

# UNIT-V

Industrial Financial System:  
Sources-Institutions Providing Institutional  
Finance -IFCI, IDBI, ICICI, SFCs, SIDBI  
and EXIM Bank.

# Financial System

It is the systematic function of financial units or acts including monetary transactions related to lending, borrowing, saving and investing that arise due to demand for and supply of capital activities on a continuous basis in an economy.

# Functions of Financial System

- **Bridge the gap between demand and supply**
  - Facilitates Savings, Investments and Borrowings
  - Transfer of capital from savers to borrower
  - Provide payment and settlement system
- **Safety and Security**
  - Regulate market participants.
  - Protect the interest of investors and borrowers
  - Monitor corporate performance
- **Provide Transparency**
  - Disseminate price related information
  - Easy access at free of cost
- **Make financial instruments traded**
  - Enhance marketability
  - Provide liquidity

# Functions of Financial System

Capital Transfer in a financial system (from savers to borrowers)

- **Direct Transfer**

Ex: Corporation issues commercial paper to insurance company).

- **Indirect Transfer**

- **Through an merchant bank/investment banking house:**

Ex: IPO, seasoned equity offering, or debt placement).

- **Through a financial intermediary:**

Ex: individual deposits money in bank, bank makes commercial loan to a company).

# Features of a Good financial System

- Strong legal and regulatory environment
- Active role of central bank
- Effective and productive Public finances / public debt management
- Stable internal and external value of money
- Information system and transparency
- Efficient markets
- Technology driven

# Introduction

- The Government of India set up the IFCI under IFCI Act in July 1948.
- It is the first development financial institution in the country to cater to the long-term finance needs of the industrial sectors.
- The main objective of IFCI is to making medium & long term credits more readily available for industrial concerns in India.

# Capital

- The authorized capital of the corporation as per IFCI Act 1948, was Rs.10 crores. It was raised to Rs.20 crores by the Amendment Act 1972.
- 50% of the share capital is held by the IDBI & remaining 50% by banks, cooperative banks, insurance company, investment trusts etc.,

# Direct Financing

- Rupee loans
- Sub loans in foreign currency
- Underwriting of and/or direct subscription to the shares & debentures of public limited companies.
- Foreign currency loans raised by industries from foreign institutions
- Rupee loans raised by industries from scheduled banks or state co-operative banks.
- Guaranteeing of deferred payments for machinery {imported & indigenous}



# Incidental Activities

- IFCI has been authorized by Industrial Finance Corporation (Amendment) Act, 1982 to undertake incidental activities.
- Undertaking research & surveys for evaluating or dealing with marketing or investments and undertaking & carrying on techno-economic studies.
- Providing technical & administrative assistance to any industrial concern for the promotion, management or expansion of any industry.

# Promotional Activities

- Merchant Banking operations.
- The objective of IFCI in this case has been:
- Fill in the gaps in the industrial infrastructure for promotion & growth of industries.
- To provide much needed guidance in project identification, formulation, implementation, operation etc., to the new, tiny, small scale and medium scale entrepreneurs.
- To improve the productivity of human and material resources; a better deal to the weaker, underprivileged sections of the society in line with socio-economic objectives laid down by Government of India.

## Areas of Assistance

- Assistance from IFCI single or jointly with other institutions is available for:
  - Setting up of new industrial projects.
  - Expansion of existing units/ diversification into new lines of activity.
  - Renovation / rehabilitation / Modernization of existing units.

# Resources are in the form of:

- Loans from RBI
- Share capital
- Retained earnings
- Repayment of loan
- Issue of bonds
- Loans from government
- Lines of credit from foreign lending agencies
- Commercial borrowings in international capital market.



# IDBI

- Established on 1 July 1964.
- In 16 February 1976, the ownership of IDBI was transferred to the Government of India.





## Contd.

- ▶ It is currently 10th largest development bank in the world.
- ▶ It is one among the 27 commercial banks owned by the Government of India.



## Contd.

- ▶ **Set up institutions like NSE OF India, National Security Depository Service Ltd. (NSDSL) & the Stock Holding Corporation of India (SHCIL).**
  
- ▶ **The Bank has an aggregate balance sheet size of INR 3.56 trillion as on 31 March 2015**



## THE PRINCIPAL SOURCE OF FUNDS OF *IDBI*

- Share capital and reserves.
- Borrowing from government of India and RBI.
- Market borrowing by way of bonds.
- Deposits and other borrowings.



A black arrow points to the right from the left edge of the slide. Several thin, curved lines in shades of blue and grey originate from the bottom left and sweep upwards and to the right, crossing behind the text.

## Contd.

- **Repayment of past assistance by borrowers.**
- **Foreign currency borrowings from World banks.**
- **Asian development banks and international markets.**



## Functions

- **Co-ordinates the operation.**
- **It provides assistance.**
- **It extends resource support.**



## Contd.

- **Guarantees deferred payments.**
- **Promotes and develops key industries.**
- **Undertakes techno-economic studies.**



## Contd.

- **Renders services like asset credit equipment finance, equipment leasing and bridge loans.**
- **Undertakes merchant banking.**
- **Provides technical and administrative assistance to industrial concerns.**



# ABOUT ICICI BANK

- Industrial Credit and Investment Corporation of India
- Founded in 1955 by as a joint-venture of the World Bank
- ICICI Bank launched internet banking operations in 1998.
- In 2000, ICICI Bank became the first Indian bank to list on the New York Stock Exchange and it is listed on BSE & NSE .
- ICICI Bank is India's second largest bank.

# PROFILE OF ICICI BANK

- Type : Public
- Founded : 1995
- Headquarter : Mumbai, Maharashtra, India
- Industry : Banking, Financial service
- Net revenue : US\$ 13.812 billion (2013)
- Net Profit : US\$ 1.6 billion (2013)
- Employees : 81254 (2013)
- Website : [www.icicibank.com](http://www.icicibank.com)

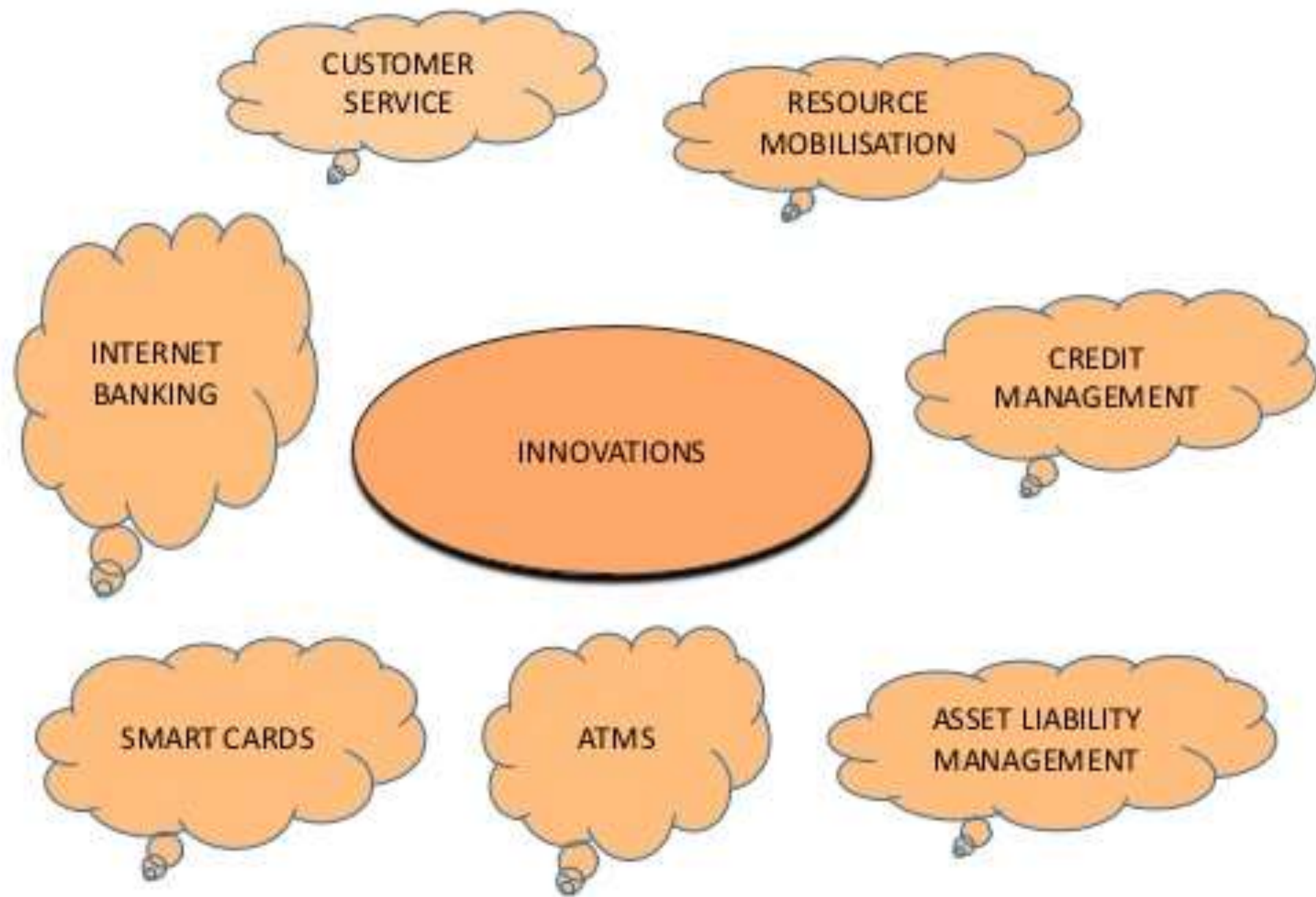
# PRODUCT AND SERVICES

- Travelers Cheque (initially)
- Card (Credit Cards, Debit Cards, Travel Cards, Corporate Cards, Prepaid Cards, Business Cards)
- Loans (Home Loans, Personal Loans, Two Wheeler Loans, Car Loans)
- Investment
- Insurance
- NRI banking
- Deposit
- Business banking
- Personal banking



The screenshot displays the ICICI Bank website interface. At the top, the ICICI Bank logo is visible on the left, and navigation links for Home, About Us, Contact Us, and Services are on the right. Below the logo is a banner with the text "OFFERS SO PRECIOUS YOU'LL WANT TO KEEP THEM ONLY FOR YOURSELF" and a woman's face. A central navigation menu lists: Home, Credit Cards, Deposits, Loans, Insurance, NRI Banking, Business Banking, and Personal Banking. To the right of the menu is a large advertisement for redBus, featuring a bus image and the text "Now enjoy the ride more with ICICI Bank Net Banking...". Below this are three promotional boxes: "Start at the bank" with a mobile phone icon and "Flat 10% OFF on ebay.com"; "Top offers" with an ebay.com logo; and "Net Banking offers" with a list of benefits: "Get 5% off on all transactions at icicibank.com", "Get additional 1% cash back on all transactions", and "Get up to 20% off on payments from all banks and State Government, India".





# MARKETING STRATEGY

- To make its presence more prominent
- Focus on credit quality
- To create awareness about products through advertisement
- To maintain its brand of a global bank

# SWOT ANALYSIS OF ICICI

## STRENGTHS

- 2<sup>nd</sup> Largest private bank in India.
- Successfully diversified it's operations.
- Listed in NYSE.
- Considered as a pioneer in usage of internet services.
- Aggressive and innovative marketing strategies.



# WEAKNESS

- Primarily targets upper middle class and upper class of the society.
- Higher service charges.
- Poor customer care/service
- Focus only on high end customers
- Transaction cost.



# OPPORTUNITIES

- New IT & ITES companies
- Dissatisfied customers of other Bank
- Business advising for smaller players
- Expanding business to the middle and lower income groups.



# THREATS

- Dissatisfied customers
- Ever improving nationalized bank
- Advent of MNC banks
- More and more banks are coming up.





## About SFCs

- The Govt. after independence realised the needs of creating a financial corporation at the state level for catering to the needs of industrial entrepreneurs.
- As a result, the Govt. of India after consultations with the state governments and the Reserve Bank of India, introduced State Finance Corporations Parliament bill in the Parliament in 1951. SFC Act came into existence with effect from August 1st, 1952.
- The Act permitted the State Government to establish financial corporation's for the purpose of promoting industrial development in their respective states by providing financial assistance to medium and small scale industries.



# Objectives

- To establish uniformity in regional industries.
- To bring efficiency in regional industrial units.
- To develop regional financial resources
- To provide incentives to new industries.
- To provide finance to small scale, medium sized and cottage industries in the state..





# FUNCTIONS

The main function of the SFCs is to provide loans to small and medium scale industries engaged in the

- manufacture,
- preservation or processing of goods,
- mining
- hotel industry
- generation or distribution of power
- assembling, repairing or packaging articles



# FUNCTIONS

- Guaranteeing loans raised by the industrial concerns repayable within twenty years.
- Underwriting of the shares, bonds and debentures subject to their disposal in the market within seven years.
- Guaranteeing deferred payments for the purchase of capital goods by industrial concerns within India.

There are 18  
SFCs in  
India.

Out of which 17  
were established  
under SFC Act  
1951.

The SFCs can have  
share capital ranging  
from Rs. 50 lakhs to  
Rs. 5 crores.

It can be increased  
up to Rs. 10 crores  
with the prior  
sanction of the  
Central Government.

- **Discounting the bills of small and medium scale industries.**



**भारतीय लघु उद्योग विकास बैंक**  
**SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA**



# Introduction

- The Government of India set up the SIDBI under a special Act of the Parliament in October 1989.
- SIDBI commenced its operations from April 2, 1990 with its head office in Lucknow.
- SIDBI has been setup as a wholly owned subsidiary of IDBI.
- Its authorised capital is Rs.250 crore with an enabling provision to increase it to Rs.1000 crore.
- It is the apex institution which oversees, co-ordinates & further strengthens various arrangements for providing financial and non-financial assistance to small-scale, tiny, and cottage industries.



# Objectives

- **Four basic objectives are set out in the SIDBI Charter. They are:**
  - Financing
  - Promotion
  - Development
  - Co-ordination

for orderly growth of industry in the small scale sector. The Charter has provided SIDBI considerable flexibility in adopting appropriate operational strategies to meet these objectives.

# Direct Finance

- Since its beginning, SIDBI had been providing refinance to State Level Finance Corporations / State Industrial Development Corporations / Banks etc., against their loans granted to small scale units.
- **SIDBI's direct finance schemes are:**
  - Scheme for expansion / diversification of small scale units.
  - Scheme for specialised marketing agencies.
  - Scheme for ancilaring / subcontract units.
  - Scheme for existing Export Oriented Units(EOUs) to enable them to acquire ISO 9000 series certification.



## Bills Finance Schemes

- **Bills Finance Scheme involves provision of medium and short-term finance for the benefit of the small-scale sector.**
- **Bills Finance seeks to provide finance, to manufacturers of indigenous machinery, capital equipment, components sub-assemblies etc, based on compliance to the various eligibility criteria, norms etc as applicable to the respective schemes.**
- **To be eligible under the various bills schemes, one of the parties to the transactions to the scheme has to be an industrial unit in the small-scale sector within the meaning of Section 2(h) of the SIDBI Act, 1989.**





# Refinance Schemes

- Refinance scheme is introduced for catering to the need of funds of Primary Lending Institutes {PLI} for financing small scale sector.
- Under the scheme, SIDBI grants refinance against term loans granted by the eligible **PLIs** to industrial concerns for setting up industrial projects in the small scale sector as also for their expansion / modernisation / diversification.
- **PLIs** are SIDC, SFC. Banks like commercial banks, Co-operative Banks, Regional Rural Banks
- Schemes of re-finance assistance:
  - Scheme for SC-ST & physically handicraft persons
  - Composite loan scheme
  - Equipment refinance schemes.
  - Schemes for small road transport operators.
  - Special assistance to ex-servicemen.

# Promotional and Development Activities

- As an apex financial institution for promotion, financing and development of industry in the small scale sector, SIDBI meets the varied developmental needs of the Indian SSI sector by its wide-ranging Promotional and Developmental (P&D) activities.
- The activities are as follows:
  - Entrepreneurship Development Programmes.
  - Management Development Programmes.
  - Technology Upgradation Programmes.



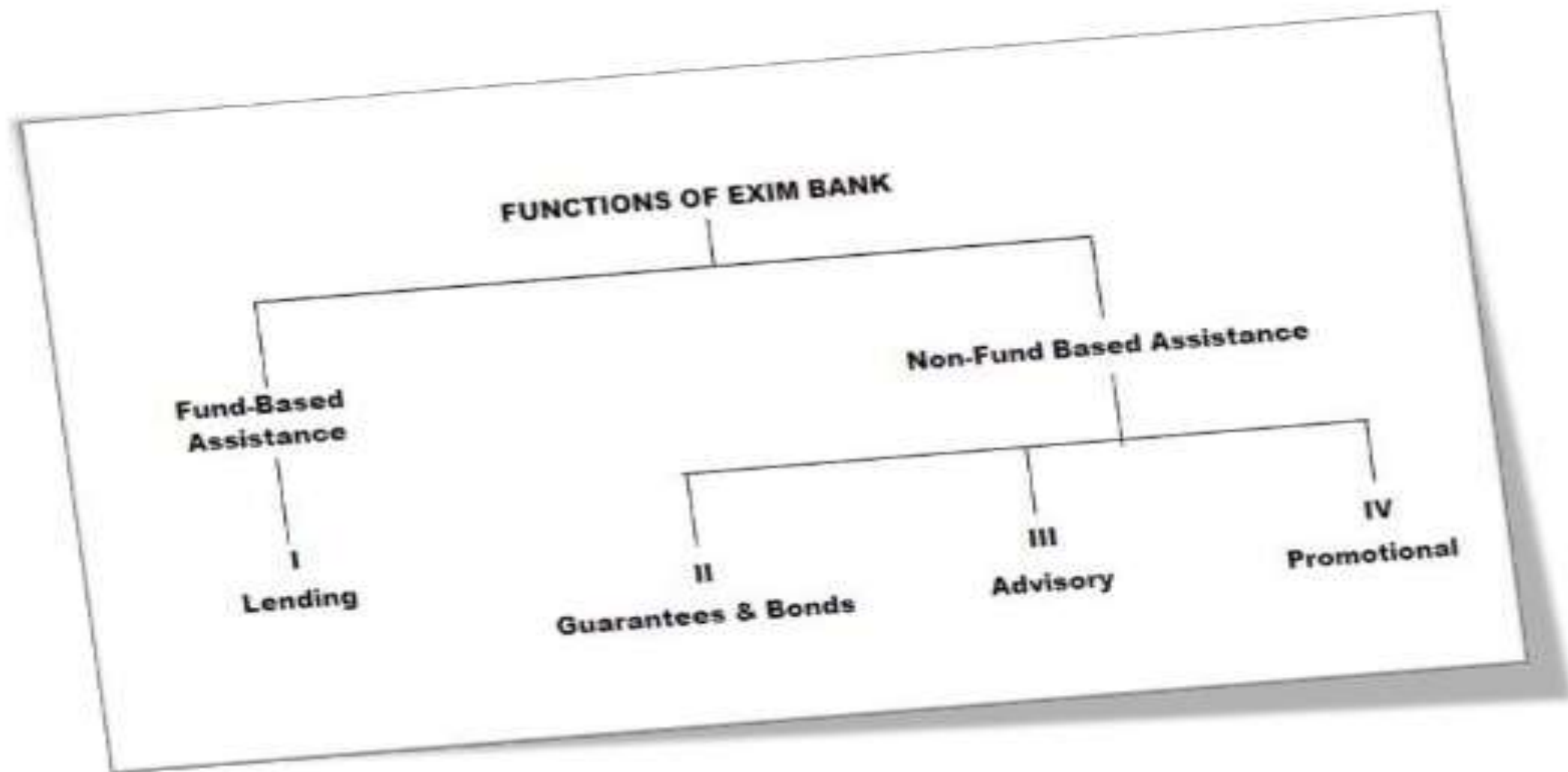


**EXIMBANK**

# Objective and Purpose

- **Financing of exports and imports of goods and services not only of India but also of third world countries.**
- **Financing of joint ventures in foreign countries.**
- **Financing of Indian manufactured goods, consultancy and technological services on deferred payment terms.**
- **Financing R & D and techno economic studies.**
- **Co-financing global and regional development agencies.**

# Function/Role of EXIM Bank



## **D) Lending:**

### **A) Lending to Indian Companies/Exporters:**

- **Sellers Credit:**
- **Consultancy and technology service:**

### **B) Lending to Overseas Parties:**

- **Overseas buyers credit:**
- **Lines of credit to foreign governments:**

### **C) Lending To Indian Commercial Banks:**

- **Export bills rediscounting:**
- **Refinance of export credit:**

## **II) Guarantees and Bonds:**

**The guarantee programme is available in the case of construction and turnkey contracts. Construction contracts involves erection, civil works and commissioning. In turnkey contract say for setting up of a textile mill, supply of equipment accounts for major value of the contract. In such contracts an Indian exporter usually requires (i)bid bond (ii)advance payment guarantee (iii)performance guarantee (iv)guarantee for retention money (v)guarantee for borrowings abroad.**

### **III) Advisory Services:**

- It works closely with Indian companies in designing financial packages for joint ventures in third countries.**
- It advises Indian companies, executing contracts abroad on sources of favourable financing overseas.**
- It provides access to Euro Financing sources and global credit sources to Indian companies engaged in exports.**
- It advises on global exchange control practice.**
- It helps exporters to take advantage of forfaiting transaction.**



## **IV) Promotional Activities:**

- It collects, compiles and disseminates market and credit information in respect of international trade.**
- It helps to plan, finance and promote export oriented units.**
- It encourages export and import by providing technical, administrative and financial assistance.**
- It finances research, surveys and other overseas study to promote export trade.**



**Best of Luck**