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Industrial Finance Corporation of India and Its Financial Resources

*M.A.Bansode

Introduction:

At the time of independence in 1947, India's capital market was relatively under-developed. Although there was significant demand for new capital, there was a dearth of providers. Merchant bankers and underwriting firms were almost non-existent. Also commercial banks were not equipped to provide long-term industrial finance in any significant manner. It is against this backdrop that the government established The Industrial Finance Corporation of India (IFCI) on July 1st, 1948, as the first Developing Financial Institution in the country to cater to the long-term finance needs of the industrial sector. The newly-established DFI was provided access to low-cost funds through the central bank's Statutory Liquidity Ratio (SLR) which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates. Financial institutions like IFCI have been experiencing considerable difficulties in recovering loans and enforcement of securities charge with them.

Financial Resources:

Financial institution, as stated earlier is primarily concerned with mobilization of resources and channelization of the pooled resources in productive outlets. IFCI main dependence for funds has been borrowing both with in the country and outside. Institution may also meet their financial requirements by resorting to state and institutional borrowings to meet their growing demand of funds from up and coming enterprises. The principal source of rupees borrowing has been the bond issued by IFCI carrying government guarantees. Such bonds were eligible for subscription by commercial banks under the statutory liquidity requirements. The authorized Share capital of IFCI is Rs 1500 crore divided into equity shares of Rs 10 each in31 march 2005. IFCI placed a heavy responsibility on it to fill in this gap consequently; it became equally important that it be also equipped with the adequate resources for meeting the rising demand for industrial finance in the country. Sources of funds of financial institution may be either domestic or foreign or partly domestic and partly foreign, the same may be derived from both equity and loans. The Corporation came out with public issue of its shares in 1993. Thus, they need burgeoning funds to dispense financial support to up and coming industrial projects of national priority. After the conversion of IFCI into a company, it has raised funds in the capital market on market related terms by way of certificates of deposits, bonds, fixed deposits and other borrowings. The IFCI has been evincing greater interest in raising funds through short-term deposits and placing greater reliance on generation of internal resources to meet its growing funds requirements. Industrial Finance Corporation, Industrial Credit and Investment Corporation of India, State Financial Corporations and Refinance Corporation of India sought to serve the increasing financial needs for industrial growth in the private sector. The financial mechanism adopted by the bank and its networking play a significant role in raising funds from the savers. Equity capital may be taken up by the central government, central bank and domestic private investors, institutional or individual commercial banks and insurance companies are the usual subscribers of initial share of capital as in the case of IFCI and ICICI. IFCI also borrows fund from government of India in terms of KFW agreement for interest differential fund. Since these institutions are supposed to fund capital expenditure projects through investment in and underwriting of securities and extend term loans to these projects, their fund requirements tend to be of permanent or long-term nature. However it felt that in relation to the investment needs which were likely to arise for industrial development in future financial institution role goes more important. The Government provides subsidized financial assistance to the financial institutions so as to help develop priority sector industries particularly in backward regions of the country. The success of the Industrial finance corporation of India, or of any other institution depends largely upon the total resources at its disposal as also the different sources of funds available for augmenting its resources. The authorized Share capital of IFCI is Rs 1000 crore divided into equity shares of Rs 10 each at the annual general meeting 1996 ,10 percent of this amount (100 crore) has been converted into cumulative redeemable preference shares of the face value of

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* Research Scholar, Dr. Babasaheb Ambedkar Marathwada University, Aurangabad.

Rs 10 each. The principal forms in which financial institution may raise long-term resources from outside are issue of equity shares, preference shares and debentures, long-term deposits and long-term borrowings. The Corporation was earlier empowered to accept deposits for a period of 5 years; but the amount of deposits can in no case exceed Rs. 10 crores. Besides capital and reserves, the Bank is empowered to raise funds by Borrowing from the Central Government interest free loans on terms and conditions as may be agreed upon, Borrowing from such other authority, organization or institution in India as may be generally or specially approved by the central Government.

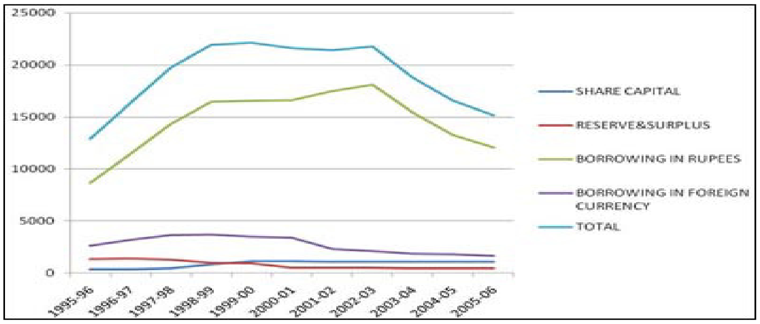
The recommendations of the Narsimham Committee, the financial institutions including IFCI, ICICI and IDBI have, of late, been permitted to raise funds from the open market. The IFCI Act was amended in July, 1993 to convert the Industrial Finance Corporation into a public limited company so as to enable the IFCI to access the capital market and to reduce its dependence on Government guaranteed funds. This Fund is intended to assist, with the prior approval of the Central Government, specially deserving projects to which banks and other financial institutions are not likely to provide the requisite finance in the ordinary course of business for various reasons. Recently, the Government has allowed these financial institutions to raise foreign currency loans with a maturity of 10 years and above without any ceiling from external commercial borrowing. The Fund comprises amounts received by way of loans, gifts, grants, donations etc. from the Central Government or any other source. The financial position of the Corporation with debt-equity ratio ranging between 5.7:1 and 10:1 is quite satisfactory as per the international norm of the World Bank. This leads us to suggest that the IFCI has the potential for resorting to long-term borrowings subject to its availability at reasonable cost. The resources of the corporation have been further augmented by issuing debentures/bonds in India and commercial markets abroad. The profits and losses arising out of the operations of the Fund are respectively credited or charged to the Fund. During 1999-2000, the IFCI raised equity share capital of Rs. 86 crore. As a result, relative share of paid up capital soared to over 4 per cent as on 31st March 2000 from 2.56 per cent in 1996. The resources of the IFCI initially comprised share capital, interest-free loan from Government of India.

Borrowings

For meeting the foreign exchange requirements of its client IFCI raises foreign currency loans through the following two ways firstly, lines of credit(from KFW Asian development bank and other foreign banks)secondly, commercial borrowings through syndicated loans. Recently, the Corporation has been allowed to raise money by way of term money, certificate of deposits, term deposits and inter-corporate deposits under an umbrella limit equal to their net owned funds for a period of 1 to 5 years. Act empowers the Central Government may, after due appropriation made by parliament by law in this behalf, advance to the Bank an interest free loan repayable in installments, and such further amounts of money by way of loan on such terms and conditions as may be agreed upon. As per the Government Policy, the Corporation can borrow up to 10 times its paid-up capital and reserves in the form of bonds, debentures, loans, etc. Institution was also to reduce significantly the cost of borrowings during the Financial Year 2004-05 by Rs.378 crore to Rs.958 crore, compared with Rs.1,336 crore in the Financial Year 2003-04. Repayment of assistance by Borrowers is one of the important sources of finance for the Industrial finance corporation of India.

IFCI also borrows fund from government of India in terms of KFW agreement for interest differential fund. The amount of Repayment by Borrowers has increased not only in absolute terms but also in relative terms. It can borrow resources in foreign currency. It can also borrow from the RBI for a period of 90 days against Government securities and/or for a period of 18 months against its own bonds. Since the Industrial finance corporation of India was set-up in 1948 and started advancing financial assistance to industrial concerns in that year, it is but natural that the Repayment amount would be lower in the initial years. Amount received From Government of India under Interest Differential Fund (IDF) is of a capital nature and to be utilized for specified purposes for promotional activities of Industrial Development. So far as the trends in the relative share of various sources in the total financing is concerned, Repayment by Borrowers, Reserves and 'others' showed a rising trend over the years. After economic reforms during the period of 1995-96, being in the business of providing finance to industries as well as the service sector, it has to constantly raise resources. During the year, liquidity in the money market remained under pressure. Yet, IFCI was able to mobilize need-based resources through private placement of bonds, Certificates of Deposits, Fixed Deposits and other borrowings.

Variation in financial resources



the total of financial resources is 12905 crore in 1996 which was lowest in comparison to period of 1995 to 2006, share capital of IFCI was Rs 353 crore , reserve and surplus was 1282 crore, borrowing in rupees was 8658 crore and borrowing in foreign currency is Rs 2612 crore. In 1996-97 the share capital amount was Rs 352.8 crore is almost constant in comparison to previous year but borrowing in rupees raised to 11441 crore ,where borrowing in foreign currency was 3197.5 crore and reserve and surplus 13508 crore only. During the period of 1997-98, Corporation raised Rupee resources and Foreign Currency resources by way of syndicated loan, lead arranged by Bank of Tokyo-Mitsubishi. Corporation has made significant provision towards bad and doubtful debts as required in terms of RBI's guidelines. This affected the profitability adversely. IFCI financial position is going stronger so its share capital is increased to near about 452.9 crore, reserve and surplus was 1293.9 crore and borrowing in rupees was 14362.3 crore with borrowing in foreign currency of Rs 3655.6 crore. In 1998-99 borrowing were increased continuously due to strong position of IFCI, at that time share capital was increased to 790.4 crore and reserve and surplus was Rs 936.1 crore where borrowing in rupees was 16459.8 crore ,borrowing in foreign currency was Rs 3713.3 crore. Corporation made a "Golden Move" in the Golden Jubilee year with the shifting of all its departments in the Corporate Office located in various rented premises to the newly built "IFCI Tower" at Nehru Place, New Delhi in October, 1997. From the period of 2000 to 2006, the overall economic environment in 1999-2000 was thus mostly favorable. As a consequence of the financial-sector reforms in recent years, IFCI has been mobilizing domestic resources from the market through the issuance of public /privately placed bonds /debentures, certificate of deposits (CDs), inter-corporate deposits (ICDs) and institutional /term-money borrowings, subject to the guidelines of the Reserve Bank of India. Share capital performance is constant and it varies minutely from 1096.4 crore to 1067.9 crore. Where reserve and surplus also start decrease from 2000 amounted to Rs 906.7 crore, borrowing in rupees and borrowing in foreign currency are respectively 16577crore and 3515.2 crore.

TABLE

SOURCES OF FUNDS (1995-96 TO 2005-06)					
YEAR	SHARE CAPITAL	RESERVE&SURPLUS	BORROWING IN RUPEES	BORROWING IN FOREIGN CURRENCY	TOTAL
1995-96	353.0	1282.0	8658	2612.0	12905
1996-97	352.8	1350.8	11441.8	3197.5	16342.9
1997-98	452.9	1243.9	14362.3	3655.6	19714.7
1998-99	790.4	936.14	16459.8	3713.3	21899.6
1999-00	1096.4	906.7	16577.1	3515.2	22095.4
2000-01	1087.9	505.1	16593.2	3373.5	21559.7
2001-02	1067.9	497.6	17489.2	2299.4	21354.1
2002-03	1067.9	469.7	18113.2	2089.7	21740.5
2003-04	1067.9	454.9	15408.1	1822.0	18752.9
2004-05	1067.9	447.4	13256.8	1768.1	16540.2

2005-06	1067.9	442.9	12066.7	1611.4	15188.9

Source: report on IDBI.

The total of financial resources are highest in this year is 22095.4 crore. After recording a turn-around during 1999-2000, industrial sector has again shown poor performance during 2000-01. The cost of borrowings was lower at 10.57% per annum as compared with 11.86% per annum for the previous year. Your company's resource rising during the year was adversely affected because of down gradation of credit rating. the Government of India approved a package of capital infusion liquidity support of Rs. 10 billion, of which Rs. 4 billion cash-neutral support was provided by Government by way of 20-year convertible bonds. Out of the balance Rs.6 billion, which was to be contributed by major shareholders, Rs.2 billion was provided by LIC by way of 20-year convertible bonds, Rs.2 billion by SBI as short-term loan and Rs.1 billion by IDBI by way of Deep Discount Bonds with maturity value of Rs.2 billion. Year 2002 shows decline trend in comparison to 2001, share capital goes down to 1067.9 crore in comparison to 1087.9 in 2001.reserve and surplus also decrease from 505.1 crore to 497.6 crore, borrowing in foreign currency drastically decreased to 2299.4 crore in comparison to 3373.5 crore on 2001.IFCI's performance during the 2003, Company was able to mobilize resources during the year actually by way of roll-overs and reinvestments of maturing liabilities.

CONCLUSION:

From the above study, it is evident that IFCI is one of the best financial institutions so it is also conscious of its responsibility in matter of raising financial resources for assistance to different sectors. IFCI is able to manage financial resources for project financing for modernization, new establishment, diversification, rehabilitation. Above study shows that there is drastic variation in financial resources of IFCI but management of the institution is so efficient that it handles all the problems effectively. All these measures help IFCI institution for comeback and also get success through improvement in industrial development. It can be said that IFCI will be also to strengthen the steps further by having more rigorous follow up of the existing measures and also search for more effective ways for dealing with the problem of financial resources. IFCI should also enforce a satisfactory proportion of equity capital while sanctioning financial assistance to projects.

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