CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction
1.2 Statement of the Problem
1.3 Scope of the Study
1.4 Period of Study
1.5 Objectives of the Study
1.6 Review of Previous Studies
1.7 Collection of Data
1.8 Scheme of Analysis
1.9 Chapter Scheme
1.1 INTRODUCTION

Industrialisation is the vehicle of economic development, which helps not only in optimising the utilisation of a country’s scarce resources but also in the diversification of its economy. “It was hoped that industrialisation would bring social transformation, social equality, higher levels of employment, more equitable distribution of income and well-balanced regional development.”¹ Usually the process of industrialisation tends to get concentrated only in certain industrialised areas, which causes socio-economic and political problems. Hence, a balanced growth of all regions becomes important for enabling every region to share the benefits of development. In this process, institutional finance plays a crucial role. Schumpeter was the first to recognise a definite link between economic development and financial institutions. “Capital is nothing but the lever by which the entrepreneur subjects to his control the concrete goods which he

needs, nothing but a means of diverting the factors of production to new uses, or of dictating a new direction to production.”²

After the second world war (1939-45), many of the under-developed and less-developed countries focused their attention on the problems of economic growth. The immediate and urgent objective of such countries was to foster higher levels of growth within a relatively short period of time. In the light of the experiences, the less developed countries wanted to achieve a rapid economic growth through planning and accelerated industrialisation. In this task, those countries were confronted with many problems, both economic and non-economic. In the economic sphere, the major constraints were shortage of capital, limited technological capacity and know-how, and the absence of institutions specialising in industrial financing.

Economic development is a challenging and complex process influenced by social, economic and political factors. Industrialisation is a major roadway to economic growth. Realising this, the under developed

countries placed considerable emphasis on speedy and all-round industrial
development. This process of industrialisation had to encounter many
hurdles. According to the UNO, three obstacles to industrialisation can form
three major categories. They are:

1. Inadequacy of the economic environment.
2. Socio-demographic problems and
3. Shortage of factors of production.

The quality of entrepreneurship, the degree of access to modern
production methods and technical know-how, the level of efficiency of
management, the productivity of labour, the extent of capital available from
both internal and external sources, the nature of markets and the like
determine the success of industrialisation.

These ingredients can be developed domestically or imported from the
developed countries. When imported from abroad, often in the forms of
loans, aids and grants, they are not always without strings. Hence, the
process of growth should ultimately result in self-dependence and self-
sufficiency. In this context, suitable institutions and agencies should be
established to develop, mobilize and channelise resources which are basically needed for economic growth. The economic development of a country like India depends, to a great extent, on the growth of efficient and innovative financial institutions. Financial institutions and their proper development play a vital role in promoting and assisting industrial growth. Not only they provide term finance-the critical input to the industries but also provide services like technical consultancy, market research and entrepreneurial education programmes. They render very important support to develop capital market through underwriting activities. Moreover, they play a very significant role in removing regional disparities in industrial development by attracting backward regions through various incentives and subsidies, to start industries. They bring about improvement in the performance of the economic sectors in which they basically operate.

Development banks comprise IDBI, IFCI, ICICI, SIDBI, and IIBI. Among development banks, IDBI is the largest financial institution in the country. It was established in July 1, 1964 as a wholly-owned subsidiary of the Reserve Bank of India. Its ownership was transferred to the Government
of India effective from February 1976 when IDBI was transformed into the principal financial institution in the country. In addition to financing the long and medium term needs of all types of industrial projects, the Bank was required to play a special role in planning, promoting and developing regions in such a way so as to fill the gaps in the industrial structure. Besides it was expected to co-ordinate the working of institutions engaged in such activities and assist in their development, to provide technical and administrative assistance for promotion, management or expansion of the industry and to undertake market and investment research/surveys and techno-economic studies. After 33 years of operation, with the gradual changes in the economic environment, with the development of a vibrant industrial structure and with the emergence of a competitive and efficient financial system, the Bank has constantly adapted itself so as to remain relevant to the times. New products and services were introduced to meet the needs of the times and the Bank constantly innovated to stay contemporary. This study tries to trace this process of evolution and assess the operational and financial performance of IDBI.
1.2 STATEMENT OF THE PROBLEM

In a developing economy like that of India, rapid industrial progress, infrastructural development and regional advancement can be achieved through the dispersal of assistance by financial institutions. Among such institutions, development banks play an important role in the industrial development of India. It may be stated that development banks which were originally conceived as "gap fillers in the Indian capital market" have over the years grown into a massive source of industrial finance. Today, virtually all countries of the world, developed and underdeveloped, have established the entities variously called, "Development Corporation", "Development Bank" or "Development Finance Companies". There has been however, no universal model of development banks established in under-developed countries. Despite the similarity in title, they have little resemblance to each other. Their forms, structures, objects and methods of operation have varied widely in range and their responsibilities for the economic programming of the respective regions have not been uniform. It is so because each development bank is a response to the particular needs of the region which it
serves, and to the political, economic and social environment in which it has to function.

These banks have been instrumental in disbursing financial assistance to the tune of over Rs.1,89,785.8 crores as against the sanction of Rs.2,89,588.3 crores since 1948 to the end of March 1997.3

In the family of development banks, the share of IDBI in the total assistance sanctioned and disbursed by all development banks is the maximum both in volume and in diversity. Its sanction upto the end of March 1997 was Rs.1,29,133.5 crores whereas its disbursement was Rs.88,825.4 crores.4

IDBI as a source of finance differs from other sources in the sense that it provides financial support in multiple forms under numerous schemes instituted by it to suit to the industrial enterprises belonging to different


4. Ibid., p.108.
industries of national importance situated in different regions of the country. It provides financial assistance to the industrial concerns not only in the form of rupee loans but also in the form of foreign currency loans. It is a channel through which foreign capital and technology flows.

The superiority of IDBI over other sources of finance also lies in the fact that it not only confines itself to the provision of financial support to the industrial enterprises but also assumes a development role for the accomplishment of the goals of industrial growth, thus playing a positive role. It acts as a catalytic agent for promoting balanced industrial development by discovering project ideas, undertaking the preparation of feasibility studies and project reports, providing technical advice and managerial assistance and on some occasions even establishing and managing industrial units. It also plays an important role in the promotion of entrepreneurship and village and small scale enterprises.

An attempt has been made in this study to evaluate the effectiveness of the services provided by IDBI, keeping in view the role of development finance in industrialisation.
1.3 SCOPE OF THE STUDY

The present study aims at reviewing the role and process of Development Banks in India. After analysing the operations of Development Banks, an attempt is made to examine the business of IDBI with reference to fund-based products and fee-based services. The overall operational and financial performances of IDBI are also assessed. Suitable policy recommendations are offered in the light of conclusions emerging from the study for the improvement in the performance of IDBI.

1.4 PERIOD OF STUDY

The study covers a period of 10 years, from the financial year 1987-88 to 1996-97.

1.5 OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

1. To review the growth of Development Banks in India.
2. To study the trends in the fund-based products and the fee-based services offered by IDBI.
3. To evaluate the operational performance of IDBI.
4. To examine the financial performance of IDBI and
5. To offer suitable suggestions on the basis of the findings of the study.

1.6 REVIEW OF PREVIOUS STUDIES

In view of the importance of Development Banks particularly that of IDBI in the development of an economy, several efforts have been made to evaluate and monitor their performance. Some of the important studies conducted in this area are mentioned below:

Singh’s study\(^5\) (1974) “Role of Development Banks in a Planned Economy” analysed the role of financial intermediaries which catered to the credit needs of the industrial sector of Indian economy. He cautioned the Development Banks to adopt sound business principles to meet the “challenges of change.”

Goyal\textsuperscript{6} (1984) in his book, "Financial Institutions and Economic Growth" analysed the role and performance of agricultural and industrial finance in economic development. He suggested that financial institutions should strengthen their monitoring system and exercise a close check over the operational performance of loanee concerns.

Sharma\textsuperscript{7} (1987) in "Industrial and Development Banking" found that although there had been a great fuss about the role of development banks in the upgradation of technology in Indian industry, the real assistance for this purpose had been very meagre at all-India levels. Only recently some steps had been taken in this direction by such institutions. He said that there was a need for technological improvement in the non-formal sector of the industries in the state also. The units were still using very old technology because of two reasons: (a) there was no awareness of the gains of new technology


and sufficient improvement in skills had not taken place, and (b) the want to financial resources acted as a great constraint in the adoption of new technology. The problem of the non-formal/small sector could be overcome if special mobile industrial extension service for technical and management purposes was provided and liberal loans at concessional rates were given to them for modernisation and technological improvement by IDBI.

Singha\(^8\) (1990) in his study on “Financial Institutions and Industrial Development,” analysed the performance of various financial institutions and the emerging trends in the direction of industrial growth. He opined that the financial system in the country had shown major structural changes. The traditional approach for financing had to be reshaped and realigned in tune with the increased demand for financial assistance. He felt that to meet the foreseable challenges, the financial institutions should give a new thrust to their operations.

---

Gupta\(^9\) (1992) in his research paper entitled, “Financial Services of Development Banks in India” stated that Development Banks were doing a commendable task in the field of merchant banking services specially for medium and large sized units. The coverage of rural areas and small business were the present day needs of the environment which required the shift in demand for merchant banking services. Development Banks should also actively contribute towards venture capital facilities for accelerating economic activity, particularly by the small corporate firms having assessed prospects for their future growth potential.

Dr. Kaushal K. Arora\(^{10}\) in his book entitled “Development Banking in India” estimated the extent of the supply of financial assistance by Development Banks for industrial developments in India.

---


Menon\textsuperscript{11} in his pioneer work "Development of Backward Areas through incentives-An Indian Experiment" examined the impact of various incentives offered by the Government of India on the development of backward areas. Apart from discussing in detail the basic ideas, he devoted full one chapter to the role of Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), State Financial Corporations (SFCs) and the State Industrial Development Corporations (SIDCs) in developing backward areas of the country. The study of different states tended to suggest that the benefits of various incentives had been disproportionately distributed and most important beneficiaries were found to be the developed states as they absorbed about 70 per cent of the total amount sanctioned by All-India financial institutions during the period 1970-71.

Bhattacharya\textsuperscript{12} in his book "Development of Industrially Backward Areas - The Indian Style", gave detailed theoretical explanations of the nature and problems of industrially backward areas in the country. While discussing the role of financial institutions he concentrated only on Industrial Development Bank of India (IDBI), its objectives, claims, achievements and the like with regard to the growth of industries in the backward regions.

Tandon\textsuperscript{13} in his book "Industrially Backward Areas and Financial Institutions", analysed the role of All-India lending financial institution-Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI) and Industrial Credit and Investment Corporation of India (ICICI) in bringing about industrial development of backward regions by making available adequate financial resources and promotional measures.

\begin{flushleft} \textsuperscript{12} S.N. Bhattacharya, Development of Industrially Backward Areas - The Indian Style, Metropoliten Book Company (Pvt.) Limited, New Delhi, 1981. \end{flushleft}

\begin{flushleft} \textsuperscript{13} B.B. Tandon, Industrially Backward Areas and Financial Institution, Commerce Publications Limited, Bombay, 1983. \end{flushleft}
He pointed out that concessional financial assistance to these areas had increased manifold as almost all the industrially backward districts had been covered, but he observed wide disparity in the flow of assistance to these areas. In fact, these financial institutions had allowed regional imbalances to perpetuate as shown by the State-wise pattern.

Narang\textsuperscript{14} in his thesis, "Development Banking and Backward Areas", sought to analyse the trends and impact of financial assistance sanctioned by All-India Development Banks (IDBI, IFCI and ICICI) on industrialisation of the backward areas of the country in general and of Punjab in particular.

K.R. Sharma\textsuperscript{15} in his book, "Financial Institutions and Regional Development in India", evaluated the role of the financial institutions, such as IDBI, IFCI, ICICI and SIDCs and SFCs in the reduction of regional disparities in the country. He highlighted the problem of regional inequalities


in India and the various schemes and measures taken up All-India institutions particularly the apex institution, namely, IDBI. His empirical analysis showed how the institutional assistance had flown to a few developed states and to a few backward areas of developed states. At the micro-level, the study analysed the flow of assistance of IDBI to a few districts of Andhra Pradesh.

Sadhak\textsuperscript{16} in his book, "Industrial Development in Backward Regions in India", tried to assess the efficiency of incentives and subsidies to promote industrial development in backward regions of the country. He defined the problem of disparities in India as "inter-state" and "intra-state". Inter-State disparities in industrial development had arisen due to concentration of industries in a few advanced States like Maharashtra, Gujarat, West Bengal and Tamil Nadu. Others were lagging behind and experiencing only limited industrial development. The major Indian States like Madhya Pradesh, Bihar,

Uttar Pradesh, Rajasthan and Orissa, could not achieve any significant success in industrial development. Furthermore, even in the advanced States, industries were not spatially distributed in a State as the growth had been concentrated in a few centres only. This has given rise to the problem of intra-state disparities. He noticed some improvement in the sanction of the term "loan at concessional rate" from All-India financial institutions. However, this growing concessional finance had not benefited the backward States as considerable amounts had gone to the developed States. It also covered a questionnaire based detailed case study of Aurangabad, a backward district of Maharashtra.

Pervinder Kaur\textsuperscript{17} in his book "Development Banking and Industrialisation" made an attempt to evaluate at micro-level the working and performance of the Punjab Financial Corporation. He also examined the role of development banking in industrialisation and the emerging trends in the area of development finance in a transitional economy.

\textsuperscript{17}Pervinder Kaur, \textit{Development Banking and Industrialisation}, Anmol Publications (Pvt.) Limited, New Delhi, 1995.
Jaganath Panda and R.K. Dash,18 in their book "Development Banking in India" made an attempt to evaluate the importance of institutional financing and the performance of Orissa State Financial Corporation as a leading financial institution in providing financial assistance to small and medium scale industrial units.

Om Prakash Kajipat19 in his book, "Financial Institutions in India - A Regional Perspective" made an intensive study of various aspects of State Financial Corporations in general and the Andhra State Financial Corporation in particular. He also analysed the problems of SFCs and had given suggestions to solve it.

Vijay Kapur,20 in his article "Financial Assistance from All-India Financial Institutions" found that the dependence of the Corporate sector for


financial assistance from the national level financial institutions, was increasing. For the benefit of the Junior professionals required to deal with such institutions, the author outlined the procedure generally followed in applying and obtaining loans from the All-India financial institutions.

Samir Joshi,21 in his article “Financial Institutions’ Role in the Industrialisation of Backward Regions”, analysed the question “Has India’s post independent planning benefited the backward regions?” For this, economic progress and widespread diffusion had to go hand-in-hand. Analysis revealed that till the end of the Third Plan, the results achieved were not satisfactory.

M.A. Qureshi,22 in his study “Commercialization of Indigenous Technology, Role of Financial Institutions”, found that there were two main reasons for the failure to make full utilization of indigenous technology.


Firstly, there was no rigorous methodology for the identification of relevant research themes and the selection of right technological research programmes. Secondly, the allocation of resources for R & D was made without taking into account the whole chain of activities ending with the commercialization of the results of research.

Shri R.N. Malhotra,23 in his speech delivered at the Institute of Public Administration, Government of Karnataka at Bangalore on the 11th of May 1989 on the topic “Institutional Finance”, concluded that the financial infrastructure in India had grown and gained in functional and geographical coverage over the years. It had responded well to the growing social and economic demands of the economy. The financial institutions had demonstrated remarkable stability and retained the confidence of depositors, investors and borrowers. But there were also some problem areas which had to be redressed.

J.S. Uppal in his article “Public Financial Institutions and Regional Development in India”, analysed the financial assistance given by the public financial institutions, both at All-India and State levels, to industrial enterprises established in designated backward areas and to industrially backward states for promoting the goal of regional economic development.

Prof. S.L.N. Sinha in his article “Financial Institutions and Economic Development” stated that financial institutions played a useful role in mobilising and channelling the savings of the community in an efficient manner, to suit to the varied needs of the users and the providers of funds. Their role was especially important in an economy where the private sector of industry and finance prevailed in a big way, with free play for market forces in production, consumption and distribution of goods and services.


A.D. Rama Rao, in his article, "Institutional Finance and Rural Industrialisation-A Case Study", presented a brief account of the industrial finance made available by various institutions in Nizamabad district in Andhra Pradesh and its impact on the economy of the district through increase in employment and income generation.

Navin Chandra Joshi, in his article, "Revamping India's Public Financial Institutions", made an in-depth study on the role of Public Financial institutions in the capital market of the country. He concluded that India's Development Banks should not only become financially sound, but should continue to serve the industrial sector more effectively than ever. Only then, India could make a serious effort for improving the growth of industrial output which had almost been stagnating in recent years.

S. Akram in his article “SFCs-striving for a Dynamic Developmental Financing of Small Enterprises”, discussed the scale and scope of the operations of the State Finance Corporations which had been rendering financial assistance, to the small enterprises. He concluded that the SFCs had been playing a significant role by giving term loans and other facilities to small scale enterprises. In order to spread their activities, the SFCs should open more branches in Urban and Semi-urban areas and co-ordinate the financing activities in close collaboration with the banks in their areas of operation.

N.P. Srinivasan and M.S. Narasimhan, in their article, “Performance of IFCI-An Appraisal”, made an attempt to appraise its performance based on the objectives assigned. They concluded that the achievements by IFCI were


significantly low compared to IDBI and ICICI. Hence autonomy was needed to IFCI to mobilise large resources by making use of existing buoyancy in the capital market so that it could play a much greater role in the development process.

N.C. Kar\(^{30}\) in his article, “A Study of the Industrial Development Corporation of Orissa Limited as a State Enterprise”, studied the operating performances and financial aspects of IDCOL.

J.P. Joshipura\(^{31}\) in his article “Performance Evaluation of State Financial Corporations”, suggested that SFCs, would need substantial re-orientation and streaming of their operations to meet the new challenges.

---


Dr. R. Neelamegam and R. Maria Inigo\textsuperscript{32} in their article “SIDBI and the small industry”, concluded that the SIDBI had exerted its full effort, not only in the financial areas but also in the non-financial areas through a comprehensive package of extension activities.

V. Rajagopalan and Vinod Vyasulu\textsuperscript{33} in their article “Development Banking-Operational Issues at the Field Level”, discussed the operational issues at the level of a State Financial Corporation and at the level of Uttar Pradesh Financial Corporation. They extended the finding to the rest of State Financial Corporations.

F. Leslie and H. Helmers\textsuperscript{34} in their paper “Industrial Development Bank and Social Benefit-Cost Analysis” concluded that by employing

\begin{itemize}
  \item \textsuperscript{32}R. Neelamegam, and R. Maria Inigo, “SIDBI and the Small Industry”, \textit{Third Concept}, Vol.10, No.120, February 1997, pp.41-43.
\end{itemize}
social benefit-cost analysis in the evaluation of prospective investments and promoting investments the banks geared towards not only growth in the income of the poorest classes, but made an important contribution towards the achievement of social stability.

Padma Mehta and V.K. Mehta35 in their article, “Development Financial Institutions-Need Diversification” made an attempt to delineate the emerging challenges and the future thrust areas for the development financial institutions as they adjusted to a totally different operating environment.

G.V. Joshi,36 in his article, “Role of Development Banks in Developing Economics”, intended to bring out the role of development banks in developing countries in general.

However, he made a special mention of the achievements of the Indian Development Banks. After discussing the problems and challenges faced by


development banks, came to the conclusion that these institutions had tremendous scope for good work in promoting the economic growth of developing countries.

K. Ramakrishna Sarma,\textsuperscript{37} in his paper “Role of Financial Institutions in Regional Development - A case study of IDBI”, reviewed the role of special financial institutions in the reduction of regional disparities in India. Since IDBI had emerged as an apex financial institution playing co-ordinative, promotional and developmental role, he analysed the specific role of the IDBI in the context of regional development.

H. Sadhak,\textsuperscript{38} in his paper “For a Backward Area Finance Corporation” concluded that the prime objective of development banks in assisting the process of removing regional imbalance by promoting industrial growth in backward regions was not fulfilled. The flow of institutional finance to


backward areas could be increased by attracting industries to the backward areas, the development of industrial infrastructure and the availability of suitable and sufficient subsidy would induce the industries to go to the backward areas.

Dr. M.N.A. Ansari and Vimal Shankar Singh in their article “IDBI’s Role in Backward Areas Development”, examined the financial and promotional assistance provided by the IDBI to industrial units located in the specified backward districts in the country during 1970-83. They concluded that the bank’s performance in the promotional field had been commendable. IDBI’s efforts in backward area development however suffered from certain serious drawbacks. There was, thus, an urgent need for a definite and clear-cut policy and guidelines so that all concerned, including IDBI, might put their concerted efforts in fulfilment of the common task of promoting a balanced regional development.

Vimal Shankar Singh\textsuperscript{40} in his paper "IDBI's Indirect Financing", examined the indirect financial assistance of the IDBI and certain basic issues related therewith. He found that, as the IDBI was supposed to stimulate, enthuse and encourage new and small entrepreneurs to participate in the industrial development of the country, it had not achieved the results that were expected of its functioning.

V. Lakshmana Rao\textsuperscript{41} in his article "Debt-Equity Ratio of Development Banks", based on a study of capital structure and the trends in the pattern of resource mobilisation of selected development banks, he concludes that the increase in the proportion of their internal resources is encouraging. However, he notes that there is an alarming increase in their Debt-Equity (D-E) ratios, particularly of the national level development banks.


N. Sriram and Indranil Ghosh,\textsuperscript{42} in their article, “Financial Institutions Gearing for change”, concluded that IFCI, ICICI and IDBI, the three major development finance institutions, had been forced by financial sector reforms to redefine their objectives and rules for survival.

Ashok Upadhyay\textsuperscript{43} in his article “30 years later-crunch time for IDBI”, stated that eventhough IDBI was the largest financial institution started in July 1964, reforms had pushed it in new directions with new challenges and opportunities.

\textbf{1.7 COLLECTION OF DATA}

The study is based on secondary data.

Data relating to trends in assistance sanctioned and disbursed by Development Banks, Institution-wise assistance sanctioned and disbursed by Development Banks, purpose-wise assistance sanctioned and disbursed by Development Banks, sector-wise assistance sanctioned and disbursed by


\textsuperscript{43}Ashok Upadhyay, “30 Years Later-Crunch Time for IDBI”, \textit{Business India}, No.436, 21 December 1994, pp.54-60.
Development Banks, assistance sanctioned by Development Banks to backward areas, state-wise assistance sanctioned by Development Banks to backward areas and industry-wise assistance sanctioned by Development Banks were collected from the official records of reports on Development Banking in India from 1987-88 to 1996-97 published by IDBI.

Data relating to direct and indirect assistance sanctioned and disbursed by IDBI, trends in loans sanctioned and disbursed by IDBI, trends in discounting of bills sanctioned and disbursed by IDBI, trends in underwriting and subscription sanctioned and disbursed by IDBI, trends in guarantees for loans and deferred payments by IDBI, trends in financing for leasing and hire purchase companies, trends in assistance sanctioned and disbursed by IDBI under refinancing scheme, trends in assistance and disbursed by IDBI under bills re-discounting scheme, trends in assistance sanctioned and disbursed by IDBI to Resource Support to Financial Intermediators, Pattern-wise assistance sanctioned and disbursed by IDBI, State-wise assistance sanctioned and disbursed by IDBI, Industry-wise assistance sanctioned and disbursed by IDBI, Sector-wise trend assistance sanctioned and disbursed by IDBI, trends in assistance sanctioned and disbursed by IDBI to backward
areas, trends in resource structure of IDBI, trends in debt structure and trends in equity structure, were collected from the official records of “Operational Statistics” from 1986-88 to 1996-97 published by IDBI.

Data relating to trends in Technical Upgradation Scheme, Energy Conservation Scheme and Pollution Control Scheme, trends in fee based-services relating to Merchant Banking, Forex Services and Debenture Trusteeship were collected from various annual reports of IDBI for the study period from 1987-88 to 1996-97.

Information are also collected from books and journals published by the Government and other organisations also have been used.

1.8 SCHEME OF ANALYSIS

In the analysis and interpretation of data, statistical tools namely percentages, averages, growth rates, quotients, Index Numbers and t-test have been used.
To study the profitability of the Bank a profitability model, that is, "Roof Model of Profitability"\(^{44}\) has been used. It can be expressed as follows:

\[
\text{ROOF} = \text{PM} \times \text{AU} \times \text{EM}
\]

where

- \(\text{PM}\) = Profit Margin
- \(\text{AU}\) = Asset Utilisation
- \(\text{EM}\) = Equity Multiplier and
- \(\text{ROOF}\) = Return on Owned Funds

Profit Margin (PM) is measured by dividing the amount of net profit after tax by the amount of gross total income generated by the bank during an accounting year.

Asset Utilisation Index (AUI) is generally measured in terms of amount of turnover achieved or income generated from the utilisation of those assets in the operation of a financial institution. The AUI is expressed as follows:

---

\[ \text{AUI} = \frac{I_{a1}}{A_1} + \frac{I_{a2}}{A_2} + \ldots + \frac{I_{a_n}}{A_n} - \frac{W_{a1}}{A_1} - \frac{W_{a2}}{A_2} - \ldots - \frac{W_{a_n}}{A_n} + \frac{O_{I}}{OA} + \frac{W_{Oa}}{OA} \]

Where,

- \( I_a \) = Income generated from an asset
- \( A \) = Value of an asset
- \( W_a \) = Weightage given to an asset, being its proportion to the value of asset.
- \( O_{I} \) = Miscellaneous Income and
- \( O_{A} \) = Value of Miscellaneous Assets and

\[ [A_1 = \text{Loans and Advances} \]
\[ A_2 = \text{Bills discounting} \]
\[ A_3 = \text{Investment} \]
\[ A_4 = \text{Deposits with Banks} \]
\[ A_5 = \text{Consideration receivable from SIDBI} ] \]

Equity Multiplier (EM) is the index of efficiency used to examine the efficiency of the bank in resource mobilisation. It is measured as:

\[ \text{EM} = \frac{\text{TOA}}{E} \]
Where,

\[ \begin{align*} 
\text{TOA} & = \text{Total Operating Assets}, \\
\text{E} & = \text{Equity Capital (or) Net Worth and} \\
\text{EM} & = \text{Equity Multiplier} 
\end{align*} \]

Further, other ratios namely Growth in Assets, Capital Adequacy Ratio, Debt Equity Ratio, Profit After Tax to Net Worth and Profit after Tax to total assets are used to assess the efficiency and profitability of the bank. The meaning, method of computation, interpretation of the results and implications of different tools have been discussed at appropriate places in the study.

1.9 CHAPTER SCHEME

Keeping in view of the objectives of the study, the thesis has been organised into six chapters. The chapter-wise contents are briefly outlined below:

The first chapter is introductory in nature and covers aspects such as Introduction, Statement of the Problem, Review of Literature, Scope of the
Study, Period of Study, Objectives of the Study, Collection of Data, Scheme of Analysis and the Chapter Scheme.

The second chapter presents a brief survey of experiments made in the area of development banking in India and abroad during the 19th and the 20th centuries. This chapter covers also the operations of Development Banks in general.

The third chapter outlines the various businesses of IDBI namely fund-based products and fee-based services.

The fourth chapter presents the operational performance of IDBI relating to trends in Overall Position, Pattern of Assistance, State-wise trend, Industry-wise trend, Sector-wise trend in Assistance and Assistance to backward areas.

The fifth chapter assesses the Financial Performance of IDBI in terms of Resource Mobilisation, Profitability and Analysis based on ratios.

The sixth chapter presents the Summary, Findings and Suggestions.