CHAPTER-VII

CONCLUSION AND SUGGESTION

The Industrial Development Bank of India was set up in 1964 as an apex financial institution mainly for industrial development in the country. It was set up as a wholly owned subsidiary of the Reserve Bank of India. The Industrial Development Bank of India was recognised in terms of the Public Financial Institutions Laws (Amendment) Act, 1975 and the ownership of e IDBI was transferred to the Government of India with effect from February 6, 1976.

The status of the IDBI clearly indicates that it has been assigned the role of the principal financial institutions for co-ordinating in conformity with the National priorities, the activities of institutions engaged in financing, promoting or developing industries. It has been assigned a special role to play in the matter of (1) Planning, Promoting and Developing Industries to fill vital gaps in industrial structure (2) Providing technical and administrative assistance for promotion, management or expansion of industry and (3) undertaking market and investment research and survey as also techno-economic studies in connection with development of industries. It is also expected to co-ordinate, guide and monitor the entire range of credit facilities offered by other financial institutions for the small and village industry. It has also taken up the job of human resource development under which training programmes of various durations based on development banking for the benefit of the officers and other staff. Special attention was paid to development banking theme based programmes and training banking theme based programmes and training on computers. It has also promoted technical
consultancy organisation (TCOs) in close collaboration with other all India financial institutions.

Entrepreneurship development is a major component of IDBI’s promotional endeavours, as a larger availability of entrepreneurial talent is a basic pre-requisite for rapid development particularly of backward areas. It has also promoted Entrepreneurship Development Institute of India (EDII) which is assigned a special role as the principal agency for entrepreneurship development, training of trainers/ motivators, running model training programmes and undertaking documentation and research in the field of entrepreneurship development. It has also set up Institute of Entrepreneurship Development (IEPS) in some states which are also engaged in entrepreneurship development. The IDBI has also been providing financial support to educational institutions for conducting EDPs under Science and Technological Entrepreneurship Park (STEP) and accredited voluntary agencies for their projects to provide self employment and wages employment in the industrial sector to various physically/ socially disadvantaged groups. If few of the projects assisted during the year include training centres for skill development in voluntary organisations throughout the country for products and process oriented EDPs.

The Bank has also agreed to set up Training cum Development Centres (TDCs) in the North-Eastern States of Manipur, Mizoram, Meghalaya, Tripura, Nagaland and Arunachal Pradesh.

The IDBI has been tending support for upgradation of various development and promotional institutions mainly through SFCs, TCOs and Institute of Entrepreneurship Development (IEDs). On the initiative of the Male Summit Meeting of the Heads of States or Governments of Member Countries of the South Asian Association for Regional Co-operation (SAARC) held in November 1990 SAARC Fund for Regional Projects was
set up for providing financial assistance for the identification and
development of Regional Projects with an initial corpus of US $ 5 million
carried out by SAARC Member countries. The project is being looked after
by the Council of SAARC Fund for Regional Projects and the Council
Secretariat is located in Bombay.

Apart from promotional and development activities IDBI provides
assistance under the following major heads.

i) Direct Finance and

ii) Refinance of Industrial Loans.

Under Direct Finance following types of assistance is being provided:

a) Project Finance (loans) for new, expansion/diversification, modernisation
   and rehabilitation.

b) Underwriting and direct subscriptions.

c) Guarantee for loans and deferred payments.

d) Technical Development Funds Scheme.

Under Refinance of Industrial Loans the following assistance are being
provided:

a) Refinance of industrial loans.

b) Bills Finance (Discounting and Re-Discounting).

c) Loans to and investment in shares and bonds of financial intermediaries.

d) Export Finance Scheme and

e) Seed Capital Assistance Scheme

Besides IDBI has also been providing assistance under various
schemes under the permission of Central Government to specially deserving
projects to which banks and other financial institutions do not provide the
requisite finance in the ordinary course of business. From the analysis of the assistance provided by the IDBI it is found that it has not been setting any physical and financial target on a year to year basis but has been providing to financial assistance to all technically and economically viable and financially feasible industrial undertakings. Although IDBI takes every effort to ensure that no deserving project suffers for lack of financial support, yet selective approach is adopted to ensure that assisted projects which receive scarce resources are put to maximum advantages and meet the overall objectives of national priorities.

IDBI's sanctions and disbursements on account of project finance during 2002-03 witnessed a drastic face compared to the previous year. The Bank's project finance sanctions were just Rs. 557.1 crore as against sanctions of Rs. 4,447 crore in 2001-02. Likewise, disbursements declined to Rs. 1,329.7 crore from Rs. 3,219.8 crore in the previous year. IDBI has attributed its dismal performance to depressed investment climate due to a sluggish capital market, low demand for project finance, particularly from traditional commodity sectors and delayed project implementation. The top five industries that were sanctioned assistance during 2002-03 as project finance were ports (Rs. 75 crore), Telecom services (Rs. 105 crore), Tyres and Tubes (Rs. 75 crore), Automobiles (Rs. 40 crore) and Road bridges (Rs. 40 crore). For infrastructure projects, IDBI sanctioned Rs. 440.4 crore accounting for 16.2 percent of its overall sanctions during the year as compared to 24.4 percent in 2001.02. The Telecom and Power subsectors had the lion's share of the total IDBI funding for the infrastructure sector. The share of Refineries and Oil Exploration at 26.3 percent in the overall IDBI sanction in 2002-03 was the highest, followed by Financial Services (24.1 percent), Telecom Services (7.5 percent), Hotels (4.1 percent) and Textiles (3.8 percent). These five industries together accounted for 65.8 percent of total IDBI sanctions and 51.4 percent of total disbursements in 2002-03.
Meantime, personality and operations of IDBI will undergo a sea change when the IDBI Act (1964) will be repealed with the ushering in of the Industrial Development Bank.

The total sanctions under all the schemes by IDBI stood at Rs. 16,034 crore in 2001-02. Disbursements during the year amounted to Rs. 11,158 crore.

During 2001-02 total sanctions and disbursements to infrastructure sector amounted to Rs. 3141 crore and Rs. 1471 crore respectively accounting for 20.2% of overall sanctions and 13.9% of disbursements made during the year.

IDBI adopted a strategy of extending assistance selectively under non-project finance. This reflected in increase in the share of non-project finance in the overall assistance to 64.1 percent in 2001-02 from 53.3 percent during the 2000-01.

IDBI mobilised resources to the tune of Rs. 8613 crore during 2001-02 through debt instruments. This comprised Rs. 8405 crore through domestic borrowings and Rs. 208 crore through foreign currency borrowings/drawals against existing lines of credit.

The competitive business environment and weak investment demand has impacted business growth and profitability of the banks operations in recent years. The bank has formulated its short and long term strategy to reposition itself in the new business environment, the short term strategy focuses on improvement of asset quality, business diversification, reduction of costs, and improved risk management practices. Over a longer term the bank wishes to convert itself into Universal Bank.

The bank has taken several measures to reduce interest costs by retiring high cost debt raised in the past, and raising fresh debt from retail
customers. This is reflected in decline in the marginal and average cost of borrowing.

The strategy for healthy business growth during 2002-03 would revolve around improvement in asset quality, increase in business income and reduction in costs borrowing as well as administrative cost. Emphasis will be given for improving the overall asset quality by improving collection / realisation from existing NPAs and preventing incremental NPAs.

Fresh borrowings will be raised at an optimum combination of cost and maturity. The bank has decided to give a thrust to top retail funds through Suvidha Fixed Deposits. The bank will also continue its thrust on free-based activities to augment its fee-based income.

IDBI Bank, whose core strength has historically been project financing has seen its exposure to the infrastructure sector doubling, year-on-year, in 2005-06. While sanctions doubled, disbursements increased three-fold during the fiscal 2005-06, the bank’s outstanding to this sector is Rs. 10,000 crore and disbursements amounted to around Rs. 5,000 crore. This is double of 2004-05, when the outstanding was over Rs. 5,000 crore and disbursements were Rs. 1,500 crore. Aided by foreign direct investment and regulatory reforms, the infrastructure sector in India has seen huge growth in terms of investment. For banks, this has led to an increase in their exposure to this sector. Though the loans are typically of longer tenure and therefore, risky to some extent, most lenders see huge growth in this sector.

Among the various segments in the infrastructure sector, the power industry has seen huge sanctions due to the large number of projects that have come up in the last couple of year. Opening up of the telecom sector too has had a major impact, as it requires huge amounts of money. Huge funds are also being put into the modernisation of roads, ports and airports through special purpose vehicles.
Among other sectors, the bank has a fairly large exposure to the textile industry, next to steel and infrastructure. Till recently, IDBI also was the only agency for disbursing loans under the Textile Upgradation Fund.

As on December 31, 2005 the bank’s outstanding to the textile sector was Rs. 4,300.37 crore. This consists of Rs. 951.52 crore to artificial fibbers, Rs. 570.82 crore to textile (other category) and Rs. 2,778.03 crore to cotton textile.

Sanctions and disbursements of the institution have also been on a downside. Over the last three years sanctions dropped by over 87 percent from Rs. 23,178 crore (Rs. 231.78 billion) in 2001 to Rs. 2,889 crore (Rs. 28.89 billion) in 2003 and disbursements dropped by close to 78 percent from Rs. 17,747 crore (Rs. 177.47 billion) to Rs. 3,924 crore (Rs. 39.24 billion).

The only rise has been seen in IDBI’s NPAs. The gross NPA (Non Performing Asset) during the three year period went up from Rs. 9,849 crore (Rs. 98.49 billion) to Rs. 16,006 crore (Rs. 160.06 billion) and despite huge provisioning, the net NPA in percentage terms is going up (from 13.44 percent in fiscal 2001 to 14.16 percent in 2003) as the asset base in shrinking (from Rs. 71,783 crore in 2001 to Rs. 63,115 crore in 2003).

The weighted average cost of funds for the institution has dropped from 11.8 per cent in 2001 to about 9 percent now. This has been done by replacing the old high cost debt to new low cost borrowings. The incremental cost of funds has come down from 11 per cent to 6.25 per cent. It has also been steadily raising its provisioning to clean the balance sheet. The aggregate provisioning has risen from Rs. 4,800 crore (Rs. 48 billion) in March 2001 to close to Rs. 9,000 crore (Rs. 90 billion) in June 2001. As a result of this, NPA coverage has risen from 36.7 percent in 2001 to around 58 percent now.

By doing all this, IDBI has been able to take care of its profit and loss account but not the balance sheet. It has managed to remain profitable (its net
profit in Q1 of fiscal 2004 rose to Rs. 51 crore (Rs. 510 million, up from Rs. 33 crore in Q1, last year) while the asset base is rapidly eroding.

At any given point of time, it now holds a liquidity kitty of around Rs. 5000 crore (Rs. 50 billion) because it is unable to deploy the funds. When it comes to the business of extending short-term loans, IDBI has a Hobson’s Choice. On one hand, being an AA+ rated financial institution, it cannot offer fine rates to the triple. A -rated corporations; on the other, it can’t run the risk of lending money to weaker entities for the fear of increasing NPAs.

The only solution to the problem is conversion of IDBI into a bank. But not the type of bank that has been suggested by the Parliamentary Standing Committee on Finance, which examined the IDBI Bill under a microscope. The business model suggested by the committee is as the model of a development financial institution, which has outlived its utility.

The committee wants IDBI to be converted into a bank but to stay away from retail business. At best, this will make IDBI a development financial animal in a bank’s skin which cannot fend for itself in the jungle of the Indian Financial System.

The idea to enable the new entity to raise cheap liabilities in the form of savings banks account and current accounts to drop its cost of funds is fine. But this benefit will be of no use if it’s not allowed to build retail assets. IDBI wants to sort out this problem by teaming up with its banking subsidiary IDBI Bank. The plan is to exploit the synergies and offer both long-term and short-term loans as well as other banking needs of companies together.

But this is not possible because IDBI will have to divert its stake in IDBI Bank once it becomes bank, because the Banking Regulation Act will not allow it to hold a substantial stake in another bank. The Bank has strengths in both retail and corporate banking and is committed to adopting the best industry practices internationally in order to achieve excellence.
The Industrial Development Bank of India can assist industrial concerns in an indirect manner also that is through other institutions. Firstly it can refinance term loans to industrial concerns repayable within 3 to 25 years given by the IFCI, the State Financial Corporations and other financial institutions. Secondly it can refinance term loans repayable within 3 and 10 years given by Scheduled banks or State Co-operative Banks. Thirdly, it can refinance export credit given by the Scheduled Banks or State Co-operative Banks. Thus, IDBI finances those banks and financial institutions which are lending to industrial concerns. Finally, IDBI has subscribed to the stocks shares, bonds and debentures of IFCI the Financial Corporations and other "notified" financial institutions so as to increase their financial resources and enable them to provide larger assistance to industry.

The IDBI Act 1964, has provided for the creation of a special fund known as the Development Assistance Fund. This fund is used to assist those industrial concern which are not able to ensure finances in the normal course because of low rate of return.

IDBI raises foreign funds from international money market and international funding organizations and makes them available to Indian Industrial units.

It is interesting that unlike the other existing statutory financial corporations, IDBI has no restrictions imposed regarding the nature and type of security which it should accept. The IDBI provides direct loans to industrial concerns, refinance of industrial loans and export credits, rediscounting of bills, underwriting of and direct subscription to shares and debentures of industrial units and direct loans for export. Till 2000-01 IDBI became the most important institution assisting industrial units.

With a view to promote industrial development in backward areas, IDBI announced in July 1969 a scheme for assistance to small and medium
projects in such areas on softer terms, such as concessional rates of interest, longer grace and repayment periods. IDBI adopted several measures to encourage flow of institutional finance to the small-scale sector. The scheme was revised and liberalised later. Under the liberalised scheme, I.D.B.I. in participation with IFCI and ICICI gave concessional rupee assistance upto Rs. 2 crore and underwriting assistance upto Rs. 1 crore. The IDBI’s concessional assistance and refinance of loans for backward areas increased steadily in terms of numbers of applications and amount sanctioned and utilised. IDBI took over the Refinance Corporation of India in November 1964 and was providing refinance to industrial units through member banks. As an apex institution, the IDBI assists State Financial Corporations, the IFCI, Leasing Companies and others working in the field of industrial finance by subscribing to their shares and bonds. IDBI also participates in loans and guarantees to supplement the refinance operations as a measure of risk-sharing with other institutions.

IDBI extends assistance to small-scale industries and small road transport operations indirectly through State level institutions and commercial banks by way of refinance of industrial loans. IDBI introduced a scheme to cover promissory notes arising out of sales of new jeeps and trucks to road transport, operators in the private sector. The IDBI’s assistance to small-scale industries and small road transport operators was picking up very fast. IDBI launched the New Equity Fund Scheme in 1988 for providing support, in the nature of equity to tiny small scale industrial units engaged in manufacturing cost not exceeding Rs. 5 Lakh. The scheme was administered by IDBI through nationalised banks. IDBI introduced the single window scheme for grant of term loans and working capital assistance to new tiny and small-scale units. Finally IDBI set up a voluntary Executive Corporations Cell (VECC) to utilise the services of experienced professionals for counselling small units, tiny and cottage units and for providing consultancy support in specific areas.
Since 1970 IDBI had initiated certain promotional and developmental activities to meet twin objectives of balanced regional development and accelerated industrial growth. In co-operation with other term lending institutions, IDBI has completed industrial potential survey in all states and Union Territories.

IDBI introduced in 1976 the soft loan scheme to provide financial assistance to productive units in selected industries, viz; cement, cotton textiles, jute, sugar and certain engineering industries on concessional terms to enable them to overcome the back log in modernisation, replacement and renovation of their plant and equipment so as to achieve higher and more economic levels of production. The scheme was administered by IDBI with financial participation by IFCI and ICICI. Two basic criterion for assistance under the scheme was the weakness of the units on account of obsolescence of machinery. The rate of interest was 7.5% and the period of loan was 15 years. The pace of disbursement was very slow as the soft loan scheme was not attractive to the private sector units because of the convertibility clause.

In January, 1984, the soft loan scheme was modified – now called soft loan scheme for Modernisation – so as to cover deserving units in all industries. Under the modified scheme, assistance is available to production units for financing modernisation primarily aimed at upgradation of process, technology and product, export orientation and import substitution, energy saving, prevention of pollution, recycling of wastes and by-products etc. other changes and relaxations were also made to make the scheme attractive and popular.

IDBI permitted by SEBI to carry out merchant banking activities which cover professional advice and services to industry for raising capital from the market, acquisition of assets on lease, mergers /take-over of existing
units etc. The merchant banking Division of IDBI, in the first 2 years of its existence had lead-managed 118 issues and had helped to mobilise Rs. 12,340 crores from the market.

Bank recognises the significance of credit risk in banking operations and has put in place a Credit Risk Management System with appropriate risk management skill sets, which provides not only a competitive advantage in the market place but also positions the bank to capitalise on the opportunities for growth. Bank follows a proactive credit policy, which is regularly reviewed and updated to take into account the developments in the credit scenario. Best practices are employed through appropriate credit delivery processes and portfolio and account monitoring sector exposures and target businesses are monitored regularly, especially for exposure to sensitive sectors.

Under the parallel run of the new capital adequacy framework (Basel-II) Bank has adopted the standardised Approach for credit risk, it is in the process of modernising and upgrading its Credit Risk Management System in step with the market development to meet Basel-II requirements.

Bank addresses all forms of market risks like liquidity risk, interest rate risk and forex risk through a well-defined set of policies and processes. Separate treatment is given to the management of risks in trading book and banking book recognising their differential impact on the balance sheet. The trading book risks, which are more susceptible to market movements are continuously measured and managed by marking the positions to the prevalent market rates. In order to assess the likely impact of the trading book is carried out on the basis of positions based on changes in market rates, past trends, stress tests through rate shocks, scenario analysis, etc. Market risks in the banking book are analysed and managed through liquidity and interest rate sensitivity, gap, duration and scenario analysis. The overall positions and
functions of market risks are run under the policy framework defined in Asset
Liability Management Policy, Market Risk Policy and Investment Policy.

In order to implement the Basel-II norms in respect of market risk, Bank is upgrading its software capability to assess the liquidity and interest rate risks under various scenarios, including stress testing. Bank is also implementing value at Risk (Va R) model for the entire Treasury Trading Portfolio with a view to assessing capital requirement for market risks based on advanced approach under Basel-II. Also, the capital charge for interest rate risk in banking book will be fine-tuned through duration gap analysis.

Bank measures, monitors and controls operational risk through a software system ‘ORBIT’ (Operational Risk Business Intelligence Tool). Branches are being rated for their operational risk profile through an embedded branch-rating model, it has put in place a policy for ‘Know Your Customer’ (KYC) and ‘Anti-Money Laundering’ (AML) requirements. As a measure of Operational Risk Management, Bank also conducts appropriate training programmes to sensitise line managers across the Bank on operational risk inherent in each function.

As a part of implementation of Basel-II guidelines, Bank has commenced computation of the capital requirements for operational risk under the Basic Indicator Approach (BIA). Also, step have been initiated to upgrade the existing system and practices to migrate to Advanced Measurement Approach.

Recognizing the importance of Business Continuity Planning (BCP) for minimising the adverse effects of business disruption and system failure, bank has put in place a Board approved broad framework of BCP. In addition, in order to provide continued and uninterrupted customer service even during natural disasters, a Disaster Recovery Site has been installed and
Disaster Recovery (DR) drill exercises are conducted periodically to test the efficacy of the DR Plan.

To meet emerging challenges and to keep up with reforms in financial sector, IDBI has taken steps to reshape its role from a development finance institution to a commercial institution. With the Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003, IDBI attained the status of a Limited Company viz., “Industrial Development Bank of India Limited” (IDBIL) subsequently, the Central Government notified October 1, 2004 as the Appointed Date and RBI issued the requisite notification on September, 30, 2004 incorporating IDBI Ltd. as a ‘Scheduled Bank’ under the RBI Act 1934. Consequently, IDBI, the erstwhile Development Financial Institution of the Country, formally entered the portals of banking business as IDBIL from October 1, 2004, over and above the business currently being transacted.

As of July, 2006 the employees association of the IFCI have sought its merger with the idbi.

In view of the difficulties faced by certain industries viz. steel, textile etc. IDBI has been extending relief to select corporates in these sectors after examining the viability, by way of rescheduling of principal, reduction in interest rates/stepping up of interest payments in line with the revised cash flow projections. Since there is no corresponding change in the terms of liabilities raised for financing these assets, it creates asset liability mismatch. Declining interest rate scenario also is an added problem as the liabilities to finance these assets have been raised at higher cost in the range of about 11% - 16%. While, wherever call options on the liabilities are available, the DBI/IDBI Ltd. has been discussing the issue with some of the large investors for accepting prepayment at par or at lower premium.

In this backdrop, the issue was taken up with the Government of India (GOI), to help in reducing interest cost in respect of IDBI’s liabilities. Later it
was agreed that the liabilities of IDBI to public sector Banks/ Institutions/ UTI Army Group Insurance Fund will be restructured. Thus, the essence of the proposal now is only reinvestment of amount on maturity at the then prevailing market rates for the period of original maturity, with no loss to the banks/ institutions. On the liquidity front, the restructuring has resulted in elongating the maturity profile of the liability.

According to my finding, as an attestation of its customer-centric approach, Bank has effected enabling modifications in its organizational structure to make it adequately responsive to the financial requirements and goals of clients. The earlier SBU based operating model has been replaced with more effective and efficient “Customer-focussed vertical model” capable of delivering world class product and services. Entire spectrum of Bank’s business is now covered by customer oriented verticals viz. infrastructure and syndication, large corporate, mid corporate, personal banking, small and medium enterprises, agri business, international banking, treasury and transaction banking.

As a result Bank has developed an innovative credit delivery model for SMEs and has gradually been building up city SME centres (CSCs). The CSCs would provide support in terms of loan processing of the proposals as also would undertake back office related activities to buttress the credit delivery mechanism. On the other hand the dedicated SME Relationship Manager at branches would provide a single customer touch point to provide whole range of banking services with regard to SMEs.

This leads to the organisational restructuring during the current year which also dovetails much awaited solutions to define seniority across the merged entities. With this bank has attained complete organisational integration of all functional areas.
Recently Bank increased its branches while simultaneously increasing the network with 67 more branches. In addition, a complete review was undertaken with regard to relocation of branches to more potential areas and 32 branches were shifted effectively to newer locations. During the financial year 2008-09, Bank has an ambitious plan for expansion of the network including its ATM network.

In the next phase one should discuss about the Bank's board of directors which is broad based and constitution thereof is governed by the provisions of the Banking Regulation Act, 1949, the Companies Act, 1956, the Articles of Association of the Bank and satisfies the requirements of corporate governance as envisaged in the listing Agreement with the Stock Exchanges. The Board functions through itself as well as various Board Committees constituted to provide focused governance in important functional areas of the Bank.

During the study one finds that applicable accounting standards had been followed in the preparation of accounts along with proper explanation relating to material departure.

After that it is seen that the Directors had adopted such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of Bank at the end of the accounting year and of the profit or loss for that period.

According to the study it is seen that the directors had taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the regulatory provisions, for safeguarding the assets of bank and for preventing and detecting fraud and other irregularities.

Further one should know that the directors had prepared the accounts on a going concern basis. It is seen that the bank during the financial year,
gained enormous strength in terms of positioning through expansion of its network realigned its organisation structure to achieve greater customer focus, offering wider and superior array of products, improved manpower and increasingly emphasising its policy dimensions to enhance customer satisfaction. If bank is able to maintain strong corporate relationship along with efficacy in the field of financial engineering then it would enable itself to increase its portfolio in the envisaged lines.

If the international branches are established then bank could increasingly meet the requirements of its valuable customers.

Bank should formulate strategic policy to diversity its portfolio in order to derisk through granularity, this will further enhances its client base and its service spectrum.

According to the study if proactive preparations along with improved economic scenario is done as shown from the strong fundamentals then it would provide opportunities to take business to higher level.

Lastly lets discuss about the study which is done on the environment of the business. Which is affected from various factors, it would highlight the facts and findings of economic scenario in which IDBI is flourishing.

The Indian economy continued to exhibit reasonably strong growth momentum during 2007-08, despite the global slowdown. The revised estimates for Central Statistical Organisation (CSO) stated that the economy recorded a real GDP growth of 9.0% during 2007-08 as compared to 9.6% during 2006-07. The growth in industry is recorded at 8.1% and services at 10.7% sectors which will continued to be the prime drivers of growth in overall GDP. The study reveals that the growth in Agriculture is improved to 4.5% during 2007-08 as against 3.8% during the previous year. A number of enabling measures, coupled with the debt relief package in the Union Budget
2008-09 augur well for the revitalisation of this sector which would have positive impact for the economy as a whole.

A notable contributory feature of observed buoyancy in GDP growth in recent years has been a sharply rising trend in gross domestic investment and saving. This was sustained during 2006-07 also, with Gross Domestic Saving recording 34.8% of GDP, up from 34.3% recorded in 2005-06. Both private and public saving contributed to higher overall saving during 2006-07. This enabled Gross Domestic Capital Formation (GDCF) at current market prices to move up to 35.9% of GDP in 2006-07 as compared to preceding year. The acceleration in domestic investment and saving rates is expected to drive growth and provide the resources 11th Five Year Plan (2007-12). During the fiscal year 2007-08, Index of Industrial Production (IIP) recorded a growth of 8.1% as compared to a growth of 11.6% achieved during 2006-07. The growth of industrial sector was primarily led by manufacturing sector (machinery and equipments, transport equipment and parts, basic metals and alloys industries and non-metallic mineral products. On a use based classification, growth in IIP was largely driven by capital goods (16.5%) and intermediate (8.7%) sectors. In contrast, common durables (-1.0%) sector witnessed decline in growth.

The overall trends in IIP during 2007-08 percolated to the infrastructure sector performance. The composite index of six infrastructure industries accounting for a weightage of, petroleum refinery products, coal, finished steel and cement, witnessed a growth rate of 5.6% during 2007-08 as compared to 9.2% during 2006-07. While growth in overall IIP and infrastructure sector constituents has to be viewed against the higher base figures for 2006-07, there is an expectation of softening in the momentum when viewed against the backdrop of the robust growth witnessed in this sector in the preceding four years.
Of late, the change in the structure of the economy and its more globalised nature has made management of inflation a complex task. The rising capital inflows will require monetary policy to play a more decisive role in containing inflation. Monetary measure initiated through tightening of liquidity are expected to curb the pressures emerging from the demand-side. Similarly, fiscal measures in the form of duty cuts in the Union Budget 2008-09 will further help easing the overall inflationary concerns. In addition, the fiscal authority has been undertaking a series of measures principally aimed at establishing effective supply chain management system.

During the major part of the financial year 2007-08, financial markets remained generally stable. Interest rate softened, leading to reduction in both lending and deposit rates by major banks. However, during the last quarter of the financial year, financial markets, including the liquidity situation, turned volatile largely due to the contagion effect of uncertainty witnessed in global markets. The RBI maintained the reverse repo rate at 6.0%, while the repo rate was increased to the level of 7.75% as a part of the gradual monetary tightening measure. The RBI also hiked the Cash Reserve Ratio to curb excessive liquidity in the system. The Liquidity Adjustment Fund (LAF) corridor increased with the widening of the spread between the reverse repo rate and the repo rate, which remained at 175 basis points at end March 2008.

Annual growth of money supply was at 21% in 2007-08. However, in contrast to money supply, credit growth of scheduled commercial banks slowed to 28.1% in 2006-07 and decelerated further to 21.6% in 2007-08 with deposit growth continuing to power well ahead of loan growth, credit deposit ratio, dipped from 74.0% as at end March 2007 to 73.6% as at end March 2008.
SUGGESTIONS:

As a whole Industrial Development Bank of India has faired well, still there is scope for improvement in its working and operations. IDBI was set up as a principal and Apex Financial Institution for promotion of Industries and Co-ordination of activities of other financial institutions mainly those who are getting refinance assistance and getting fund support in various ways from IDBI. Thus IDBI should not be evaluated on the basis of its absolute achievement in financing industrial units and refinance assistance but also in relation to its result in industrial development as well as its whole range of term loan financing for industries in the entire economy. It is also necessary to evaluate impact of refinance assistance and general industrial development including small-scale sector and backward area development.

Although IDBI has been assigned the role of an apex financial institution, there is need for further amendment and additions in the rules and regulations of the IDBI Act as a number of new activities as well as merchant banking have been added in its original activities. This is required for effective implementation of its objectives and activities.

As we know the Indian economy exhibited strong resilience to global happenings which indeed would have damping effect on the GDP growth. The improvement domestic investment, backed predominantly by domestic savings, is the single most important indicator, which argues well for the continuity of the growth momentum. Buoyancy in the manufacturing sector and the services sector is expected to continue and would provide predominant impetus towards economic growth. The proposals in the Union Budget 2008-09 for effective reduction of the tax burden under personal income and excise is further expected to stimulate both government and private consumption. Inflationary pressure in the recent past have slightly altered general expectations about the economy. The prices of manufactured
products are expected to harden largely tracking the lagged effects of increases in prices of basic products like food, energy and metals.

RBI policies are also geared to support the growth momentum by maintaining macro economic and financial stability and ensuring that there is smooth flow of credit to the productive sectors of the economy. Given the strong fundamentals of the Indian economy and the successful policies of the RBI, there does not appear to be any major concern either for banks or for financial stability. Global turbulence emanated from sub-prime crisis and the increased prices may stymie the growth agenda. A slew of reform measures and remapping up of infrastructure would indeed be required to achieve the growth expectations. The Government has appropriately assigned prime importance for the planned developed of key infrastructure and implementation of flagship program. “Bharat Nirman”. As bank is well poised and has put in place adequate systems therefore while going ahead bank would largely benefit from the emerging business opportunities.

The growth story in the domestic economy remained robust over past half of the decade. After a smooth sailing the policy makers are worried about the slowdown beyond 9% during the ensuring Plan period. The buttress the growth impetus, all efforts are underway to increase to increase domestic investment, financed predominantly by domestic savings. The participatory growth model with emphasis on balance growth will be adopted as a strategy to reduce the rural-urban divide. Improved utilisation of capital led to increased efficiency gains, manifesting itself in acceleration in investment and output growth as reflected in lower incremental capital output ratio resulting from successive economic reforms processes. As a result the composition of India’s GDP is changed with the emergence of new growth drivers. In fact, India’s moving to a higher growth trajectory is also a result of 83% of GDP (Gross Domestic Product). As India is increasingly becoming the global
services hub it is expected that the domestic economy would exhibit better growth despite pull down pressure. Whether it is “Bharat Nirman” or any other fiscal agenda to further strengthen the infrastructure, effective execution of these iterated measures would catalyse the economic activities with improved value addition and efficiencies.

Indian banking industry, today is in midst of an IT revolution. A combination of regulatory and competitive reasons has led to increasing importance of total banking automation in the Indian Banking Industry.

Information Technology enables sophisticated product development, superior market infrastructure, Business Process Reengineering and implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets.

Keeping in view the importance of financial requirements, the following suggestions will go a long way and pave the path for rapid industrial development of the country and improvement in its working as an Apex Financial Institutions:

1. Bank should always strive for achieving customer’s delight by offering state-of-the-art technology.

2. IDBI should be front-runner for implementing latest technology to enhance the business value, product portfolio and operational efficiencies and Risk and Compliance framework. In many technology initiatives bank is the pioneer. The Indian Banks Association has appreciated Banks initiatives by giving IDBI two prestigious awards for “Best Payment Initiatives” and “Outstanding Achiever of the Year”

3. Further to achieve the success the bank should work on the following grounds:
i. IDBI should continue to provide the extant product and services as part of its development finance role even after its conversion into a banking company.

ii. The bank should also provide an array of wholesale and retail banking products, designed to suit the specific needs cash flow requirements of corporates and individuals thereafter IDBI should leverage the strong corporate relationships built up over the year to offer customised and total financial solutions for all corporate business needs, single-window appraisal for term loans and working capital finance, strategic advisory and “hand-holding” support at the implementation phase of projects, among others.

iii. IDBI’s transformation into a commercial bank should provide a gateway to low-cost deposits like current and savings Bank deposits where it will have a positive impact on the bank’s overall cost of funds and facilitate lending at more competitive rates to its clients. Therefore, it will offer various retail products, leveraging upon its existing relationship with retail investors under its existing Suvidha Flexi-bond Schemes. In the emerging scenario, the new IDBI hopes to realise its mission of positioning itself as a one stop and most preferred brand for providing total financial and banking solutions to corporates and individuals, capitalising on its intimate knowledge of the Indian industry and client requirements and large retail base on the liability side.

iv. IDBI should upholds the highest standard of corporate governance in its operations, where the responsibility for maintenance these high standards of governance lies with its Board of Directors. Generally two committees of the Board viz. the Executive Committee and the Audit committee are adequately empowered to monitor
implementation of good corporate governance practices and making necessary disclosures within the framework of legal provisions and banking conventions.

v. IDBI Bank Ltd. shall continue to prepare and maintain its accounts fairly and accurately in accordance with the accounting and financial reporting standards which represent the generally accepted guidelines, principles, standards, laws and regulations of the country. Internal accounting and audit procedures shall fairly and accurately reflect all of IDBI Bank Ltd. business transactions and disposition of assets.

vi. IDBI Bank Ltd. shall continue to provide equal opportunities to all its employees and all qualified applicants for employment without regard to their rules, caste, religion etc. Applicable laws, rules and guidelines of Government in this regard other Competent Authority in this regard shall also be observed for this purpose.

Employee policies and practices shall be administered on a non-discriminatory basis in all matters relating to recruitment, training, compensation, benefits, promotion transfers and all other terms and conditions of employment.

vii. IDBI Bank Ltd. should not enter into any kind of business with any company/ organisation/ entity of which any of its director(s) is a proprietor, partner, director, a manager, employee or guarantor or in which one or more directors of IDBI Bank Ltd. together hold substantial interest.

viii. IDBI should continue to be committed to creating new industry standards of excellence in customer service and continue to provide innovative and superior quality service consistent with the requirements of the customers for their satisfaction.
ix. Next it should strive to provide a safe and healthy working environment at its work places and comply, in the conduct of its business affairs, with all regulations regarding the preservation of the environment of the territories it operates in.

Thereafter it should continue to be committed to be a good corporate citizen not only in compliance with all relevant regulating laws and regulations but also by actively assisting in the improvement of the quality of life of the people in the communities in which it operates with the objective of making them self reliant.

 ix. The information for the public constituents and stakeholders, duly approved by the compliance officer of other authorised official, as the case may be disseminated through any of the following media.

➢ The accredited newspaper publications.
➢ Web casting on the official web site.
➢ Press handouts and press releases.
➢ Audio and audio-visuals prepared for the specific purpose.

x. The Board of Directors of IDBI Bank Ltd. should duly and fairly inform its shareholders about all relevant aspects of the organisation business and disclose such information in accordance with the respective regulations and agreements. Every employee should be responsible for implementation of and compliance with this code.

xi. A Director/ Officer/ Employee of IDBI Bank Ltd. shall conduct all the dealings on behalf of IDBI Bank Ltd. with professionalism, honesty, integrity and high moral and ethical standards, at the same time be responsible for the implementation of and compliance with the code in his/her professional environment, be fair and take action not to
discriminate, honour confidentiality and strive to achieve more specific professional responsibilities.

xii. To uphold the image and dignity of the institution it is desirable that every director/ officer/ employee of bank should demonstrate a high degree of conduct and integrity and impartiality, promptness in disposing of cases and show courtesy and consideration in public dealings. Moreover shall maintain confidentiality of all price sensitive information. The personnel shall endeavour to avoid situations that may lead to an actual or potential conflict between person’s private interest and the interest of the bank including its affiliates and subsidiaries.

xiii. IDBI is the pioneer financial institution and its direct term loan finance and indirect assistance (Refinance) have been increasing every year, it is still felt that it should fix target of financial assistance in the interest of overall economic development. Fixation of targets will stimulate the bank to follow up with other financial institutions also to fix their targets. Presently financial institutions do not adhere to any target although their total financing has been increasing. Target achieving has been increasing. Target achievement in case of priority sectors which includes financing of agriculture, its allied activities and small scale sector has been lopsided as major portion of priority sector advances goes to Government sponsor schemes only.

Other way round one can also fix separate targets for direct and indirect assistance provided by IDBI. In view of the national planning, targets of financial assistance to big projects may be fixed in close association with other All India Financial Institutions. For Small Scale Industries IDBI, the parent financial institutions of SIDBI, should also fix targets for refinance assistance through commercial and co-
operative banks SFCs and SIDCs and convince them to fix their targets for financial assistance as small scale units are starving of financial assistance leading to sickness and incipient sickness.

xiv. Since IDBI and other All India Financial Institutions play important role in advancing financial assistance to projects it should ensure that quarterly and half yearly position of financed projects are made available to IDBI. Also it may be ensured that projects implementation and their working are properly analysed and evaluated for their improvement. Monitoring cell of IDBI should be made more effective so that projects may be effectively implemented. There is also need to monitor the working and utilisation of refinance assistance as in practice, it has been found that financial institutions do not get refinance for all eligible financial sanctions which effects the interest of industrial units as some units have to bear higher rate of interest for which refinance has not been availed. IDBI should also ensure that financial institutions also monitor regularly industrial units which have been financed by them.

xv. The scheme of single window scheme for term loans as well as working capital loans by SFCs may be implemented in all cases. Although the scheme is for all projects but this is not properly implemented. This leads to incomplete implementation of projects and working capital portion from the commercial banks does not come out. Even if it is sanctioned it is so late that the units can not utilize this facility. However, implementation of projects financed by SFCs should also be monitored regularly and not only at the collection time of instalments of principal and interest of instalments of principal and interest. The power of SFCs to grant working capital in case rises
should also be considered. In other words this scheme should cover all small scale units.

xvi. Next IDBI does not have any specific control over the utilisation of the funds provided to the commercial bank. IDBI simply receives statements of funds utilisation and not details of funds channelisation. Commercial banks lend for shorter period while refinance is given for longer period. By this method commercial banks derived substantial benefit. Therefore it is necessary to have a check that no such diversification of funds is made hampering the interest of other industrial units.

Although there is common appraisal of projects for sanctions of financial assistance individual bank insists for separate conditions which effects implementation of the projects. It is suggested that conditions should be common and it should not be beyond the conditions which are commonly agreed by the all financial institutions and they do not get any problem in running their units.

To sum up, working of IDBI has been found satisfactory although a number of shortcomings are present in its working. The analysis of operations and financing strategy reveal that it has been financing large projects in key sector which help in nation building by direct and indirect (refinance) assistance. It has helped basic industries such as fertilizers, cements, steel, machinery manufacturing, heavy chemicals, machine tools which are considered backbone of the economy of a country. It has also helped considerably development of backward areas and small scale sectors by refinance. As an apex, principal financial institution, IDBI has tried its best to act as a catalyst for overall industrial development of the country.
It should be ensured by the lead institutions and not by all banks separately to avoid delay and cumbersome problems which may arise in projects implementation.

Beside that IDBI does not have reliable data on financed in units, their capital formation, employment generation and production. Data for estimated overall industrial development is available and contribution of IDBI assisted units is not known. It is, therefore, suggested that data of IDBI assisted units may also be collected and complied to know their performance and health. It should also collect and compile data on capital formation, employment generation and production etc. So that it may be able to co-ordinate the working of other financial institutions as an Apex Bank.

After that it is suggested that since IDBI invests a huge amount on project finance it is necessary to have a constant watch on their working for which a monitoring cell should be set up. IDBI should be well informed with correct and reliable data about the implementation of the assisted projects in all stages which can be co-ordinated by monitoring cell. The cell will also follow up with the assisted units directly as well as with other financial institutions which get refinance assistance from IDBI for advancing loans to Small Scale and medium industries.

Next it has been planned that there should be balanced regional development throughout the country but the pattern of industrial development which has emerged after a long period planning, is that under-developed areas remained under-developed and developed areas developed further. It is suggested that Government should endeavour to set up industries in backward areas and enhanced industrial infrastructural facilities may be provided so that industrialist may be attracted in those backward areas. Although a number of incentives have been declared for backward areas including 75-100% transport subsidy from selected railheads, capital subsidy, sales tax rebate and
electricity rebate etc. Still industrial units are not coming up in backward areas rapidly. The main reasons behind under-development is lack of infrastructural facilities which are to be developed by SIDsCs since IDBI refines SIDsCs it should ensure that all the infrastructural facilities should be provided in the developed areas so that industrial units are attracted.