CHAPTER – 1
IDBI- AN INTRODUCTION
INTRODUCTION

Industrial Development Bank of India (IDBI) was established in 1964 by the Government of India under an Act of Parliament, the Industrial Development Bank of India Act 1964. The functions and working of IDBI are governed by the IDBI Act. Initially IDBI was setup as a wholly-owned subsidiary of Reserve Bank of India to provide credit and other facilities for the development of the Industry. In 1976 the ownership of IDBI was transferred to the Government of India and it was entrusted with the additional responsibility of acting as the principal financial institution for co-ordinating the activities of the institutions engaged in the financing, promotion or development of industry.

In 1982 IDBI transferred its International Finance Division- which was providing export finance to industry to Export-Import Bank of India, which was established as a wholly owned corporation of the Government of India under the Export-Import Bank of India Act, 1982.

In 1990, IDBI's portfolio relating to the small scale industrial sector was transferred to the Small Industries Development Bank of India (SIDBI) which was established as a wholly-owned subsidiary of IDBI under the Small Industries Development Bank of India Act, 1989 (SIDBI Act, 1989).
IDBI being a statutory Organization is governed by the Industrial Development Act 1964. The functions and business of IDBI are regulated by the IDBI Act. In addition, IDBI being a financial institution is subject to regulatory supervision by RBI. The Reserve Bank of India Act, 1934 empowers RBI, inter alia, to call for certain information relating to the business of IDBI and give directions relating to the conduct of its business. RBI had set up a board of Financial supervision in 1995 under the chairmanship of the Governor of Reserve Bank of India*.

The general superintendence, direction and management of the affairs and business of IDBI is vested in the Board Of Directors which exercises all powers and does all acts and things which may be done by IDBI. The Board may direct that any power exercisable by it may also be exercisable by the Chairman, Managing Director. As per the IDBI Act 1964 the Board can have maximum 12 directors, consisting of a Chairman and a Managing Director appointed by the government of India**.

* Under the guidance of the Board For Financial supervision of Financial Supervision of the RBI supervises Financial Institutions and Commercial Banks, The department of Financial Supervision also undertakes off-site and on-site supervision over banks and financial institutions as part of such surveillance, The Reserve Bank Of India carries out periodical inspection of IDBI. It is clarified that the inspection report is strictly confidential and IDBI has replied all the points referred to by the RBI in its latest inspection report. The Reserve Bank Of India has been issuing detailed guidelines to Financial institutions on asset classification, income recognition and provisioning, Capital Adequacy, Asset Liability Management etc. from time to time. IDBI adheres to all such guidelines and submits necessary information to RBI as per the guidelines.

** A whole time Director appointed by the Government on the recommendations of the Board, two Government nominees, three directors having special knowledge/professional experience in diverse fields nominated by the Central Government and four directors elected by the shareholders other than the Government Of India.
IDBI has provided significant support in the development of the capital market through setting up of securities and exchange board of India, National Stock Exchange of India Limited, Credit Analysis And Research Limited, Stock Holding Corporation of India Limited, Investor Services of India Limited, National Securities Depositor Limited.

IDBI’s Capital Markets Division has successfully executed a variety of assignments for reputed public as well as private sector companies. By virtue of being a leading financial institution, it has played a pioneering role in advisory services as well as being a leading arranger in the Indian market for project debt, having concluded some of the largest syndication transactions in the Indian market. In addition to that it has accessed the domestic retail market for the first time in 1992 with it’s deep discount bond, registered path breaking success.

In 1993, set up IDBI capital market services limited as a stock broking company. This consequent upon opening up of commercial banking to the private sector, set up IDBI bank limited in 1994. Subsequently in1994, IDBI act amended to permit public ownership, which intended as an apex financial institution; a leader and chief coordinator for institutions at national and state levels. In July 1995, initial public offering of equity raised nearly Rs. 20 billion. The government stake reduced 72.14% which can be further reduced upon to 51 %.

In march 2000, IDBI set up Intech limited as a subsidiary to undertake I.T, related activities. In June 2000 a portion of Government holding converted to performance capital which was since redeemed in march 2001. Government stake now at 58.47 %. In August 2000, IDBI became the first All India Financial Institution to obtain ISO 9002:1994 Certification for it’s treasury operations. IDBI also obtained ISO 9001:2000 certifications from its Forex services and thus became the first organization in the Indian financial sector to do so. In march 2001 IDBI set up IDBI Trusteeship Services Limited under the companies act 1956 to provide technology driven information and professional services. ¹

¹ Source :- http:\\www.idbi.com/profile2.html
IDBI has its head office at Mumbai and has an all India presence through its branch network. It operates through a network of 5 Zonal offices, one each in Chennai, Guwahati, Kolkata, Mumbai and New Delhi. Besides, IDBI has 36 branch offices located in state capitals and major commercial centres in India.*

GROWTH AND EXPANSION:-

In the field of industrial finance the concept of development bank is of recent origin. In India it is a post independence phenomenon. In the Western countries, however development banking had a long period of evolution. In 1920, Japan established the industrial bank of Japan to cater to the financial needs of her industrial development. In the post-war era the industrial development bank of Canada (1944), The Finance Corporation Of Industry Limited and the Industrial and Commercial Finance Corporation of England(1945), etc., were established as modern development banks to provide term loans to industry. In 1966, the U.K. government set up the Industrial Reorganisation Corporation. In India the first development bank called the Industrial Finance Corporation of India was established in 1948. An institution called the National Industrial Development Corporation (NIDC) was established by the government of India in 1954 for the promotion and development of industries in India. In the beginning, it provided some finance to the jute and cotton textile industries. But primarily being a development agency, today it functions only as consulting agency. Development banks in India may be classified into three groups: (I) Industrial Development banks, (II) Agricultural development banks, and (III) Export – import Development bank.

Industrial Development banks may further be divided into two groups: (a) All India Institutions, and (b) State Level Institutions.

* Money, Banking, International Trade and Public finance
The industrial development bank which was set up in July 1964 was given complete autonomy in February 1976. Today the IDBI is regarded as an apex institution in the arena of the development banking. The IFCI and UTI are the subsidiaries of the IDBI.

The IDBI Act was amended in October 1994 which permitted IDBI to raise equity from the public subject to the holding of the Government not falling below 51% of the issued capital. In July 1995, IDBI made its initial public offering of equity shares aggregating Rs. 2184 crore. Simultaneously, the Government also offered for sale a part of its holding of equity shares in the capital of IDBI aggregating Rs. 187.5 crore (including premium Rs. 120 per share) to the Indian public.

On completion of the allotment of the shares offered to the public, the Government’s shareholding in IDBI reduced to 72.14%. The Government’s share holding has further come down to 57.76% with effect from June 5, 2000 as the Government of India converted 24.7 crore equity shares (out of its holding of 48.6 crore equity shares) into 24.70 crore fully paid preference shares of Rs. 10 each (equivalent to Rs. 247 crore) redeemable within 3 years and carrying dividend @ 13% p.a. The preference shares have since been redeemed. On August 25, 2000 18,074,300 partly paid up equity shares of face value of Rs. 10 each were forfeited and aggregate face value of Rs. 180,743,000 has been reduced from subscribed and paid-up equity capital. On account of this Government’s shareholding has gone up to 58.5% with effect from August 25, 2000.*

   IDBI Tower, WTC complex, Cuffe Parade, Mumbai-400005.
IDBI has made its bonus issue in March 2001 in the ratio of three bonus shares for every 5 held. Accordingly, Government of India has been allotted 1,431,48,000 bonus shares. However the shareholding of GOI remains at 58.5% only.

ROLE AND IMPORTANCE:-

The role of IDBI was conceived as one of establishing appropriate working relationship among institutions, co-ordinating their activities and building a pattern of inter-institutional co-operation to effectively meet the changing need of the corporate sector. IDBI’s developmental activities have included a range of promotional services to build an institutional structure for entrepreneurship development, credit delivery, & capital market development.

IDBI has also been designed to function as a development agency with a special responsibility to fill up the gaps in the industrial structure and to develop certain vital and strategic sectors like fertilizers, alloys and special needs and petrochemicals. As an apex Development Bank, IDBI acts as the leader among all the Development Banks of the country and charged with the responsibility of planning, promoting, developing and financing industries on its own and to guide, co-ordinate and supplement the activities of other Development Banks.

INSTITUTIONAL DEVELOPMENT :-

IDBI has been playing a major role in sponsoring/supporting several institutions for the development of an effective institutional structure for financing Indian industry. The major institutions that have been sponsored are the Export - Import Bank of India, Industrial Investment Bank Of India Ltd., ICICI and Tourism Finance Corporation Of India Ltd.. In addition, IDBI, as the nodal agency, promoted the North-Eastern Development Finance Corporation Ltd. for catering to the Finance and development needs of the North-Eastern region of India.
IDBI is also one of the promoters of Infrastructure Development Finance Company Ltd. (IDFC) which has special focus on providing finance and guarantee products to infrastructure projects.

CAPITAL MARKETS DEVELOPMENT:

IDBI is also playing a major role in the development of Indian Capital Markets. It played a key role in the formation of Securities and Exchange Board of India (SEBI) for effective regulation of the capital markets. It sponsored National Stock Exchange of India Ltd., which first introduced electronic trading in securities in India. IDBI has also sponsored/supported the formation of Stock Holding Corporation of India Ltd., Credit Analyses and Research Ltd., Investor Services of India Ltd., and OTC Exchange of India Ltd. Besides, IDBI has promoted the National Securities Depository Ltd. in association with UTI and NSE.

POLICY AND PROFITABILITY

The working of IDBI during the year 1999 – 2000 yielded a profit before tax of Rs. 1027 crore as against Rs. 1300.7 crore in the previous year. After providing for tax of Rs. 80 crore, the profit after tax amounted to Rs. 947 crore as against Rs. 1258.9 crore in 1998 – 99. The Directors recommended a dividend of 45% on equity share capital for the year-1999 – 2000. The bank’s working during the year 2002 – 03 resulted in a profit before tax of Rs. 455.61 crore as against 414.91 crore in the previous year. After making a provision of Rs. 92.36 crore towards taxation for the year - end taking deferred tax credit amounting to Rs. 38.16 crore, the profit after tax amounted to Rs. 401.41 crore, as against Rs. 424.28 crore in 2001 – 02. The Board of Directors has recommended dividend at 15% on Equity share capital for the year 2002 – 03.

ECONOMIC ENVIRONMENT

Indian economy witnessed signs of industrial recovery during 2002 – 03, though overall growth remained subdued. Growth in gross domestic product (GDP) has been estimated at 4.3 % in 2002 – 03 as compared to 5.6 % growth recorded in

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\(^{2}\) Annual report IDBI – 2002 – 03
PRESENT POSITION

IDBI financed and nurtured Indian industry through its infancy to develop a robust industrial and financial structure in the country. IDBI’s strategic objective is to position itself as India’s premier wholesale bank through a full range of wholesale products lending, capital markets, advisory and risk management – through an integrated group structure.

It has a well-diversified wholesale resource base, which includes banks, public sector undertaking, corporate, provident funds/pension funds, trusts and multilateral institutions. Considering the importance of the retail segment, efforts are made to ensure regular presence in the market for retail investors through public offering of bonds at periodical intervals throughout the year. To meet its foreign currency resource requirement, IDBI has been making periodic forays in international financial markets and has raised substantial resources through syndicated loans and floating rate bonds.

IDBI has a network of five Zonal Offices and 38 Branch Offices covering the length and breadth of the country.

Internal Audit: -

The Bank has a full-fledged Internal Audit Department (IAD) at Head Office (HO) directly reporting to Chairman & Managing Director. IAD takes up operational audit of HO departments and Branch Offices (BOs) in addition to undertaking financial audit of relevant HO departments. Zonal Audit Cells (ZACs) undertake financial audit of BOs and operational audit of satellite branch offices. ZACs report to IAD at HO on operational matters and submit their reports to IAD

Apart from ensuring that the HO departments and Branch Offices carry on operations in accordance with the policies and procedures laid down, audit reports also throw up suggestions for streamlining the operations and making suitable modifications in the procedures, as may be warranted from time to time.
Vigilance Mechanism:

A full-fledged Vigilance Department was established in February 1994. The Department continued to operate as a channel for providing inputs to the Top Management for carrying out investigation into vigilance related complaints and to suggest corrective measures for improving the control systems and compliance with laid down procedures.

In addition, the vigilance activities also included preventive vigilance exercises, maintaining close liaison with various Central/State Government Agencies/RBI/Central Bureau of Investigation (CBI)/Bank Securities and Fraud Cell/Other related agencies and sharing of vigilance related data, co-coordinating enquiries conducted by the investigating agencies, and organising training programmes on preventive vigilance for creating awareness among officials of the Bank in these areas.

Vigilance Awareness Week was observed during October 31- November 6, 2002 to educate the employees about dangers of corruption and sensitise them about the evils of corruption. Vigilance Awareness Week was also observed in the Zonal / Branch Offices.

In accordance with the guidelines laid down by the Central Government for progressive use of Hindi in official work, further steps were taken during the year to implement various provisions of the official languages Act and Rules and increase the use of Hindi in the Bank's day to day working.

Manpower and Recruitment

During 2002-03 the Bank recruited 31 employees comprising 22 officers, one clerical staff and eight sub-staff. Out of the sub-staff, three were from the Scheduled Castes (SC), comprising 37.5% of the sub staff recruited and 9.7% of the total recruitment.

Consequently, as on March 31, 2003, the Bank had on its rolls 2845 employees, comprising 1405 the Bank had on its rolls 2845 employees, comprising 1405 officers (including
Professionals in accountancy, management, engineering, law, computers and banking, as well as economists), 839 clerical staff and 601 sub-staff. Of these, the number of SC, Scheduled Tribes (ST) and OBC employees stood at 223, 60 and 51 respectively.

In the officer cadre, 150, 59 and 56 among clerical staff, and 208, 52 and 13 among sub-staff. Besides, there were 84 ex-servicemen and 50 physically handicapped persons in the employment of the Bank as on March 31, 2003.

During the year, the Bank organized 100 in-house training programs covering 1849 officers and other staff members. In addition to these programs, 239 officers were nominated to training programs held by other institutes/training organisations in India and 12 were nominated for training programmes abroad. Out of the 100 programmes conducted, 49 programmes, covering 1148 officers were on topics such as Project Follow-up and Monitoring, NPA Management, Management of Working Capital, Derivatives, Risk Management etc.

New Programs on Retail Financing, Banking Operations and Commercial Banking were conducted at the Bank’s training institute viz. Jawaharlal Nehru Institute for Development Banking (JNIDB). Training Programmes on (Negotiating Skills for officer were conducted at Jaipur Chandigarh, Bangalore and Chennai Branch Offices which were attended by all the officers in these offices.

Programs numbering 22 were conducted covering 356 Class III staff members, of which ten were conducted at Zonal and Branch Offices. The Class II staff members were exposed to several areas such as Customer Care; Investor Management & Communication Skills were conducted for 87 Class IV staff members at H.O.

A total number of 16 computer-based programmes were conducted at H.O. Covering 84 officers and 61 Class III staff members. Eight Hindi Karyashalas were conducted at HO covering 64 officers and 49 class III staff members.
**IDBI earnings at Rs 47 crore**

The Industrial Development Bank of India (IDBI) has recorded an 18 per cent gain in net profit for the quarter ended December 31, 2003 at Rs 47 crore compared with Rs 40 crore in same period previous fiscal year.

Total income stood at Rs 1,665 crore compared with Rs 1,824 crore in the year-ago period.

In April-December, total income stood at Rs 5,006 crore. Net profit during the period was up 16 per cent at Rs 223 crore over Rs 193 crore in the same period of the previous year.

IDBI said it made provisions for bad and doubtful debts/investments to the tune of Rs 925 crore, up 40 per cent from Rs 660 crore in 2002-03. IDBI's aggregate sanctions in the nine-month period stood at Rs 4,409 crore, an increase of around 230 per cent from last year's levels. Similarly, disbursements at Rs 3,347 crore were up 74 per cent over disbursement volumes in the year-ago period.

Sanctions and disbursements to the infrastructure sector were up 362 per cent and 108 per cent, respectively.

The institution said visibly improved investment sentiments and business confidence spanning most sectors should herald a pronounced pick-up in industrial investment. This, it added, is "borne out by the spurt, albeit somewhat back-loaded, in institutional sanctions during the current financial year to December 2003".

It expressed that the vitality in economic performance, the revival in fortunes of old economy sectors like cement, steel and the re-establishment of a conducive investment climate would positively influence its working and quality of its portfolio during the current fiscal.
AIFI Sanctions aggregate Rs. 36,290 crore
Disbursements amount to Rs. 30,718 crore

The Industrial Development Bank of India (IDBI) has published its (twenty-fourth) Report on Development Banking in India (DBR) for the financial year 2002-03. With a view to optimizing its usefulness, the Report for the financial year 2002-03 is being brought out in two volumes. Volume I is dedicated solely to the operational and financial performance of All-India Financial Institutions (AIFIs). The State-level Institutions (primarily SFCs and SIDCs), which are much larger in number as compared to AIFIs and in respect of which data assimilation and processing takes a little more time, would be subsequently captured in Volume II of the Report.

The present Report (Volume I) analyses the operational and financial performance of AIFIs, comprising All-India Development Banks or AIDBs (IDBI, IFCI, ICICI, IIBI, IDFC and SIDBI), Specialised Financial Institutions or SFI(s) (Exim Bank and NABARD) and Investment Institutions (LIC, GIC, NIC, NIA, OIC and UII, apart from UTI) for the financial year 2002-03. The Report also highlights the operations of various other
institutions such as IVCF, ICICI Venture and TFCI, which also have a bearing on the industrial development in the country.

During 2002-03, financial assistance sanctioned and disbursed by AIFIs aggregated Rs.36,290 crore and Rs. 30,718 crore, respectively; the corresponding figures for 2001-02 stood at Rs.79,687 crore and Rs.63,890 crore, respectively.

However, data for 2001-02 and 2002-03 are not strictly comparable as ICICI Ltd ceased to operate as a DFI from the beginning of the financial year 2002-03. As such, exclusion of its operational data for 2001-02 provides for a more meaningful analysis of AIFI operations during 2002-03 (relative to the previous year).

On this premise, sanctions and disbursements by AIFIs during 2001-02 amount to Rs.43,458 crore and Rs.38,059 crore respectively. Using these base-year figures, sanctions and disbursements by these institutions during 2002-03 witnessed a decline of 16.5% and 19.3% respectively from previous year levels. These reflect an improvement over the extent of decline in operational volumes witnessed in 2001-02 from their corresponding 2000-01 levels viz. 33.1% and 16.5%, respectively.

Cumulative sanctions and disbursements by these Institutions, as at end-March 2003, stood at Rs.8,50,222 crore and
Rs.6,15,011 crore, respectively.

The languid pace of overall economic activity in general and, in particular, a somewhat placid industrial investment climate, leading to a significant fall in investment decisions, contributed in varying degree to a decline in overall business volumes of AIFIs for the second consecutive year.

The increase in industrial production during the year under reference resulted mainly from fuller utilisation of existing capacity; demand for project finance, particularly from the traditional industries and infrastructure sector constituents, continued to taper.

At disaggregated levels (all comparisons exclude ICICI Ltd’s data for the year 2001-02), AIDBs’ sanctions and disbursements declined by 29.8% and 29.5% respectively, during 2002-03, following a decline of 32.5% and 27.7% recorded under these heads in the immediately preceding financial year.

**Investment Institutions** recorded a more moderate decline of 35.3% in sanctions in FY 2002-03 compared to the steep decline of 50.6% registered during FY 2001-02. Disbursements by Investment Institutions, however, contracted more sharply by 32.2% in 2002-03 compared to a decline of 9.1% observed during 2001-02. Sanctions by SFIs bucked the trend by registering an
increase of 64.3% during the year under review over and above a
growth of 75.9% achieved in the previous year. Disbursements of
SFI's demonstrated similar buoyancy, increasing by 43.3%,
following a growth of 65.6% recorded in 2001-02.

AIDBs as a group accounted for the bulk of both
sanctions: 53.3% (63.4% in 2001-02) and disbursements: 47.4%
(54.2%) effected by AIFIs during 2002-03. The share of SFI's in
total sanctions and disbursements during the year moved up to
30.2% (15.4%) and 26.9% (15.2%) respectively, while that of
Investment Institutions fell to 16.5% (21.3%) and 25.7% (30.6%)
respectively.

AIFIs' sanctions and disbursements under project
finance declined less sharply during 2002-03- by 32.1% and 24.1%
to Rs. 8067 crore and Rs. 6086 crore respectively- as compared to
decreases of 40.1% in sanctions (Rs. 11,882 crore) and 23.3% in
disbursements (Rs. 8016 crore) suffered during 2001-02.

Assistance sanctioned and disbursed by AIFIs under
non-project finance, in contrast, recorded much sharper decline,
of the order of 34.4% and 37.2%, respectively, in 2002-03 than
they had in 2001-02, when they fell by 33.2% and 16.5%,
respectively.
During 2002-03, two **industry groups** viz. infrastructure (Rs 4999 crore) and services (Rs. 4536 crore) accounted for nearly half of AIFIs’ sanctions, though these fell short of assistance extended to these sectors in 2001-02. The other industries that accounted for sizeable sanctions during 2002-03 were chemicals & chemical products (Rs. 1473 crore), refineries & oil exploration (Rs. 1430 crore) and basic metals (Rs. 1131 crore), which were higher by 60.1%, 32% and 7.3%, respectively from levels obtaining in the previous year.

Seven States accounted for nearly 78.5% of total sanctions affected by AIFIs during the year. These comprised Maharashtra (Rs. 8689 crore, 30.2%), Delhi (Rs. 4560 crore, 15.9%), Tamil Nadu (Rs. 2416 crore, 8.4%), Gujarat (Rs. 1929 crore, 6.7%), Karnataka (Rs. 1879 crore, 6.5%), A.P.(Rs. 1843 crore, 6.4%) and West Bengal (Rs. 1251 crore, 4.4%).

Bulk of AIFIs’ sanctions during 2002-03 was accounted for by the private sector: 74.3% (66.7%), followed by public sector: 22.7% (29.7%), joint sector: 0.9% (1.7%) and co-operative sector: 0.9% (0.3%).

There is measured optimism that the observed vitality in economic performance and business sentiment indicators and, by
extension, the investment climate would translate into an improvement in business volumes and asset quality for most of the AIFIs during 2003-04 as compared to the previous year. However, the traditional business model of Development Financial Institutions (DFIs), which thrived in a more conducive operating environment spawned by development strategies of an earlier era, has come under considerable strain following adoption of the new development paradigms.

In fact, as competition from commercial banks and disinter mediation pressures intensify and as these institutions are faced with grossly inadequate access to low-cost retail deposits of meaningful volumes, the current business model of DFIs is becoming increasingly unsustainable.

In such a scenario, as a considered response, several DFIs have either forayed [beginning with ICICI, effective May 2002] into full-service banking or are gearing up to migrate to an acceptable and profitable variant of commercial banking to gain a lasting foothold in the emerging financial system.

IDBI too has formalized its road map in this regard with the support and advice of the Government of India and is currently awaiting Parliament’s approval for achieving corporate status, preparatory to its conversion into a commercial bank.