As India became Independent from colonial rule (1947), its policy makers decided that development banking was essential for giving a thrust to economic growth. At this time, Indian capital market was relatively under-developed. Although there was demand for new capital, there was a dearth of providers as well as arrangers like merchant bankers and underwriting firms. The commercial banks were also not adequately equipped to provide long-term industrial finance in any significant manner.

It was against this backdrop that the Government decided to establish the Industrial Finance Corporation of India. The whole pattern was set up into motion when the first Finance Minister of Independent India, While moving the Industrial Finance Corporation Bill in the Constituent Assembly on November 20, 1947 gave an indication of the role of IFCI was expected to play. He said:

“With............ our anxiety to go ahead at full speed with the industrial development of the country, the setting up of an industrial finance corporation has acquired a new significant and urgency........ the objective of this Bill is to set up a finance corporation for the
purpose of financing large-scale industries in this country.”

The Industrial Finance Corporation of India, which was the first industrial banking institution to be established in this country on a comprehensive nationwide basis with Government participation in the share capital and active assistance in diverse ways, is set up on July 1, 1948 to cater to the demand for medium and long-term finance for the industrial sector. The newly established DFI was provided access to relatively low-cost funds from the Government (through the central bank’s Statutory Liquidity Ratio or SLR) which in turn enabled it to provide loans and advances to corporate borrowers at relatively concessional rates. Until the establishment of other financial institutions, such as, ICICI in 1955 and IDBI in 1964, IFCI remained the sole Indian financial institution responsible for implementing the industrial policy initiatives of the Government.

Established originally as a statutory corporation under the Industrial Finance Corporation Act, 1948, it began initially with an authorised capital of Rs. 5 crore. The share capital increased gradually after 1961 to Rs. 10 crore.” From 1979 onwards, it increased rapidly to Rs. 100 crore in 1990. The main objective of the IFCI as laid down in the preamble to the IFCI Act, 1948 was “to make medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or resources to capital issue method is impractical.”
Sir Shri Ram, the first chairman of IFCI aptly defined the objectives and importance of the corporation in 1949:

“The importance of the role which IFCI is called upon to fill at the present time is emphasised by the apathy of the money and stock market and the prevailing dearth of capital to meet the requirement of the industry. It is in many ways a fortunate circumstances that IFCI has been brought into being as in the absence of the assistance rendered by us, many industrial concerns could have experienced difficulties. The facilities granted by IFCI have been calculated to further the expansion of industrial production, maintenance of employment and the attainment of a more balanced economy.”

According to an amendment made in 1986, the authorised business of the IFCI was enlarged so as to include the following: (i) act as agent for World Bank or any other international or national institution or organisation; (ii) provide, in addition to technical and administrative assistance, legal and marketing assistance to any industrial concern for the promotion, management or expansion of any industry; (iii) provide consultancy and merchant banking services in and outside India; and (iv) be appointed administrator in an industrial concern.

Over the years, the activities of IFCI progressively increased both in scope and magnitude. It became an improtant agency for financing the industrial development, and to provide finance to a whole range of industry in diverse forms. It begun to extend project
finance for new schemes and also lent credit towards expansion, diversification and modernisation of existing industrial units. Furthermore, it begun to disburse funds for short-term funding requirements in the form of corporate and working capital loans. IFCI Ltd. provides financial assistance in the forms of loans in rupee and foreign currencies, underwriting of and/or direct subscription to the shares and debentures of public limited companies and guarantee of deferred payments for machinery imported from abroad and purchased within the country, foreign currency loans raised by industrial concerns from foreign institutions and rupee loans raised by financial concerns from scheduled banks or state co-operative banks or the market.

The financial assistance from IFCI is available to industrial concerns engaged in manufacture, preservation or processing of foods, shipping, mining, hotel, generation, storage or distribution of electricity or any other form of energy, transport, setting up or development of industrial estates, fishing, maintenance, repair, testing or servicing of machinery, equipment, vehicles etc. providing medical, health and allied services, providing services relating to information technology, telecommunication or electronics, leasing or sub-leasing, providing engineering, technical, financial, managerial, marketing and allied services, and research and development of any concept and technology, design, process of production in relation to any of the above matters.6

In its operations, besides causing creation of significant
capacities in traditional and core industries, IFCI aided in the development of co-operatives, played a pivotal role in the balanced development of various regions of the country and has assisted small and ancillary industries through creation of technical consultancy organizations.

This arrangement continued until the early 1990s when it was felt that there was a need to provide the corporation with greater flexibility to respond to the changing needs of the financial system in the context of the emergence of liberalised/deregulated/globlised economic environment. With this objective the constitution of the Industrial Finance Corporation of India was changed under the provision of the Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act in May, 1993 from a statutory corporation to a company under the Companies Act, 1956. Subsequently, the name of the company was also changed to “IFCI Limited” w.e.f. October, 1999.

After becoming a public Limited company in 1993, IFCI came out with its public issue in December, 1993. The paid-up capital as on March, 1998 stood at Rs. 422.44 crore. At the end of financial year 2002-03 its total paid-up capital was Rs. 1067.95 crore which includes Rs. 638.68 crore of equity shares and Rs. 429.27 crore of preference shares.7

IFCI’s operations, in terms of aggregate sanctions and disbursements to industrial projects over last five decades, does not
adequately reflect the role it has played. IFCI has helped in creating capacities in traditional and core industries like sugar, textile, jute, cement and steel, aided in the development of co-operatives. “As a development bank, IFCI has played a catalytic role in the industrialisation of the country. It has contributed to the development of research and training in the field of finance, management and development banking through the establishment of a Management Development Institute. It has created IFCI chairs in universities and institutes and has set up a variety of industries to help the Indian industry grow. These include the Institute of Labour Development, the Entrepreneur Development Institute of India (EDI), the Science and Technology Entrepreneur Park, the Tourism Finance Corporation of India, a rating agency, namely ICRA and a merchant banking arm called IFIN.”

The contribution to the development and growth of Indian industry is, without question, a great achievement of IFCI, what needs to be underlined, however, is the tremendous assistance that IFCI has rendered to the traditional core sector of the economy such as sugar, textile and paper at a time when there was no other avenue of financial assistance to these sectors.

Financial Resources

The sources of funds of the IFCI includes share capital, reserve & surplus, borrowings from the market by the issue of bonds,
borrowings from the Government & Industrial Development Bank of India (IDBI), lines of credit from foreign lending institutions, borrowing in foreign capital markets and public deposits.

**Share Capital**

The capital of the IFCI has shown a consistent rise over the years. With effect from 1st August 1964, 50 per cent of share capital of the IFCI was held directly by the Government and the Reserve Bank of India which had been transferred to the IDBI. Today IDBI is the largest shareholder of IFCI. Commercial banks, Insurance organisation and Co-operative banks are the other contributors. The IFCI, after being converted to a public company, for the first time made a public issue of equity shares in December, 1993. Subsequent to the public issue, the shareholding of financial institutions owned/controlled by the Government substantially has declined.
Table No. 3.1

Share holding Pattern of IFCI Ltd. as at end-March 2003

<table>
<thead>
<tr>
<th>Category of Shareholders</th>
<th>No. of Share Hold</th>
<th>% to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDBI</td>
<td>20,25,00,000</td>
<td>31.71</td>
</tr>
<tr>
<td>LIC, GIC &amp; Subsidiary</td>
<td>11,16,58,900</td>
<td>17.48</td>
</tr>
<tr>
<td>Nationalised Bank</td>
<td>4,48,19,150</td>
<td>7.02</td>
</tr>
<tr>
<td>SBI &amp; Subsidiary</td>
<td>1,34,02,800</td>
<td>2.10</td>
</tr>
<tr>
<td>UTI</td>
<td>2,85,61,300</td>
<td>4.47</td>
</tr>
<tr>
<td>Co-operative Banks/</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>2,60,44,363</td>
<td>4.08</td>
</tr>
<tr>
<td>Other Bodies Corporate</td>
<td>4,18,00,186</td>
<td>6.54</td>
</tr>
<tr>
<td>General Public</td>
<td>16,98,89,063</td>
<td>26.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63,86,75,762</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Annual Report IFCI, 2002-03, p-20

Reserve and Surplus

Reserve & Surplus of IFCI consist capital reserve, capital redemption reserve fund-preference shares, benevolent reserve, special reserve, specific grant from the Government of India and share premium account. As shown in Table No. 3.2, total reserve & surplus of IFCI stands on Rs. 469.702 crore as on 31st March, 2003.
Borrowings

Borrowing is the major and important source of funds for the IFCI. Its borrowing are in foreign currency and rupees. The rupee currency borrowing are from the sale of bonds and fully convertible debentures. “The IFCI was authorised in 1952 to borrow in foreign currency. Since 1960, it has borrowing from foreign agencies/financial institutions. It was further authorised in 1983-84 to avail of commercial borrowings in international capital markets. It obtain the lines of credit in foreign currencies from AID (USA), KNW (West Germany), BFCE (France) and ODA (UK). The commercial borrowing from international capital markets are from (i) Eurocurrency market (dollers) (ii) Japanese capital market (yen) and (iii) Germeny (DM).”

The IFCI ltd has in recent years diversified its resources base by raising short-term funds through certificates of deposits (CDs) and commercial papers (CPs).

Table No. 3.2

Total Financial Resources of IFCI Ltd. as at end-March, 2003

<table>
<thead>
<tr>
<th>Financial Resources</th>
<th>Amount(in Crore)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>1067.948</td>
<td>4.68</td>
</tr>
<tr>
<td>Reserve &amp; Surplus</td>
<td>469.702</td>
<td>2.06</td>
</tr>
<tr>
<td>Unsecured Loans &amp;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings- Rupee</td>
<td>18113.268</td>
<td>79.21</td>
</tr>
<tr>
<td>Foreign</td>
<td>2089.722</td>
<td>9.14</td>
</tr>
<tr>
<td>Current Liabilities &amp;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>1125.681</td>
<td>4.92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22866.321</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Source:** Annual Report IFCI, 2002-03, p-22
Operations/Activities

“Starting modestly in 1948, IFCI’s financing operations have been growing in size and complexity to keep pace with the tempo of industrialisation in India. Its assistance to industry as reflected in the net sanctions has shown a truly phenomenal rise. Originally conceived to provide term loans, the scope of its operations/activities over the years has increased tremendously both in terms of usual assigned function as well as in respect of qualitative diversification.”

The industrial financing activities of IFCI consist of project finance, non-project finance, direct discounting of bills and loan to and investment in shares & bonds of FIs.

Direct Finance

The direct finance of the IFCI’s includes project finance and non-project finance. Project finance includes assistance for new projects, expansion, diversification and modernisation in the form of foreign currency and rupee term loans, underwriting and direct subscription to shares and debentures and guarantees for deferred payments of plant and machinery as well as for foreign currency loans from foreign financial institutions. Non-project finance covers asset credit/equipment finance, corporate loan, working capital loan/short-term loans and equipment leasing.

Indirect Finance

In addition to the direct financing, IFCI now also provides
indirect finance in form of direct discounting of bills and loan to and investment in shares/bonds of FIs.

**Other Financial Services**

To improve its profitability and as a strategy to diversify its services to suit the requirements of its clients, the IFCI provides financial services, both fund-based and fee-based, including project counselling, issue management, loan syndication, financial restructuring, mergers and acquisitions, debenture trusteeship, equipment leasing and so on.

**Promotional Activities**

Apart from providing finance to industrial enterprise, IFCI as a DFI, has been playing a promotional role in the sense that it has endeavoured to fill the gaps in the institutional structure for the promotion of industries and for providing the much-needed guidance in project identification, formulation, implementation and operations and so on to the new, small and medium scale industrial entrepreneurs.14 With a view to encouraging new entrepreneurs a new section has been incorporated in the IFCI Act for creation of a Benevolent Reserve Fund (BRF) for undertaking various promotional activities. The BRF receives funds from the allocation of a part of the annual profits of the Corporation to be utilised for socially desirable objectives. The IFCI has been operating a variety of promotional schemes such as:
Management Development

For developing and improving the quality of day-to-day management as also to encourage professionalism in management, the IFCI sponsored in 1973 the Management Development Institute (MDI). With a view to encouraging training and research in the field of development banking, MDI with the active support of the IFCI established in 1977 a Development Banking Centre (DBC) as its autonomous wing. The MDI and the DBC have been continuously endeavouring to serve the cause of development of managerial manpower in public, private, joint and co-operative sector in the industry and commercial and development banks, besides the Government departments. Training programmes with blend of academic and practical orientation continued to be a major pre-occupation of the MDI.15

Development of Entrepreneurship

Another promotional activities of considerable significance of the IFCI has been the promotion of entrepreneurship. With a view a acceleration the pace of entrepreneurship, the IFCI provided active fund support to (i) entrepreneurship development programmes (EDPs) (ii) science and technology (iii) Entrepreneurship Development Institute of India (EDII), and (iv) Regional Level Centres/Institutes for entrepreneurship Development (CED/TED).16
Subsidiaries

The subsidiaries of IFCI are given below: 17

IFCI Venture Capital Funds (IVFC)

As part of fresh initiatives to make a leading player in the country’s venture capital/private capital equity business, it has evolved an action plan envisaging induction of a strategic partner, promotional of new equity/venture capital funds, strengthening the organisational structure, taking up fee-based assignments etc. At present, IVFC is in the process of promoting a new investment fund. IVCF has also prepared a proposal for setting up India Business Partners Program, primarily to invest in projects in SME segment and it is being pursued with the Government.

IFCI Financial Services Ltd. (IFIN)

IFIN, as a stock broker, has added, during the year, prestigious clients like SBI, SBI MF, IDBI, DSP Merrill Lynch, Kotak Mahindra etc. Besides, SEBI has accorded registration to IFIN as a Depository Participant (DP) and IFIN proposes to offer DP services to retail clients as an added services along with the brokerage services. By way of diversification, IFIN has initiated new business activities such as distribution of financial products of other firms; marketing of IPOs; and retailing of insurance products. IFIN has obtained licence to act as a Corporate Sales Agent of Bajaj Allianz General Insurance Company Ltd. for the non-life sector. IFIN also signed an MOU with LIC to act as its CSA for distribution of life insurance products.
The Industrial Development Bank of India (IDBI) was established in 1964 by the Government of India as an apex institution under an Act of Parliament, named the IDBI Act, 1964. Initially, it was set up as a wholly-owned subsidiary of Reserve Bank of India to provide credit and other facilities for the development of industry. In order to enlarge the role of the IDBI as the apex financial institution and to achieve more effective coordination among all financial institutions in the country, IDBI was delinked from the Reserve Bank of India with effect from 16 February 1976 and made an autonomous corporation owned by the Government of India and was entrusted with the additional responsibility of acting as the principal financial institution for co-ordinating the activities of institutions engaged in financing, promotion or development of industry.\(^\text{18}\).

For enabling the Industrial Development Bank to finance all types of industrial enterprises these have been widely defined to manufacturing, mining, processing and service industries including shipping, transport and hotel industries, both in private and public sectors and incorporated under the Indian Companies Act or any
other law.\textsuperscript{19}

In 1982, IDBI’s portfolio relating to its International Finance Division (which was providing export finance to industry) was transferred to Export-Import Bank of India (EXIM Bank), which was established as a wholly owned corporation of the Government of India under the Export-Import Bank of India Act, 1982.\textsuperscript{20}

In 1990, IDBI’s portfolio relating to small-scale industrial sector was transferred to the Small Industrial Development Bank of India (SIDBI) which was established as wholly-owned subsidiary of IDBI under Small Industrial Development Bank of India Act, 1989.\textsuperscript{21}

The IDBI Act was amended in October, 1994 which, inter alia, permitted IDBI to raise equity from the public subject to the holding of the Government not falling below 51% of the issued capital.

“RBI vide circular no. C-24/01-02-00/2000-2001 dated 28 April, 2001 has mentioned that Development Finance Institutions can either convert themselves into a commercial Bank or a Non-Banking Finance Company (NBFC).”\textsuperscript{22} So, the Board of Directors of IDBI planned to convert IDBI into a commercial bank and IDBI (Transfer of Undertaking & Repeal) Act, 2003 was passed by the Parliament and received assent of Hon’ble President on Dec 30, 2003. IDBI was converted in a Banking Company on October 1,
2004. According to the provision of IDBI (Transfer of Undertaking & Repeal ) Act, 2003, IDBI has been converted into a banking company under the Companies Act, 1956. Presently, it is registered in the Companies Act, 1956 by the name of IDBI Ltd.

Over the last four decades, IDBI’s role as a catalyst to industrial development has encompassed board spectrum of activities. IDBI primarily provides finance to large and medium industrial enterprise and is authorised to finance all types of industrial concerns engaged or to be engaged in the manufacture, processing or preservation of goods, minning, shipping, transport, hotel industry, information technology, medical and health services, leasing, generation of distribution of power, maintenance, repair, testing or servicing of vehicles, vessels and other types of machinery and the setting up and development of industrie states. IDBI may also assist industrial concerns engaged in the research and development of any process or product or in the provision of special technical knowledge or other services for the promotion of industrial growth. In addition, floriculture, road construction and the establishment and development of tourism related facilities including amusement parks, culture centres, restaurants, travel and transport facilities and other tourist services, film industry and construction activities have been recognised as industrial activities eligible for finance from IDBI.23
Capital structure and source of finance

The financial source IDBI includes share capital, reserves and funds, bonds and debentures, market borrowings, borrowings from RBI, from the Government and others, deposits.

Share Capital

At the time of establishment, the entire capital of IDBI was held by Reserve Bank of India. In terms of the Public Financial Institutions Laws (Amendment) Act, 1975 the share capital of the IDBI was transferred from the RBI to the Government of India and it became a Government-owned autonomous institution. The IDBI was permitted as a part of the deregulation of the DFIs, to offer its shares to the public while retaining the majority shareholding of the Government. The shareholding in IDBI by major categories of shareholders and distribution schedule as at end-March 2003, are as under:-
Table No. - 3.3

Share holding Pattern of IDBI as at end-March 2003

<table>
<thead>
<tr>
<th>Category of Shareholders</th>
<th>No. of Shares Held</th>
<th>% to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of India</td>
<td>38,17,28,000</td>
<td>58.47</td>
</tr>
<tr>
<td>Employees</td>
<td>7,49,880</td>
<td>0.11</td>
</tr>
<tr>
<td>Public</td>
<td>10,66,37,870</td>
<td>16.33</td>
</tr>
<tr>
<td>H.U.F</td>
<td>7,14,132</td>
<td>0.11</td>
</tr>
<tr>
<td>Bodies Corporate</td>
<td>2,74,17,894</td>
<td>4.20</td>
</tr>
<tr>
<td>Institutions</td>
<td>9,22,73,669</td>
<td>14.13</td>
</tr>
<tr>
<td>Socities</td>
<td>1,73,920</td>
<td>0.03</td>
</tr>
<tr>
<td>Trusts</td>
<td>3,66,330</td>
<td>0.06</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>3,68,44,837</td>
<td>5.65</td>
</tr>
<tr>
<td>NRIs</td>
<td>57,17,545</td>
<td>0.88</td>
</tr>
<tr>
<td>NSDL(Transit)</td>
<td>2,06,323</td>
<td>0.03</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>65,28,30,400</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Annual Report, 2002-03, p-46

Reserves, Funds and Surplus

This source of fund consists reserve fund, other funds consisting of venture capital fund, exchange risk administration fund and IDBI EXIM (J) special fund, reserves comprising foreign currency fluctuation reserve, investment equalisation reserve,
premium on bond issue, share premium, contingency reserve and special reserve under the Income Tax Act. The total amount of funds of IDBI as end march, 2003 is Rs. 6325.26 crores.

**Borrowing from RBI**

Borrowing from the RBI is the main source of the finance for IDBI. The IDBI borrows from RBI in form of out of the National Industrial Credit (Long-term Operations) fund, secured against stocks, fund & other securitites and secured against bills of exchange or promissiory notes. Apart from borrowing from RBI, the bank also arrange it from different sources i.e. Market Borrowings, Rupee Borrowing, Foreign Currency Borrowing, Borrowing from Government of India and Other Borrowings.

The Position of financial resources of IDBI as on 31-03-2003 is given as under:

**Table No. - 3.4**

**Total Financial Resources of IDBI as at end March 2003**

<table>
<thead>
<tr>
<th>Financial Resources</th>
<th>Amount (crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>652.83</td>
</tr>
<tr>
<td>Reserves, Funds and Surplus</td>
<td>6325.26</td>
</tr>
<tr>
<td>Bonds and Debenture</td>
<td>41797.97</td>
</tr>
<tr>
<td>Deposits</td>
<td>4329.91</td>
</tr>
<tr>
<td>Borrowings</td>
<td>5359.89</td>
</tr>
<tr>
<td>Current Liabilities and Prov.</td>
<td>4649.95</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>63115.81</strong></td>
</tr>
</tbody>
</table>

**Source:** Annual report IDBI, 2002-03.p-64,66
Operations and Operating Policies/Activities

The operation of the IDBI as reflected in financial assistance has been patterned to suit the requirements of a wide variety of enterprises in the large, medium and small sector of industries. The composition of its assistance classified into (i) direct finance for setting up new projects as well as for expansion, diversification, modernisation and technology upgradeation of existing projects (ii) indirect assistance (iii) assistance to other financial institutions by way of subscription to their shares and bonds and secondary market operations.

A distinct feature of the IDBI’s operating policies relates to promotion and innovation. The term promotional activities refers to the efforts made by the IDBI to promote the growth of industrialisation operating in conformity with the socio-economic objectives. In other words, the IDBI does not merely perform the conventional function of providing funds to eligible entrepreneurs and mobilising resources for lending operations. It also operates as an instrument of state policy so that in the investment of its resources it takes into account its qualitative composition as well as geographical distribution. The year 1970-71 represents a landmark in the evolution of its promotional activities. This was evolved a variety of mechanisms to contribute more effectively to the industrialisation process. The promotional functions of IDBI, inter alia, include:(i) Assistance for development of backward
regions; and (ii) Assistance to small enterprises etc.24

The IDBI is providing support for establishment of accredited Voluntary Agencies (VAs) in their projects to provide self-employment and wage employment opportunities in the industrial sector to physically/socially disadvantage sections of society in various parts of the country.25 In addition, the IDBI has been administering the central subsidy scheme for projects in selected backward districts.

Fee Based Activities

The IDBI has diversified its operation in the post-1991 period by undertaking fee-based activities. These relate to merchant banking, debenture trusteeship and depository participants.

Merchant Banking & Advisory Services

IDBI has been providing wide range of merchant banking & advisory services which include issue management of public/right issues, private placement of bonds/equity, projects advisory services and credit syndication and corporate advisory services such as advice on mergers and acquisition, equity valuation, disinvestment, restructuring and sale of units, identification of joint venture partners/strategic investors.26
Debenture Trusteeship

The IDBI acts as trustee in respect of bonds/debentures. It also acts as mortgage trustee/security agent to foreign lenders as part of corporate trustee services. “But in line with Securities & Exchange Board of India (SEBI) requirement of keeping an arms-length relationship with the lenders, most of the debentures trustee assignments with the IDBI were transferred to IDBI Trusteeship Services Ltd.(ITSL). However, a few cases continue to be handled by the IDBI for the time being, which are proposed to be transferred to ITSL in due course.”

Forex Services

The IDBI opens letters of credit (L/Cs) and effects Foreign Currency (FC) remittances on behalf of its assisted companies for import of goods and services.

Subsidiaries

In tune with the emerging economic environment, the IDBI has set up fully owned capital market related subsidiaries to reorient its operations. Its subsidiaries are as follows:

IDBI Bank Ltd
IDBI Capital Market Services Ltd.
IDBI Intech Limited
IDBI Homefinance Ltd. (IHFL)
The Industrial Investment Bank of India Limited (IIBI Ltd.) was set up in 1997, under the Companies Act, 1956. IIBI Ltd. has been evolved in three phases. Initially, it was Industrial Reconstruction Corporation of India Ltd which was later on, converted into Industrial Reconstruction Bank of India which was also converted into a full-fledge development bank namely, the Industrial Investment Bank of India Limited.

**Industrial Reconstruction Corporation of India Ltd. (IRCI Ltd.)**

“Industrial Reconstruction Corporation of India Limited was set up by the IDBI, LIC, Banks and other financial institutions to provide reconstruction/ rehabilitation assistance to units which were closed down or faced the risk of closure because of mismanagement, misutilisation of financial resources, unsatisfactory labour-management relations and critical raw material positions but could be made viable with suitable assistance.” The IRCI Ltd. was registered in April, 1971 under the Companies Act, 1956, with registered office at Calcutta. The authorised capital of the Corporation was Rs. 25 crore and the issued capital was Rs. 10 crore which is
subscribed by the IDBI, IFCI, ICICI, LIC, SBI and the 14 nationalised banks.\textsuperscript{30}

The IRCI’s charter enables it to undertake various types of business, in addition to financing functions, such as undertaking management of industrial units and development of infrastructural facilities. It could also implement schemes of mergers/amalgamation/reconstruction under the provisions of the Companies Act.

**Industrial Reconstruction Bank of India (IRBI)**

Through a notification issued on March 20, 1985, by the Government of India, the IRCI Ltd was converted into a statutory corporation named IRBI under the IRBI Act, 1984, to overcome the constraints of IRCI Ltd which was merged into it\textsuperscript{31}.

The main objectives of IRBI was to act as the principal credit and reconstruction agency for the revival of sick industrial units through assistance for their expansion, modernisation, diversification, reorganisation and rationalisation. It was empowered to grant loans and advances to industrial concerns, subscribe to/underwrite their shares/bonds/debentures and to provide guarantee, hire-purchase/equipment lease facilities, infrastructure facilities, consultancy and merchant banking services and technical, legal and financial assistance in mergers/amalgamations.\textsuperscript{32}
It was the principal credit and reconstruction agency for industrial revival in the country. But after the establishment of Board for Industrial and Financial Reconstruction (BIFR), the role of IRBI as the principal agency for industrial reconstruction and rehabilitation became irrelevant. Almost all financial institutions/banks also nursed sick units in their own portfolio. After realising that IRBI in its present form would not survive in the post-1991, competitive environment, it was converted into a full-fledged DFI. With a view to strengthening it to respond to the challenges of the emerging environment, overall restructuring was carried out. It involved both corporate and financial restructuring.

**Industrial Investment Bank of India Limited (IIBI Ltd.)**

*IIBI Ltd* was set up as a company in the needs of the changed perspective in the post-1991 period of financial reforms under the IRBI (Transfer of Undertaking and Repeal) Act, 1997. The setting of the IIBI resulted in the corporatisation of IRBI and the transfer of its business, assets, rights, authorities, privileges and all properties, reserves, investments, loans/advances/guarantees/lease and book debts. All contract, deeds, bonds, guarantee, power of attorney, other instruments and working arrangements also stood transferred.

“Moreover, all fiscal/other concessions, licences, privileges and exemption granted to IRBI are deemed to be available to IIBI. It is not liable to pay income-tax for five years in respect of income/profits/
gains. It is deemed to be a bank for the purpose of the Banker’s Book Evidence Act. The shares/bonds/debentures of IIBI are deemed approved securities for the purpose of Indian Trusts Act, Insurance Act and Banking Regulation Act.”

As a full-fledge DFI, IIBI now provides assistance to industrial concerns in the form of term-loans, underwriting-direct subscription, deferred payment guarantees and working capital/other short-term loans. It also offers merchant banks services, in addition to managing its portfolio of sick companies.

Financial Resources

The financial resources of IIBI include share capital, borrowings from the Government, borrowings from RBI, other borrowings, and market borrowing by way of debentures/bonds.

Share Capital

As a fully-owned Government company, the entire equity capital of IIBI is held by the Government. It consists of equity shares of Rs. 225.0 crore and redeemable preference shares of Rs. 221.08 crore at the end of March, 2003.

Borrowings

The major source of funds of IIBI Ltd. is borrowings from the Government & RBI and through issue of bonds.
Operations/Activities/Operating Policies.

The IIBI’s operations are small in relation to the other DFIs. There has been a remarkable transformation in its activities from reviving sick units to business-oriented activities. It provides assistance in the form of Direct finance. Direct finance includes project finance and non-project finance. Under project finance IIBI provides entire range of funding starting from the funding of fresh capacity creation (new project) to funding of modernisation/diversification/expansion of existing projects. Non-project finance includes assets credit/equipment finance, corporate loans, working Capital/short-term loans, equipment leasing and Investment/direct subscription of shares & debentures/bonds.

Relationship with BIFR

The BIFR appoints the IIBI as operating agency. It prepares rehabilitation reports for the revival of sick units. On the basis of its reports, the BIFR sanctions revival packages or orders for winding up are issued. The IIBI itself has no liability for the revival of sick industrial units.35
THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

The Small Industries Development Bank of India (SIDBI), set up in 1990 under an Act of Parliament (SIDBI Act, 1989), is an apex institution for promotion, financing and development of industries in the small, tiny and cottage sectors and for co-ordinating the functions of other institutions engaged in similar activities. “It commenced its operations on April 2, 1990 as a wholly owned subsidiary of the IDBI by taking over the Small Industries Development Fund and activities of IDBI pertaining to the small scale sector.”

Initially, SIDBI was established as a wholly-owned subsidiary of IDBI but provisions of Section 4B of SIDBI (Amendment ) Act 2000, came into effect on 27th March, 2000, has changed the provisions relating to capital structure, shareholding, management, business, borrowings, acceptance of deposits and investments. The amended Act provides that 51.11% shareholding (Rs. 230 crore) in SIDBI, subscribed and held by IDBI, will be transferred to public sector banks, GIC, LIC and other institutions owned or controlled by Central Government.

As on 31st March, 2003, It has Four Zonal Offices at Chennai, Kolkata, Mumbai and New Delhi and Regional office at Guwahati.
SIDBI has forty-one branch offices.\textsuperscript{38}

SIDBI provides direct assistance to SSI units as well as refinancing to term loans granted by the SIDC’s/SFCs, banks and other financial institutions; direct discounting and rediscounting of bills arising out of sale of machinery/capital equipment by manufacturers in the SSI sector. SIDBI provides pre-shipment credit in foreign currency to exporting SSI units. It also makes direct equity investment in SSIs and financial assistance to enable well-run export-oriented units to acquire ISO 9000 series certification. The programmes directed at empowering women through assistance under its Micro Credit Schemes, Mahila Udhyam Nidhi and rural industrialisation under Rural Industries programme have emerged as a major vehicle of socio-economic change. The focus of promotional and developmental activities has been on enterprise promotion, rural industrialisation, human resources development of the SSI sector, technology upgradation, programmes on quality and environmental management and market promotion.\textsuperscript{39}

SIDBI has given special emphasis was given on employment generation and livelihood promotion of the poor by encouraging them to undertake income generating activities through enterprise promotion as well as self-employment ventures.\textsuperscript{40}

It has strengthened its Rural Industries Programmes by undertaking district-wise review to assess the strengths and weakness
of the programmes. Enterprise Promotion is being accomplished by the SIDBI through different schemes, viz., Micro Credit Schemes (MCS), Rural Industries Programmes (RIP), National Programme for Rural Industrialisation (NRPI), Mahila Vikas Nidhi (MVN) and Entrepreneurship Development Programmes (EDPs).

**Financial Resources**

The main sources of fund of SIDBI are Share capital, Retained earning, Foreign currency resources, Bonds and Debenture and Deposits.

**Share Capital**

As on March, 2003, the authorised capital of SIDBI is Rs. 1000 Crore as on 31-03-2003. The issued and paid up capital of SIDBI is Rs. 450 crore which is held by thirty six institutions/public sector banks/insurance companies owned or controlled by the Central Government with IDBI, SBI and LIC as its three largest shareholders.41

**Reserves, Funds and Surplus**

During the 13 years of its operations upto 31st March, 2003, SIDBI has built up sizeable reserves. As on 31 March, 2003, the total reserves, funds and surplus amounted to Rs. 3981.12 crores.42

**Debentures and Bonds**

SIDBI has raised resources by way of market borrowings through the private placement of Taxable Priority Sector Bonds. The
investors in the bonds were mainly foreign banks and private sector banks. “SIDBI was also authorised to issue Capital Gains Bond (CGB) under Section 54EC of Income Tax Act, 1961 in the Union Buget of FY 2003.”

Deposit with SIDBI by foreign Banks

It has also raised funds by way of deposits from foreign banks operating in India.

Subsidiaries

SIDBI Venture Capital Limited

SIDBI Venture Capital Limited was set up to carry out the business of setting up, advising and managing venture capital funds and has been acting as the Investment Manager to National Venture Fund for software & Information Technology Industry (NFSIT).

SIDBI Trustee Company Limited

It was set up to carry out trusteeship functions and for Venture Capital Funds. At present, it is acting as the trustee for the National Venture Fund for software & Information Technology (NFSIT). It has appointed SIDBI Venture Capital Limited to act as Investment Manager to NFSIT.

Technology Bureau for Small Enterprises

In collaboration with United Nations-Asian and Pacific Centre for Transfer to technology (APCTT), SIDBI set up Technology Bureau...
for Small Enterprises (TBSE) in 1995 with the objective to strengthen the efforts of small scale units in technology access and transfer. Services rendered by it include technology promotion through multi-channels, facilitation of transfer of technology, joint ventures, business collaboration and finance syndication.

**Associate Organisation**

**Credit Guarantee Fund Trust for Small Industries**

The Government of India, in association with SIDBI, formulated a Credit Guarantee Fund Scheme for Small Industries, which was launched by the Prime Minister on August 30, 2000. The scheme aims at helping the new and existing industrial units in the SSI sector, including units in information technology and software industry, in getting collateral-free/third-party guarantee free credit by way of both term loan and working capital, from eligible lending institutions, namely scheduled commercial banks, select Regional Rural Banks and such of the institutions as may be approved by the Government of India.
From the functioning of IFCI and SFCs during the first few years it was noted with great concern that these two institutions confined themselves to the lending and guaranteeing activities and kept themselves away from the underwriting and investing business. The result was that a large number of new entrepreneurs and smaller concerns continued to experience a tremendous problem in raising equity capital from the market. In order to fill the gaps in the institutional structure of Indian capital market, the Industrial Credit and Investment Corporation of India Ltd. was established.

The ICICI Ltd. (formerly Industrial Credit and Investment Corporation of India Ltd.), which is the second all-India development bank, was founded by the Government of India, the International Bank for Reconstruction and Development (World Bank) and representatives of the Indian private industry on January 5, 1955, as a public limited company with the primary objective of providing foreign currency loans to industrial projects and to facilitate industrial development in line with economic objectives of the time. It evolved several new products to meet the changing needs of the corporate sector.
ICICI provides a range of wholesale banking products and services, including medium and long-term project financing, both in terms of rupee and foreign currencies, corporate finance, hybrid financial structures, syndication services, treasury-based financial solutions, cash flow based financial products, lease financing, equity financing, risk management tools as well as advisory services. It also played a facilitating role in consolidation in various sectors of Indian industry, by funding mergers and acquisition.

It has entered into new areas of business such as commercial banking, investment banking, non-banking finance, investor servicing, broking, venture capital financing and state level infrastructure financing through the activities of its subsidiaries.

Initially, ICICI Ltd. was established to provide finance exclusively to the private sector but its scope of operation was enlarged subsequently to include joint, public and cooperative sector as well as area of operation was also enlarged in respect of enterprises eligible for assistance. It provided assistance only to limited companies but since 1969, it started providing foreign currency loans to proprietary and partnership firms.47

ICICI Ltd. has also played a facilitating role in consolidation in various sectors of the Indian industry, by funding mergers and acquisition. In the context of emerging competitive scenario in the financial sector, ICICI Ltd. and ICICI Bank Ltd., in October 2001, decided to merge ICICI Ltd. and two of its wholly-owned retail finance
subsidiaries viz ICICI Personal Financial Services Limited and ICICI Capital Services Limited with ICICI Bank Ltd. which came into existence on 30-03-2002. Consequent upon the merger, the ICICI Group’s financing and banking operations, both wholesale and retail, were integrated into a single full-service banking company, effective May 2002.48

Financial Resources

“The resources of the ICICI consisted initially of the share capital which was supplemented by an interest-free loan from the Government of India and an advance in foreign currency from the World Bank.”49 The financial resources of ICICI have been increased which includes loans, commercial borrowing both in rupee as well as foreign currency, and deposits. The financial resources of the ICICI as on 31-03-2003 comprise Share Capital, Reserve & Surplus, Borrowings and Public Deposits.

Share Capital

The ICICI commenced its operation with share capital of Rs 5 crore subscribed by foreign and Indian shareholders in the ratio of 30:70. It has gradually increased through right and public issues. The capital of ICICI Ltd is held by public sector institutions such as Banks, LIC, GIC and its subsidiaries, IDBI, UTI and general public. The issue of American Depository Receipts (ADR) by ICICI Ltd in 1999 was a landmark in its share ownership structure.50 At the end march,
2003 the shareholding pattern of ICICI Ltd is as follows:

**Table No. - 3.5**

Shareholding Pattern of ICICI as at end-March 2003

<table>
<thead>
<tr>
<th>Category of Shareholders</th>
<th>No. of Shares Held</th>
<th>% to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Bank Trust</td>
<td>16,00,22,118</td>
<td>26.10</td>
</tr>
<tr>
<td>Comapny Americas</td>
<td>23,66,44,243</td>
<td>38.60</td>
</tr>
<tr>
<td>FIIIs and NRIs</td>
<td>9,47,14,564</td>
<td>15.45</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>3,02,58,750</td>
<td>4.94</td>
</tr>
<tr>
<td>Bodies Corporate</td>
<td>65,79,125</td>
<td>1.07</td>
</tr>
<tr>
<td>UTI (I &amp;II)</td>
<td>2,03,41,225</td>
<td>3.32</td>
</tr>
<tr>
<td>Banks &amp; Financial Insti.</td>
<td>87,20,080</td>
<td>1.42</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>5,57,54,299</td>
<td>9.10</td>
</tr>
<tr>
<td>General Public</td>
<td>61,30,34,404</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Source:** Annual Report ICICI, 2002-03, p-48.

**Reserve**

ICICI Ltd has built up a sizable reserves in course of its operation. The share of reserves in ICICI’s funding has significantly increased. It consists of capital reserves, share premium account, revaluation reserve, special reserves, statutory reserve, debenture redemption reserve and investment fluctuation reserve.
Borrowings

The borrowings by the ICICI are in two form: borrowing in India and borrowings outside India. Borrowings in India includes borrowing from Reserve Bank of India, Government of India, FIs and other Banks. It also borrows in form of deposits, commercial papers, bonds and debentures. So many types of bonds and debentures are issued by the ICICI such as debentures/bonds gauranteed by the Government of India, Tax free bond, regular interest bonds, deep discount bonds, bonds with premium warrants, encash bonds, tax saving bonds, easy installment bonds and pention bonds. Borrowings outside India includes borrowings from Multilateral/bilateral credit agencies, International banks, institutions and consortium and by way of bonds & notes. As on 31st march 2003, total borrowings of ICICI Ltd. was Rs. 34,302.42 crore.
Table No. - 3.6

Total Financial Resources of ICICI as at end-March, 2003

<table>
<thead>
<tr>
<th>Financial Resources</th>
<th>Amount (in Crore)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>962.66</td>
<td>0.90</td>
</tr>
<tr>
<td>Reserve &amp; Surplus</td>
<td>6320.65</td>
<td>5.92</td>
</tr>
<tr>
<td>Deposits</td>
<td>48169.31</td>
<td>45.09</td>
</tr>
<tr>
<td>Borrowings</td>
<td>34302.42</td>
<td>32.12</td>
</tr>
<tr>
<td>Other Liabilities &amp; Provisions</td>
<td>17056.93</td>
<td>15.97</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>106811.97</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Annual Report ICICI Ltd., 2002-03, p-F4

**Business/Activities/Operations**

The Activities of ICICI can be classified into:

1. **lending operations** which include project finance and non-project finance. The former includes rupee and foreign currency loans, underwriting and direct subscription to issues of shares and debentures and guarantors to suppliers of equipments. The latter includes corporate loans, working capital/shrpr term loans, equipment leasing etc.;
(b) Fee-based/advisory services include debenture trusteeship, custodial services, project advisory services and consultancy;

(c) The ICICI has promoted a number of institutions which have played an important role in promoting exports and strengthening the institutional structure of the capital and money market such as Credit Rating Information Services of India Ltd. (CRISIL), Technology Development and information company of India Limited (TDICI), Over the Counter Exchange of India Limited (OTCEI) and Stock Holding Corporation of India Ltd. (SHCI). It has also set up three institutions to develop management and research. These are Institutes for Financial Management and Research (IFMR), Indian Institute of Foreman Training and the ICICI Foundation for Research and Development.

**Subsidiaries**

With the liberalisation of the Indian economy in the 1990s, the ICICI Ltd geared up to provide a wide range of financial services. For this purpose, it has set up specialised subsidiaries in the area of investment banking, commercial banking, asset management, investor services, broking and retail credit but due to the merger of ICICI Ltd. with ICICI Bank, ICICI’s subsidiary companies have become subsidiaries of the ICICI Bank. At March 31, 2003, ICICI Bank had twelve subsidiaries as given below$:51$: 

...
**Domestic Subsidiaries**

1. ICICI Securities Limited
2. ICICI Venture Funds Management Company Limited
3. ICICI Prudential Life Insurance Company Limited
4. ICICI Lombard General Insurance Company Limited
5. ICICI Home Finance Company Limited
6. ICICI Investment Management Company Limited
7. ICICI Trusteeship Services Limited.
8. ICICI Brokerage Services Limited.

**International Subsidiaries**

1. ICICI Bank UK Limited
2. ICICI Securities Holding Inc.
3. ICICI Securities Inc.
4. ICICI International Limited.

**Sponsorship of Institutions**

The ICICI has been instrumental in promoting a number of institutions which have played an increasingly important role in financing the growth of technology, promoting exports and strengthening the institutional structure of the capital and money markets. Some of these institutions are:\(^{52}\)
1. Technology Development and information company of India Limited (TDICI)

2. Over the Counter Exchange of India Limited (OTCEI)

3. Stock Holding Corporation of India Ltd. (SHCI)

ICICI has also set up three institutions to develop management and research. These are Institutes for Financial Management and Research (IFMR), Indian Institutes of Foreign Training and the ICICI Foundation for Research and Development.
References

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9. Ibid, p-15
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20. IDBI Flexibonds 19, p-41
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36. Report on development Banking in India, 1997-98, p-32
38. ibid, p-116
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41. ibid, p-56
42. ibid, p-86
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44. ibid, pp-68-77.
45. ibid, p-77
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47. ibid, p-17.16
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51. Annual Report, ICICI Ltd., 2002-03, p-34.