Chapter V

Operational Practices of IDBI

In course of its operations since inception, the IDBI endeavoured to play multitudinal roles to fill the gaps in the capital market and faster growth in the background regions of the country, as is evident from the following discussions:

a) **Quantum of Assistance Sanctioned and Disbursed Since 1990**

   The IDBI has achieved a spectacular success in rendering financial support to programmes of rapid industrialization. Since its inception it has pumped in over Rs. 5 lakh crore representing around two-fifths of the assistance rendered by the financial institutions in India.

   Table 5.1 containing information pertaining to the assistance sanctioned and disbursed by the IDBI since its inception shows that there has been unparalleled increase in the magnitude of the assistance provided by the Bank, rising from Rs. 305 crore during 1964-70 to over Rs. 2 lakh crore during 2005-08, registering over 660 times growth in the assistance.
### Table 5.1

**Assistance Sanctioned and Disbursed by IDBI**

(Rs. in crore)

<table>
<thead>
<tr>
<th>Period</th>
<th>Sanctions</th>
<th>Disbursements</th>
<th>% of Disbursements to sanctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964-70</td>
<td>304.8</td>
<td>278.8</td>
<td>91.46</td>
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<tr>
<td>1970-75</td>
<td>738.6</td>
<td>559.5</td>
<td>75.75</td>
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<tr>
<td>1975-80</td>
<td>3,364.3</td>
<td>2,346.2</td>
<td>69.73</td>
</tr>
<tr>
<td>1980-85</td>
<td>10,251.7</td>
<td>7,568.5</td>
<td>73.82</td>
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<tr>
<td>1985-90</td>
<td>26,555.5</td>
<td>19,433.5</td>
<td>73.18</td>
</tr>
<tr>
<td>1990-95</td>
<td>52,264.1</td>
<td>35,772.5</td>
<td>68.45</td>
</tr>
<tr>
<td>1995-2000</td>
<td>109,230.9</td>
<td>69,483.2</td>
<td>63.61</td>
</tr>
<tr>
<td>2000-2005</td>
<td>176,485.2</td>
<td>114,715.2</td>
<td>65.00</td>
</tr>
<tr>
<td>2005-2008</td>
<td>202,910.4</td>
<td>125,949.7</td>
<td>62.07</td>
</tr>
<tr>
<td>Comulative up to end March 2008</td>
<td>582,105.50</td>
<td>376,107.1</td>
<td>64.61</td>
</tr>
</tbody>
</table>

Source: Annual Report: IDBI
An analysis of the actual annual sanctions and disbursements reveals that the total sanctions showed an impressive rise but the magnitude of increase in disbursements was less pronounced. This, in effect, was evident in the percentage share of disbursements to the total assistance sanctioned which declined from 91 percent during 1964-70 to 62 percent during 2005-2008, a noticeable fall should, in turn, induce second thoughts about IDBI’s claims of satisfactory performance. As noted earlier, the lag between sanctions and disbursements is the outcome of several factors, such as stringent financial conditions, the inability of the borrowing party to fulfil the conditions for obtaining refinancing, the delay in compliance with the conditions on the part of the applicants before any disbursement can be made, the uncertainty about the availability of basic inputs, and the cancellation of loans already sanctioned.

In view of its massive operations, the IDBI occupies a pivotal position in the institutional structure of the Indian capital market. Although it came quite late, it has emerged as the single largest source of industrial financing accounting for as much as 40 percent of the total assistance provided by all the financial institutions in India.
b) **FORMS OF ASSISTANCE**

The IDBI being the apex institution, has since inception, concerned itself with meeting diverse needs of various types of industrial enterprises belonging to different size and ownership groups and for that matter offered need based products from time to time. Table 5.2 exhibits forms of assistance sanctioned by the IDBI during the period 2000-2001 to 2007-2008.

A closer review of the Table reveals that the IDBI has taken adequate care of the financial needs of all the three industrial sectors in India, viz., small, medium and large while deploying its resources. Because of the small scale sector being statutorily a claimant of refinance and rediscounting facilities, indirect finance from the IDBI has claimed the lowest proportion of assistance.

Predominance of indirect finance by the IDBI in 2000-2001 was the outcome of refinance of industrial loans and bills rediscounting which represent very small proportion of the total assistance which is only 0.8% and 0.9% respectively of total assistance.

In respect of direct assistance, term loans occupy a prominent position giving a distinct impression that the IDBI has functioned more like a term lending institution than a financial institution. This view gathers further strength when we note that direct discounting
bill and equipment leasing represent a small proportion of the total assistance. A peep into Table 5.2 exhibits that in 2000-2001 project loans accounted for about 58 percent of the total assistance and almost 77 percent of the direct finance. Relative share of direct subscription and underwriting represented a little less than 10 percent and guarantees barely 5 percent of the total in 2000-2001 and 2007-2008 witnessed tremendous change in the IDBI’s pattern of funding needs of industrial enterprises. It may be noted from the Table that Direct subscription and underwriting incurred upto 14% and sharp fall in guarantee by 1.3%. Amount of refinance of industrial loans increased from Rs. 226 crores in 2000-2001 to Rs. 411 crores in 2007-2008 and bills rediscouning from Rs. 255 crores to Rs. 493 crores during the corresponding period and in relative terms, their share nosedived respectively from 0.8 percent to 0.5 percent and 0.9 percent to 0.6 percent. Another cogent reason was relatively lower demand for such facility due to the easy liquidity position of the primary lending institutions like banks and the efforts made by state level institutions to find alternative sources of funds. Similarly, operations under bills finance declined owing mainly to increasing facility of guarantees as also the availability of funds from new products of similar nature offered by the banks and institutions.
Table 5.2

Forms of Assistance Sanctioned by IDBI
In a refreshing contrast to the above, direct form of assistance has gained in substantial significance. Thus, it may be discerned from Table 5.2 that direct finance recorded a rise from Rs. 21,428 crores in 2000-2001 to Rs. 68,359 crores in 2007-2008, the rise being much more sharper than that in the total assistance of the IDBI (320%). The main contributory factor to this buoyancy in project loans; which soared from Rs. 16,588 crores to Rs. 50,419 crores during the period under review, was growing demand of loan from existing enterprises to finance their needs of modernization and diversification in the wake of liberalization of economic policy.

In addition to project loans, the IDBI devised a host of new products to meet the needs of enterprises including financial products for technology upgradation, venture capital to provide finance to technocrats for introduction of innovative product/services, equipment finance for energy conservation and pollution control, equipment leasing and bridge loans. As a result, relative share of investment in securities and underwriting equipment leasing and increased significantly during the period. The changing pattern of financing is thus in tune with the Bank’s strategic policy to focus on capital market related products. The Bank’s increasing focus on equipment leasing is aimed at providing a financing alternative to its
clients and also to avail of the tax benefit they can drive through this product.

Thus, the above trends adumbrate the shifts taking place in the financing of corporate investment, as the IDBI’s clients come to terms with the uncertain capital and foreign exchange markets look for a more stable and efficient means to fund their investment plans and to meet their working capital needs. This clearly indicates that long term asset creation by the corporate sector, which constitutes the core business of the IDBI, has remained buoyant.

In brief, IDBI tends to be tenacious to lending business giving a clear impression of its functioning primarily as term lending institution. The avidity of the Bank for lending business can be ascribed to a number of factors, viz., core competence of the institution in this line of activity, relatively low risk involved in such investment and growing demand of institutional loans by the corporate sector owing to uncertainty in getting the requisite funds from the stock market and also due to high cost of such funds. Of course, the Bank has, of late launched new products to cater to the diverse needs of Indian corporates leading to remarkable change in the overall pattern of financing the needs of the latter. Thus, equipment leasing, and underwriting schemes are becoming popular day in and day out.
c) PURPOSE-WISE DISTRIBUTION OF ASSISTANCE BY THE IDBI

The IDBI was established to channelise its resources in such a manner as to satisfy the diverse needs of industrial organizations for development, expansion, diversification, modernization, rehabilitation, etc. However, the thrust of such channelisation has been on growth of new projects and expansion and diversification of existing ones.

Purpose-wise distribution of assistance of the IDBI for the period 2000-01 to 2007-2008 is embodied in Table 5.3.

It is observed from the analysis of data from the following Table 5.3 that the finances sanctioned by the Bank in 2000-2001 (42%) went to industries that had taken up new projects, followed distantly by those that required funds for modernisation and expansion and diversification (22%). It is also ascertained that over 35 percent of the funds granted by the IDBI to the industrial sector in India was in the form of supplementary assistance for overruns. In the year 2007-08 funds for Expansion/Modernisation and expansion increased upto 50%.
Table 5.3

Purpose-wise Assistance Sanctioned by IDBI during the period

2000-01 to 2007-08
If we review the trends in finances distributed by the IDBI for different purposes during 2000-2001 to 2007-2008, we find shifting focus of the Bank on expansion/diversification and modernization programmes of industrial sector of the country. Consequently, expansion/diversification and modernization projects claimed about half of the total funds in 2007-2008.

During the period 2000-2001 to 2007-2008, the IDBI providing working capital lending facilities to the projects are decreasing.

d) SECTORAL DISTRIBUTION OF ASSISTANCE BY THE IDBI

As observed earlier, the IDBI has been authorized by its statute to finance all sectors of the economy, the Bank has been found catering to the financial needs of the different sectors of the economy. Table 5.4 depicts sector-wise distribution of the IDBI's assistance.
Table 5.4

Sector-wise Distribution Assistance of the IDBI
It may be seen from the Table that about 72 percent of the assistance was bagged by the private sector in the year 2007-08. The remaining 28 percent was distributed among organization belonging to different sectors.

In sum, the IDBI has shown strong preference for the private/corporate sector projects. Over the years the predominance of this sector in the assistance portfolio of the Bank has been buttressed in view of growing demand of funds by private sector industrial projects to finance their increased needs of expansion and diversification arising out of liberalization of economic policies leading to fierce competitiveness in the economy.

**e) INDUSTRY-WISE ASSISTANCE BY THE IDBI**

The IDBI has deployed its investible resources among a large number of industries both traditional and non-traditional—so as to finance their growth, expansion and diversification programmes. However, industries having being accorded high priority during 1986-87 to 2007-08 year plans have received relatively greater attention of the Bank.

Thus, it may be noted that from the Table 5.5 that core and infrastructural sector have received major position of the assistance.

In the year 1986-87 industries belonging to core and infrastructure sectors (chemicals and fertilizers, cement, basic
metals machinery, electricity generation and services) bagged over three-fifths of the total investible funds of the Bank. Among these, service sector with about 19 percent happened to be the largest beneficiary followed distantly by chemicals (10%) and fertilizers (9%). The remaining two-fifths of the total funds was provided to large number of industries, among which textiles was the most prominent beneficiary.

During the time, the IDBI continued to devote major portion of its funds to support core and infrastructure industries. However, their relative share in the total assistance registered moderate decline. A peep into the Table 5.5 presents an interesting picture. The share of iron and steel and oil exploration and refinery soared significantly from a little over 4 percent in 1986-87 to over 15 percent in 2007-08. In refreshing contrast to this, service sector suffered heavily from 18.7 percent to 4.32 percent during the corresponding points of time. Significantly rise in the share of power and telecommunication was owing to spurt in demand of funds from the private sector entrepreneurs who were for the first time permitted to enter into the infrastructure sector.
Table 5.5
In sum, the IDBI has invested major portion of their funds in core and infrastructure sectors which have been accorded priority during the period. This is certainly in tune with the Bank’s operational policies and is also in conformity with our belief.

f) **STATE-WISE DISTRIBUTION OF ASSISTANCE BY THE IDBI**

State-wise distribution of assistance sanctioned by the IDBI is mentioned in Table 5.6 clearly indicates that the Bank has endeavoured to support projects pouring in from all states of the country and to that extent its assistance portfolio appears to be widely diffused. However, four states of Andhra Pradesh, Maharashtra, Gujarat and Uttar Pradesh bagged almost half of the Bank’s assistance in 1986-87.

Trend analysis in regard to the Bank’s regional distribution of assistance during the 1986-87 to 2007-2008 presents an interesting picture in Table 5.6. Industrially advanced stated like Maharashtra, Gujarat, Karnataka and Tamil Nadu improved their share sharply from almost 38 percent in 1986-87 to about 58 percent in 2007-2008. In contrast, proportionate share of relatively less developed states such as Andhra Pradesh, Assam, Bihar & Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh recorded marked
decline from 44 percent to 25 percent during the corresponding period.

Thus, the IDBI has rendered assistance to projects belonging to different states of the country. However, preference of the Bank for relatively more developed states continues to be strong. This is obviously because of tremendous demand of funds from up and coming private sector entrepreneurs who have, of late, been permitted by the Government to enter into hitherto prohibited core and infrastructure sectors. As a result, about half of the assistance remains tied to few advanced states.

Thus the operational practices of IDBI are moving fast along with the industrial development in different parts of the country.
Table 5.6