CONCLUSION

&

SUGGESTION
CHAPTER VIII
RESUME

With the passage of the Banking Laws Amendment Act of 1983, the Banking Regulation Act permits the banks to undertake a host of non-banking services, related to banking such as leasing, housing finance, mutual fund business etc. In the pursuit of these financial services, banks are developing closer ties with the primary and secondary segments of the capital market. The growth of non-banking financial service by banks is one of the emerging trends. There is vast scope, for such financial services in India. For example, merchant banking is in its infancy and mutual funds are just permitted to be set-up and that too in the public sector only. The fact remains that the close relations between mutual funds, merchant banks and stock broking activity needs no elaboration.

The measures of growth of capital market is best brought out by the following statistics. The number of listed companies on all stock exchanges increased in 15 years (1946-1961) from 1125 to 1203. In the next 28 years, by 1988 this number has grown to 5844. While the paid up capital of the companies in the corresponding periods increased from Rs.270 crores to Rs.753 crores between
1946-61. It grew to Rs.10549 crores by 1988. The market capitalisation of these listed companies was Rs.39133 crores in 1988.

Resource mobilisation, as indicated by consents for capital issues, doubled from Rs.3640 crores in 1983-84 to Rs.7917 crores in 1988-89. This is inclusive of public sector bonds. This figure is expected to reach Rs.10000 crores annually. The total number of investors is estimated to be 12 million, indicating the expanded role and importance of the stock market with a much larger daily turnover in securities.

Though the concept of merchant banking is of recent origin in our country, but it is a wider concept which encompasses many financial services. Merchant banking in fact is a service oriented function in which are engaged now a days many public sector and private sector banks including a few leading companies and firms. The merchant bankers advise its clients what to do to be successful and what should not be done. They believe in forecasting the future and not reacting to the past. Merchant banking operations started in India only during 1969 when Grindlays Bank opened a Merchant Banking Division.
The Government is encouraging the promotional technology oriented industries in order to create healthy and strong technological base in the country. It includes not only the promotion of new industries but also covers various diversification and expansion programmes of existing units. It is a part of the internal economic policy of the country to increase the production and generate employment. This requires the input of adequate financial, managerial, and technical activities. The problem of industrial finance is very complex. The promotional activities are also governed by many economic legislations in the country and many formalities are to be completed, legal provisions are to be compiled/before/with starting actual commercial production. The banking sector plays a very significant role in developing industrial and commercial base of the country. The Indian banks are no more merely money lending institutions but also take part in helping the industry in a variety of ways according to planned priorities and thus merchant banking is one of such ways.

From here starts the role of a merchant banker. The merchant banking divisions of banks are only rendering some or the other professional services and are not producing any tangible goods. These divisions are managed by
professionals who not only establish liaison and friendly relations with their clients but also maintain them by reposing some sort of confidence.

Institutions/Agencies providing merchant banking services in India are Public Sector Banks, Private Sector Banks, Foreign Banks, Public/Private Limited Companies, Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI) and Industrial Development Bank of India (IDBI).

The above institutions/agencies have come on the scene of merchant banking one after the other. Together they have enabled the existing industry to expand and to set up new industries. Long term capital in the form of equity, debentures and loans have resulted in the supply of many new marketable securities and broadened the scope of capital market in India. Not only the merchant banking has helped the primary capital market but has also played a significant role in the expansion of secondary market.

Many enterprising merchant bankers worked out various types of take-overs or attempts to take over of industrial units. They have also helped several multinational companies to lower their parent companies
equity and offer the surplus to the Indian Public under FERA. Mutual funds, commercial paper and venture capital are the latest areas in which merchant banking has come in a big way. Venture capital funds arise from readiness to take greater risks. In India, venture capital funds are the need of the day for new innovative entrepreneurs with ideas but no capital.

We are not at the close of our study. An attempt may, therefore, be made to piece together the scattered threads of our analysis in order to present a coherent pictures of the capital market in India and merchant bankers activities.
FINDINGS

The public sector is exercising an ever-increasing pressure on the capital market. The public debt of India increased from Rs.710 crores in 1970 to Rs.2472 crores in 1990 and Rs.6902 crores in 1995. Some international comparisons for the year 1954 show that while the percentages of public debt of India to national income and central revenues were 30 and 600 respectively the corresponding percentages for the UK were 169 and 540 and for Japan 13 and 25. Thus, the percentages for the UK and Japan differs considerably. But both these countries are industrially well developed. From this it appears that there is no ideal pattern of percentage of public debt to national income or to revenues for bringing about industrial development of a country. Japan has developed without the mounting burden of a public debt. The percentage of debt to revenues is the highest in India. If our debt position is not to deteriorate further we should place greater reliance on revenues than on public debt for implementing our plans of industrial development. It is rather surprising to note that the percentage of revenues to national income in the case of Japan works out at about 50, while it is only 30 in the case of UK and 5 in the case of India. These comparison amply demonstrate that the Government of India should place greater reliance on revenues than on public debt for the development of her economy.
Practically the same conclusion emerges if we study the problem from another angle of vision. It is agreed that borrowing from the central bank of the country results in an inflationary pressure on the economy. Between 1989 and 1994 while the rupee debt of India went up by about 10 times, Reserve Bank's holdings of rupee securities went up by about 62 times. Total contribution of the Reserve Bank to the rupee debt of the Government of India amounted to 28.9 per cent in 1994. This shows the magnitude of inflationary finance in India. Moreover, the banking system must have taken this inflation cumulatively forward. Obviously, this method of finance should be resorted to only in the context of falling prices or when expansion in productive capacity of the nation causes stringency in the money supply of the country.

Our analysis has revealed that the scheduled banks of the country hold about 10-14 per cent of the rupee debt of the Government of India. This percentage has slightly dropped during the last few years. Increase in absolute holding of rupee securities, therefore, has entirely depended upon the increase in their resources, i.e. deposits. There is little evidence to show that banking
system would absorb more rupee securities unless a corresponding increase in deposits takes place.

A study in respect of the year 1990 shows that 67.7 per cent of the government securities were held by the Reserve Bank, the banking system, the insurance business and some other institutions. The rest of the securities were held by joint stock companies, private individuals, stock brokers, indigenous bankers, ex-rulers, ex-zamindars and other persons. It is clear from this analysis that a substantial part of the government debt represents inflationary finance and only a small part of it, savings of individuals and institutions. Possibly most of these savings would have been invested in one field or the other even if government securities had not been issued. They are not the savings which can be claimed to have been generated as a result of Government's borrowing programme.

The Government of India should not depend to such a large extent on public loans for the industrial development of the country. If, at any rate, borrowing must be resorted to, there is a case for thorough examination of the question of centralising loan operations of the State and the Centre. On the whole, it may be advantageous if Centre alone borrows on behalf of the States as well. It
may also be noted that a judicious management of public debt requires a changing pattern of maturities in accordance with changes in economic situations.

It has been emphasised throughout our investigation that private sector is an accepted partner in the progress of our country. But there is no plan as such for the private sector. Indeed, there could not be any. Decisions in the private sector are so diversified that no accurate estimate can be made about its future activities. Nay, data s not available even in respect of the past operations on which reliable estimates could be built for the future. Estimates in respect of this sector are, therefore, nothing more than some informed intelligent guesses about it.

In spite of the aforesaid difficulty, the statistics point out that perhaps a mushroom growth of companies is associated with inadequate capital base. The tendency, however, is a faster increase in paid-up capital than in the number of companies.

Our investigation has shown that the private sector has largely fulfilled the expectations of the planners. In the public sector on the other hand, there are shortfalls in actual investment. This shortfall in
investment in the public sector may have occurred on account of the operation of a number of factors, financial inadequacy being only one of them. But should financial inadequacy be one of the reasons, would it be unreasonable to conclude that the private sector may not spare finance for the public sector voluntarily so long as it can find profitable channels of investment within its own field of operation.

A study of the sources of finance of joint stock enterprise working in this country is highly instructive. Absolute figures in respect of all the companies are not available but the studies made by the Taxation Enquiry Commission and the Reserve Bank of India indicate some broad trends in respect of sources of finance. New capital issue in the open market is one source of finance. But much more important sources of finance than new capital issues are General Reserves and Depreciation Reserves. According to Reserve Bank's sample for 1992-93 more than 40 per cent of the finance for joint stock companies came from these two sources alone. Borrowing, particularly from banks, was another major source of finance. Two notable points emerging from this study are: first, that internal finance plays a very important part in running the joint stock enterprise in
this country, and secondly, that much of the external finance comes from interest-bearing sources and, perhaps, involves a heavy payment of interest charges.

A study from another angle of vision also leads us to similar conclusions. Of the total paid-up capital and debentures of the joint stock enterprise in this country, banks contributed only about Rs.42 crores in 1998. This amounted to about 5 per cent of their total investment in that year. Insurance business held about Rs.90 crores worth of shares and debentures in 1990. Due to nationalisation of life insurance an increasing percentage of finance for industry cannot be expected even from this source in the future.

In fiscal year 1994 capital markets operations approved by IFC induced institutions building investments, credit lines for intermediaries, and security transactions, and accounted for 34 per cent of the number of projects and 24 per cent of the dollar volume ($579 million of $2, 5 billion) increase in foreign portfolio investment flows (including debt issues) to emerging markets from less than $7 billion in 1989 to over $60 billion in 1993, exceeding FDI and official development assistance for the first time.
The operation of the Indian stock market is far from being efficient. In fact one of the reasons why many FIIs are still wary of entering the market in a big way, is the systematic risks in trading at the Indian bourses.

In the decades of the eighties, foreign investment policy had played a very limited role in the process of growth and development. During the period 1986-90, there has been 900 crore foreign direct investments flow to India which comes to Rs.180 crore per annum. This reveals that during the decade of eighties, LDC's followed restrictive foreign investment policy.

The total actual FDI inflows during 1991-94 are to the tune to Rs.3557.04 crore in 1991 Rs.351.43 crore, in 1992 Rs.675.2 crores, in 1993 Rs.1,786 crores and upto March 1994 Rs.744.39. The main reason for the increase is that India is considered a much safer than China by majority of investors in the USA and UK.

During 1993-94 Indian Companies raised nearly US$2.5 Billion through Global Depository Receipts (GDRs) and Convertible Bonds in the Euro Market. While any estimate of capital inflows on account of GDRs, during 1994-95 can only be imprecise at this juncture, market sentiment permitting inflows may be of the order of US $3 to 4 billion. The Euro
Market has several attractions for Indian corporate seeking to raise low costs funds. Lower commissions and issue costs of 4 per cent as against 8 to 10 per cent in the domestic market lower coupon rates for convertible instruments and perhaps the ability to issue GDRs at par or even a small discount to domestic share price as against deep discounts for a domestic primary market mobilisation.

51 per cent financial institutions was also allowed to trading companies for exploring world markets for Indian goods. These policy guidelines shall allow royalty upto 5 per cent on domestic sales and 8 per cent of export sales alongwith lumpsum technology payment upto Rs.7 crores.

The liberalisation of the financial sector throws up the need for several financial markets and services. The Indian financial services such as leading, hire purchase, financing for take over and loan syndication and non-fund based services, such as portfolio management, investment advice, financial engineering and restructuring and issue management have grown substantially.

Due to liberalisation, foreign investments have increased. It is far more easy for Indian industry to meet the foreign currency requirements and to import sophisticated technology and cheap raw material.
While a sum of Rs. 25000 crore was tapped from the primary markets, the 220 foreign institutional investors undertook investments worth more than $2.5 billion in less than two years. Indian investors also mopped up a sum of $3 billion through floatation of Euro-issues.

All issues should be managed by at least one authorised merchant banker, functioning as the sole manager or lead manager. The number of lead merchant managers for issues up to Rs. 50 crores is restricted to two. For larger issues of Rs. 400 crores and above the number could go up to five. Lead merchant banker is not essential where the issue does not exceed Rs. 50 lakhs.

Merchant bankers are expected to exercise due diligence independently. They should verify the contents of the prospectus and reasonableness of the views expressed therein. Merchant bankers of the issue shall certify to this effect to SEBI.

Maintenance of books of accounts, records and documents; merchant bankers have to keep and maintain a copy of the balance sheet, a copy of the auditor's report and a statement of financial position. Merchant bankers should inform SEBI where the accounts, records and documents are maintained.
Merchant Bankers should submit to SEBI particulars of any transaction for acquisition of securities of a company whose issue is managed by them within 15 days from the date of entering into such transaction.

The total value of debentures listed on all stock exchanges in India amounted to Rs.16600 crores in 1990-91 constituting 53 per cent of the total capital issued, (debentures, preference and equity); and in terms of market value at Rs.16800 crores they showed very little appreciation. Market value of debentures as a proportion of total capital amounted only to 16.8 per cent.

The growth pattern of listed stock in selected years in all stock exchanges in India. Equity shares of 6480 companies were listed in 1992 on the 21 stock exchanges in India. The paid-up value of the equity shares in 1990-91 was Rs.14500 crores and market value Rs.82870 crores. Equity shares accounted for 46.3 per cent of listed capital on all stock exchanges in 1990-91.

One of the most notable features of the capital market during the eighties has been a structural change, noticed more prominently during the Seventh Plan. In case of the equity capital, in spite of a large increase in quantitative term, its relative share in the new issue
market has recorded rapid decline over the years. The percentage share of equity capital among different securities has come down from 80.0 per cent during Fifth Plan to 33.9 per cent during the Seventh Plan. During the corresponding period, the share of debenture capital has gone up from 15.8 per cent to 65.9 per cent.

Underwriting is an insurance against the risk of undersubscription of the public issues. The extent of underwriting depends on the promoters' expectation of the responses to their issues in the context of the prevailing investment climate. Because of the insensitivity of the capital market, for a long time, the financial institutions continued to extend adequate and valuable underwriting support to the issues of the corporate sector. However, with the activities in the capital market, having shown a remarkable growth during the eighties, the dependence of the corporate sector on the institutional underwriting has shown a definite downward trend.

The infrastructure facilities in the capital market has failed to keep pace with the rapid increase in the business. The service standard by companies and market intermediaries have deteriorated rapidly. During the last few years, the investors complaints against the companies as
well as the members of stock exchanges have increased rapidly. This is an area which needs urgent attention of the regulating agencies including the stock exchanges.

Companies can raise equity and preference capital by offering them for sale through prospectus to the public. The equity shares are normally underwritten by financial institutions such as IDBI, ICICI, IFCI, LIC, UTI and commercial banks and merchant bankers. Share brokers also underwrite public issues of equity capital. Sometimes term lending institutions directly subscribe to equity and preference issues of a company. Preference shares and normally subscribed to by financial institutions whereas households prefer equity shares. In 1990-91, of the total capital issue, the amount subscribed by public amounted to only 43.2 per cent.

It has made available a staggering sum of Rs.9240.05 crores during the four years period (April 1995 to March 1998) of our study. The amount acquires significance when it is related to the fact that in preceding four years (April 1991 to March 1995), the sum raised was at much lower figures of Rs.2834.61 crores only.

For instance is 1996-97 the five mega issues (exceeding Rs.100 crores—Larsen and Toubro Limited (Rs.820 crores), Essar Gujarat Limited (Rs.516.32 crores)),
Bindal Agro Chem Limited (Rs.500 crores), Usha Rectifier Corporation (I) Limited (Rs.450 crores), and Tata Iron and Steel Company Limited (Rs.360 crores) (1.91 per cent in number) together constituted a phenomenal 63 per cent (Rs.2646.32 crores) of the total public issue amount during the year.

Change in the trend is noticeable in favour of equity securities over the years. The proportion of equity has shown a marked increase from 38.7 per cent in 1995-96 to 52 per cent by 1997-98. This position is in sharp contrast to the earlier position, particularly of 1995-96 in which debentures formed an overwhelming share (82.4 per cent) and share of equity capital was significantly low (17.6 per cent).

Such an overwhelming increase in equity in 1997-98 may partly be attributed to the sharp rise in interest rates charged by development financial institutions by five points to around 20 per cent (since lowered to 19 per cent) causing equity a more attractive option of serving large amounts of debt.

As per the trend, the declining share of new issues is evident. While they accounted for as high as nearly two-thirds (62.25 per cent) of total project cost
needs in 1995-96 this figure has declined to much less than one-half (44.62 per cent) in 1995-97 and further to 37.72 per cent only by 1997-98. In fact, they ranked first as providers of funds in the first three years of our study.

The new capital issues have played a pivotal role in catering the investment requirements of the projects undertaken by private corporate sector as much as they occupied the first rank among all the sources available to meet their financial needs during April 1995 to March 1998. As a result of such a fairly strong support, the development financial institutions (like IDBI, IFCI and ICICI) which constitute the backbone of Indian Finance system have been relegated to the second position. Being so, the period of study is aptly characterised as the period of unprecedented boom. The period has yet another distinction to its credit in terms of an era of launching 'mega' issues. Given the trend, it appears that the role of new issues is likely to spurt in years to come as the Indian capital market virtually has proved to have vast potentials of raising funds.

The scrip-wise analysis of new capital issues has shown that debentures have received more support vis-a-vis equity shares from the new issues market. The plausible
reason is that they represent ideal securities both from the points of view of corporate enterprises (debt, in general is relatively a cheaper source of finance than equity) and investors (debt is considered more safe security than equity). Consequently, the financing pattern during the period of study continued to conform to the higher debt-equity ratio of about 2:1, the recent spurt in the share of equity issues notwithstanding. Besides, the funds raised have been primarily used for acquisition of fixed assets with plant and machinery accounting for a lion's share.

SIDCs had sanctioned assistance (effective) of Rs.815.00 crores during the year 1990-91 as against Rs.216.40 crores during the year 1980-81. It is observed from the analysis that the effective assistance sanctioned had gone up by 2.72 times over the period of 10 years. The annual average growth rate of effective sanctions of SIDCs comes out to 12.53 per cent at current prices and 5.89 per cent at 1981-82 prices. The Best Fit Model for assistance sanctioned by SIDCs at current prices is equation (5) type, indicating a strong quadratic trend in assistance sanctioned by SIDCs at current prices. Also the same trend i.e., equation (5) type at constant prices. The percentage of operational performance of SIDCs shows that except for the years 1982-83 and 1989-90 there were increase in total
assistance sanctioned. The annual growth rate of assistance sanctioned by SIDCs was the highest during the year 1981-82 at current as well as constant prices. The growth rate of assistance sanctioned during the year 1990-91 over 1980-81 stood at 276.62 per cent and 85.32 per cent respectively at current as well as constant prices.

SFCs had sanctioned a total assistance of Rs.1848 crores during the year 1990-91 as against Rs.370.50 crores during the year 1980-81. The index numbers of amount sanctioned have increased from 100 in 1981-82 to 362.637 in 1990-91 showing an increase of 3.63 times in 10 years. The annual average growth rate in the total assistance sanctioned of SFCs comes out to be 15.20 per cent and 8.56 per cent at current prices and constant prices respectively. The Best Fit Model for assistance sanctioned by SFCs at current prices as well as constant prices is equation (5) type. The operational performance of SFCs in percentage shows that there was a steady trend of increase in assistance sanctioned throughout the period under study. The year-wise growth rate shows that while the highest annual growth was attained during the year 1981-82 over the previous year at current prices, it was in the year 1985-86 over 1984-85 the highest annual growth rate was marked at constant prices. The growth rate of assistance sanctioned by SFCs during the year 1990-91 over 1980-81 at current
prices stood at 398.79 per cent, whereas, it was only 145.43 per cent at constant prices during the same period.

SIDCs had disbursed assistance worth Rs.590.40 crores during the year 1990-91 as against Rs.124.60 crores in 1980-81. The total assistance disbursed had gone up by 3.09 times during the period of analysis. The annual average growth rate of SIDCs comes out to be 14.78 per cent at current prices and 8.14 per cent at constant prices. The percentage share of assistance disbursed by SIDCs had shown an increasing trend throughout the period of study. The annual growth rate of assistance disbursed at current and constant prices were the highest during the year 1981-82. The Best Fit Model for assistance disbursed by SIDCs at current prices as well as constant prices is equation (5) type.

The assistance sanctioned by SIDCs was Rs.424.20 crores in 1990-91 as against Rs.124.32 crores in 1980-81. It is found from the analysis that the assistance sanctioned to backward areas had gone up by 2.43 times over the period of analysis. The annual average growth in the assistance sanctioned to backward areas comes out to be 12.09 per cent at current prices and 5.54 per cent at constant prices. That except for the years 1982-83 and 1989-90 there were increase in assistance sanctioned to backward areas by SIDCs.
During the year 1980-81 SFCs had sanctioned assistance worth Rs.193.80 crores to the backward areas and it rose to Rs.881.80 crores at the end of 1990-91. Fixed base index numbers of assistance sanctioned to backward areas have increased from 100 in 1981-82 to 379.11 in 1990-91, showing an increase of 3.79 times in 10 years. The annual average growth rate in assistance sanctioned to backward areas by SFCs was 15.80 per cent at current prices and 9.90 per cent at constant prices. The percentage share of assistance sanctioned to backward areas has shown an upward trend throughout the period under review except for the year 1987-88. The year-wise growth rate both at current and constant prices has exhibited its highest figures in the year 1985-86. While the growth rate in 1990-91 over 1980-81 at current prices was 355.01 per cent, it was 123.89 per cent at constant prices.

Assistance disbursed by SIDCs was Rs.327.10 crores in 1990-91 as against Rs.74.85 crores in 1980-81. It is found from analysis that the assistance disbursed to backward areas by SIDCs had gone up by 3.03 times over the period of 10 years. The annual average growth rate in the assistance disbursed to backward areas by SIDCs comes out to be 14.63 per cent at current prices and 7.99 per cent at constant prices. It can be seen from that the assistance
disbursed to backward areas over the period of study has shown an increasing trend except during 1990-91. The annual growth rate of assistance disbursed to backward areas at current prices has shown a negative growth only in the year 1990-91, whereas at constant prices the negative growth was observed during the years 1983-84, 1988-89 and 1990-91.

SFCs had disbursed assistance worth Rs.124.20 crores to backward areas in 1980-81 and it has increased to Rs.628.00 crores in 1990-91. The index numbers of assistance disbursed to backward areas by SFCs have increased from 100 in 1980-81 to 416.17 in 1990-91, showing an increase of 4.16 times in 10 years. The annual average growth rate by SFCs comes out to be 17.75 per cent at current prices and 11.11 per cent at constant prices. The assistance disbursed to backward areas in percentage shows that there was an increase in assistance disbursed to backward areas since 1980-81. The year wise growth rates of assistance disbursed to backward areas by SFCs at current as well as constant prices have shown the highest growth in the year 1986-87. The growth rate of assistance disbursed to backward areas by SFCs in 1990-91 over 1980-81 stood at 405.636 and 148.805 at current prices and constant prices respectively.
The backward area disbursement by SFCs has increased by 2.67 times over the period of analysis while it was only 2.14 times by SIDCs. The analysis of index numbers and overall growth rate at current prices and constant prices of backward area disbursement shows that the performance of SFCs is better than that of SIDCs during the 11 year period under study.

SFCs had sanctioned an assistance of Rs.1301.90 crores in 1990-91 as against Rs.254.40 crores in 1980-81. That the effective assistance sanctioned to Small Scale Industries have gone up by 3.58 times over the period of analysis. The annual average growth rate of SFCs comes out to be 15.26 per cent at current prices and 8.62 per cent at constant prices. The assistance sanctioned to Small Scale Industries in percentage shows that since 1980-81 there was marked improvement in the assistance sanctioned to Small Scale Industries by SFCs. The annual growth rate of assistance sanctioned to Small Scale Industries at current prices has shown the highest figure in 1981-82 whereas at constant prices it was in the year 1985-86.

SFCs had disbursed an assistance of Rs.153.40 crores in 1980-81 and it increased to Rs.923.60 crores in 1990-91. It can be seen from that assistance disbursed to
Small Scale Industries by SFCs had gone up from 100 in 1981-82 to 438.348 in 1990-91, showing an increase of 4.383 times in 10 year period. The annual average growth rate in assistance disbursed to Small Scale Industries by SFCs comes out to be 17.69 per cent at current prices and 11.05 per cent at constant prices. The percentage share of assistance disbursed to Small Scale Industries by SFCs has shown an increasing trend during the period of analysis. The year-wise growth rate both at current as well as constant prices was the highest during the year 1980-81. The growth rate in 1990-91 over 1980-81 at current prices stood at 502.086 per cent and at constant prices at 196.265 per cent. The year-wise growth rate at current prices was quite negligible during the years 1983-84 and 1989-90.

Assistance to Small Sector by SFCs shows that the growth rate both at current as well as constant prices was higher in case of advances disbursed to Small Road Transport Operations as compared to its disbursement towards Small Scale Industries. The overall growth rate at current prices of assistance disbursed to SRTOs reached to a height of 987.333 per cent, whereas it was 502.086 per cent for the assistance disbursed by SIDCs during the period under review. From the analysis it can be inferred that the SFCs
are giving greater attention in the recent years to the progress and development of SRTOs.

Assistance disbursed to Expansion/Diversification by SIDCs comes out to be Rs.81.40 crores in 1990-91 as against Rs.56.80 crores in 1980-81. The index numbers of assistance to E/D by SIDCs have increased from 100 in 1981-82 to 138.20 in 1990-91 showing an increase of 1.38 times. The annual average growth rate in the assistance disbursed to E/D by SIDCs comes out to be 4.12 per cent at current prices and -2.52 per cent at constant prices. The percentage of assistance to E/D shows that though there was an increase in absolute terms there was no steady increase in assistance to E/D over the period. The growth rate of assistance to E/D by SIDCs at current prices turned to negative during 1982-83, 1985-86, 1986-87 and in 1990-91, whereas the year-wise growth rate at constant prices was found negative during 1981-82 to 1986-87 and in 1990-91. The growth rates of assistance to E/D by SIDCs in 1990-91 over 1980-81 at current prices was 43.310 per cent and -29.482 per cent at constant prices.

SIDCs had disbursed supplementary assistance worth Rs.67.70 crores in 1990-91 as against Rs.13.00 crores in 1980-81. The index numbers of SA by SIDCs had gone up by
8.68 times in 10 year period. The annual average growth rate in disbursement to SA by SIDCs comes out to be 23.04 per cent at current prices and 16.40 per cent at constant prices. The percentage share of SA shows that the maximum share was disbursed during the year 1986-87. The annual growth rates of SA at current prices amounted at -52.432 per cent in 1987-88, -15.428 per cent in 1981-82 and 12.272 per cent in 1989-90, and the highest growth rate (102.557 per cent) was recorded during the year 1986-87 it was found negative during 1981-82, 1987-88 and in 1989-90.

The assistance disbursed by SIDCs was Rs.21.30 crores in 1980-81 and has increased to Rs.53.00 crores, in 1990-91. The index numbers of assistance disbursed to joint sector had gone up by 2.56 times over the period of 10 years. The annual average growth rates is disbursement to joint sector by SIDCs comes out tobe 9.51 per cent at current prices and 3.82 per cent at constant prices. Disbursement of assistance to joint sector in percentage shows that the highest percentage was marked during 1986-87 (15.236 per cent). The year-wise growth rate of assistance disbursed to joint sector at current prices was the highest (109.79 per cent) during 1986-87 over the previous year. The growth rate in 1990-91 over 1980-81 at current prices gas 148.826 per cent while at constantprices it stood at 22.438 per cent. The highest growth rate at constant prices also
marked in 1986-87. The Best Fit Model for assistance disbursed to joint sector by SIDCs at current prices is equation (4) type and at constant prices is equation (5) type indicating a strong quadratic trend in assistance disbursed to joint sector by SIDCs at constant prices.

SIDCs had sanctioned assistance to the co-operative sector of Rs.0.50 crores in 1980-81 and it has risen to Rs.1.60 crores in 1990-91. The index numbers of sector-wise assistance of SIDCs shows that the assistance sanctioned had gone up by 2.0 times in 10 years. The annual average growth rate in assistance sanctioned to co-operatives accounted at 9.15 per cent and 5.70 per cent respectively for current and constant prices. The percentages of assistance sanctioned to co-operative unfolds that out of the 11 years under study 31.818 per cent was declared as the highest in the year 1988-89. The year-wise growth rate of assistance sanctioned at current as well as constant prices was the highest (308.333 per cent and 279.999 per cent) in 1988-89. The growth rate during 1990-91 over 1980-81 at current prices was 220.00 per cent and at constant prices it was 57.46 per cent.

SIDCs has disbursed assistance to private sector worth Rs.92.20 crores in 1980-81 and it has increased to Rs.513.20 crores in 1990-91. The index numbers of
assistance disbursed to private sector have increased from 100 in 1981-82 to 350.786 in 1990-91, showing an increase of 3.51 times in 10 years. The annual average growth rate in assistance disbursed to private sector turns out to be 16.08 per cent at current prices and 9.44 per cent at constant prices. The percentage of assistance disbursed to private sector out of the 11 year period under study was found increasing since 1980-81 except during the year 1988-89. The year-wise growth rate of assistance disbursed to private sector both at current and constant prices has indicated the highest during 1981-82 over 1980-81. The growth rate of assistance disbursed to private sector in 1990-91 over 1980-81 at current prices resulted at 456.616 per cent while it was 173.890 per cent at constant prices.

The sector-wise disbursement of assistance by SIDCs shows that among the four major sectors—public, Joint, co-operative and private—the private sector enjoyed a greater share followed by joint sector, public sector and co-operative sector. The growth rate of assistance disbursed in 1990-91 over 1980-81 shows that the highest growth rate was achieved, both at current and constant prices, by the private sector, followed by co-operative, joint and public sector. Alternatively the index numbers of sector-wise
disbursement (base 1981-82) disclosing an increase of 6.00 times in the assistance disbursed to co-operative sector, whereas, it was 3.51 times for private sector, 2.56 times for joint sector and 0.96 times for public sector during the period of analysis.

The resource pattern of the IRBI consists of share capital, Reserves and Surplus, Loans from Government of India, Market Borrowings, Borrowings from the RBI and Current Liabilities. The total resources of IRBI have increased from Rs.96.55 crore in 1980-81 to Rs.1143.17 crore in 1993-94 a phenomenal increase indeed.

Loans from the Government of India, which was the main source in the early years, has decreased from about 60 per cent in 1980-81 to only about 13.24 per cent in 1993-94. This is due to the government policy of denying budgetary support to financial institutions.

The amount of share capital, despite increase in amount from Rs.15 crore in 1980-81 to Rs.186.30 crore in 1993-94 has not shown any appreciable increase in proportion. And reserves and surplus form only 1.23 per cent as on March end, 1994.
Since 1985 the IRBI has been permitted to draw from the RBI's National Industrial Credit (Long Term Operations) Fund. This borrowing forms about 15 per cent of total resources as on March end, 1994. However, since 1991-92 the amount has stagnated at Rs.170 crore only.

The debt-enquiry ratio, of IRBI pursued on an average, has been 4.47:1 during the period of study and the total debt as a percentage of total capital amounts to, on an average, about 82 per cent.

The form of assistance provided by the IRBI is interesting to note that despite the sanctioning of guarantees, underwriting and direct subscription in 1993-94, there was no corresponding disbursement. Thus, although the IRBI was supposed to play the role of lender as well as guarantor and underwriter, the bank has confined itself to only lending operations and has played a passive role in other areas.

The IRBI has functioned more as a lending institutions than as a developing undertaking. All loans and no equity finance will put greater burden on debt-servicing capacity of already sick units. This might accentuates sickness. Guaranteeing, underwriting and direct subscription in equity financing of sick units may
contribute towards revival of sick units. An encouraging development in recent years has been that the bank has begun providing lease financing facilities.

In 1998 the bank finance was 7934.8 crores as compared to 2201.78 crores 1989, indicating 360.4 times of increase over a period of 10 years. This is a very significant increase in the bank finance to Large Public Limited companies.

The average amount of bank borrowings during the period of 10 years to Large Public Limited Companies was stood at Rs. 4410.33 crores. The rate of change in the bank borrowings was at 15.4 per cent in 1998, whereas it was only 2.6 per cent in 1989. There were significant variations in Bank borrowings of Large Public Limited Companies during the study period and which moved between 2.6 per cent in 1989, whereas the highest rate of increase was evident in 1997 at 31 per cent. The rate of increase in the bank borrowings was at 17.8 per cent in 1990 and declined to 12.5 per cent and followed by an increase at 14.9 per cent 1992. The fluctuations in the bank borrowings have shown the pattern of increase/decrease year after year. The prominent declines were observed in 1993 at 9.0 per cent and 6.2 per cent in 1996.
The increase in bank borrowings as percentage of total external sources of funds was at 31.7 per cent in 1998 whereas, it was 26.6 per cent in 1997. The average of increase in the bank borrowings to total external sources of funds was at 16.2 per cent. This went to indicate that out of every Rs.100 raised by the Large Public Limited Companies through external sources, the bank borrowings accounted for Rs.16.2. Therefore the bank borrowings is considered to be a significant source of funds.

The bank borrowings as percentage to total external sources of funds was at 3.7 per cent in 1989 as compared to 13.7 per cent in 1998, reflecting 3.7 times increase. The pattern of bank borrowings as a total external sources of funds was moved between 3.7 per cent to 26.6 per cent, showing lowest shared at 3.7 per cent in 1989 against a highest share at 26.6 per cent in 1997.

It is considered that, the short-term bank borrowings are used to finance the requirements of working capital more prominently the inventories. Therefore, the relative importance of short-term bank borrowings to finance inventories has been studied by using the ratio of short-term bank borrowings as percentage of inventories.
The short-term bank borrowings as percentage of inventory moved between 36.9 per cent in 1991 to 47.0 per cent in 1997, incidentally these are the lowest and highest sources of bank finance to meet the inventory requirements.

The ratio of bank borrowings to inventories declined from 40.2 per cent in 1990 to 36.9 per cent in 1991. Then onwards continuously increased and reached to 47.0 per cent in 1997. This is the highest percentage use of bank finances to inventory. Therefore, it can be concluded that the bank borrowings in relation to total external sources of funds and short-term bank borrowings to finance working capital requirements have emerged a significant sources in the case of Large Public Limited Companies.

We look at the composition of bank borrowings from 1989 to 1991 the proportion of short-term bank borrowings was moved between 89 per cent to 80.9 per cent, leaving a very marginal share of 11 per cent to 19.4 per cent for long-term bank borrowings.

The co-efficient of correlation between bank borrowings and inventories is at 0.91 during the period of the study. This indicates the high degree of positive co-efficient of correlation between bank borrowings and inventories. Further, such type of perfect positive correlation
indicates that the decumulation/accumulation of inventories have caused for decline/increase in the bank borrowings from time to time. On the basis of such relationship it can be concluded that the Large Public Limited Companies have been depending upon bank borrowings to finance the requirements of inventory.

The co-efficient of determination between the rates of bank borrowings and inventories was at 83 per cent. This tells us that the total variations in the financing pattern of inventory were explained by variations in the bank borrowings to the extent of only 83 per cent. The unexplained variations in inventories to the extent of 17 per cent not on account of variations in the bank borrowings but due to other sources of inventory financing such as long-term and short-term. This went to highlight that the bank borrowings were used to finance only 83 per cent of the inventory requirements of Large Public Limited Companies, whereas the 17 per cent of inventory requirements were financed through long-term sources of funds such as equity and debt.

The co-efficient of variation of bank borrowings was at 113 per cent and inventory ar 112 per cent for the period under review. This explains that both of them have
variations. Since the co-efficient of variation with a magnitude of 113 and 112 will speak about greater inconsistency in both the amounts and rates of banks borrowings and inventories. The possible reasons for greater variations in both the bank borrowings and inventories of Large Public Limited Companies may be attributable to accumulation and decumulation of inventories due to fluctuations in the demand and causing for lower/higher sales volume, resulting in increase or decline in repayment of bank loans depending upon the cash and the bank balances and liquidity position.

The traditional industries have borrowed at an average rate of 19.5 per cent from the bank as against only 14.9 per cent in the case of modern industries. This indicates that the traditional industries have been availing relatively higher rates of bank borrowings, and the highest rate was at 46.7 per cent in 1991, whereas the lowest rate was at 6.3 per cent in 1998. However, the modern industries have borrowed an highest percentage of bank funds at 30.1 per cent in 1997 and lowest at 4.5 per cent in 1997.

We observe the rates of bank borrowings in the year 1998 we can find that higher rates of bank funds were borrowed in the lower capital size-groups and lower rates of borrowings were at higher capital groups.
The bank borrowings were significantly higher during the entire period of the study in the capital groups of Rs.1 crore to Rs.2 crores and Rs.2 crores to Rs.5 crores whereas these were lowest in the capital groups of Rs.10 crores to Rs.25 crores and Rs.25 crores and above.

The rates of bank borrowings in the highest capital size-group of Rs.25 crores and above were moved between a lowest of 11.1 per cent in 1996 to 14.8 per cent in 1989. We can say that the rates of bank borrowings have not increased along with the rates in the paid-up capital size-group, as against to this a lower capital size groups of Rs.1 crore to Rs.2 crores, Rs.2 crores to Rs.5 crores and Rs.5 crores to Rs.10 crores have borrowed significantly higher rates of bank borrowings during the period under review. This tendency explains that the lower capital size-groups have availed higher amounts of bank borrowings as compared to higher paid-up capital size groups.

The bank borrowings to Large Public Limited Companies have increased 360.4 times over a period of ten years, since these were at Rs.7934.8 crores in 1998 as against Rs.2201.78 crores in 1989.
Bank borrowings and inventory brings out that the ratio of increase in the bank borrowings was at 15.4 per cent in 1998 as against 17.5 per cent of inventory. In almost all years of the study, rates of bank borrowings were higher than the rates of inventories. Such an excess bank borrowings were raised by Large Public Limited Companies to finance long-term requirements including permanent working capital.

The co-efficient of correlation between bank borrowings and inventory is at 0.91, indicates the high degree of positive relationship between these two. The relationship may explain that the decumulation/accumulation of inventories have caused for decline/increase in the bank borrowings.

The co-efficient of determination between bank borrowings and inventory is at 83 per cent. This suggest that out of every 100 variations in inventory are attributable to bank borrowings regarding financing of inventory. This also indicates that 17 per cent of inventory requirements were met from other than banks funds.

A prominent feature of the size-wise analysis kis that the rates of bank borrowings have significantly declined in the higher capital size-groups from 1993 to 1998
as compared to 1989 to 1992. This may be due to increase in the internal sources of funds causing for repayment of bank loans in the latter years of the study. However the rates of bank borrowings have increased in the lower capital size-groups of the companies in latter years of the study, when compared to earlier years. This may be due to decline in internal sources of funds and increased dependence on external sources of funds including bank borrowings to meet the financial requirements of lower paid up capital size-group companies.

Of the savings ratio (the ratio of gross domestic savings to gross domestic product) of 24.3 per cent in 1991-92 households account for 81.7 per cent; and the savings ratio for household sector is 19.9 per cent. However, in financial analysis, net savings ratio and investment in net financial assets are considered.

The proportion saved in financial assets has not shown corresponding improvement during the period. Net financial assets as per cent of net domestic product have gone up from 8.8 per cent in 1986-87 to 10.7 per cent in 1991-92. Households investment in shares showed a marginal increase from 5.4 per cent of net financial assets in 1986-87 to 5.8 per cent in 1990-91. There has however been a
substantial increase in investment in units of UTI and mutual funds in the period from 4 per cent in 1986-87 to 11 per cent in 1991-92. In the following years 1991-92 and 1992-93 there has been a sea change in the flow of savings into the primary market issues as is evident from the trends in capital raised of about Rs.18690 crores in 1992-93 from the market.

It may be noted that shares of several companies are sold by promoters six to eight months before the actual public issue. Such sales apart from being illegal because they are not sold through prospectus, are not private placement business. Private placement assumes that the offerees are limited and few and have sufficient knowledge and experience to evaluate merits and risks of investment. The modus operandi in private placement business is soliciting through post or print media or door to door, interested parties to purchase shares in private placement. While shares of new companies are sold at par or at nominal premium, in the case of shares of existing and profit making companies premium could be as high as Rs.40 to Rs.50 per share. The brochure that normally accompanies the application presents a rosy picture and does not even convey the gestation period or risks involved. The private placement business cannot exist without the active convenience of
promoters. They sell shares out of their quota and profit from any premium collected.

Merchant bankers have to ensure that the information required by Companies Act and SEBI in the prospectus is furnished. They should arrange for drafting of the prospectus and vetting thereof by reputed solicitors. The merchant bankers through the company making the issue should ensure that the consent of the experts, legal adviser, attorney, solicitor, bankers, bankers to issue, brokers and underwriters have been obtained so that copies of consent can be filed along with other statements and prospectus with Registrar of companies. The merchant banker is expected to exercise due diligence in ensuring compliance by the company in regard to prospectus.

Where the merchant banker cannot aimed to issue house work an outside agency specialising in the type of work is appointed for the purpose. Merchant bankers normally have a panel of registrars/issue houses and help the issuing company finalise the terms and conditions of appointment. The work of registrars relates mainly to post issue management.
A sum of Rs.5775 crores constituting 95 per cent of the total public issue of Rs.6061 crores was underwritten (main and contingent) in 1992-93 (88 per cent in 1991-92, 60 per cent in 1990-91 and 19 per cent in 1989-90). The main underwriting amounted to Rs.5361 crores of which financial institutions (20) 28 per cent banks (56) 35 per cent, merchant banks (50) 11 per cent and brokers (1296) 26 per cent.

In addition to main underwriting, contingent underwriting amounted to Rs.416 crores in 1992-93. Of this, 59 per cent was underwritten by banks, 6 per cent by financial institutions, 28 per cent by private merchant bankers and 7 per cent by brokers.

Other characteristics of the sample were average age of issuing company, four years; mean size of project, Rs.82 crores (range Rs.5.5 crores to Rs.720 crores); amount raised, less than one crore to Rs.78 crores; minimum underwriting 57 per cent, and amount issued to public 85 per cent (average).

The average market price is more than 50 per cent but below 75 per cent of fair value, capitalisation rate should be reduced to 10 per cent. If the market price is more than 75 per cent of the fair value, capitalisation rate will be 8 per cent.
The primary market boom reached its peak in the last quarter of the year with October, November and December witnessing a spurt with 104, 116 and 79 issues respectively. The amount raised during the last quarter was Rs.7125 crores. The boom has turned bust by the close of 1992. There were many failures going by under subscription leading to development on underwriters and extension of closing data. Mega rights issues were made by TISCO (Rs.1120 crores), Essar Gujarat (Rs.978 crores), ICICI (Rs.367 crores), Arvind Mills (Rs.339 crores) and Gujarat Ambuja (Rs.305 crores).

In 1992-93 premia contributed 34 per cent (Rs.2083 crores) of the total amount of Rs.6061 crores raised from the public. Relating premia only to equity, the ratio was 1:1 in 1992-93 as against 3:7 in 1991-92.

In 1992-93, 488 rights issues for Rs.12630 crores (in 1991-92, 316 issues for Rs.3851 crores) were made. The year 1992-93 witnessed an increase of 54 per cent in the number of issue and 228 per cent in the amount. Of the total amount of Rs.12630 crores, 42 per cent was through 231 equity issues with premium (in 1991-92, 39 issues for Rs.305 crores constituting 8 per cent of total rights amount and 12 per cent of number of issues). Premia constituted 70 per cent of the number of equity issues. There were 61 fully
convertible debentures which accounted for 26 per cent of the total amount raised through rights issues. In 1992-93, 58 companies made composite issues.

For companies with an issued equity capital or more than Rs.30 lakhs but less than Rs.300 lakhs, the minimum public offer should be 40 per cent of the issued capital or Rs.20 lakhs worth of shares (face value) whichever is higher.

Companies covered under the MRTP Act/FERA may be listed on the OTC only if they satisfy the guidelines for listing on other stock exchanges, such as minimum issued capital of Rs.300 lakhs.

Merchant bankers can render the service of mobilising public deposits for non-banking non-financial public limited companies for working capital purposes (regulated deposits). Such deposits are estimated to amount to Rs.5000 crores (outstanding) at the end of March 31, 1993. The annual borrowings are placed at Rs.400-500 crores. They constitute 2.5 per cent of the estimated sources of funds of the Indian corporate sector. There is a declining trend in the relative popularity of deposits. Households having company deposits in 1992 were estimated by L.G. Gupta to amount to 8.4 per cent of total households as compared to 13.9 per cent in 1990.
It is seen that in the preparation of the project report all the institutions in the sample had to seek the help of some outside agencies such as TISCO. This is mainly for the reason that the financing institutions insist on project reports prepared by such technical consultancy agents.

The officials of these institutions expressed the view that this was due to the fact that a project prepared by such technically qualified persons would be better and complete in all respects and this would help to carry out the evaluation procedure easily and quickly.

Project appraisal is done by the officials of these institutions. Here very often the opinion of experts are also called for while deciding about the worthiness of a project. The final decision is taken by the senior executives of these financial institutions at the regional office or in some cases at the head office.

Out of the respondents 46.67 per cent were of the opinion that the project appraisal procedure was carried out within a short period of one month. 40 per cent of the respondents had to wait for two months to complete the procedure. 13.33 per cent were of the opinion that there was undue delay ranging from 2-3 months to complete the process.
Out of the 150 respondents, 70 units (46.67 per cent) were successful in getting the loan sanctioned and disbursement was made within 3 months. 60 units (40 per cent) of the respondents had to wait for 3-6 months for the completion of the sanctioning and disbursement procedure. 20 units (13.33 per cent) were of the opinion that there was undue delay, ranging from 6 to 9 months for sanctioning and disbursement of the loan.

From the sample of 150 loans units of IDBI, IFCI, and ICICI, the loan requirements varies from 5 crores to 20 crores. Which is beyond the sanctioning power of the respective branch offices. In this context, the branch managers should be delegated more powers in this regard which would help to speed up the entire process.

Out of the 150 sample units, 100 units (66.67 per cent) of the respondents opined that the officials showed an encouraging attitude. Only ten respondents (6.67 per cent) expressed the view that the officials showed a discouraging attitude.

Out of the 150 units, 100 units (66.67 per cent) were of the opinion that the nominee directors played an active role in the management of the company. 40 units (26.67 per cent) expressed the view that nominee directors
were neutral in their attitude. Ten units (6.67 per cent) was of the opinion that the role of the nominee director was indifferent.

80 per cent of the respondents of IDBI and ICICI were of the opinion that the nominee directors were active and helpful in solving problems faced by the loanee units. Only ten respondents of IFCI pointed out the indifferent attitude showed by the nominee directors.

The interest rate together with the commitment charges was a heavy burden to the loanee units. In some other cases they were of the opinion that the interest rate were moderate. That is they could very well meet the cost of such borrowing from the earnings. Instances were also noticed the interest rate was considered to be low.

Out of the 150 units under study 70 units (46.67 per cent) were of the opinion that the interest rate charged by these institutions were hgh. 70 other units expressed the view that the interest rates were moderate. Ten institutions gave the opinion that the interest rates charged by these institutions were low.

Out of the 150 units it is found that 80 units (53.34 per cent) gave the opinion that they were visited once in a year as part of the follow up programme. 50 units
(33.34 per cent) said that the follow-up activity was restricted to the periodic submission of reports and that no officials had ever visited these units. This reveals the fact that very little effort is initiated by these institutions with respect to the follow-up.

Of the 150 units, 90 units (60 per cent) could not make repayment as per the schedule. In the case of IDBI 30 units (60 per cent) of the loanee units were in default. In the case of IFCI 40 units (80 per cent) were found to be in default. While ICICI has only 20 units (10 per cent) in default out of the sample of 50 units.

Out of the 90 units which were in default 60 units (66.67 per cent) were of the opinion that rescheduled did help them to tide over the financial crisis. 30 units (33.33 per cent) were of the opinion that rescheduling process was of very little help to them for the reason that these financial institutions followed their own norms for rescheduling which did not correspond to the earnings or repayment capacity of the loanee units.

It is found that out of the 150 units 20 units (13.33 per cent) of IFCI are sick and the case was referred to BIFR (Bond for Industrial and Financial Reconstruction) for revival of these units. In the case of one unit, IFCI is
appointed as the Operating Agency to draft scheme for its revival. In the case of the other unit IDBI is appointed as the Operating Agencies for the company.

The proportion of NPLs for ICICI (one-eighth) appears to be well within the limits for DFIs (one-fifth) suggested by Kitchen, its position on the whole, does not seem to be very satisfactory. It is manifest from the fact that NPLs of ICICI exceed its networth for all the five years (1988-92) for which data are available. During 1988-91, its NPLs were higher than the networth by a sizeable margin of almost 50 per cent in 1992 the margin had scaled down to 10 per cent. The recent decline in difference between NPLs and networth may be traced primarily to increase in its paid-up capital, retained earnings and, above all cleaning of portfolio through write-offs. In spite of Rs.209.1 crore written-off during 1991-93 (three years), it still has NPLs of Rs.207 crore that have been called back in 250 cases.

Inter-institutional difference in the proportion of NPLs noted above are indicative of marked differences in the nature of project appraisal/lending policy of the AIIDBs While ICICI seems to be having more systematic and rigorous project appraisal, and conservative lending policy, the same
does not appear to be true for IFCI and IDBI. This is amply borne out by the default statistics for companies that were advanced more than Rs.1 crore during the 3 year period 1988-91. The proportion of such companies in default as on March 31, 1991 was 11 per cent (98 out of 840) for IFCI, 3 per cent (42 out of 1348) for IDBI and just 1 per cent (8 out of 707) for ICICI.

Our analysis shows that the loan collection performance of the AIIDBs has been far from satisfactory, especially for IFCI and IDBI. In the case of IFCI, the recovery rate was the minimum even after reckoning routine rescheduling of loans. Poor quality of project appraisal, wilful defaults by borrowers, shortage of power and soft attitudes towards delinquent borrowers are the principal factors behind high default ratio of the two public-sector AIIDBs. In addition, new projects, projects by new entrepreneurs and project located in backward areas also account for high default ratio.

Though recovery rate was higher for ICICI, all the three AIIDBs had an alarmingly high level of non-performing loans in their portfolios. While timely remedial measures seem to have put ICICI back on the rails, the situation for IFCI and IDBI appears critical enough to rule out their revival on their own.
SUGGESTIONS

It may be remembered that the banking system is very sensitive to changes in economic situations. It may unload securities if interest rates threaten to rise. To the non-scheduled banks, government securities do not commend themselves at all. In the circumstances the Government should make a cautious approach to this source of loan finance.

The government borrowings seldom induce further savings, they only serve to divert their flow into a different channel. This policy is in no way helpful in increasing the incremental saving ratio of the nation. A closer analysis of this problem may be more useful. But inadequacy of published information prevents such an analysis. It may, therefore, be suggested that the Government should prepare an annual statement of the ownership pattern of the securities issued by it.

Liquidity of business can be brought about by judicious management of prices. The managed group of prices will cease to serve as automatic regulators of the economic system. Price management may have to be accompanied by some type of limitation on dividends as well.
The real conflict in India's economy arises because of the two rather opposite objectives of her social and economic policy. One is the rapid industrialisation of the country with particular emphasis on the development of basic and heavy industries and the other is reduction of inequalities in income and wealth and a more even distribution of economic power. Rapid industrialisation with private enterprise as an equal partner in the endeavour, needs some restraint in the progress towards reduction of inequalities of wealth and income. Greater emphasis on reduction in inequalities results in reduction of savings. This the country cannot afford to do. In fact the incremental saving ratio has to be increased. But it is difficult to do that merely by education, advertisement and inducement. It is, however, clear that if private enterprise is to discharge its responsibilities in respect of rapid industrialisation of the country it must be given the necessary facilities and finance to do so.

The aforesaid conflict between the two objectives of India's social and economic policy needs serious rethinking. The primary question is, which of the two objectives do we put first. There seems to be a general agreement that rapid industrialisation of the country must come first. The Five Year Plans also accord this objective a
high degree of priority over the other objective. Moreover, we take it for granted that private sector is required to play a vital role in the fulfilment of this objective. It would then seem necessary to give adequate facilities to this sector so that it may play a useful role in the economic development of the country. Increasing the liquidity of business appears to be an attractive suggestion in this context.

It is also well known that there is no plan as such for industrial development in the private sector. A balanced development of the economy can be assured only by interweaving both the public and private sectors of economy into one coherent entity. It is therefore, in the interest of the private sector itself to come up as one body with concrete plans of industrial development. These plans could then be fitted into the larger plans for the development of the country as a whole. Liquidity of business should then be attempted in the lines in which the need for expansion should then be attempted in the lines in which the need for expansion and difficulties of finance are the greatest. To begin with, this may be done on a selective basis. Limitation should be imposed on the payment of cash dividend. Each unit may retain the earnings needed for implementing its
plans of expansion, modernisation and rehabilitation. The remaining profits may be collected in an industrial pool and they may be utilised for the establishment of new industries. This is a very rough outline of a new approach towards the solution of one of the important problems with which national economy is faced at the moment. But it deserves serious consideration at the hands of the economists of the country. If this suggestion is implemented it will provide an additional and direct source of finance for the private sector and an indirect but important source of finance for the public sector.

It has been noted in our investigation that the capital market of this country has been considerably strengthened in recent years. Small savings drive has been intensified through the expansion of post-office savings banks, the agency system, the issue of new varieties of certificates etc. Institutional setup for the large-scale organised sector has also been strengthened through the establishment of the Industrial Finance Corporation, the State Financial Corporations, the National Industrial Development Corporation, the Industrial Credit and Investment Corporation, the Industrial Development Bank and the Unit Trust of India. Small Industries are being helped
through the Small Industries Finance Corporations and the joint efforts of the Reserve Bank of India, the State Bank of India and the State Governments. But all these are primarily financial institutions providing loans or guarantees for loans. Underwriting is an important activity of any capital market of the world. The Industrial Finance Corporation and the Industrial Credit and Investment Corporation have recently taken up this work. Since this is not the only function which these institutions have to perform, nay, it is not even a major part of their work, their efforts in this direction are necessarily limited. A major lacuna in the capital market at the moment, therefore, exists in the shape of absence of strong underwriting institutions. Capital formation could also be increased by starting more investment trusts in the country. This may be done through the joint efforts of the Government and the private sector. Moreover, the activities of the underwriting institutions can be strengthened by starting a new institution in this country on the pattern of Lazard Securities of Britain.

A major weakness of the capital market is the lack of institutions offering technical and managerial assistance. The National Industrial Development Corporation
and the Industrial Credit and Investment Corporation aim at covering this gap. In 1990 the NIDC set up a Technological Consultancy Bureau for the provision of consultancy and engineering services to industries both in the public and private sectors. It may, however, be noted that these institutions are supposed to perform numerous functions with the result that they may not be able to pursue this objective with a singleness of purpose. In the circumstances it may be worthwhile to establish an institution in this country on the lines of the Lazard Securities as stated above.

A major weakness of our investigation is that a detailed survey of the capital market in relation to private sector could not be made owing to lack of statistics. The Government are, however, now realising their responsibility towards the private sector. The Company Law Board is assuming wider responsibilities regarding collection and dissemination of information relating to the joint stock companies working in this country. That is a step in the right direction. But perhaps, that is not enough. We need a Department of Private Enterprise or a Corporate Development Authority for a complete coverage of its activities. Indeed, it should be the duty of this department to study the
problems of private sector and to correlate its activities with the activities of the State. Moreover, if a central bank can avoid a crisis in the banking system it is conceivable that some institution or department can be evolved in the field of trade, commerce and industry also to save companies or other institutions of the private sector from ruin. The department of Private Enterprise or a Corporate Development Authority should be so planned and constituted as to be able to discharge these duties efficiently and effectively.

It has been noted during the course of this investigation that the pressure of public borrowings has assumed a new complexion during recent years and the capital market has been feeling the strain in this pressure. But this is only one side of the picture. The Government have also helped in changing the structure of the capital market by establishing a variety of financial institutions for the benefit of the private sector. Of these institutions National Industrial Development Corporation is a state owned institution. It is an instrument of planning. It is recognised and treated as such. The Industrial Finance Corporation, the State Financial Corporations and the Industrial Development Bank also partake of the same
character, but they are not recognised as such. Expansion of their activities in the future largely depends on the availability of loan finance from the Government. The direction of their operations is already determined by the appropriate Government. These institutions should, therefore, be recognised as essential instruments of planning in this country. Their recognition as such will smoothen the way of these Corporations in determining their long-term plans of operation. It will also enable the Government to fit these plans into the larger Five Year Plans of the country.

Our investigation has also revealed that within the sphere of autonomy granted to it by the Act, the Rules and the Instructions issued by the Government, it is possible for the industrial Finance Corporation to act on business principles. It is also possible for it to make its annual reports more informative. Again, it is possible and desirable that more intimate relationship is established between the Industrial Finance Corporation and the State Financial Corporations.

Technical and managerial efficiency is the very foundation on which financial outlay can fructify. Absence of such efficiency and advice is one of the important causes
of unsound floatations. This deficiency also leads to liquidations and consequent loss of capital. Technical and managerial advice could facilitate the work of underwriting institutions, save a number of concerns from ruin and facilitate the operations of the financial corporations. If, therefore, the capital market in this country is to be strengthened, development of technical and managerial service must receive the first consideration of all concerned in the private as well as public sector.

These then are the salient features of the structure of the capital market in India. We have suggested alteration in the structure where necessary. But we have not stated anything in respect of two other important aspects of the capital market, viz., the stock exchanges and foreign capital. In a system of free enterprise and private property people must have the right to liquidate holdings and to transfer property. Such a right in respect of shares and debentures of companies is all the more important because company organisation creates a wide gulf between ownership and management. In the case of shares and debentures this right is usually exercised through a stock exchange. But in order to make this institution really useful for the economic system which it serves, it needs
varying degrees of control on its activities. It should be compulsory for each public company to get its share listed on a stock exchange. The listing regulations should be a part of the Companies Act itself. It should be the duty of the Company Law Board to see that shares of each public company are properly listed on the exchanges. It is also essential to open more stock exchanges or to grant licences to brokers in cities where such exchanges do not exist in order to serve the people of that area in matters of transfer of securities better.

Some wholesome effect on the working of stock exchanges may be exercised by the operation of the Securities Contracts (Regulation) Act 1956 and the Securities Contracts (Regulation) Rules 1957. The Act and the Rules contain certain positive measures such as recognition of exchanges, prohibition of options etc. Moreover, over a wide range they confer enabling powers on the Government. It is now possible for the Government to keep constant vigilance on the working of the stock exchanges and to take prompt action in cases of emergencies. It would be better, however, if a machinery could be evolved to keep the exchanges under the pressure of well applied brakes. This may involve a ban on contango and backwarda-
tion, reduction of settlement period to four or five days, a different composition of the governing body etc. It should be remembered that the stock exchanges have developed as private institutions seeking to serve the interests of their members. If, however, we treat exchanges as institutions of national importance we have to make honest efforts to bring them under statutory control to a still greater extent than what the aforesaid Act and the Rules contemplate.

Our investigation has revealed that the direction as well as the purpose of the international flow of capital have been undergoing gradual change. Such change is a natural outcome of changes in ideas and situations. The acceptance of the One World ideal calls for yet another change in them. Capital has now to flow from the more prosperous to the under-developed countries of the world. The purpose of the flow has to be determined with reference to the needs of the respective capital receiving countries. The quantum, direction and purpose of the international flow of capital, in this view of the situation, necessitate international planning and direction. It is hoped that the statesmen of the world would rise to the occasion and take suitable steps to achieve the One World ideal.
Rapid industrialisation is the main objective of India's economic policy. But the rate of development envisaged in the Plans can be achieved only if considerable foreign assistance is received. The flow of foreign capital into India is governed by our economic and political objectives. Our economic objective is the establishment of a socialistic pattern of society with central planning as the chief instrument of action. Regrettably enough, this in some measures restricts the flow of private capital into India from foreign capitalist countries. Our political objective is the establishment of a true democracy. This reduces chances of a major financial help from the communist countries. Thus, India is in considerable difficulty in respect of her foreign capital requirements. If the rate of economic development envisaged in the plans is to be achieved, capital market in India has got to be supported by operations in the international capital market. India has to tap every source of financial assistance. But most fruitful line of advance appears to be along joint ventures and loans and grants from governments and international agencies. She must, therefore, encourage joint participations and put her weight for early establishment of an international grant-making authority under the auspices of United Natons.
It has been observed earlier that the capital market in India has been under great strain in meeting the joint demands of the private and the public sector. This has resulted in over-investment in the economy. Over-investment has taken place through inflationary means. Aggregate savings of the country have failed to add up to the total investment made in the economy. Savings can be augmented by increasing liquidity of business. Increase in liquidity of business will release some capital in the market for employment elsewhere. The finance thus released may be available for the public sector. Moreover, foreign assistance should be encouraged through joint participation and inter-governmental and international agencies.

In order to help the prospective loanees in filling up the application forms, a booklet containing schemes, procedures and checklist should be prepared and supplied to applicants along with the application form. This would help them to a great extent to submit the application with all the details required for the processing of the application. These financial institutions should not insist on projects prepared by outside agencies instead they should give sufficient freedom to the applicants. If they have technically qualified personnel in their staff who can carry out the work efficiently.
The time taken for the appraisal of the project varies between 0-3 months. 46.6 per cent of the applicant were of the opinion that the project appraisal was carried out within a short period of one month. 40 per cent of the units in the sample had to wait for 2 months. 13.3 per cent were of the opinion that there was undue delay from 2-3 months to complete the process. One of the major reason for the delay was the piece-meal enquiry of the officials of these institutions. This shortcoming on the part of the financial institution can be overcome if all the queries with respect to the project were made in one sitting.

The analysis reveals that the time taken for the sanctioning and disbursement ranges from 1-9 months. One of the major reasons contributing to the delay in sanctioning and disbursement is the loan sanctioning limit fixed for their branch offices. The branch office of IDBI has a sanctioning limit upto 25 lakhs and the case of IFCI it is 75 lakhs. ICICI has no branch office in Tiruchy. From the study it is found that the loan requirements of the sample units varies from 5 crores to 20 crores which is far beyond the sanctioning limit of the branch office of the respective banks. In this context the sanctioning limit of the branch office should be revised so that they can play their part in full.
With respect to the attitude of the officials the financial institutions while evaluating a project should not be biased and guided by the track record of the loanees instead suitable machinery or system should be devised so that the evaluation is done in a justifiable manner.

The nominee officials appointed for assisted units should not limit their role to protecting the interest of the financial institutions instead they should be in a position to give expert guidance in all matters. For this outside experts should also be appointed as nominee directors as and when needed.

The interest rate by these banks should be in accordance with what the institution can bear. The institution should have sufficient freedom to provide such relief in cases where it is needed.

To make the follow-up system effective a team of experts should visit the site of the loanee units at least once a year to evaluate the progress of the projects. They should also listen to the problems of the entrepreneurs.

To minimise the chances of rescheduling the repayment schedule of the tenor of the loan should be fixed in consultation with the loanee units. Such a practice will also encourage the loanees to give realistic picture in project report.
To contribute effectively to the industrial development these banks should follow a liberal working system with least stipulation to the loanees. It is reasonable to impose some restrictions and regulations. But these should not act as hindrance to the progress of the project.

This completes our study of the capital market in India. The study has been hampered by inadequacy of statistics in various fields of our interest. But even the limited field which has been covered has revealed the existence of certain gaps in the market. Some defects have been noticed in the working of the existing institutions also. The working of some of these institutions has, therefore, to be improved. In certain respects the market needs structural changes of far-reaching importance. An attempt has been made to offer suggestions where necessary. It is possible that differences of opinion may exist in respect of these suggestions. This, however, should not reduce the value of the critical and factual analysis which has been presented in this work. It is hoped that the analysis would provoke thought on the subject and conclusions stimulate further research.

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