CHAPTER-VII

SUMMARY AND CONCLUSION

The role of industrial sector may vary from country to country depending upon the stage of economic development, resource endowment and availability of human skill. However, it has been widely accepted that all types of industrial strategy have three common and inter related objectives viz. increasing the pace of economic development, generation of productive employment opportunities and diversification of the economy.

The success of any industrial development strategy depends upon a variety of factors, including Government's investment policies, entrepreneurial and technical skills and appropriate investment environment. However, the availability of financial resources for investment has been and would remain one of the most critical determinants of future industrial development.

Historically, the development banks have played a pivotal role in promoting industrial development in the developing countries. The impetus for the establishment of these banks came partly from the inability of the commercial banks to accommodate the requirement of long-term investment funds of the industrial sector. The development banks attempt to fill the gap in the demand for and the supply of long-term finance in the capital market. Like normal financial intermediaries, these banks share the same financial environment and conditions, as any other banking institutions. Besides this, they are also directly affected by the national policies aimed at the development of the financial sector.
For a long time, the development banks were considered as primarily development institutions and unlike most other financial institutions, profit making was often accepted as a secondary objective. This special characteristic has led the Government to give them special support. The Government used these banks as an instrument for fostering economic development in the desired direction.

Since 1991, there has been a perceptible shift in the macro-economic policy framework with significant repercussions on the financial system of the country. The wide ranging structural reforms in the area of industrial and financial sector are aimed at giving greater play to competitive forces, increasing efficiency and productivity and integrating Indian economy with global economy. Under the liberalised environment, the financial sector is undergoing a rapid transformation to meet the emerging demands of a dynamic and competitive set up.

During the post-liberalisation period, the development banks are facing an increased competition from the commercial banks and other newly created institutions in the areas of resource mobilisation and marketing of their products. The growing demand for resources in a competitive market has resulted in the acceleration of the capital cost. This in turn has started exerting pressure on their bottom line. In the light of the revival of capital market and opening up of new sources of funds, these banks are facing the challenge of not only retaining their existing customers but also expanding their markets by offering a range of new, dynamic and innovative products. Further, the traditional philosophy of a purely developmental orientation in all their activities is fast disappearing and a new commercial attitude is clearly visible in all their dealings. The basic difference between a commercial banks
and a development bank is getting narrowed down and the concept of
development bank is changing very fast.

The Industrial Credit and Investment Corporation of India (ICICI)
Ltd. is the first private sector development bank in India set up in the year
1955. It has already completed four and half decades of its operation in the
Indian economy. During all these years it was engaged in providing term
finance to the Indian industries and played an important role in promoting
industrial development. With the rapidly changing scenario at the macro
economic level, consequent to the adoption of the financial sector reforms
policies, the corporation is facing new challenges. Its success in the newly
competitive financial system largely depends on its ability to raise adequate
resources at a reasonable cost, restructuring its investment strategies and
substantially improving its operational efficiency and market competitiveness.

In this backdrop, the present study has attempted to evaluate
the performance of ICICI during the period from 1982-83 to 1997-98. The
specific objectives of the present study are as follows:

1. To review the growth of development banks in India during the period
   from 1948 to 1998 with specific reference to ICICI.
2. To study the resource mobilisation pattern of ICICI and the shift if any,
   noticed during different periods.
3. To examine industrial financing operations of ICICI with reference to
different regions, sectors, industries etc and to evaluate the risk
management strategies undertaken by it.
4. To analyse the operational efficiency through the study of its profitability trend.

5. To evaluate the role of ICICI in stimulating the Indian capital market.

These objectives are sought to be achieved with the help of the analysis of the financial performance of the ICICI. The data used for this analysis have been collected from various secondary sources like Annual Reports, Report on Development Banking in India published by the IDBI, the RBI Bulletins and other relevant journals and magazines relating to development banks. Statistical techniques like simple annual growth rate, linear growth rates, rank correlation and simple regression have been used. Other measures and indices like coefficient of specialisation and quotient of assistance have also been used to analyse the data and to draw meaningful conclusions.

7.1 MAJOR FINDINGS

7.1.1: The history of development banking in India can be traced to the establishment of the "Industrial Finance Corporation of India (IFCI) in 1948. Since then a battery of development finance institutions (DFIs), none of which is identical with another, have been set up to meet financial and developmental/promotional needs of the Indian industry.

Today, a well-knit structure of about 60 DFIs exists at the all India and the state levels. Besides, other constituents of the financial system, namely commercial banks, insurance companies, and investment institutions also supplement their activities in a big way. The DFIs in the last four and half decades have emerged as a principal source of industrial finance in India and they seem to be responding well to the challenges of the competitive systems.
Among all the development banks in India, ICICI is the largest bank in the private sector. It is a diversified term-lending institution founded on January 5, 1955 through the initiative of the Govt. of India, the World Bank and representative of Indian industry. The corporations was started with a paid up share capital of Rs.5 crore, contributed by Indian, British and U.S. share holders. As on August 28, 1999, the corporations' shareholding pattern includes, LIC, GIC, UTI & other FIs (34.22%) international investors (18.6%), NRIs, FIs, OCBs and foreign banks (16.3%), public sector banks and Govt. companies (3.62%), Corporate bodies (8.76%), Mutual funds (0.54%), other banks (0.29%) and the balance 17.67% by the Indian public.

The function of ICICI comprises of direct financing of industries in the form of granting rupee and foreign currency loans and advances, subscribe to and underwriting issues of shares, bonds and debentures, guaranteeing deferred payments, providing or assisting in obtaining directly or indirectly advice or services in various fields including management, finance, investment, technology and administration etc. and undertaking activities pertaining to leasing, hire purchase and factoring.

The promotional activities of the ICICI comprises of a large variety of non-financial support services to various sections of the industry. The ICICI provides these financial services through its 25 subsidiaries. The subsidiaries of ICICI are specialised in the area of commercial banking investment banking, non-banking finance, investor services, broking, venture capital financing and state level infrastructure financing. In addition to promoting different subsidiaries, ICICI also developed some financial intermediaries in the financial sector, namely CRISIL and TDICI etc.
The last decade (1991-2000) has witnessed not only an innovations in different fund based activities like working capital loan equipment leasing auto loan, car loan, home loan, and consumer durable loans etc, but also different type of fee based services like guarantee, merchant banking, custodial service, debenture trusteeship, forex service and corporate governance service.

7.1.2 : Resource mobilisation is considered to be the core of the development banking functions. The ability of a development bank to raise sufficient resources depends on variety of factors, like its capital structure, volume of operation, area of operations, types of ownership, access to capital market, credibility in the international markets.

The sources of fund of ICICI comprises of both internal and external. Among the internal sources, the constituents are income from operations, repayment of loans, and sale and redemption of investments. In the external front the sources are increase of share capital, borrowing from Govt. of India, borrowing from financial institutions, borrowing through bonds and debentures, foreign currency borrowing and acceptance of deposits.

During the period from 1983-98 ICICI has been able to mobilise more than Rs.91874 crore of funds from both internal and external sources. On an average, 47.5% of total funds was externally generated and the balance 52.5% was generated from internal sources. The trend of share of internal sources reveals that, it has increased from 43.59% during 1983-88 to 53.69% during 1993-98, registering an increase of exactly 10% during the 15 year period. In contrast, the share of external sources decreased from 56.41% during 1983-88 to 46.31% during 1993-98. The trend of increasing
share of internally generated funds in the total resource mobilisation by the ICICI indicate a gradual move towards self sufficiency and independence in its operation. The decreasing trend of the external source may also be due to the increasing difficulty in raising money from the capital market.

Income from operation constitutes a major source of fund, for ICICI. During the period between 1983-98, ICICI mobilised 25% of its total resources from this source. In the post-liberalisation period i.e. 1993-98, the trend of share of income from operation shows a declining trend. The contribution of income from operations to the total funds of ICICI was 27.75% during 1988-93 and decreased to 24.43% during the period 1993-98. This declining trend may be on account of the keen competitions in the financial market after liberalisation.

Repayment by borrowers also constitutes another major source of internally generated fund of ICICI. On an average ICICI has mobilised 26.8% of its resources from this source during the period between 1983-98. The period wise analysis tells that repayments made by borrowers have increased during the nineties. During the period between 1983-88 and 1988-93, the share of this source to the total sources was 18% and 20.09% respectively. But this share sharply increased to 28.9% during the period 1993-98. This increasing trend of repayment by borrowers may be on account of the improved loan recovery strategies of ICICI.

The last item in the internally generated sources is the sale/redemption of investments. During the 15 years period between 1983-98, on an average, ICICI has mobilised 0.7% of the total funds from this source. The share of sale/redemptions of investment to the total sources of ICICI is
showing a decreasing trend during the post-reform period. The contribution of this source to total sources of ICICI was 1.14% and 2.01% during the period 1983-88 and 1988-93 respectively. But this trend significantly decreased to only 0.36% during the period 1993-98.

Among the external sources of fund, ICICI has mobilised on an average of 1.18% from share capital during the 15 year from 1983 to 1998. The share of this source was 1.01% during the period 1988-93 and slightly increased to 1.23% during the reform period between 1993-98.

The Corporation receives loan assistance from the Govt. of India from time to time. On an average it has received 1.13% of its total funds from Govt. of India as loan during the period between 1983 to 1998. The period wise analysis tells that the borrowing from Government is showing a decline trend during the nineties. The share of Government borrowing in the total fund was 2.81% during the period 1988-93. It suddenly and significantly decreased to 0.8% during the period 1993-98. This is because, after the liberalisation, due to acute resource constraints, the Government has been slowly withdrawing itself from concessional financing of the development banks and in turn directed them to access the capital market for their requirement.

Another part of the external sources is the borrowing from financial institutions. ICICI borrows from the FIs like, LIC, GIC, UTI, etc. On an average during the 15 year period from 1983 to 1998, ICICI has mobilised 3.34% of the total funds from this source. The analysis depicts that in the eighties the dependence of ICICI on the loans from FIs was more than the nineties. During the period between 1988-93, this source contribution was
8.97% to the total funds of ICICI and sharply decreased to only 1.95% during the period between 1993-98.

The borrowing through bonds and debentures constitute the main source for ICICI for its resource mobilisation. It has mobilised 22.94% of its total funds from this source during the 15-year period taken in the study. The share of contribution made by this source was 10.39% during the period between 1988-93. However, during the subsequent period, i.e. 1993-98, it increased to 25.32%. It indicates an increasing dependence of ICICI on the capital market for its fund mobilisation (through the issue of various innovative debt instruments) during the post-liberalisation period. This was largely facilitated through the revival of capital market during the reform period.

Another important source in the external source of fund is the foreign currency borrowing. ICICI has mobilised on an average of 15.32% of the total funds from this source during the period between 1983-98. However, the share of contribution made by this source of fund to the total sources of fund of ICICI has been showing a declining trend in the post-reform period. Its contribution was 20.38% during the period 1983-93 and significantly decreased to 13.86% during the period 1993-98. This may be attributed to the liberalisation of the forex market by Govt. of India during the nineties which permitted the domestic corporates sector to access the international capital market to raise their required forex requirement directly and at a lower cost. Consequently the dependence of the domestic corporate sector on the financial intermediaries for their forex need recorded a declining trend.

The last item in the external sources of fund is the resource mobilisation by ICICI through receiving deposits. On an average during the
15 year period between 1983-98, ICICI has mobilised 3.59% of its total funds from this source. The period wise analysis tells that before 1992, ICICI mobilised 6.59% of the total funds by the way of receiving deposits. But this trend decreased suddenly to 3.15% during the period after 1992. With the gradual reduction in the rate of interest and with the popularity of other securitised debt instrument, the public deposit as a source of fund did not find much favour with the investors.

A comparative study of resource mobilisation pattern of the all-India development banks namely the IDBI, ICICI and IFCI reveals that while all these institutions are slowly increasing their dependence on internal sources, the dependence of the ICICI on this source is maximum which was always more than 50%. It indicate, an attempt by ICICI to be more self sufficient in its resource needs. It is also possible that this institution has been consciously taking steps to insulate itself from the risks of the ups and downs of the capital market conditions, affecting its resource mobilisation capability.

In the area of resource planning and resource mobilisation a satisfactory debt-equity ratio is considered to be an essential requirement for any institution. The ICICI's debt-equity ratio has been hovering around 5.7:1 in last two years. The ratio has decreased from 11.8:1 in 1982-83 to 5.7:1 in 1998-99. This decreasing trend in the debt-equity ratio of ICICI is due to its increasing dependence on equity capital during the post-liberalisation period.

Liquidity determines the ability of an institution to service its debt obligations. In case of ICICI, the current ratio hovers around 2:1 during most of the study period, which conforms to the generally accepted
accounting norm. Another tool used to study the resource position to meet its repayment obligations both in terms of return of the principal and payment of interest on borrowings, is Debt Service Coverage Ratio (DSCR). This ratio has shown a declining trend during the liberalised period. It was 2.06:1 in 1993-94 and reduced to 1.34:1 during the period 1997-98. This declining trend of DSCR is due to increasing cost of borrowing by ICICI at the market determined rate during the reform period. This cost of debt of ICICI was below 10% till the year 1991-92. But in the post-reform period i.e. after 1992, this trend shows an increasing trend of more than 10%, recording an all time high of 12.3% during the financial year, 1996-97.

Payment of an attractive rate dividend by an institution is taken as an indirect factor which help it in mobilising adequate resources. The institution which is paying a higher rate of dividend can expect to get a good response from the market as and when it issue shares in the market. During the 15 year period from 1983 to 1998, ICICI's payment of dividend has been showing an increasing trend. In 1982-83, it declared a dividend of 16% only, which significantly increased to 55% during the financial year 1997-98. The increasing trend in the rate of dividend is largely due to the keen competition between the various players (Borrowers) in the capital market. Further, since the Government has lifted the restrictions on the dividend payment by the corporate sector, most of the FIs have been trying to create a good image about their institution before their existing shareholders and prospective shareholders by declaring a very high rate of dividend.

In the globalised capital market, where many FIs are increasingly tapping the international capital market, to raise resources, it has been made mandatory for all FIs to adhere to the Capital Adequacy Norm
prescribed by the Basle Committee and by RBI. In the present study, the capital adequacy to the risk weighted assets of ICICI was calculated for the year 1998-99. It is found that the capital to risk weighted assets of ICICI is 12.5%, which satisfies the RBI norm of 8%. It was also found that capital adequacy ratio of ICICI is more than 10% during period ranging from 1994 to 1999.

7.1.3 : As per its lending policy, ICICI provides term financial assistance to medium and large scale industries. It also gives priority to projects located in backward area and promoted by new entrepreneurs. During the period from 1982-83 to 1997-98, ICICI has sanctioned loans to the tune of Rs.1,02,186.79 crore, out of which, an amount of Rs.58,222.48 crore has been disbursed to the assisted units. The annual sanction figure increased from Rs.441.35 crore during 1982-83 to Rs.25,532.00 crore during 1997-98, recording a growth of 58 times during the period of 15 years. The increasing lending activities of ICICI, is more predominant in the liberalised years. The new industrial policy 1991, gave the opportunity to the industries to set up new industries as also go for modernisation, diversification and expansion of the existing units. The FIs were also given complete freedom in the area of size of loan, rate of interest, security and other procedural needs. These things motivated them to expand their market size and raise their financial assistance.

The Disbursement to Sanction Ratio (DSR) on an average works out to 56.97% during the study period. However, over the years, the DSR has shown a declining trend. It is more pronounced in the period after 1992. The disbursement to sanction ratio of ICICI was 75.85% during the period 1982-83 and reached at 54.6% in the year, 1991-92. This trend further
decreased to 46.8% in the liberalised period during 1995-96. This declining trend may be largely due to its involvement with the infrastructure based projects which is associated with a long gestation period.

The comparative statement of Disbursement to Sanction Ratio of three all-India development banks viz., IDBI, ICICI and IFCI tells that out of the three development banks, IDBI is in better position than other two development banks. Its DSR during the period between 1993-98, was 64.8% in comparison to ICICI (57.6%) and IFCI (53.7%).

The scheme-wise financing of ICICI consists of rupee loans, foreign currency loans, and underwriting of shares and debentures. In addition to the above, ICICI also assists through, guarantees, leasing and hire purchase, deferred credit, asset credit and instalments.

Rupee loan financing of ICICI constitute on an average 42% of total financing during the period of 15 years from 1983 to 1998. Over the years, the rupee loan assistance has been showing a decreasing trend. Between, 1983-88, it was 45.09% and came down to 41.7% during 1993-98. The second most important segment of the scheme-wise financing of ICICI is the foreign currency loan. The foreign currency loan financing trend is more or less the same as the rupee loan financing. Over the years this segment of direct financing of ICICI is showing a decreasing trend. During the period between 1983-88, the foreign currency loan financing of ICICI was 25.62% of the total financing, which decreased to 13.93% during the period between 1993-98. This decreasing trend of rupee loan and foreign currency loan is largely on account of the process of disintermediation which is being witnessed in the Indian financial market mostly during the post-reform period.
An important component in the financing pattern of ICICI is the financing through underwriting and direct subscription to share and debentures. The share of this scheme has increased from 6.51% during 1983-88 to 19.46% during the period 1993-98. It indicates a more active involvement of ICICI in the capital market operations during nineties.

In addition to the above mode of financing, ICICI is also assisting the industrial units through guarantee, deferred credit and leasing and hire purchase of their equipments. It has been found out that during the post-reform period between 1993-98, the guarantee, leasing and hire purchase scheme financing of ICICI was 12.27% and 5.63% respectively, registering an increasing trend from year to year.

In the liberalised market environment, ICICI has started entering the retail segment of the market. The acquisition of Anagram Finance and ITC Classic Finance are steps in this direction. During 1997-98, ICICI for the first time, has introduced some new products in its retail segment of business like, auto loan, car loan, house loan etc.

Among the various purposes for which the ICICI provides financial assistance, the share of new projects financing has been showing an increasing trend. The new project financing was 21.68% during 1988-93. In contrast, the share of finance for expansion/diversification and modernisation has shown a declining trend during the post-reform period. The expansions/diversification financing decreased to 27.27% in 1993-98 from 30.63% in 1988-93 and of modernisations financing to 18.34% from 22.97% during the same period.
The pattern of financial assistance sanctioned to different sector reveals a major share of the private sector. During the 15 year period presented in the study, on an average, the private sector received 85.47% of the total finance. The public sector financing of ICICI has been showing an increasing trend in the liberalised period. The share of this sector during 1988-93 was 1.95%, which increased to 11.55% during 1993-98.

The analysis of industry-wise assistance by the ICICI reveals a shift from the traditional industries to the modern, infrastructure and service sector industries. The industries which have witnessed a declining share after 1992, includes, the food products, textiles, fertilizers, cement, basic metals, electrical machinery and electrical equipment. In contrast, the shares of industries like infrastructure and service are showing an increasing trend in the reform period. The share of infrastructure industry which was only 3.74% during 1988-93, increased significantly to 19.05% during 1993-98. Similarly the share of service industry whose share was 3.15% during 1988-93 increased sharply to 11.27% during 1993-98. The financing pattern of ICICI in the liberalised period indicates an increasing attention towards the development of infrastructural facilities in the economy.

The state-wise analysis of the ICICI's financing operation shows a skewed distribution of assistance over the study period. The industrially developed states like Delhi, Gujarat, Haryana, Maharashtra, Punjab, Tamil Nadu and West Bengal have received a major share of assistance from ICICI. The share of assistance to these industrially developed states showing an increasing trend during the 15 year period from 1983 to 1998. It's share was 52.4% during 1983-88 and increased to 62.3% during 1988-93. In the liberalised period between 1993-98 it further increased to 67.48%. The share
of the industrially developing states like Kerala and Karnataka has also been showing an increasing trend with the industrially developed states. In the liberalised period i.e. 1993-98, the financing of ICICI to these states increased to 8.89% from 7.25% during 1988-93. In contrast, the share of the industrially under developed or backward states has been consistently showing a declining trend throughout the 15 year period. These states share was 39.78% during 1983-88 and decreased to 30.45% during 1988-93. It again decreased to 23.63% during 1993-98.

The study of the quotient values in respect of assistance to the industrially developed and under developed states reveals that, whereas in case of the former, the value stands always more than one, in case of the latter, the same is found to be always less than one. This trend indicates that ICICI has not undertaken its financing activities among the states taking population as a criterion.

It is also intended to study, whether the states enjoying significant position in ICICI's assistance during the 80s (1988-93) and continue to enjoy the same in 90s (1993-98). For the purpose of analysis, 7 developed states, 2 developing states and 11 backward states are taken into consideration. The statistical measure that meets these requirements is the regression co-efficient obtained by a linear regression of the period 1993-98's sanction of assistance to different states upon the sanction of assistance during 1988-93 period. It has been interpreted that, the states enjoying a significant position in the total ICICI assistance during 1988-93, have gained on an average of 5% of their share during the post-reform period (1993-98). Similarly, the regression co-efficient obtained by a linear regression of the period 1993-98's sanction of assistance to backward areas upon the sanction
of assistance to backward areas during 1988-93 reveals that, during the post-liberalised period (1993-98) the backward area assistance of ICICI to different states has increased by an average of 7% than the earlier period (1988-93).

A financial institution in the dynamic and turmoil market environment is exposed to different types of risks. ICICI is exposed to various types of risks in its financing or lending operations namely credit risk, interest rate risk and the forex risk. Besides taking some strategic steps, ICICI has developed different new and innovative products like currency swaps and forwards to minimise its risk exposure in lending and financing activities.

7.1.4 : In the present study, operational efficiency of the ICICI has been studied mainly through the evaluation of its profitability, rate of return, examination of components of return, spread analysis (both gross and net) and earning per share. Since the operational efficiency is also reflected in the quality of the assets, necessary reference has also been made to the asset quality of ICICI.

The overall profitability of a firm is measured through the Return On Total Assets ratio (ROTA). It is calculated as a ratio between the earnings to total assets. During the 15 year period from 1983 to 1998, the ROTA value of ICICI is varying between 1.9% to 2.7%. In the post-reform period, this value has been more than 2.5%.

The Return On Capital Employed (ROCE) helps to measure the firms operating efficiency or earning capability. It is the ratio between EBIT & average capital employed. The analysis tells that during the 15 year period from 1983 to 1998, the ROCE value of ICICI is ranging between 10.06% to
In the period after 1992, the ROCE value of ICICI has always been more than 11%. It reached an all time high of 13.86% during 1996-97. This increasing trend of ROCE values of ICICI is on account of its diversified activities and innovative products which has enabled it to increase its return.

Another indicator of profitability is the Return On Shareholders Equity or ROSE. It is the earning after tax expressed as a percentage of share-holders equity or networth. It is the ultimate test of profitability because the end goal of the organisation is to maximise the wealth of the shareholders. During the whole 15 year period presented in the study, ICICI’s ROSE value is varying in between 18.31% to 29.06%. In the post-reform period between 1993 to 1998, this value of ICICI has been averaging at 23.9% with an all time high of 29.06% during the financial year 1994-95.

The profitability of a financial institution from the point of the owners, can also be judged with reference to the net intrinsic value or net worth of equity investment. The average networth per Rs.100 equity share between 1983 to 1993 rose from Rs.401.05 to Rs.500.43. But in the liberalised period i.e. 1993-98 this networth increased from Rs.599.25 to Rs.976.75. Thus the rate of growth is more pronounced during the nineties in comparison to the earlier years.

The most important method of evaluating the profitability of an Institution is through the help of spread analysis. The spread can be divided into gross spread and net spread. Gross spread is based on the financial expenses, whereas net spread on the basis of total expenses. The financial expenses of the institutions is the determination of cost of debt. The cost of debt of ICICI is showing an increasing trend specifically after 1992. Till the
year 1991-92, the cost of debt of ICICI was in between 7.5% to 9.6%. But this rate immediately rose to more than 10% after 1992. During the financial year 1996-97, this cost of debt is maximum of 12.3%. This increasing trend of cost debt for ICICI is on account of the gradual declining of Government financing and raising of fund from the capital market at the market rate of interest.

Another component of the spread calculation is the operating expenses ratio. It is the ratio between operating expenses and the total assets. During the 15 years period from 1983 to 1998, this ratio is showing an increasing trend. Till the year 1992-93, this ratios was in between 0.46% to 0.96%. But this ratio significantly increased in the subsequent periods and reached 1.88% during the financial year 1997-98. This ratio is showing an upward tendency because during the post reform period, ICICI has diversified into different activities for which the operating cost of the corporation is going upward.

A very crucial aspect of profitability analysis is the gross spread margin or gross spread ratio. To calculate the gross spread ratio, the cost of debt is deducted out of the Average Rate of Return (ARR). Average rate of return is the ratio between reported interest income to average loan outstanding. It has been observed that except the year 1994-95, the interest income shows an increasing trend. The average loans outstanding was Rs.1086.32 crore in 1982-83 and reached Rs.25820.58 crore during the period 1997-98. It has been noticed that the ARR of ICICI has recorded substantial increase to 18.48% in 1993-94 and there after decreased marginally. The increase in ARR indicate increased productivity and profitability of ICICI.
Gross spread ratio of ICICI has shown a sordid performance during the period between 1983 to 1998. This ratio was 2.9% during 1982-83 and reached at 3.13% during 1997-98. In the liberalised period this ratio is showing a fluctuating behaviour between 3.13% to 8.3%. In the initial year of liberalisation i.e. 1993-94, the gross spread ratio was all time high of 8.3%. As the DFIs are facing keen competition in the later part of 1990s from the other players in the financial market, the gross spread ratio of ICICI is showing a fluctuating trend in the subsequent years.

The most significant aspect of spread analysis is the net spread margin or net spread ratio. This ratio is equal to the gross spread ratio minus the operating expenses ratio. This NSR indicates whether the loan operations of DFIs are profitable enough to ensure its very survival, growth and ability to perform various promotional activities. It has been revealed that the behaviour of NSR is more or less same as that of GSR. ICICI has enjoyed the net margin of more than 2% till the year 1989-90. During the 1990's the NSR was highest i.e. 6.68% in 1993-94 and lowest, 1.25% in 1997-98. In the year 1997-98 the NSR of ICICI is minimum due to its high cost of borrowing, low interest income and high operating expenses.

The share of the non-interest income of ICICI is growing faster in the liberalised period. Non-interest income of ICICI is coming from the different fee based activities. It was just Rs.2.41 crore during 1982-83 but reached Rs.872.55 crore during 1997-98, recording a 362 times increase during the 15 year period.

A popular way to judge the profitability of the shareholders investment is through measuring the Earning Per Share (EPS). The EPS of
ICICI has increased by 3-fold from Rs.7.71 in 1987-88 to Rs.22.4 in 1997-98. During the same period the DPS has increased from Rs.1.73 to Rs.12.32. A higher portion of earning is being paid to the shareholders in the form of dividend during the nineties.

The comparative operational efficiency of three all-India development banks namely ICICI, IDBI and IFCI tells that among the three institutions the operating profit margin of IDBI is the highest in both the year 1996-97 and 1997-98. It is followed by ICICI and IFCI. In the average cost of fund, IFCI is having high cost of fund and followed by ICICI and IDBI.

After the liberalisation one aspect which had an adverse impact on the financial institutions performance is the Non-performing Assets (NPA). There is a direct impact of NPA on the profitability of the institution. The Gross NPA trend of ICICI is showing an increasing trend particularly during nineties. It was Rs.1910 crore during 1996 and increased to Rs.2820 crore and Rs.4210 crore in the period 1997 and 1998, respectively. To evaluate the impact of NPA on profitability, the Earning to NPA ratio (ENPA) has been calculated. The ENPA ratio of ICICI has increased in the post-reform period. Before, 1992-93, the ENPA ratio was always below 27% whereas it increased and ranges between 43% to 47% after 1993. The principle tell that, lower the ENPA, worse is the situation because ENPA indicates, whether the profit of the institution is sufficient enough to wipeout the entire NPA or not. Since in the post-reform period there is a higher ENPA of ICICI, there is less risk to the institution.

A comparative statement of the NPA of the three all India development banks depicts that, NPA has posed a serious problem for all the three FIs. In the absolute term there is a significant increase in the NPA
figure for all these institutions during the last three years. However, in relative
term, the ratio of gross NPA to gross advances has shown a stable trend for
ICICI, a declining trend for IFCI and a 3% increase for IDBI during the last
three years.

7.1.5 : The financial institutions in the Indian financial systems have been
playing an important role to activate the capital market. Like, the other
financial institutions, ICICI has undertaken various activities to stimulate the
Indian capital market. The contributions made by ICICI in the capital market
includes, purchase and sale of corporate securities, merchant banking
services, custodian services, debenture trusteeship, institutional infrastructure
and introducing innovative financial instruments.

To expand the investors participation in the Indian capital
market, ICICI purchases corporate securities from the market from time to
time. During, 1982-83, ICICI had invested Rs.10.5 crore in the corporate
securities which was 3.1% share of the total assistance disbursed during the
same year. But this investment increased to Rs.1777.5 crore during the year
1997-98, increasing its share to 11.2% of the total assistance. The total
investment in securities by ICICI during the 15 year period amounted to
Rs.6409.6 crore. The investment in securities comprises of equity investment,
preference and debenture investment. Out of the total investment, ICICI has
invested Rs.1288.31 crore in equity shares, Rs.248.19 crore in preference
share and Rs.4873.11 crore in debentures.

Along with investment ICICI also sells securities in the market
periodically to book profit, to reshuffle its investment portfolio and for other
funding needs. During 1988-89, ICICI sold Rs.14.27 crore of corporate
securities which increased to Rs.1100.00 crore during the year 1997-98. The growth rate of selling the securities in the capital market is much less than the purchasing of securities.

The comparative study of the investment pattern of the three all-India development banks viz., ICICI, IDBI and IFCI tells that during the period between 1990-91 to 1997-98, ICICI has invested highest amount (Rs.6263.4 crore) in the capital market and followed by IDBI (Rs.3411.8 crore) and IFCI (Rs.1470.8 crore).

Merchant or investment banking services provided by the DFIs constitute an important means of stimulating the capital market. Among the DFIs, ICICI is the pioneer institutions that took the lead in 1973 to start the merchant banking activity. During the period from 1982-83 to 1993-94, ICICI has provided merchant banking services to 1082 number of clients and helped them to raise Rs.20367 crore from the capital market. During the same period ICICI earned Rs.52.13 crore as merchant banking commission from its merchant banking activities.

The Corporation also offers comprehensive custodial services which includes, settlement, safekeeping, benefit collection, corporate action and valuation of portfolios. The clients of ICICI include the FIIs, off-share funds and overseas depository banks for Euro-issues. Till 1994-95, it handled the custodian business for market transaction of over Rs.3200 crore.

Since the time, debentures became a popular financial instrument, ICICI has been active in providing protection to the investors in the capital market through debenture trusteeship service. This service include
completion of legal documentation and security for the debentures as well as giving the requisite approvals on behalf of the debenture holders to the borrowing company. During the period from 1983 to 1994, ICICI has provided services for 1002 debenture issues involving the total amount of Rs.11544.83 crore. The total income from this service during the same period was Rs.12.15 crore.

A DFI can play a positive role in stimulating the capital markets by promoting and supporting a set of institutions that helps in transferring the funds to the users from the savers. ICICI as a DFI has played a lead role in promoting financial intermediaries like, OTCEI, NSE, CRISIL which facilitate the investors to access the capital market. In addition to the above institutions. ICICI has also promoted different subsidiaries to provide different types of services in the capital market. The capital market related subsidiaries of ICICI includes, ICICI Securities and Finance Company Limited, ICICI Banking Corporation Limited, ICICI Capital Services Limited, ICICI Brokerage Services Limited, ICICI Trusteeship Services Limited, Prudential ICICI Asset Management Company Limited, and ICICI Infotech Services Limited. These subsidiaries of ICICI are specialised in their areas and provide innovative and viable service to its investors.

In the light of the economic liberalisation and the competitions from the other players in the financial market, ICICI was the first institution which started providing a variety types of financial instruments in the Capital market to cater the varying needs of the investing public. In addition to the safety bond issue, ICICI introduced the innovative instruments like interest rate swaps, rupee-dollar swaps, credit card receivables, export receivable and securitization of receivables.
Underwriting of capital issues constitutes an important method of developing primary/new issue segment of industrial securities market. During the period between 1983 to 1998 ICICI has underwritten 642 companies' shares and debentures involving total amount of Rs.1171.58 crore. During the period between 1983 to 1992, the average amount underwritten by ICICI was within 12 to 30 crores, whereas after 1992 this figure increased and reached Rs.206 crore in 1994-95. It is clear here that in the liberalisation period ICICI has underwritten larger issues in comparison to the earlier years.

7.2 CONCLUSION AND SUGGESTIONS:

Development banks constitute an important segment of the Indian financial system. In India, these banks were created mostly to meet the long and medium term financial needs of the industries. However, the financial sector reforms gave a new role to these types of entities. In the liberalised period the development banks took a significant step forward in the ongoing efforts to strengthen our financial system and bring it on par with international standards and practices. The development banks felt the winds of change, in so far as their having to now approach the market directly for their resource requirements and thus having to pay market rates of interest for their borrowings. While these changes will undoubtedly cause some amount of upheaval in the manner in which the development banks have been operating for almost 50 years, the transformation of the institutions is nevertheless needed as India opens its economy, and the financial sector in particular, to the outside world.

The history of development banking in India started with the establishment of IFCI in 1948. Since then, today a well knit structure of about
60 DFIs exist at the all-India and the state level. ICICI, being a private sector DFI, established with an objective of financing the private industrial sector through rupee and foreign currency loans, now provides variety of fund and fee based financial services. The operational strategies of ICICI has changed after the financial sector reform to compete with the other players in the financial market. After the liberalisation it has attempted to restructure itself as an universal bank by providing variety of financial products and services.

The resource mobilisation pattern of the DFIs including ICICI has changed during the nineties in comparison to the earlier years. On account of the gradual withdrawal of Government support in financing the DFIs, ICICI and others entered into the capital market for their resources in the liberalised period. In comparison to the other premier DFIs in India viz, IDBI & IFCI, ICICI has taken a lead role in mobilising resources with new and innovative products in the capital market.

In the deployment of funds, ICICI has reduced its exposure to the more volatile and traditional group of industries. It finances more and more the infrastructure and service industries which have a promising future in a liberalised market environment. Being an autonomous institution, it adapted some proactive and aggressive policy to minimise its risks, which are inherent in its investment and financing decisions.

During the nineties, the Corporation has taken some significant steps to develop the Indian capital market, starting from the merchant banking activities to financial product provider. To increase the investor participation in the Indian capital market, ICICI has developed its custodian service, debenture trusteeship service, establish capital market oriented
subsidiaries, issue new capital market instruments etc. It is the only institution of its kind, which has taken some emerging steps in different areas to stimulate the capital market.

After nearly 10 years of financial sector reform, ICICI emerged as a fast growing DFI in India. In the liberalised economic environment its diversification and innovation in different fields, made itself a popular and ideal institution in the financial sector. However, ICICI is not free from the hurdles and barriers in its financing activities. Many problems are weakening the institution. The most important is the rising cost of fund. The average cost of fund for banking sector stands around 8.5%, while for ICICI, it is around 12%. This rising cost of fund is squeezing the spread of the institutions. The second important problem of ICICI is the expansion through too many subsidiaries. It become a matter of great concern for the regulating authority to issue many guidelines for these subsidiaries to control. Adding to the above two problems, another problem is the high level of NPA. It remains the biggest drag for ICICI. It’s net NPA now i.e. during 2000-2001 is 7.2% against the maximum permissible limit of 5%. The existence of high NPA results in creation of heavy provisions and affects the profitability of the institution. The last problem is the growing attention of ICICI towards the universal banking. In the long-run, the institution may get cost benefit, but in the beginning it need to satisfy the banking norms like CRR and SLR requirements, which will automatically squeeze its financing decisions.

A few suggestions which may result in the improvement of its operating performance are given below.

1. The expansion through subsidiaries need to be limited to important areas to reduce administrative burden and improve productivity.
2. There is a need to expand the branch network for marketing the retail financial products through more retail exposure.

3. The Corporation may consider disposing off its huge investment in the securities of unlisted companies either privately or in the open market depending on the conditions of capital market. This will help in mobilisation and recycling of adequate resources.

4. To tackle the NPA problem, the corporation need to gear-up its recovery mechanism and participation in the management of the sticky loans.

5. To improve its operational efficiency and asset quality, the institution should tone up its appraisal skills, expand the risk diversification and enter into collaborative arrangement with other reputed national and international financing institutions.

6. The rate of dividend being paid on the share capital may be raised to a level which is comparable to the industry standard and attractive to the investors.

7. More autonomy need to be provided to the institution by the Government authorities for its transformation to a universal bank.