CHAPTER - III

CORPORATE STRATEGY OF IDBI

IDBI provides project finance, both in rupee and foreign currencies, to boost capital formation and infrastructure development in the country. In addition to assistance for Greenfield projects the bank also funds project for expansion, diversification and modernization. In project appraisal and monitoring, the bank follows global best practices and in the process has created sizeable and well diversified assets portfolio. In the recent year bank has been increasingly providing non-project finance with short and medium term maturities in the form of short term loan, working capital and treasury products to meet the on going requirement of corporate sector.

The bank offers a wide array of corporate banking products under various business segments such as Deposits, Cash Management Services, Central and State Government agency business, Trade Finance and Treasury Products.

a) SUPPORTING DESERVING PROJECTS

Within the overall framework of its purpose and objectives the IDBI during the first decade of its assistance adopted the strategy of
supporting all deserving projects of national importance directly through lending and direct investment and indirectly through dispensation of resource support to other term financing institutions. It adopted consortium approach for assisting gigantic projects. While playing the role of a promoter IDBI adopted penetration strategy to identify growth potential areas of the country, identify project ideas, provide help to potential entrepreneurs to appraise these ideas and to help them to materialize these ideas into projects.

The bank has been actively engaged in providing a major thrust to financing of small and medium enterprises. With a view to improving the credit delivery mechanism and shortening the turn around tiny. The bank has set up Centralized Loan Processing Cells at major centres across the country. The centralized loan processing cells will process the application and submit for sanctions to delegated authorities.

b) **CO-ORDINATING THE OPERATIONS OF THE TERM LENDING INSTITUTIONS**

The IDBI vested with the responsibility of co-ordinating the working of institutions engaged in financing, promoting or developing industries. It has evolved an appropriate machinery for this purpose. The appraisal and supervision of projects assisted on a consortium basis are coordinated to avoid duplication work and delays.
IDBI has been the driving force in promoting and supporting a number of institutions for entrepreneurship development, technical consultancy and capital market related services. It has been appointed by the Government of India as the nodal agency for setting up India’s fully computerized, nationwide, screen based National Stock Exchange. This will provide an internationally comparable securities trading environment which would encourage global investor’s participation in India’s Capital Market.

Some of the Institutions, established by IDBI for capital market related services are Stock Trading Corporation of India, OTC Exchange of India, Credit Analysis and Research Ltd. (CARL), a credit rating agency, and Investor Services of India Ltd. (ISIL) to provide registrar, transfer and custodial services on pair with international standards. It is also in the process of setting up an investment bank a commercial bank and a mutual funds.

**Term Lending Process**

Term loan is provided by financial institutions and commercial banks for expansion and modernization of plant and equipment. Irrespective of the type of project whether a modernization project, expansion project or a new project, the basic procedure followed for appraisal of project is the same. The following steps are followed in the process of term lending.
a) Business firm or the individual entrepreneur should approach financial institutions or a commercial bank along with his project report to find out the possibilities whether the term lending institution is interested in the project.

b) If the term lending institution has shown interest in the project, the entrepreneur will be supplied with a loan application. The entrepreneur is expected to fill up the application and submit the same along with the project report to the term lending institution for consideration of the loan.

c) Term lending institution will carry out a detailed appraisal of the project with a view to find out the viability of the project and the cost involved.

d) Term lending institution will accept the loan application if the project is viable and if sanctioning of loan is in keeping with the institution’s objectives and national priorities for industrialization.

e) Term lending institution grants loan to some collateral security. Documentation creating charge on the assets has to be completed.

f) Term lending institution will release the amount of loan to the entrepreneur or to the management of the company only
after the term and conditions for the grant of loan have been complied with.

**Co-ordination Among Term Lending Institution**

At present, the country is served by over 370 development financing institutions (DFIs) in the field of industrial finance. The IDBI coordinates their activities at the national and state levels. At the national level, it maintains a close working relationship with other financial institutions in all matters relating to policy formulation, procedural improvements, project appraisal and follow-up. Such coordination is ensured primarily by Inter-Institutional Meetings (IIMs) and Senior Executive Meetings (SEMs). The IIMs are held once a month where the chief executives of all-India institutions discuss common policy matters and other issues of mutual concern as well as the issues concerning specific projects. At SEMs, which are normally held twice a month, senior executives of all-India institutions appoint ‘lead’ institution for processing the proposals, and consider issues concerning policy matters and specific projects.

In order to ensure expeditious disposal of applications for assistance, these institutions have taken a number of steps, such as the introduction of common application forms, the ‘lead’ institution concept and the Project Financing Participation Certificate Scheme. Entrepreneurs are now required to submit their proposals in a
common application form to one of the institutions with the requisite number of copies. The receiving institution forwards the copies to the other institutions and brings the case to SEM with a ‘flash report’ in the prescribed form within a reasonable time. The ‘lead’ institution appraises the project in association with the other participating institutions and sanctions assistance after deciding on the share of each institution. On the basis of the appraisal report of the lead institution, other institutions sanction their assistance.

In the matter of disbursement of assistance and other post sanction operations, too, the institutions have streamlined their procedures. In order that the implementation of the project may not be delayed for want of funds, a scheme of bridging/interim finance has been introduced. Under the scheme, when the assisted project required funds, it may avail itself of almost the entire assistance sanctioned for the project under a simplified procedure. The regular loan is disbursed in due course after the unit is able to complete the various legal and other formalities. Institutions also provide bridging finance against public issue of equity, depending on the merits of each case, so that the assisted units may decide on the timing of their public issue appropriately. As regards documentation for the drawal of the loan, the institutions have agreed on a common loan agreement and other documents to be executed between the
assisted unit and the ‘lead’ institution on behalf of all the participating institutions; the ‘lead’ institution acts under a power of attorney as the agent of other participating institutions.

Apart from the IIMs and SEMs, inter institutional coordination is ensured through appropriate representation on the Boards of Directors of the financial institutions. The IDBI is represented on the Boards of IFCI, ICICI, LIC, UTI, GIC and IIBI as well as the SFCs and SIDCs. Similarly, the Board of Directors of the IDBI has representatives of all-India financial institutions, public sector banks, the SFCs and a Deputy Governor of RBI. The IDBI, moreover, is closely involved in the annual exercise on business plan and resource forecast undertaken by each SFC and SIDC. Also, periodical conferences of chief executives of state level institutions are held under the aegis of the IDBI. Thus, the coordinating efforts of the IDBI have contributed significantly to the emergence of a common culture among the DFIs operating in different parts of the country.

As an Apex institution, the IDBI adopted the strategy of coordinating the operations of the term lending institution through inter-institutional periodic meetings.
c) **FOSTERING INDUSTRIAL GROWTH IN THE COUNTRY**

During the second decade of its operations, the IDBI adopted consolidation strategy so as to carry forward its mission of fostering industrial growth in the country and diving a quantative thrust to the process of industrialization. Thus, the bank focused its efforts on the promotion of small and medium scale industries, development of industrially backward areas, widening of the entrepreneurial base in the country and modernization and upgradation of technology.

These efforts of IDBI concerning coordination of operations of term lending institutions resulted in the availability of finance for industries especially big industries which lead to the industrial development in a big way it continued its efforts and has been successful in bringing about a great change in the policies of financial institutions.

d) **FINANCING SMALL, TINY VILLAGE AND COTTAGE INDUSTRIES**

To meet the specific financial requirements of entrepreneurs in the small, tiny, village and cottage industries the IDBI took various steps such as launching refinancing packages, strengthening the structure of state level institutions and introduction of tailored
products such as automatic refinance facility, composite loans and specific refinance facilities.

Firstly, it can refinance term loans to industrial concern repayable within 3 to 25 years given by the IFCI the State Financial Corporations and other financial institutions. Secondly, it can refinance term loan repayable between 3 to 10 year given by scheduled banks or State Cooperative banks. Thirdly, it can refinance export credit given by the scheduled banks and state cooperative banks. Thus, IDBI finances those banks and financial institutions which are lending to industrial concerns.

IDBI took over the Refinance Corporations of India in November, 1964 and was providing refinance facilities to industrial units through member banks. As an Apex Institution, the IDBI assists State Financial Corporations, the IFCI, Leasing Companies and others working in the field of industrial finance by subscribing to their shares and bonds. IDBI also participates in loans and guarantees to supplement the refinance operations as a measure of risk sharing with other institutions.

IDBI expends assistance to small scale industries and small road transport operators indirectly through State Level Institutions and commercial banks by way of refinance of industrial loans.
IDBI introduced a scheme to cover promising notes arising out of sales of new trucks and jeeps to road transport operators in the private sector. The IDBI's assistance to small scale industries and small road transport operators was picking up very fast.

So as to give fill up to industries in the rural, cottage, tiny and small scale sectors including the much needed guidance in modernization, market research, marketing assistance, control of pollution, etc., catalyzing the promotion of technological research and development in the industries and above all, improving the productivity of material an human resources, ensuring at the same time a better deal to women entrepreneurs and entrepreneurs belonging to weaker sections of society. IDBI has introduced a number of useful promotional schemes.

The IDBI is one of the main purveyors of term finance to the industrial sector in the country. While project costing more than Rs. 300 lakhs are provided direct assistance under the various schemes of the bank, projects below the size, comprising small and medium size units, small road transport operators and village and cottage industrial units in the tiny sector are given assistance mainly by way of refinance through State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs), and the network of commercial, cooperative and regional rural banks set up throughout
the country. Over the years the procedure for refinance has been streamlined and simplified to facilitate smooth and quick flow of assistance to the various sectors of industry.

e) **CREATING AND WIDENING ENTREPRENEURIAL BASE AND THE RELATED INFRASTRUCTURAL SERVICES ETC.**

The bank also endeavored to create and widen entrepreneurial base and the related infrastructure, services etc. So as to give fillup to sustaining industrial growth of the country. It is setup along with other institutions the Entrepreneurial Development Institute of India (EDII) in 1983 and a number of institutes for entrepreneurship development to focus on entrepreneurial development requirements, particularly in the industrially less developed regions.

An appropriate framework for the entrepreneurship training programmes with emphasis on local entrepreneurial talents is a necessary precondition for setting up industrial growth in a region on a self sustained basis. This is why IDBI has been attaching great importance to encouraging DPs in association with state level agencies. All India development banks are mainly the TCOs for drawing up and conducting EDPs so as to cater to the needs of entrepreneurs from small and medium sector. Up to a maximum of
50% of the cost of such programmes is subsidized by IDBI out of TAF and the rest is to come from state Governments/ State level institutions or other sponsors like banks.

Since, inception upto the end of March 2008 the IDBI along with IFCI and ICICI extended support to 6,372 EDPs of which 5,800 were completed, benefiting more than 75,000 potential entrepreneurs.

During the three years (2005-2008) IDBI along with IFCI and ICICI supported as many as 1,613 EDPs including 289 for science and technology entrepreneurs. Looking to the priority accord to tiny and village industries for creating self-employment in rural areas, IDBI initiated during 1991-92 a programme for extending support to rural EDPs on an experimental basis and 40 rural EDPs were undertaken by various EDP conducting agencies in association with accredited voluntary organizations. In 2007-08, the number of rural EDPs were 2000 to 3000.

Another step which the financial institutions undertook in the direction of entrepreneurship development is to provide support to the Entrepreneurship Development Institute of India (EDII), an apex level organization set up and sponsored by them in April 1983 at Ahmedabad. EDII was set up as a national resource organization with the basic objective of training EDP trainers, providing resource
inputs, running model entrepreneurship development programmes, undertaking EDPs in relatively backward regions and carrying out research and development in the area of entrepreneurship development and providing support to state-level entrepreneurship development organizations.

EDII, which completed 10 years of its operations on the 21st March, 1993, conducted as many as 35 programmes for development of entrepreneurial skills in relatively less developed regions such as Assam, Meghalaya, Nagaland, Manipur, Arunachal Pradesh, Sikkim, Orissa nad Madhya Pradesh. Among the programmes conducted by EDII, Teachers, Training programme for training teachers working in polytechnic/ engineering/ science colleges in various parts of the country to orient them on various aspects of entrepreneurial development performance improvement programme focusing on performance of existing entrepreneurs Motivation Programme and Competent Management Assistance Programmes for the purpose of serving the growth of small scale enterprises and creating productive employment for non-technical graduates, and National Programme for 2nd and 3rd Generation of Entrepreneurs are the notable ones.

EDII also conducted international Programmes. These programmes included Programmes on Project Preparation and

For institutionalizing entrepreneurship development activity of the state level, IDBI in association with IFCI and ICICI, Banks and the concerned State Government helped in setting up Institutes of Entrepreneurship Development in Uttar Pradesh, Bihar, Orissa, Madhya Pradesh, Maharashtra and Karnataka. The IDBI has also agreed to set up Training-cum-Development Centre (TCPs) in the North Eastern State of Manipur, Mizoram, Meghalaya, Tripura, Nagaland and Arunachal Pradesh.

f) **ADOPTING DIVERSIFICATION STRATEGY TO RESPOND TO THE EMERGING CHANGES IN THE FINANCIAL SECTOR & ECONOMIC ENVIRONMENT**

The fourth decade of the Bank’s operations witnessed continuance of its consolidation strategy during the first few years of operations followed by diversification strategy to respond to the emerging changes in the financial sector and economic environments. Thus, the two pronged strategy during the latter part of the third decade was, therefore, on diversification of products and
services offered and on the ability to tap the market for raising resources at competitive rates.

In addition to project specific financing, the IDBI devised a host of new products to meet the needs of industrial enterprises including financial products for technology upgradation, venture capital to provide finance to technocrats for introduction of innovative products/services, equipment finance for energy conservation and pollution control, asset credit, equipment leasing and bridge loans against public issues. The Bank also gave a sharper focus on its non-fund based activities and financial services making an entry in the areas of Merchant Banking, Debenture Trusteeship and forex services.

Diversification strategy was also adopted with respect to foreign exchange services. From 1993 it has offered arrange of foreign exchange related products in the form of forward cover to borrowers in respect of their debt services obligations to the Bank or payments against letters of credit which are backed by rupee loans from the Bank. The Bank is also planning to offer other liability management products such as interest and currency swaps, FRAs, etc., to its borrowers.
In addition to non-fund based business, the IDBI has diversified into related areas finance such as credit rating, investors services and corporate advisory services.

The Bank also responded to the situation of competing for funds from the market by introducing new instruments that were tailored to meet the needs of diverse investor groups. The IDBI’s initial foray into the capital market through its unsecured public bond issues proved highly attractive and received tremendous investor response.

With a view to copying with fierce competitive challenges stemming out of the process of globalization of economic activities, the IDBI took strategic initiatives recently aimed at repositioning itself as India’s premier wholesale bank through a full range of wholesale products—lending, capital markets, advisory and risk management through an integrated group structure so as to attain greater synergy in its operations. The corporate management of the IDBI has now decided to reorient its business model to foster cross-functional, proactive and participative management throughout IDBI Group, generating new ideas that would further enhance the shareholders’ value. As a part of the overall strategy, the Bank promoted IDBI Intech Ltd. in 1999 to provide world IT solutions in the international as well as domestic markets, particularly for the financial sector. A
dedicated IT venture fund is also being set up to capitalize on the opportunities thrown open by the IT sector.

With a view to providing a comprehensive package of investment banking services including corporate banking, financial, advisory services and merchant banking, the IDBI is planning to embrace investment banking business.

**g) INTRODUCTION TO NEW STRUCTURED PRODUCTS**

The IDBI has introduced new structured products, viz., financing contractors of industrial projects, financing of receivables, and vendor financing to meet the emerging needs of the corporate clients. The Bank is also drawing up strategic plans to commence international operations. These initiatives are expected to go a long way in strengthening the position of the Bank as a premier financial institution in the country.

Thus, the IDBI is doing its best to become more and more market oriented while retaining its original character of development finance.

To sum up, we can divide the corporate strategy under two heads:

a) Short to Medium Term Strategy,

b) Long Term Strategy.
Short to Medium Term Strategy

- Optimise mix of corporate and retail banking
- Leverage core competency in project financing
- Emphasise lending to agriculture, micro-finance and SMEs
- Focus on fee-based income to boost profitability.
- Increase the relative share of low-cost deposits (CASA) in total deposits.
- Create additional business opportunities in banking space
- Foray into associated business domains like Life Insurance, Mutual Fund, Asset Management and Private Equity areas.
- Leverage technology & planning for enhancing Group synergy.
- Enhance and implement enterprise-wide risk management systems.
- Reorient human resources through continuous training.
- Strengthen brand equity
- Enhance market share
- Cross-sell the entire bouquet of the Bank’s products.

Long Term Strategy

- Pursue organic growth opportunities.
• Target a stronger domestic network apart from a respectable presence abroad.

• Explore inorganic growth through commercially gainful bank acquisitions & mergers

• Position the bank as the ‘bank of choice’.

In sum, the financial year 2007-08 would be an extremely important year for the Bank, in its endeavour to emerge as one of the major players in an intensely competitive banking domain. Going forward, the Bank is strongly committed to work towards emerging as the ‘bank of choice’ and ‘the most valued financial conglomerate’, besides generating wealth and value for all its stakeholders.

**PRODUCTS AND SERVICES**

*Corporate Banking*

• Project Finance

• Film Finance

• Infrastructure Finance

• Foreign Currency Loans

• Leasing

• Technology Upgradation Fund Scheme for Textiles

• Carbon Credit Business

• Working Capital Finance
• Structured Products
• Direct Discounting of Bills
• Finance for Overseas Acquisitions
• Trade Finance
• Loan/Debt Syndication
• Treasury Products
• Cash Management Services

**Retail Banking**

• **Choice of Accounts**
  - Savings Account
  - Current Account
  - Sabka Non-Frills Account
  - Demat Account
  - NRI Services
  - Corporate Payroll Account
  - Pension Account

• **Anytime, Anywhere Banking**
  - Mobile Banking
  - Internet Banking
  - Phone Banking
  - ATM Banking
• **Beyond Banking**
  o Talking ATMs
  o EasyFill™ Prepaid Mobile Refill Services
  o Payment of Taxes
  o Bill Payment
  o Account Alerts
  o Airline Ticketing through ATM

• **Loans**
  o Home Loans
  o Personal Loans
  o Education Loans
  o Loan Against Property
  o Loan against Securities
  o IPO Financing
  o Merchant Establishments Overdraft

• **Card Products/Services**
  o World Currency Card
  o International Debit-cum-ATM Card
  o Gold Debit-cum-ATM Card
  o Gift Card
  o Cash Card
  o Card-to-Card Money Transfer
• **Investment Advisory & Bonds**
  - Mutual Funds
  - Insurance Products
  - Bonds & Debentures

*Terms Deposits & Bonds*
• IDBI Suvidha Fixed Deposit
• IDBI Suvidha Plus Fixed Deposit
• IDBI Suvidha Recurring Deposit
• IDBI Omnibonds
• IDBI Flexibonds

*Privilege Banking*
• Preferred Customer Banking
• PowerPlus Account

*Agri-Business & Micro-finance*
• Basal Dose to farmers
• Bee-Keeping
• Bio-Gas Plant
• Capital Investment Subsidy Scheme for Cold Storages
• Capital Investment Subsidy Scheme for Rural Godowns
• Contract farming
• Crop Loans/Kisan Credit Cards
• Diary Loans
• Farm Mechanization Loans
• Financing for wells
• Financing for Fisheries, Poultry, Piggery
• Harvesting & Transportation Loans
• Finance to Hi-tech Agriculture
• Horticulture & Forestry Development Loans.
• Land Development Loans
• Lift Irrigation Scheme
• Loans against Crop Receivables
• Minor Irrigation Loans
• Purchase of Bullock Pairs & Carts
• Scheme for financing Agri-Clinics and Agri-Business Centers
• Scheme for purchase of 2 wheelers to farmers
• Scheme for purchase of land
• Finance to Sericulture
• Sheep & Goat Rearing
• Term Loans to Micro-Finance Institutions
• Warehouse Receipt Finance
SME Banking

- Auto Vendor Financing
- Business Finance Program
- Credit Card Securitization
- Doctor Plus
- Funding Under Credit Guarantee Fund Scheme for SSI
- Gold Loan
- Loans to Small Road & Water Transport Operators
- Program for Co-financing of SMEs with Small Industries Development Bank of India.
- Vendor Financing – Identified Corporates.

As on August 21, 2007

- Branches – 453
- ATMs - 536
- Centres - 256

BUSINESS STRATEGY

The year gained strategic positioning in terms of creation of various business verticals to ensure increasingly valuable focus on key aspects of banking business. During the financial year, the Bank
continued to expand its reach, both in terms of its branch network and ATMs, in order to provide improved services to the existing clientele and bring in larger base to its service frame.

The Bank increasingly emphasized loan relationships with improved yield without sacrificing on quality front. Diversification of assets and liability base was the fundamental principle followed during the year to build up the book. In its endeavour to de-risk the balance sheet and enhance upon the yield, it has been the principal strategy of the Bank to increasingly provide working capital assistance and sufficiently cater to the business requirements of entrepreneurs operating in the domain of SME. On the liability side, the Bank adopted conscious policy to reduce dependence on borrowings through increased mobilization of deposits, which was realized through effective implementation of resource plan. The Bank remained alter to the competitive environment and market volatility; and evolved appropriate strategies to improve topline income as well as its bottom line. Steps were also taken to boost the non-interest income by taking advantage of the buoyant capital market as also continued thrust on fee based income.

The Bank, since its conversion into a commercial bank, concentrated on easing cost of funds by expanding its deposit base, more prominently under current and savings accounts. The Bank’s
Benchmark Prime Lending Rate (BPLR) was also aligned with the movement of interest rate. With increased opportunities for cross-selling, the Bank aims to widen its revenue model with concentrated focus on fee income. The Bank is also in the process of opening overseas offices.

**NEW BUSINESS INITIATIVES**

The Bank, during the financial year, floated a few innovative products, broadly designed in accordance with the requirements and feedback of its clients. Lending products like loans against commercial property, loans against loan receivables and reverse mortgage loans were introduced and marketed effectively through branches. Facility and system revamping was carried out to provide education loans online. On the liability side, niche saving bank accounts went live for women. The Bank also introduced 3-in-1 savings-cum-demat accounts with trading facility during the year. Financial inclusion was taken a step ahead with provision of mobile van banking amenities at Satara.

SME segment is emerging as one of the key growth engines of the Indian economy. The Bank has been designing customized products for SMEs from time-to-time and accordingly launched special current account for hosiery industry during the financial year. In building up valuable relationships in this area, the Bank has set up
City SME Centres (CSCs) keeping in mind the specific requirements of SME business.

In order to ensure customer delight, a regional processing centre was opened at Kolkata. This would consequently reduce delivery time for customers in the eastern part of the country and would also soften the associated service cost.

As an effort to arrest unwarranted transactions, Anti Money Laundering, (AML) software went live from January 18, 2008 and thereby placed the Bank as one of the leading banks in taking effective steps to curb money laundering towards the greater cause of preventing global terrorism.

The Bank’s decision to enter into Life Insurance business with a Joint Venture Agreement with Fortis Insurance International N.V. (Fortis), and Federal Bank Ltd., took operational shape during this year, with authorization from Insurance Regulatory and Development Authority (IRDA). The Company during the year came up with two innovative products ‘Wealthsurance’ and ‘Homesurance’ which have been getting encouraging response from a variety of people across the country.

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