
CHAPTER - I

INTRODUCTION AND METHODOLOGY

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1.1 INTRODUCTION :

' Finance is the life blood of industry.' Without finance industry cannot work. But most of the developing and under-developed countries of the world are facing the crises of adequate long term industrial finance. Various countries have come up with various sources of industrial finance. In India, after second world war, govt. established many financial Corporations for the purpose of providing industrial finance to various industries. Life Insurance Corporation of India is one of them which provides long term loan to industries. To solve the problem of industrial finance govt. established development Corporations named as development banks.

The Development Banks have been playing a significant role in the field of industrial development of the country. After second world war, there was a strong demand of long term finance to industries for the purpose of modernisation, reconstruction, expansion and diversification, establishment of new industrial projects and balanced industrial development. During the five year plan the Indian govt. gave emphasis to the development of industries and financial institutions which provide industrial finance to industries.

After independence LIC has been playing pivotal role in supplying industrial finance. So an attempt is made in the present study to analyse industrial finance of LIC for the year 1981-82 to 1985-86.

1.2 MEANING OF INDUSTRIAL FINANCE :

' The term Industrial Finance is used to convey the organisation of various types of finance needed by industries for their activities connected with the production of goods and services.'¹

Activities of production include construction of building, purchase of machines, replacement, purchase of raw materials etc. For the performance of these activities three types of finance are needed (a) Long term finance (b) Medium term finance (c) Short term finance.

1.3 IMPORTANCE OF INDUSTRIAL FINANCE :

The importance of industrial finance is obvious for a developing country like India. Capital plays an important part in the establishment and development of industries. In the present day world, production in large scale industries is mostly carried out with the help of capital intensive techniques. ' In such circumstances, the process of industrialisation can be accelerated only if capital can be made available through different sources in the requisite quantity.'² Apart from this general need of finance, there are special reasons for the organisation of Industrial Finance.

(A) Before independence the financial institutions did not and could not make available finances for meeting all the needs of industries. It, therefore, became imperative that such institutions as the capital market for buying and selling shares, industrial banks for term lending etc. be organised to provide Industrial Finance.³

(B) It is necessary to mobilise small savings among the people. This is possible if there exist institutions which can inspire confidence in savers and investors and provide ways for saving and investment in accordance with their capacities and needs. Such things as share of small denominations and of various types. The other facilities like easy buying and selling of shares, units etc. can help a lot in augmenting the financing resources for industries.

(C) In the context of Indian conditions and in view of the urgency of the need for industrial finance, there is special need for the govt. to establish and promote financial Institutions.

(D) Adequate industrial finance and prevalence of the right type of financial institutions are intimately bound with planning in the country. Investment decisions can be firmly taken with the help of financial institution.

1.4 SOURCES OF INDUSTRIAL FINANCE :

Different sources of industrial finance are divided into two categories :

(A) Internal Sources and

(B) External Sources

(A) Internal Sources -

Following are the main sources of internal sources of Industrial Finance.

(1) Share Capital -

According to Indian Companies Act 1956, company can issue equity and preference shares. Capital obtained by issue of equity shares is termed as risk capital. Capital of equity

shares varies between 45 and 98 percent in different industries.

(2) Debentures -

The issue of debentures has become quite popular in recent times in India. ' According to the Reserve Bank of India, at present the share of debenture in total capital of the companies is around 10 percent.⁴'

(3) Ploughing Back of Profit -

The main source of capital formation in private sector has been ploughing back of profit earned by the private sector industries. Five years plans have also accepted the importance of such ploughing back of profits.

(4) The Managing Agency System -

This system of industrial finance, peculiar to India, is of little importance nowadays. In the past, when there was great shortage of industrial finance and almost complete lack of financial institutions and the Capital Market in the real sense had not even come into existence, managing agents did render a valuable service in the promotion of industries within the country. After independence, the govt. paid special attention to developing other institutions of industrial finance. The managing agency system has been altogether abolished.

(B) External Sources of Industrial Finance -

(1) Public Deposits -

An important characteristic of industrial finance system in India has been the acceptance of public deposits by Indian

industrial Companies. A substantial portion of capital in the cotton textile industries of Ahmedabad, Bombay and Solapur was obtained through public deposits. This money is used by Companies to meet their needs of working capital.

(2) Commercial Banks -

The share of industrial finance in total credit made available by commercial banks is continuously on the increase. But commercial banks are generally interested in short term loan only. According to B.K. Madan, ' Commercial banks are in a position to grant medium-term credit if they wish to do so. If banks utilise the experience of industries regarding working capital, and take benefit of their individual knowledge about different industrial customers into account, they can participate in medium-term credit while maintaining liquidity.'⁵

(3) New Institutions for Industrial Finance -

These institutions may be grouped under the broad heading of ' Development Banks'. After independence, government established many financial institutions to fill in the gaps in industrial finance and to promote the objectives of planning, these institutions cater to the needs of large and small industries

The important institutions developed in India for the purpose of granting industrial finance are the following :

Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), Unit Trust of India (UTI), State Financial Corporations (SFC) and the Life Insurance Corporation of India (LIC).

1.5 OBJECTIVES OF PRESENT STUDY :

Taking into consideration an important role played by Life Insurance Corporation of India in Industrial Finance the present study was undertaken with the following objectives :

(1) The main objective of the study is to examine the industrial finance activities of Life Insurance Corporation of India especially related to the corporate investments.

(2) To study the role of LIC in direct lending to industrial enterprises.

(3) To study and examine the role of LIC in indirect financing to industries.

(4) To study the industry-wise assistance of Life Insurance Corporation of India.

(5) To study the State-wise distribution of LIC's assistance to various industries.

(6) To study Life Insurance Corporation's investment in big business houses.

(7) To make necessary suggestions to develop the industrial finance procedure of Life Insurance Corporation of India.

1.6 SCOPE OF THE STUDY :

Life Insurance Corporation of India is playing a Key Role in providing Industrial Finance to various private sector industries, a researcher completed his study under the following scope -

(a) Study of Private Sector Industries -

The present study related to industrial finance provided by Life Insurance Corporation of India to the private sector industries. LIC finances to public sector, private sector and joint sector industries too. Out of these industrial finance to public limited company in private sector are taken into consideration for the study.

(b) Period Of The Study -

For the purpose of restrospection of the history and development of Life Insurance Corporation of India the period from 1956-57 to 1980-81 is considered, however, for the study of industrial finance of Life Insurance Corporation of India, the period from 1981-82 to 1985-86 is given much emphasis.

(c) Forms Of Industrial Finance -

The following forms of industrial finance are included in the industrial finance of Life Insurance Corporation of India.

- i) LIC and Corporate Investment
- ii) LIC and Direct Lending
- iii) LIC and Indirect Financing

(d) Comparative Study -

Due to non-availability of figures some important financial institutions are taken into consideration for the purpose of comparison. These institutions are Unit Trust of India, Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India, State Financial Corporation and Industrial Development Bank of India.

(e) Analysis of Investment -

This study covers only analysis of investment in public Limited Companies and examines ^{to what} to how much extent LIC provided industrial finance.

1.7 METHODOLOGY OF THE STUDY :

The present study is mainly based on the primary and secondary data. The necessary data was made available from various sources for the purpose of present study. The main sources of data were Annual Reports of Life Insurance Corporation of India for the year 1979-80 to 1985-86 and the official records of the Divisional Office, Satara.

The analysis of investment in various securities of Life Insurance Corporation of India is made with the help of the relevant data obtained from the secondary sources.

The currency and finance reports of Reserve Bank of India for various years were very much useful in generating the data regarding Financial Assistance of various financial institutions for respective years.

LIC also publishes a large number of pamphlets and circulars which were used in getting some information regarding the industrial finance scheme.

Information is made available through various other books, thirty years service report of LIC, magazines, news-papers and articles.

Personal discussions are also made with the manager and concerned officers of the Satara Divisional Office, Satara.

1.3 CHAPTER SCHEME :

The present work is divided into five chapters. This first chapter deals with the theoretical background, objectives significance, scope and methodology of the study.

The second chapter describes the history and development of Life Insurance Corporation of India along with operational policies and practices and organisational set up etc.

The third chapter elaborates the industrial finance in India provided by various financial institutions. A brief summary of industrial finance in India is taken into consideration in this chapter. The chapter also includes comparative study of industrial finance of vaarious financial institutions.

The fourth chapter discusses the analysis of the investment in various types of corporate securities purchased by Life Insurance Corporation of India. In this topic various sources (schemes) of Industrial Finance of Life Insurance Corporation are also discussed. LIC's role in underwriting,

Direct Lending and Indirect Financing is also examined. In addition to this the position of LIC's Finance to industry-wise, state-wise and big business groups is also examined.

The fifth i.e., the last chapter discusses findings and the suggestions based on the study.

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