CHAPTER I

INTRODUCTION
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ECONOMIC OF DEVELOPMENT BANK

FACTORS CONTRIBUTING TO THEIR EMERGENCE AND GROWTH:

Development Banks, a post-war financial innovation, are a familiar feature of the organisation of the financial system of practically every country, though more pronounced in the developing economies. The factors which account for their emergence and growth, however, differ from country to country depending upon the level of economic development and the growth of financial markets and so on.

In the developed economies the underlying consideration may be said to be what may be termed as the Imperfect Capital Market Argument. The capital markets in these countries are, by definition, developed in the sense of their ability to meet the financial needs of the growing industrial sector. Nevertheless, availability of finance to certain segments of enterprises is unsatisfactory and, to that extent, the market is imperfect. The enterprises included in this category comprise small/medium firms, units involving innovations and technological developments and industries requiring extraordinarily large amount with long gestation period and enterprises in the backward areas and so on. These enterprises face difficulty in raising funds from the market partyly because the investing public
shows little interest in their issues. Part of the difficulty is also attributable to the prohibitively high cost involved. This structural deficiency in the London capital market is popularly referred to as the Macmillan Gap. Since these enterprises deserve special assistance on economic and social grounds, special institutions in the form of development banks have been set up to take care of their financing problems. The Industrial and Commercial Finance Corporation in England is an instance in point. This, however, does not imply that this line of reasoning does not apply to underdeveloped countries. The setting up of the State Financial Corporations and the Industrial Reconstruction Corporation of India Ltd. and the creation of the Development Assistance Fund by the Industrial Development Bank of India are a testimony to the fact that special institutional arrangement is called for to cope with the financial needs of these enterprises in the developing countries as well.

Apart from the inability of the financing systems to supply required funds to the type of enterprises referred to above, a factor of probably more relevance to the developing countries is what may be termed as the Ill-developed Capital Market Argument. In keeping with the underdeveloped of the economy, over-all supply of finance to industry through
normal channels is unable to keep pace with the growth of industry. This feature of the financial sector in such countries is partly explained by low capital formation. It is axiomatic that capital formation is low. Savings apart, it depends upon investment habits and asset preferences which change only gradually and over relatively long periods. Part of the explanation of the failure of the financial markets to develop pari passu with the growing requirements of industry also lies in the absence of the growth of an integrated capital market in terms of specialised institutions like issue houses, investment banks, etc. The gap between the demand for and supply of industrial capital is sought to be made up though term-credit by the development banks. A related dimension is the chronic shortage of foreign exchange to import technology, essential spare parts and scarce raw materials. The Development Banks channelise foreign currency loans from international agencies like the World Bank and so on. The part played by the Industrial Credit and Investment Corporation, the Industrial Finance Corporation and the Industrial Development Bank of India can, indeed, be cited in support of this contention.

In addition, the developing countries face difficulty in the matter of industrial entrepreneurship.10 In general, these countries do not have a strong tradition of private entrepreneurship and, therefore,
lack sufficient number of potential entrepreneurs. In order to remove the entrepreneurial bottleneck, Development Banks address themselves to the task by helping the potential promoters in identifying profitable investment opportunities, preparing project reports and executing them. The recent orientation in the financing operations and the consequent fortification of the institutional structure in India, as detailed in the subsequent discussions, would seem to illustrate the point under reference. In brief, the factors which have led to the growth of Development Banks are the inability of the normal institutional structure to keep pace with the requirements of funds and entrepreneurship by the growing industrial sector.

**EVOLUTION OF DEVELOPMENT BANKING IN INDIA:**

That success of the programmes of industrialisation in India under the five-year plans depends, to a great extent, on the availability of adequate financial resources for a wide variety of industries is obvious. There was also a need for adapting and enlarging the institutional structure to meet the medium and long term requirements of the industrial sector. It was in recognition of this that a network of development banks has been created in India in the post-independence period.

Historically speaking, the idea of establishing
special institutions for the provision of finance for industry was put forth in strong terms, as far back as 1931, by the Central Banking Enquiry Committee. The committee recommended the creation of Provisional Industrial Credit Corporations and an All-India Institution for the purpose of meeting the financial requirements of industries of regional and national importance respectively. Very little action was taken on these recommendations till the beginning of 1945. In pursuance of the suggestions of the General Purposes Sub-committee appointed by the Department of Planning and Development of the Central government that the question of adequate arrangements for the provision of industrial finance be examined by the Finance Department, in consultation with the Reserve Bank of India, a detailed study was made by the Reserve Bank in May, 1945. The study proceeded on the basis that specialised institution should be set-up both at the All-India and the regional levels. It also indicated, fairly elaborately, the respective fields of operations of the All-India and the regional institutions. The proposal for establishing an All-India institution went through several stages and modifications were made in the direction of broadening the institution's range of functions. On account of the constitutional changes that took place, legislation for the establishment of Industrial Finance Corporation of India (IFC) was pleased only in February, 1948. The setting up of the IFC on 1st July, 1948 marks the
beginning of the era of development banking in India. The full potentialities of these institutions came to be realised only after some experience with planning which began in 1951. The IFC was established jointly owned by the Government of India, Reserve Bank of India and the financial institutions, to provide medium and long-term credit to industrial enterprises, joint stock companies as well as cooperatives, in circumstances where normal banking accommodation was inappropriate or recourse to capital issue method impracticable, thus, envisaging the role of gap-filler. The establishment of financial institutions at the state level was considered almost simultaneously and the first statelevel institution to be set up was the Madras Industrial Investment Corporation, now know as Tamil Nadu Industrial Investment Corporation Ltd. (TIIC) in 1949. The Government of India enacted the State Financial Corporation (SFCs) Act in 1951 which came into effect in 1952. Several States established SFCs and now there are 18 such institutions including the TIIC. Essentially they were meant to supplement the work of the IFCI by making finance available to small and medium industrial units. They provide loan and underwriting assistance to projects with paid-up capital and reserves upto Rs. 1 crore. The maximum assistance that they can provide to a single unit in Rs. 0.30 crore. These two development banks, however, functioned purely as industrial land mortgage banks organised on most orthodox lines. Their policies
were characterised by excessive caution; their procedures were dilatory: they concentrated on traditional industries and more emphasis was laid on security rather than on prospects. It was no wonder, therefore, that they failed to make any impact on the availability of long-term finance to industry and, consequently, could not justify the expectation of solving the problem of chronic shortage of industrial capital in India.

There was, therefore, need for a more dynamic approach on the part of the Development Banks if the requirements of the private corporate sector were to be met more effectively. This realisation led to the inauguration of the second phase in the evolution of development banking in India. The desirability of injecting more dynamism found expression in the setting up of a battery of such institutions with different accent. This is reflected partly in the fact that emphasis shifted from finance to development so that new institutions in this sphere could assume the role of a developmental agency. In pursuance of this changed perspective the National Industrial Development Corporation (NIDC) was the first attempt towards re-orientation, being established in 1954 to provide both finance and entrepreneurship. It was expected to formulate projects, prepare feasibility studies and establish and run industrial enterprises. It was to be primarily a developmental agency rather than a financial institution.
Although ambitious in conception it ultimately degenerated into a financing agency for modernisation of cotton and jute textiles industries. At present it has been converted into a consultancy organisation and has no concern with the financing of the Private Industry.

The establishment of the Industrial Credit and Investment Corporation of India Ltd. (ICICI) in 1955 represents a landmark in the diversification of development banking in India insofar as it was pioneer in many respects such as underwriting of issues of capital and direct investments in shares of industrial units as well as channelisation of foreign currency loans from the World Bank to private industry and so on. Organisationally it was different from other development banks. It was set up as a limited liability company as a private sector financial institution, that is to say, without any contribution to its share capital from the government and the Reserve Bank of India but it was to have the Government's full support including provision of loans. The World Bank, the Commonwealth Development Finance Company (CDFC) and other foreign institutions collaborated with Indian and foreign private investors to sponsor it. As a joint stock company it has greater flexibility in operations.

Consequent upon the initiation of the second five year plan there was need for further sophistication of the financing system to cater to the needs of different
types of enterprises. As a result the Refinance Corporation for Industry Ltd. (RCI) was set up in 1958 by the Reserve Bank of India, LIC and some leading commercial banks with a view to providing re-finance to banks and subsequently to SFCs for their medium-term loans to medium-sized borrowers in the private sector. Its resources mainly came from the rupee funds under the P: 480 Agreement between the Government of India and the USA. The RCI was subsequently merged with the Industrial Development Bank of India (IDBI) in 1964.

The most important development in the sphere of development banking in India, however, took place in 1964 in which year the IDBI was set up as a subsidiary of the Reserve Bank of India. It represents a step towards evolving an integrated structure of financing institutions in India. In terms of its conception it has been assigned, as an apex institution, an important role in the task of planned economic development. Accordingly, it provides not only finance but also co-ordinates the activities of all the financial institutions. The institutional framework in the field of industrial development served, with a fair degree of success, to meet the growing financial needs of industrial growth. The growth of financial agencies that had taken place over the years was, however, not matched by any effective mechanism to co-ordinate
and integrate their activities. There was need for a co-ordinating machinery which could establish working relationship with various institutions and build a pattern of inter-institutional cooperation that can facilitate evolution of a national and cohesive structure of financial institutions, adapted to the changing needs of the emerging industrial structure with its growing complexity of inter-relationships. A central development institution was essential to provide dynamic-leadership in the task of promoting a widely diffused and diversified and yet viable process of industrialisation. It was in response to these needs that the IDBI was set up in 1964 as the apex development bank in the country. The role of the IDBI has been conceived not merely as one of strengthening the effectiveness of the existing structure of financial institutions by evolving an appropriate machinery for co-ordinating their activities but it has also been designed to function as a development agency with special responsibility to (1) undertake market and investment research surveys as also techno-economic studies in connection with development of industry; (2) provide technical and administrative assistance for promotion, management or expansion of industry and; (3) promote and develop industries to fill vital gaps in industrial structure. Given the wide range of functions the IDBI charter provides for a considerable measure of operational
flexibility. It can finance all types of industry, irrespective of the form of organisation. There are no restrictions as regards the nature and type of security. There are no maximum or minimum limits prescribed either for assistance to a unit or the size of the unit itself. The recent delining with the Reserve Bank of India and conversion into a holding company is pregnant with far-reaching implications and has elevated the IDBI almost to the same position among the long-term institutional suppliers of industrial capital in India as is occupied by the Reserve Bank in the sphere of commercial banking.

At the State-level, in the meanwhile, the machinery of the State Industrial Investment Corporations (STICs) and the State Industrial Development Corporations (SIDCs) was created to enable the financing system to meet the financial needs in terms of the requirements of the five year plans. The main objectives of SIICs are to subscribe directly to equity and provide loans to industrial units and promote and establish medium and large sized industrial units themselves. They pay special attention to problems of industrial development in the relatively backward areas of the State. They enjoy a considerable amount of freedom in their operations. The main function of the SIDCs is to give all help to entrepreneurs in regard to the supply of infrastructure
facilities. They acquire land, put up industrial estates for a number of units to work in the same area, build roads and arrange for the supply of water and electric power. They also introduce the entrepreneurs to the state-level financial institutions. Some of them do a bit of financing too, though the official policy now is to let the financing be done by other state-level agencies, in particular, the SFCs.

In 1971, consequent upon the functional re-orientation of the development banks resulting from a change in the strategy of development, the Industrial Reconstruction Corporation of India Ltd. (IRCI) was set up jointly by the IDBI, LIC, banks and so on with the main objective of rehabilitation of sick units.

**FINANCIAL INSTITUTIONS IN INDIAN CONTEXT:**

Various special financial Institutions have been set up in India with a view to providing required financial resources to various Industrial enterprises in a planned way keeping in view the Government's policy regarding Industrial Development of the Country.

They undertake "long term" or Now called as Term lending and provide risk capital to such enterprises."

The first such Institutions set up, was Institutional financial Corporation in 1948, today,
we have Industrial development Bank of India (Set up in 1969) as apex financial Institution, Besides IC, ICI, UTI, etc. are also helping various such enterprises in many ways.

Various state Govt. have set up state Financial Corporation under State Financial Corporation Act. 1951. They are also Instruments of various industrial units of State concerned.

The SFCS are unique and special financial institutions, which has a fairly close resemblance to various development banks, however, their are various points of difference between the two differences lies mainly in the environment in which both operate they basically undertake provisions of loans. Some of them also underwrite shares of industrial concerns. They grant loans mainly for the purpose of fixed assets, like land, buildings, plant, and machinery etc.

Some times they also give loan for working capital margin in connection with loans for purchase of various fixed assets. They also arrange and provide necessary loans in foreign currency to small and medium scale industrial units for import of plant and machiney for technical know-how through IDBI under the arrangements of finance by International Development Association/World Bank. By performing such financial or banking activities, the FSCs, undoubtly, assume the role of development
banks, however, specific features of the state financial corporation act results in variation in their working as compared to development banks.

In India the need for development banking was emphasised from time to time by various committee and authorities. In fact it has been the outcome of a series of recommendations made by them several committees and authorities after detailed study found that there was a wide gap in the machinery for the supply of finance to industries in the country. However, development banking in India has been largely increased by the foreign experience in this area or even a number of committee appointed to examine the problems of industrial finance deferred to observations made by a number of committees in England or experience joined by the Japan and Germany.

The British and Indian committees, which had such as important role in framing the institutional structure for industrial finance, was set up almost at the same time. Thus in India, the various committees felt strong need for the establishment of such banks on the line of experience joined in several other countries.

INSTITUTIONAL FINANCING DURING POST INDEPENDENCE PERIOD:

After the attainment of independence in 1945,
a large number of special financial institutions have been set up with a view to providing long term financial assistance to the industrial units of the country.

The nature and terms of the financial assistance providing by those financial institutions have varied significantly some of these institutions provide term loans arrange for direct subscription of shares in and debentures of Industrial units, provide underwritings of their issues and under take guarantees for deferred payments, some of them even help the industrial units in their promotion as well as management.

Some Institutions deals with only large units while others have given more emphasis to providing finance to smaller units only. Some of these institutions operate on all India basis, while others operate within the boundaries of their respective states.

Organisationally, most of these institutions have been incorporated as statutory corporations under special status enacted in the parliament. Earlier some Industrial Banks were set up in the country to provide finance to industrial units, but they could not get success and hard to be closed down.

Industrial finance corporation of India, in fact, the first specialised institutions for providing industrial finance in this country. It was set up on July, 1st,
1948 with the objective of making medium and longterm finance to specific Industrial centres at a few selected placed in India.

The industrial credit and investment corporation of India is another financial corporation establish on March, 1st, 1955, with a view to provide financial assistance and technical and administrative advice to Industrial units, specially in private sector. It also provide longterm foreign currency loans to Indian Industrial Units. In April 1959 the Rehabilitation Industries corporation Ltd. was set up with a view to promote and finance industrial units and to create employment opportunities for displaced person specially for East Pakistan. Later, the national industrial development corporation Ltd. was incorporated as a Private Ltd. Co. on Oct. 20, 1954, to promote and assist whose medium and large scale industrial units whose development was considered essential for the faster growth of the economy.

In February, 1955 the national small industries corporation Ltd. was set up as a wholly govt. owned undertaking to encourage and assist small scale units.

(a) by providing them plant & machinery on Hire purchase system.

(b) by constructing industrial estates to be let out to them
(c) by securing orders for production on behalf of them
(d) by running proto-type production-cum-training Industry.

The Govt. of India established the film finance corporation of India in March, 1960. The agriculturer re-finance corporation of India was also established in July, 1963 to provide re-financing facilities of a medium and long term nature for developmental scheme of agricultural sector of the economy.

In July 1964, the Industrial Development Bank of India was set up as a wholly Government owned subsidiary of the Reserve Bank of India. It serves as an apex body of and co-ordinate the activities of their financial Institution. It assists their loans and subscribing their securities.

In provides assistance to Industrial concern by granting to them and guaranting their loans and advances.

It undertakes Research, surveys, techno-economic studies under its pruviews. In April, 1968 the agricultural finance corporation Ltd. was set up with the objects of providing financial assistance to farmers for adopting new agricultural strategies. All these institutions have been providing assistance to specific category
of industrial and agricultural units of country.

In 1951, State Financial Corporation Act was passed and with the result, 18 State Financial Corporations were set up in 17 States, including Tamil Nadu, where Madras Industrial and investment corporation was established in the year 1949 prior to enactment of the above act and in one union territory as counter part of industrial finance corporation of India. These corporations have been set up with a view to Guarantee or grant loans and advances, to underwrite issues, to work as agent of Governments, and a few central financing institutions for granting loans and advances to comparatively smaller industrial units within their respective state territory.

Two new types of financial institutions, namely state industrial development corporation’s and State Small Industries Corporation have been established. There are 18 state industrial development corporation, as counter part of the national industrial development corporation of India. Each of the SIDC's working in every state of India.

18 State Small Industries corporations each working in 16 states and two territories have also been set up as counter part of the national small industrial corporation of India. Their objectives differ from state but most of them are engaged in procu-
rement of raw material & Plant & Machinery for small scale industrial units. They also assist in the marketing of their products. Thus, a large variety of financial and non financial speciliased institutions have been set up in the country keeping in view the need and circumstances prevailing with a view to assist variety of industrial units, which may ultimately make the country self reliant and being about self sustained growth of the country as a faster rate.

AGENCIES FOR PROMOTING INDUSTRIES IN UTTAR PRADESH:

The Uttar Pradesh Financial Corporation:

U.P.F.C. was established in 1954 with its head office at Kanpur. U.P.F.C. was set up for industrial development of Uttar Pradesh through promotion of small scale industries. Maximum limits of accommodation to Private/Public Ltd. companies and registered cooperative societies in Rs.9 million and 3 million to proprietorship/partnership concerns.

The main functions of the corporation are :-

1. Extend term loan assistance of acquisition fixed assets upto Rs.9 million projects with large capital outlay upto Rs.30 million could also be financed by U.P.F.C. in participation with pickup scheduled banks.
2. Bridging loans against sanctioned term loans.
3. Capital assistance upto Rs. 5 million to Bridge the equity gap.
5. Handloom weavers loan scheme.
6. Transport loan scheme.
7. Equipment refinance scheme.
8. X-ray clinic scheme.
9. Modernisation Scheme.
10. Nursing Homes.
11. Electro equipments for doctors.
12. Quality Control equipments financing scheme.
13. Women entrepreneur scheme.
17. Mahila Udyam Nidhi Scheme.

Others service on behalf of state and central Government.

1. Rehabilitation of sick units under IRBL's Line of credit and IDBI's R.S.R.scheme of concessional terms.
2. Seed capital assistance on behalf of IDBI for amounts above Rs.0.5 million and upto Rs.1.5 million.

Source: Focus on U.P.F.C. Financial Assistance.
U.P.State Industrial Development Corporation Ltd.: 

U.P.S.I.D.C. established in 1961, it is the premier infrastructure development corporation of the state. Its Head office is located at Kanpur and at present has five regional offices at Kanpur, Agra, Ghaziabad, Bareilly and Lucknow.

The main objectives of the corporation are:

1. To acquire suitable land in various districts of U.P. and to offer the plots to desirous parties on lease providing basic facilities like roads, power lines and other conveniences.
2. To promote and establish joint sector projects.
3. To add, assist and finance with share capital under equity participation scheme.
4. To subscribe for underwriting of shares.
5. To provide special consultancy services for designing of projects.

THE PRADESHIYA INDUSTRIAL AND INVESTMENT CORPORATION OF UP LTD.: 

PICUP history began in the year 1972, when the Government of U.P. established it as a multidimensional agency to fulfil the state's policy of achieve participation in industrial development. PICUP merged on the industrial horizon of U.P. in the early seventies.
to accelerate the pace of industrial development in the state.

Since then, PICUP has grown and expanded at remarkable pace with the objectives of:

1. Catalyse investment.
2. Development Banking in Medium and large scale industries.
3. Direct promotion of industrial projects.
4. Institutional support for growth of industry.

Today PICUP is a corporation with a dynamic profile and an enviable track record.

PICUP attained the No.1 position amongst all the state industrial and investment corporation of the country within a dozen years of its inception and has maintained this position even since.

PICUP's operations have expanded tremendously as is amply demonstrated by the sixteen fold increases in its terms landing activities and the promotion of a large number of joint/assisted sector projects during the last decade.

Ever since its inception in 1972, PICUP has striven assiduously to faster industrial growth and development in U.P., helping new industries to come up and existing industrial units to modernise expand
and diversify their operations.

To accomplish all this, PICUP has played the dual role of a catalyst as well as direct participant in promotion of industrial project extending wide ranging financial and technical assistance backed up by strong industrial support.

PICUP financial assistance has covered a lot of ground, helping the set up industrial units in Diverse fields such as electronics, electricals, Telecommunications, chemicals, food processing, engineering, automotive components, textiles, Nursing homes, hotels and tourism.

PICUP offers a vast spectrum of financial assistance and services for setting up new medium and large scale industries as well as modernisation expansion and diversification of existing units through a comprehensive range of scheme.

**SCHEMES OF PROJECT FINANCING:**

**Term Loans:**

PICUP provides secured term loans at Nationally competitive rates of interest in accordance with the following guidelines.

For Projects costing upto Rs. 5 Crores:-
Extent of Assistance - Rs. 1.5 Crores.
Debt equity Ratio - Not more than 1.5:1
Maximum Promoter's Contribution -

- 17.5% in category 'A' & 'B' districts.
- 20% in categories 'C' districts.
- 22.5% in Non back ward districts.

For projects costing above Rs.5 crores and upto Rs.10 crores.

extent of assistance - Decided on case to case basis.

Debt equity Ratio - Not more than 1.5 : 1
Maximum Promoter's Contribution - 22.5%

**Bridge Loan:**

Since completion of legal formalities relating to loans could take sometimes, PICUP provides Bridge Loans to expedite projects implementations, while these formalities are being completed. Such Bridge Loan are generally to the extent of 50% of the sanctioned term loans and carry 1% higher interest rate as compared to term loans. However, in case the loan is re-financed by IDBI, the higher interest rate becomes applicable only if the Bridge Loan is not converted into a regular loan, within one year.

**Seed Capital Scheme:**

PICUP operates the seed capital scheme of IDBI
to help in creating a new generation of entrepreneurs, who have the requisite trails of entrepreneurship but lack the financial resources to implement their industrial venture the scheme covers the following categories of entrepreneurs.

(a) Entrepreneurs who are technically or professionally qualified or possess relevant experience or skills either in Industry, business or trade or have trails of entrepreneurs for setting up/running the enterprises successfully.

(b) Entrepreneurs interested in setting up a project in the SSI or medium sector for the first time.

(c)Entrepreneure who intend to graduate from small scale to medium sector for the first time, through expansion/diversification or by setting up a new unit in the medium sector.

The board guide lines governing this scheme are:

1. The cost of the project would not exceed Rs.5 crores.

2. Industries in the negative list or having low priority will not be eligible for assistance under this scheme.
3. the amount of seed capital assistance shall exceed 10% of the project cost - subject to a ceiling of Rs. 15.00 lacs.

4. In the case of medium scale projects the present form of debt equity is 2:1.

5. In all cases seed capital assistance will be in the form of soft loans to the industrial concerns. It will carry a nominal service charger of 1% per annum. the re-after if the re-payment period goes beyond 5 years, the rate of intt. will be 10% p.a.

By helping to overcome resources gap faced by a technical entrepreneur. This scheme seeks to encourage small/medium industries utilising innovative technology as well as project and technology up gradation project & based on R&D.

Assistance shall be provided under this scheme in the form of equity or soft loan at 5% p.a. rate of intt. upto a maximum amount of Rs.15 lacs per promoter. If there are more than 1 promoter maximum assistance will normally not exceed 50% of promoters own contributions. This assistance is given to projects receiving term loan from PICUP.

**EQUIPMENT FINANCING**

**Equipment Refinancing Scheme:**

Under this scheme PICUP extends loans to existing
industrial units for the purpose of purchasing new capital goods/equipments such loans covers upto 77.5% cost of equipments (the balance to be financed by the borrower) and are available only to concerns who.

- have been in operation for last four years.
- have earned profits and/or declared dividend on equity shares during the proceedings two years.
- are not in default to institutions/banks in payment of their dues.

The maximum amount of loan under this scheme is Rs. 1.5 crores per proposal upto a ceiling of Rs.2 crores per concerns (including loan given by UPFC).

New projects are not eligible for loan under this scheme.

An important features of this scheme is that the loan is sanctioned by PICUP within a maximum period of 30 days from the date of receipts of application and disbursement can begin within 7 days of the sanction of the loan.

**Lease Finance:**

Leasing is one of the most attractive scheme of financing the various categories of equipment of the industrial units. It is not an alternative to
project finance but offers finance for the equipment which are to be replaced during the process of modernisation/expansion or the balancing of the plant etc.

The corporation procures the equipments at the request of the lessee and gives the same on lease for a specific a period. The corporation charges a constant a lease rent on a monthly basis the rental is decided on the basis of the various parameters like track records of the promoter's nature of equipment, rate of depreciation and risk involved etc. The lessee is given the option to get lease renewed at the expiry of the lease period.

**Equipment Purchase Assistance:**

Equipment purchase assistance scheme is beneficial to entrepreneur who intended to procure the equipment at short notice. The scheme is open to all industrial units and for all categories of industries.

The process of sanctioned under this scheme is less time consuming and involves almost no pape formalities prior to sanction. The legal formalities are also nominal.

The corporation would procure the equipment as sanctioned by the entrepreneur. The entrepreneur would pay the corporation monthly instalments over
a stipulated period. During the period of the agreement the entrepreneur would eligible to claim depreciation. The current instalments for equipment purchase would range between Rs.26/- to Rs.28/- per thousand per months for 60 months the instalment would comprise the recovery of principal and interest. The instalment would be fixed only on the amount of actual out flow of the funds of the corporation for procuring the equipment i.e. the bill price use initial deposit.

Besides the above the client is also required to pay management fee @ 1% of the sanctioned amount before signing of the agreement with PICUP and 20% of the total cost of the equipment by way of margin for procurement of equipment before placement of formal orders on the suppliers. The amount so deposited will be non interest bearing.

**Equipment Finance Scheme:**

The assistance under the scheme shall be availed for purchase of identifiable items of plant & machinery or other equipment including energy saving system or equipment for modernisation/expansion/diversification/balancing/replacement or any other purpose. However, the assistance will not be available for self-fabricated items of plant & machinery. Second hand items will be outside the purview of the scheme. A part from the cost of equipment, other expenses like transportation
installation and erection charges may also be considered for financing under this scheme. The assistance under this scheme will be extended upto a maximum extent of Rs.200 lacs. to a company/concern. The borrowing concern will have to meet the maximum of 22.5% of the cost of equipment and other expenditure out of their sources which will be in the nature of promoters contribution.

Rate of Interest:

1. Term Loan, ERS and EFS Loan.
   Medium Scale units - 19.25%
   Small Scale units - 19.00%

2. Additional loan for Rehabilitation - 18%
   (in addition interest tax @ 3% on interest amount will be charged.

FINANCIAL SERVICES

Merchant Banking:

PICUP offers a complete range of services for management of public issues, including
- formulation of action plan for complying with formalities relating to the issue and preparation of tentative budget for total issue expenses.
- Preparation of application to the controller of capital issue.
- Preparation of draft prospectus and obtaining approval to the same from concerned institutions.

- Assistance in obtaining various consents and approval from the Govt., financial institutions Reserve Bank of India, Stock Exchange, SEBI & Registrar of companies.

- Advising the company on Strategies to market the issue.

- Rights Issue management.

- Project Appraisal (Certification).

- Underwriting of shares.

- Bridge loan against Public Issue.

**Loan Syndication and working capital management:**

For project costing more than Rs. 10 crores, PICUP can provide the entire range of services to arrange loan syndication and working capital.

This includes preparation of applications and arranging joint Meetings/interaction with Central financing institutions right up to the stage of getting term loan and working capital sanctioned, for providing these services, the corporation would charge a fee @ 0.25% of the total syndicated and working capital arranged.

**Mergers & Acquisition:**

PICUP's team of professionals is fully geared
to provide consultancy on various issues involved in cases of mergers and acquisition including formulation of a business strategy. PICUP can also help in finding suitable parties for a successful union. A small charge of Rs. 2 lakhs is payable to PICUP.

**ADVISORY SERVICES**

**Information technology service:**

At a National charge PICUP provides information technology services and can undertake turnkey assignments involving:

- Preparation of feasibility Reports & TEFRS.
- Hardware and software selection
- Effectively functional office design.
- System engineering
- Software Development
- End-user training, workshops etc.
- Implementation of computer system
- Financial accounting
- Credit Appraisal
- Project Monitoring
- Pay roll
- Personal information
- Other software which may be developed from time
- Registrar to Issue
**Assistance to NRIS:**

To attract Non-resident Indians to invest in setting up industrial projects within Uttarpradesh, the state Government has nominated PICUP 15 Managing Director as commissioner for Non Resident Indians.

He will assist NRIS to get necessary facilities to enable their projects to take off, such as licence for the projects, registration, Telephone connection etc. and by helping to resolve their personal problems, like admission of works to educational institutions etc. He will be lying to make the overall environment more congenial for NRIS to function in.

**Escort Service:**

PICUP helps its assisted units in typing up their working capital requirement from banks and obtaining various government approvals by providing escort services.

**OTHER FACILITIES**

**Agency Schemes:**

As an agent of the Govt. of U.P., PICUP operates the state capital subsidy, the sales tax exemption/diferment schemes ad feasibility study scheme.

(a) **Scheme of State Capital Subsidy:**

Under this scheme new industrial units set
up in backward area will be entitled to state capital subsidy on their fixed capital investment as under:

Category 'A' - 20% (max. Rs. 2 million)
Category 'B' - 15% (max. Rs. 1.5 million)
Category 'C' - 10% (max. Rs. 1 million)

Sales Tax exemption/Deferment Scheme:

In this scheme, sales tax exemption/deferment is linked to fixed capital investment as well as location in the following manner.

Sales tax rebate would be available up to 100% of fixed capital investment or for 8 years in category 'C' districts up to 125% of fixed capital or 9 years in category 'B' district and up to 150% of fixed capital investment or 10 years in category 'A' districts - whichever is earlier and an additional rebate of 25% would be given to small industrial units in each category. The other guidelines for this scheme are as under:

1. Deferment of sales tax for expansion/diversification/modernisation has been proposed under scheme.
2. Units eligible for exemption can opt for sales tax deferment which is not linked with investment in fixed capital other conditions remain same.
3. Registration under factories act is not essential for availing the benefit of exemption/deferment under this scheme.
(4) District/Divisional level committees have been authorised to issue eligibility certificate.

**Feasibility study subsidy scheme:**

To help in determining the Techno-economic feasibility of any medium and large scale project, PICUP subsidises the cost of techno-economic studies per selected project. PICUP subsidises the cost of techno-economic studies for selected projects in the Medium and large scale sector to the extent of 75% of the study subject to a ceiling of Rs.2 lacs. PICUP commission reputed consultants in the field to carry out such techno-economic studies on behalf of the entrepreneurs.

The entrepreneur should approach PICUP along with an advance of Rs.5000/- which would be adjusted against their contribution, in order to avail of assistance under this scheme.

**Source:** Come to PICUP - Share excellence.
RESEARCH METHODOLOGY

Selection of an appropriate methodology is very important part of research design. The entire research plan is outlined in research methodology. According to John W. Best "It describes just what must be done, how it will be done, what data will be needed, what data gathering devices will be employed, how sources of data will be analysed and conclusion reached".

A method is the way of approaching the problem. In order to find out the truth involved in a problem certain steps must be taken in certain order and the ordered steps called the method. If a science follows a wrong, the systematic knowledge or the truth can be ultimately found out. Thus the use of correct methodology is followed, thoughts can be arranged in correct order. as a result the exact truth can neither be discovered nor be exposed methodology stands for the correct arrangements of thoughts either for the discovery or for the exposition of truth.

The correct methodology is required for arriving at a correct or an exact knowledge which is science want to establish.

Collection of DATA:

The sources of information are generally classified as primary and secondary. According to "Pauline V.
The sources of information can be classified into documentary source and field source, books, manuscript, Diaries, letters etc. from the secondary and documentary source while the information given collected by individuals and groups constitute primary and field sources. The difference between primary and secondary data is a matter of relatively, data which are primary in the hands of one become secondary in the hand of others data are primary for the individual agency or institutional collecting them where as for the rest of information i.e. generated to meet the specific requirement of the investigation at hand.

On the other hand, secondary data is information i.e. collected for a purpose other than to solve the specific problem under investigation.

**Objective of the study:**

The main objective of the study are as follows:-

1. To evaluate the performance of PICUP.
2. To know the activities of the PICUP.
3. To know the working way and others activities of the corporation.

**Tools used for Data Collection:**

The tools used for data collection are classified in two parts:-
1. Primary Data.
2. Secondary Data

**Primary Data:**

The primary data are collected through personal interview with officers and others staff of the corporation.

**Secondary Data:**

The Secondary data are collected through annual reports, relevant books and office records of the corporation.