance by way of underwriting and direct subscriptions to shares and debenture sanctions under this head increased from Rs. 238.3 crores to Rs. 469.4 crores while disbursement increased from Rs. 186.8 crores to 422.1 crores. The Unit Trust of India's total financial assistance sanctioned and disbursement as on 31st March, 1986 is Rs. 1739.9 crores and Rs. 1276.7 crores respectively.

The major portion of the Trust's assistance has been provided for the establishment of new projects as well as for the expansion and diversification of existing undertakings.

### 3.9 COMPARATIVE STUDY OF INDUSTRIAL FINANCE CORPORATIONS:

For the comparative study of industrial finance, some important industrial finance institutions are taken into consideration. These institutions are IFCI, IDBI, UTI, ICICI, LIC. The financial assistance sanctioned and disbursed by these institutions is shown in the following table.

Table 3.7

Financial Assistance Sanctioned and  
disbursed by IFCI, IDBI, ICICI, UTI  
& LIC -

Institutions	As on 31st March 1985-86		% of loan distributed
	Sanctioned	Disbursement	
1 IFCI	499.2	404.4	9.10
2 IDBI	3714.8	2759.7	62.19
3 ICICI	708.2	482.2	10.88
4 UTI	696.2	528.9	11.93
5 LIC	383.6	261.9	5.90
Total :		4437.1	100.00

Source - Report on Currency & Finance 1985-86.

The above table 3.7 shows that the Industrial Development Bank of India stood in the first rank in the above comparative study. IDBI sanctioned & disbursed the highest amount i.e. Rs. 3714.8 crores and Rs. 2759.7 crores respectively. The second position got by Industrial Credit and Investment Corporation of India. ICICI has sanctioned and disbursed financial assistance of Rs. 708.2 crores and Rs. 482.2 crores respectively.

Unit Trust of India has got third position because its sanction and disbursement is Rs. 696.6 crores and Rs. 528.9

crores respectively. The fourth place is got by IFCI.

The fifth place is given to Life Insurance Corporation of India. Life Insurance Corporation of India sanctioned and disbursed the financial assistance to private sector is Rs. 383.6 crores and Rs. 261.9 crores respectively in the year 1985-86.

The above table no. 3.7 shows that IDBI has played a significant role in disbursing maximum assistance, i.e. 62.19% of the total disbursement, to various industries. UTI is the second institution in this regard ( 11.93% ) In comparison with other financing institutions, CIC could disburse only 5.9% of the total assistance.

Though LIC has a fifth place according to above table, however, LIC has played a remarkable role in financing the private sector. According to the investment policy of LIC, The maximum amount of LIC's fund is invested in the public sector. The share of private sector is negligible i.e. only 10.5% including joint sector also. Therefore LIC has played a vital role in financing private sector industries.

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