

UNIT- V

Industrial Finance:

Term Finance-Short Term-Long Term–Specialized Financial Institutions – IFCI – IDBI – ICICI.

WHY DO BUSINESSES NEED FINANCE?

For
Starting
Up

Expansion

Internal
Growth

Replace
Equipment

Everyday
Bill
Payments

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Why Finance is required?

- Start a business.
- Finance expansions to production capacity.
- To develop and market new products.
- To enter new markets.
- To pay for the day to day running of business.

SOURCES OF FUNDS

- Based on **time period** sources of funds are classified into 3.



SHORT TERM FINANCE - PURPOSES

- Meeting day to day financial requirements.
- Enables firms to hold stock of raw materials and finished product.
- Goods can be sold on credit.
- More essential when, it is necessary to increase the volume of production at a short notice.
- Required to allow flow of cash during the operating cycle.

SHORT-TERM SOURCES OF FUNDS

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- Trade credit
 - Bank credit
 - Customer's Advances
 - Instalment credit
 - Loans from co-operatives
 - Indigenous bankers
 - Factoring
 - Accrued expenses
 - Differed incomes
 - Commercial papers
 - Letter of credit
 - Public deposits

Long Term Finance

Long term financing is a form of financing that is provided for a period of more than a year.

Purpose of long term finance

1. Finance fixed assets.
2. To finance the permanent part of working capital.
3. To finance growth and expansion of business.

Factors determining long-term financial requirements

- Nature of Business.
- Nature of goods produced.
- Technology used.

Sources of long term finance



Retain Earning

Shares

Debentures

Deferred Credit

Term Loans



A capital of a company is divided into small units, each unit is called Share.

- Issue of shares is the main source of long term finance.
- Shares are issued by joint stock companies to the public.

- A person holding shares is called a shareholder.

Investors are of different habits and temperaments.



Debenture is a medium- to long-term debt instrument used by a large companies to borrow money, at a fixed rate of interest.

- Issue of Loan Certificate given to public.
- Debenture holders have no rights to vote in the company's general meetings.

- Issued under the common seal of the company.

Retained Earnings

The portion of the profits which is not distributed among the shareholders but is retained and is used in business is called retained earnings.

- As per Indian Companies Act., companies are required to transfer a part of their profits in reserves.
 - The amount so kept in reserve may be used to buy fixed assets. This is called internal financing.

Term Loans

A term loan is a monetary loan that is repaid in regular payments over a set period of time. Term loans usually last between one and ten years, but may last as long as 30 years in some cases. Term loan is a loan made by bank/financial institution to a business having an initial maturity of more than one year.

Differed Credit

- A deferred credit could mean money received in advance of it being earned, such as deferred revenue, unearned revenue, or customer advances. A deferred credit could also result from complicated transactions where a credit amount arises, but the amount is not revenue.

- A deferred credit is reported as a liability on the balance sheet. Depending on the specifics, the deferred credit might be a current liability or a noncurrent liability. In the past, it was common to see a noncurrent liability section with the heading **Deferred Credits**.

Financial Institutions:

IFCI – IDBI – ICICI



Definition

A financial institution is an institution which collects funds from the public and places them in financial assets, such as deposits , loans, and bonds, rather than tangible property



Functions of Financial Institutions

Liability-Asset transformation

They issue claims to their customers that have characteristics different from those of their own assets.

Size-transformation

They provide large volumes of finance on the basis of small deposits or unit capital.

Risk transformation

They distribute risk through diversification and thereby reduce it for savers as in the case of mutual funds.

Maturity transformation

They offer savers alternate forms of deposits according to their liquidity preferences, and provide borrowers with loans of requisite maturities



Classifications of Financial Institutions

Intermediaries.

- Unit Trust of India (UTI)
- Securities Trading Corporation of India Ltd. (STCI)
- Industrial Development Bank of India (IDBI)
- Industrial Reconstruction Bank of India (IRBI), now (Industrial Investment Bank of India)
- Export - Import Bank of India (EXIM Bank)
- Small Industries Development Bank of India (SIDBI)
- National Bank for Agriculture and Rural Development (NABARD)
- Life Insurance Corporation of India (LIC)
- General Insurance Corporation of India (GIC)
- Shipping Credit and Investment Company of India Ltd. (SCICI)
- Housing and Urban Development Corporation Ltd. (HUDCO)
- National Housing Bank (NHB)



Classifications of Financial Institutions

❖ Banking Institutions and Non Banking Institutions

All India Institutions

State level institutions



All India Institutions

Industrial Finance Corporation of India (IFCI)

- First all India term- lending institution
- Set-up in 1948
- provide institutional credit to medium and large industries.

Head Quarters - New Delhi



Industrial Finance Corporation of India (IFCI)

Project financing

Medium/Long term credit for setting up new project

- Expansion schemes
- Financial assistance by way of rupee loans
- Loans in foreign currencies
- Underwriting of direct subscription of shares/debentures.



Industrial Finance Corporation of India (IFCI)

Sources of Funds are

- Paid up capital
- Reserves
- re payment of loans
- market borrowing, loans from government of India
- advances form Industrial Development Bank of India
- foreign lines of credit from KFW (west Germany) FFCE (France) ODA (UK)



Functions of IFCI

- For setting up a new industrial undertaking.
- For expansion and diversification of existing industrial undertaking.
- For renovation and modernisation of existing concerns.
- For meeting the working capital requirements of industrial concerns in some exceptional cases.




Industrial Credit and Investment Corporation of India (ICICI)

- India's largest bank in the private sector
- second largest Indian bank including all public and private enterprises
- incorporated in 1994.
- first Indian company to raise funds from international markets
- network of 1308 branches
- 3950 ATMs
- subsidiaries in uk, russia, canada, singapore etc
- launched private banking in 2002.
- Head Quarters - Mumbai



Industrial Development Bank of India (IDBI)

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- Established in 1964 as a subsidiary of RBI
 - Apex term financial lending institutions in India
 - Direct finance to industry
 - Supports State financial corporations , SIDC, commercial banks
 - Head Quarters - Mumbai



Industrial Development Bank of India (IDBI)

- Assistance from IDBI
- Direct:
 1. By subscription to share capital and debentures
 2. Rupee loans and foreign currency loans
 3. Underwriting of issues.
- Indirect:
 1. Refinance facilities to state level institutions and commercial banks
 2. Bill re-discounting facility



Industrial Development Bank of India (IDBI)

Resources of IDBI are:-

- Paid up capital
- Reserves
- Repayments of loans
- Market borrowings
- Temporary credit from RBI
- Foreign lines of credit from world bank, ADBI and others