CHAPTER VI

SUMMARY, FINDINGS AND SUGGESTIONS

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6.1 INTRODUCTION

Indian economic planning is being pursued under a democratic framework. To achieve rapid economic growth, industrialisation has been given due weightage. The problem of long-term institutional finance has been identified as one of the problems of economic growth. Other factors like managerial and technical guidance to the new entrepreneurs relating to the corporate sector has also been recognised. In this context development banks have been considered as an important agency to provide capital, management and entrepreneurship. Development Banks also influence simultaneously saving and investment ratios, productivity of capital and labour, technological progress and so on. Development bank is an organic body that acts and reacts to the needs of its environment. It has a great role to play in giving rise to new entrepreneurs, assisting sick industry, raising the level of human skill, improving management techniques, the development of backward regions and persuading potential investors.

The establishment of Indian development banks should be viewed as a culmination of the demands for special institutions to provide industrial
finance. From the evolution of development of banking abroad and in India, it is clear that Indian development banks have been widely influenced in their forms, functions and objectives by their counterparts in other parts of the world. Through trial and error and because of active support received both from abroad and from the Government at home, the Indian development banks have been playing an important role in the country’s economic growth. Recognising the importance of development banks, the Government of India had set up five major institutions of this type. These are:

1. Industrial Development Bank of India (IDBI)
2. Industrial Finance Corporation of India (IFCI)
3. Industrial Credit and Investment Corporation of India Limited (ICICI)
4. Small Industries Development Bank of India (SIDBI) and
5. Industrial Investment Bank of India Limited (IIBI).

The Industrial Development of India is the most important of the development banking system. A vast volume of data on the various aspects of working and performance of IDBI’s are available. Hence, “A Study of Financial Institutions in India With Special Reference to Industrial
Development Bank of India” is made. The study is an attempt to evaluate at
micro level, the working and performance of IDBI through an indepth case
study. Effort has been made to look into the performance of IDBI in an
objective manner and that has led to some findings which hopefully contribute
to the information system of decision-makers interested in improving the
working and performance of IDBI. This study evaluates the operational and
financial performance of IDBI. It also focuses on the growth of development
banks in India. The study covers the period of 10 years commencing from
1987-88 to 1996-97 and is based on secondary data. The data were collected
from the Annual Reports, Reports on Developing Banking and Operational
Statistics of IDBI. The operational performance of IDBI has been measured
in terms of amount sanctions and disbursements for different purposes. The
financial performance of IDBI has been evaluated through Roof Model of
Profitability, and on the basis of ratios. The ratios which have been
calculated for this purpose are Capital Adequacy Ratio, Debt-equity Ratio,
Profit after Tax to Net-worth and Profit after Tax to Total Assets. The
findings are summarised in this chapter.
6.2 FINDINGS OF THE STUDY

Development banking in India is almost as old as India’s independence but the need for such specialised institutions to meet long-term financial requirements of the Indian industry was recognised as early as 1906.

The survey of historical growth of foreign development Banks intended to show as to how the Indian experiments tried to profit from the experiences of advanced countries in this matter. For instance, the establishment of a number of industrial banks in India firstly during 1906-13 and secondly during 1917-23 was conceived by Indian industrialists and financiers after the Germans and the Japanese succeeded in their experiments with specialised financial institutions in the closing years of the 19th century and the early 20th century. Indian industrialists believed that the industrial progress of Japan and Germany was due to the close relationship between banks and industries.

Further, the Industrial Bank of Japan which had been functioning more or less on the lines of French Credit Mobiliser since 1902 made a profound appeal to the Indian Industrial Commission of 1916. The Commission suggested the Industrial Bank of Japan as a model for forming the Industrial
Bank in India. Similarly, the recommendations of other Committees and Commissions appointed by the Government of India from time to time for the establishment of financial institutions had a direct or indirect reference to foreign experience in the field.

The analysis of foreign experience in the field of industrial finance also shows that the Government of India after independence has invariably taken the initiative in creating institutions for supplying funds to industry by following the examples set by the countries like Canada, Australia, the U.K. and the like.

The historical survey of the experiments made in the area of development banking in India upto the achievement of independence is followed by a discussion on the factors which necessitated the establishment of various development banks at the national and state levels. The study reveals that after independence, serious attention was directed towards the establishment of specialised financial institutions and a beginning was made with the establishment of the Industrial Finance Corporation of India, in 1948. After this beginning, a number of development banks came to be established
and to-day, a well-knit structure of development banks, both at the All-India level and State-levels meets the long-term financial and developmental needs of the fast growing industrial sector in the country. The present structure of All India Development Banks in India comprises IFCI, IDBI, ICICI, IIBI and SIDBI.

An institution-wise analysis of financial operations of all development banks showed that in the total assistance sanctioned upto the end of March 1997, the major share was that of IDBI (44.59%) followed by ICICI (31.07%), IFCI (13.70%), SIDBI (9.94%) and IIBI (1.49%). The share of development banks in total sanctions by all financial institutions during 1987-88 was 78.8 per cent and it went upto 82.31 per cent during 1996-97. The purpose-wise assistance of sanctions by all India Development Banks shows that a major portion of the assistance by development banks was issued for financing (40.30%) of new undertakings. It is followed by expansion/diversification of (32.77%), modernisation/balancing equipment/equipment financing (18.11%), and other purposes (7.94%). The sector-wise assistance sanctioned by All India Development Banks shows the
predominance of private sector as 82.29 per cent of the total assistance sanctioned by them followed by public sector (10.27%), joint sector (5.70%) and co-operative sector (1.74%). Further out of total assistance of Rs.2,81,365.6 crores sanctioned, the share of backward areas accounted for Rs.93,236 crores forming 33.14 per cent of the total sanctions. The state-wise assistance sanctioned by All India Development Banks reveals that the first six states Maharashtra (20.38%), Gujarat (15.60%), Tamil Nadu (9.92%), Uttar Pradesh (7.63%), Andhra Pradesh (6.95%), Karnataka (7.18%) had claimed a share of about 67.7 per cent of the total financial assistance by All India Development Banks upto the end of March 1997, as against their aggregate share of 50 per cent in the estimated population (1997) of the country. It is interesting to note that Goa got a higher quotient of 4.57 per cent eventhough it had low percentage of assistance to total assistance sanctioned (0.64%). An industry-wise assistance sanctioned shows that agro-based industries (comprising food industries, cotton textiles, paper and paper products) received nearly 19 per cent of the cumulative assistance. The traditional industries like food products, textiles, paper and cement received 23 per cent of the assistance. But the priority industries obtained 66 per cent
of the total assistance granted up to the end of March 1997. Chemicals and Chemical products (12.11%), Textiles (11.07%) and Services (11.76%) held the first three ranks in the cumulative assistance sanctioned up to the period of March 1997. The percentage of assistance sanctioned by All Financial Institutions with Development Banks with reference to industry showed that the Electrical and Electronic equipment received the highest share of 93.36 per cent followed by transport equipment (90.67%) and Metal Products (90.03%). On the whole, the development banks have justified their existence through their service for the development of the nation as a whole.

Among the development banks, the share of IDBI is the maximum both in volume and density. The Bank was established on July 1, 1964 as a wholly-owned subsidiary of RBI. Its ownership was transferred to the Government of India effective from February 1976 when IDBI was transformed into the principal financial institution in the country. Its support was instrumental in establishing a well-developed, diversified and efficient industrial structure. The Bank has, besides, meeting the increasing and diverse financial requirements, of the industry, added a qualitative dimension
to the process of industrial development in the country. But in response to the emerging changes in the financial sector and the economic environment, the Bank took several steps to re-orient its business strategy through the introduction of new fund-based products and fee based services.

Fund-based products include direct assistance and indirect assistance. The study points out that up to the year 1989-90, the indirect assistance of the Bank had assumed a significant proportion of its total assistance, but after 1989-90, direct assistance assumed a significant proportion. From 1964 to March 1997 direct assistance accounted for 66.91 per cent of the total sanctions and 62.94 per cent of the disbursements whereas the indirect assistance accounted for 33.09 per cent of the total sanctions and 37.06 per cent of the disbursements. Further the share of direct assistance in the overall operations has been consistently increasing over the years.

Direct assistance consists of Loans, Bills Discounting, Underwriting and Subscriptions, Guarantees for loans and Deferred payment, Special Products for Technological Upgradation, Energy Conservation and Pollution
control, Venture Capital, Working Capital Loan, Equipment Leasing and
Finance for Leasing and Hire-Purchase companies.

During 33 years of Bank operations, the project loans aggregated to
Rs.72,537.60 crores and formed 83.95 per cent of the Rs.86,403.60 crores of
assistance sanctioned under direct finance. Except in the year 1994-95 the
percentage of loan disbursed to direct finance was more than 90 per cent.

A new scheme for discounting of bills/promissory notes arising from
sale of machinery on deferred payment basis was launched by IDBI in June
1988. Cumulatively upto the end of March 1997, the Bills Discounting
Scheme's sanctions and disbursement percentage to direct finance was only
3.28 per cent and 3.01 per cent respectively. In 1988-’89 the bills discounting
sanctions were only 8.74 crores whereas in the year 1996-97 they were
228.01 crores. Bills Discounting Scheme was very popular in manufacturing
units. The maximum assistance under this scheme had been channelised to
“Other” industries (26.40%) followed by Electricity Generation (23.16%),
Textiles (18.99%), Service (12.40%) and Chemicals and Chemical Products
(5.05%). The remaining industries claimed less than 5 per cent. The industries
namely Jute and Refineries and Oil exploration have not claimed assistance under this scheme. The same situation prevailed in disbursement also. A State-wise scrutiny of the total assistance upto the end of March 1997 sanctioned under the Direct Discounting Scheme shows that Maharastra obtained larger assistance of 30.45 per cent followed by Tamil Nadu (17.17%), Andhra Pradesh (14.43%), Karnataka (10.80%), Gujarat (8.06%), Madhya Pradesh (3.74%) and West Bengal (3.12%). The other states received less than 3 per cent. The States namely Manipur, Mehalaya, Mizoram and Tripura have not claimed assistance under this scheme. It is seen that the non-backward areas have been provided with a greater share of direct Discounting Scheme assistance sanctioned (76.01%) and disbursed (75.80%). Hence, to develop backward areas, this scheme has to be popularised in such areas also.

Besides fostering industrial development, the Bank has also provided considerable support for the development of vibrant and healthy capital market in the country. In addition to providing term loans, the bank has underwritten and directly subscribed to shares and debentures of companies.
The Bank has also helped in establishing organisations aimed at orderly and efficient functioning of the capital market. But the share of underwriting and direct subscription worked out to 8.76 per cent in relation to Banks’ total direct financing for the entire period of 33 years. In the year 1992-93, there was a major development which included the repeal of the Capital Issues (Control) Act, abolition of the office of the Controller of Capital Issues and consequent introduction of free pricing of public issues. The detection of irregularities in securities transactions had a significant effect on primary and secondary capital market activity. Further, during the year, there was a spurt in number of capital issues entering the market as also the amount to be proposed to be raised. Due to this, there was a three-fold increase in assistance sanctioned through underwriting and direct subscriptions during 1992-93. But due to subdued conditions prevailing in the primary capital market, the share of underwriting and investment activity in the direct financing had declined from 1995-96. It is found that the role of IDBI in underwriting is more of a qualitative nature. A major share of its underwriting operation pertains to the issue of risk capital.
IDBI also extends guarantees for loans and deferred payments. But this type of assistance in direct financing formed only 7.29 per cent upto the end of March 1997. It had the maximum share of 12.36 per cent in direct finance during 1993-94. But in 1995-96, the share has declined to 5.48 per cent due to fall in guarantees against foreign currency loans raised by the borrowing companies from overseas lenders. Its share in indirect finance in 1996-97 had increased to 9.45 per cent due to a spurt in guarantees against foreign currency raised from overseas lenders.

In addition to project specific financing, IDBI has devised a host of new products to meet the needs of industrial enterprises including financial products of Technology Upgradation, Energy Conservation and Pollution Control. To enable selected capital goods industries to upgrade their technology, the Government announced the setting up of a Technology Upgradation Scheme in 1987. The Bank was entrusted with the responsibility of formulating the mechanism of the scheme. This scheme covers the expenditure on induction of commercially-proven advanced technology leading to significant improvements in quality, productivity, cost reduction,
the saving of energy and scarce resources and the use of new materials.

Cumulatively, sanctions and disbursements up to the end of March 1993 for technology upgradation stood at Rs.204.9 crores and Rs.156.6 crores respectively. Energy conservation was another critical area on which the Bank placed emphasis. It encouraged units assisted by it, to take up Energy Conservation Scheme. The Bank launched the new scheme in June 1988. The facilities under this scheme known as Equipment Finance for Energy Conservation (EFEC) Scheme and Energy Audit Subsidy (EAS) Scheme are available to eligible units which have been in operation over a period of 5 years. The assistance under the EFEC Scheme was given by way of term loans for acquisition and installation of energy conservation equipment. The interest on loans would enjoy a rebate linked to the extent of energy-saving actually achieved in relation to a standard of datum level for the industry, subject to a floor level of interest at 10 per cent p.a. The loans enjoy several other relaxations such as exemption from commitment charges and convertibility option and lower promoter’s contribution. The above schemes were in force up to 1998. Under EFEC scheme Rs.152.4 crores was sanctioned up to the end of 1994-95 and under EAS Scheme Rs.49.5 crores
was sanctioned upto the end of 1993-94. Totally 170 companies were benefited under the EAS Scheme. Under the EFEC Scheme in 1991-92 and in 1992-93 there was a large amount of sanctions. In order to improve India’s technological and management capabilities for supply and the end-use of energy by private sector industry and other users during 1991-92, the USA agreed to provide a grant of US $ 20 million for the Energy Management Consultation and Training (EMCAT) Project over a period of six years upto the end of March 1997. IDBI is the implementing agency for the end-use of the component of US $ 6 million under the project. The use was upto the end of March 1996. But the sanctions under the project upto the end of March 1996 were only 3.57 crores. Another line of credit for US $ 150 million was negotiated with the Asian Development Bank and an agreement was signed in this regard during 1994-95. Under this project, assistance was available to specific development projects in the private and public sector industries for energy efficiency purposes and the related environmental improvements. But the project became effective during the year 1995-96. Upto 1996-97, 17 proposals envisaging assistance of US $ 96.6 million were approved by ADB. As the major problem in the Indian industries was industrial pollution, the
Government of India, in July 1991, entered into an agreement with the World Bank for a line of credit of US $155.6 million comprising International Development Association (IDA), Credit of Special Drawing Rights (SDRs) for 23.4 million (equivalent to US $31.6 million) and IBRD loan of US $124 million to boost the effort of Government aiming at controlling, monitoring and abatement of industrial pollution in the country.

To provide financial assistance to industrial concerns attempting commercial application of indigenous technology and also adapting imported technology to wider domestic use the Bank established a Venture Capital Fund (VCF) in 1986. Upto the end of March 1997, the Bank had assisted 166 projects under the Venture Capital Scheme. Due to the efforts made, the assistance under this scheme picked up during the period 1988-89 and the growth rate of sanctions was 1842 per cent over the year 1987-88. To widen the scope of assistance to industry, a separate division namely Venture Capital Division was set up in 1991-92 to provide Venture Capital Assistance with broader meaning and content. Hence the sanctions increased by 72.13 per cent in 1991-92 as against 1990-91. Further in 1994, the Bank expanded
the scope of its VCF operations to include wider spectrum of projects which
were not necessarily technology-driven and which were not otherwise eligible
for assistance under normal project finance because of the high risk involved.
Hence during 1993-94, the sanctions increased by 85.7 per cent over the
previous year 1992-93. The amount disbursed continuously increased during
the study period except in 1992-93 and 1993-94.

During 1996-97, the Bank introduced a new product to provide
working capital finance to assist units. The assistance was to be provided
both in the form of rupee and foreign currency to meet the loan component of
working capital requirement and for addressing the general corporate needs.
Eventhough it was introduced in 1996-97, the assistance under these facilities
started during 1997-98.

To widen the Bank’s range of Service offered to industrial concerns,
IDBI entered the field of Equipment Leasing during 1991-92. Leasing
enabled the Bank in tax-planning as its tax-free status was withdrawn. It also
helped the Bank in maintaining a balance between maturity profiles of assets
and liabilities. Except in 1992-93 and 1996-97 the sanctions under Equipment
Leasing increased. Disbursements under Equipment Financing continuously increased except in 1996-97.

In 1987-88, IDBI started extending assistance to leasing companies engaged in the leasing of industrial plant, equipment and the like. The loans sanctioned to leasing companies cumulatively up to the end of March 1997 were Rs.823.30 crores for 206 companies and the loans disbursed to leasing companies cumulatively up to the end of March 1997 were 661.02 crores. Loans sanctioned to leasing companies declined from 1993-94 onwards and loans were stopped in 1995-96.

Indirect assistance of IDBI includes Refinancing of Industrial Loans, Bills Re-Discounting and Resource Support to Financial Intermediaries. The Bank took over the operations of the Refinance Corporation of India in 1964 and started providing resources support to SFCs and other primary lending institutions in the country, by re-financing the term loans granted by them. This scheme was constituted as the most important form of indirect assistance. The Bank provides refinance assistance under five schemes namely normal refinance, automatic refinance, composite loans, special
refinance and refinance to mini steel units. During 1964-1997, the IDBI’s refinance assistance sanctioned constituted 15.07 per cent of its total assistance sanctioned and 45.53 per cent of the indirect assistance sanctioned. With the establishment of IDBI in 1990, operation relating to financing of the small scale sector was taken over by it. Hence the sanctions as well as disbursements under the scheme declined heavily in 1990-91. Due to the increase in assistance to State-level financial institutions, the sanctions under this scheme increased during 1995-96 and 1996-97. On an average, 38.47 per cent of the total refinance assistance from 1987-88 to 1996-97 was routed through SFCs and the remaining 61.53 per cent was routed through SIDICs and Banks. Almost the entire refinance assistance sanctioned was claimed by the private sector (97.52%). The States which had received more assistance sanctioned and disbursed under re-finance schemes were Uttar Pradesh, Maharashtra, Tamil Nadu, Gujarat, Karnataka and Andhra Pradesh. An industry-wise classification of refinance assistance clearly reveals that 28.37 per cent of its assistance went to Service industries, followed by “Other” industries (16.5%), Chemical and Chemical products (12.26%), Textiles (9.75%), Food-manufacturing (8.31%) and Metal Products (6.52%). The high
share received by Service Industries was mainly due to a sizeable amount of assistance extended to SRTCs. Further out of total finance assistance sanctioned under the refinance scheme, 46.32 per cent assistance was sanctioned to backward areas and 48.55 per cent assistance was disbursed.

The Bank also introduced in 1965 the re-discounting of machinery bills to promote the sale of indigenous machinery on deferred payment basis. It is another major form of indirect financial assistance of IDBI. The total assistance sanctioned upto the end of March 1997 under bills re-discounting amounted to Rs.16,353.75 crores. This constituted nearly one-third of the total indirect financial assistance and nearly one-eighth of the total financial assistance of all kinds. In the year 1990-91 the sanctions and disbursements under the scheme were modest as the commercial banks were reluctant to furnish guarantees. The largest beneficiaries of IDBI’s assistance under the Bill Re-discounting Scheme were the State Electricity Boards (SEBs) and State Road Transport Corporation (SRTCs). On an average, assistance sanctioned under the Re-Discounting Scheme to SEBs during the study period was 57 per cent and to SRTOs was 18 per cent. An industry-wise break-up of
Bills Re-Discounting Assistance sanctioned shows that the highest share went to Electricity Generation industries (48.71%), followed by Service Industries (18.6%), Textiles (9.09%), “Other” industries (8.38%) and Machinery (5.65%). The state-wise analysis shows that during 1964-1997, the four developed states namely Gujarat, Haryana, Maharastra and Punjab accounted for nearly 32 per cent of the total bills under Re-Discounting Assistance as against 68 per cent share of the remaining States and Union Territories. The Units located in backward areas received only 10.27 per cent of IDBI’s total Re-Discounting Assistance during 1964-1997. Except for a lower re-discount rate in respect of State Electricity Boards and SRTOs operating in some of the hilly regions, IDBI did not give any concessions.

While a network of State-level institutions is already in place to promote the segments of industry, it is essential to ensure that adequate resource support is available to these institutions so as not to disturb the timely flow of funds to the small and medium scale sectors. IDBI provides resource support to other financial institutions by way of loans and subscription to their shares and debentures. An analysis of the trends in
resource support up to March 1997 shows that only 8.1 per cent of the Bank's indirect financing was through resource support to financial institutions. The reason is that this form of assistance is intended only to strengthen the financial position of other institutions, so that their lending capacity is increased. Subscriptions to bonds accounted for 41.8 per cent of the total resource support extended followed by shares (36.5%) and loans (21.6%). SIDBI and IFCI received the maximum support of 22.4 per cent each, followed by ICICI (20.8%) and SFCS (14.1%). IFCI and ICICI received resource support mainly in the form of subscriptions to bonds while SIDBI and SFCs received the resource support mainly in the form of subscriptions to shares. Thus, Direct Project Loans, Refinance and Bills Re-Discounting became three major Schemes of assistance.

The Bank also gave a sharper focus to its non-fund based activities and financial services making an entry into the areas of Merchant Banking, Debenture Trusteeship and Forex Services. To provide professional advice and service to industry for seeking recourse to capital market, acquiring assets on lease and taking over/merging with existing units, SEBI has given
authorisation to undertake Merchant Banking operations. During the year 1994-95, the Bank entered into the area of mergers and amalgamations, loans syndication and private placements with Foreign Institutional Investors and Mutual Funds. In 1994-95, the Bank expanded its Corporate Services and Investment Banking activities. The Bank has, till now, successfully lead managed 270 rights and public issues, for mobilising Rs.23,226.6 crores from the capital market. Due to subdued conditions prevailing in the Capital market, there was a decline in the number of issues in 1995-96 and 1996-97. Totally the Bank earned Rs.153.1 crores through merchant banking operations.

The Bank has identified Forex Services as a thrust area. It set up a Foreign Exchange Dealing Room in September 1992. All foreign exchange transactions including Spot and Forward Purchase of currencies for Letters of Credit and Debt Servicing, Placement of Deposits abroad, Swaps Forward Rate and the like.

Forward Rate Agreements (FRAs), Switchbacks, and the like are being conducted through the dealing room. In 1994-95, the bank set up a Forex
Services Department. Hence the Forex Dealing Room operations of the Bank expanded by taking up Rupee - FC Swaps, Management of Surplus Funds and Currency Hedging in the Bank’s debt liabilities. During 1995-96, “Spot deals relating to clients’, LC Payments and the Bank’s Debt Servicing and Forward Cover Transaction were executed. The income generated for IDBI through the above Dealing Room Operations cumulatively upto the end of March 1997, was Rs.15.27 crores.

To expand the Bank’s product range through fee-based activities, the bank commenced Debenture Trustee Services in 1992-93. As regards these services, the Bank accepted cumulatively upto the end of March 1997, 223 Debenture Trusteeship Assignments for debt funds aggregating to Rs.7874 crores. The Bank earned an income of Rs.3.34 crores through Debenture Trusteeship Assignments. These services addressed a variety of perceived client needs.

It is proposed to evaluate the operations of IDBI against its objectives with a view to determining how far it had succeeded in achieving the objectives for which it is committed. The overall operations of IDBI reveal
that from the modest beginning in 1964-65, with sanctions amounting to Rs.53.7 crores, the Bank’s operations have steadily grown to Rs.17,049.9 crores in 1996-97, giving an overall growth of 318 times during the last 33 years. Assistance sanctioned and disbursed up to the end of March 1997, aggregated to Rs.1,29,134 crores and Rs.88,825 crores respectively. Further during the study period, the Bank had a positive growth, though not a uniform one, in respect of sanctions and disbursements except in 1988-89, 1990-91, 1995-96 and 1996-97 in respect of sanctions. SIDBI was set up in April 1990. Hence assistance by IDBI to the small sector was not included in IDBI’s sanctions from the year 1990-91 and understandably there was a decline in sanctions during 1990-91. Further due to subdued investment climate for large projects and decline in operations under non-project loans and Capital market products, the sanctions by IDBI declined during 1995-96 and 1996-97. The amount sanctions increased from Rs.5,289.2 crores in 1987-88 to Rs.17,049.8 crores by 1996-97, which works out to be more than three-fold increase during the study period. The amount of disbursements had steadily increased from Rs.4004.6 crores in 1987-88 to Rs.11,439 crores in 1996-97 which amounted to nearly a three-fold increase during the study.
period, similar to increase in sanctions. The disbursement ratio does not exhibit a definite movement. Instead, an irregular trend may be noticed. While the banks undoubtedly, had fared well in the fields of sanctions and disbursements, the disbursements ratio of IDBI was more than the ratio of other development banks. Moreover, the bank is significantly different from other development banks in the country in respect of disbursements ratio also.

IDBI extends financial assistance to industrial concerns directly and indirectly. The direct assistance of the Bank forms a significant proportion of its total assistance. The share of loans was the maximum, giving the impression that IDBI had functioned more like a term lending institution rather than a development bank.

A state-wise scrutiny of the total assistance by IDBI shows that upto the end of March 1997, Maharashtra obtained the largest assistance (18.60%) followed by Gujarat (15.53%), Tamil Nadu (9.01%), Uttar Pradesh (8.52%), Andhra Pradesh (8.16%) and Madhya Pradesh (5.50%). A close look at the pattern of distribution of institutional finance would reveal that the financial assistance got concentrated in a few States. The same situation prevailed
in the case of the amount disbursed also. Further Goa got a higher quotient of 5.14 per cent even though it had a low percentage of assistance to total sanctioned assistance of 0.72 per cent. The Union territories had also got higher quotient of 2.4 per cent but they had a low percentage of assistance to total sanctioned assistance of 1.51 per cent. Project loan of 58.68 per cent was the single most important component of IDBI’s direct financial assistance to various states.

An overall review of the industry-wise distribution of the assistance sanctioned by IDBI from 1964-65 to 1996-97 reveals that there have been wide fluctuations in the assistance claimed by four industries namely Textiles, Electricity Generation, Service Industries, Chemical and Chemicals Products and Textile Industries claimed major portions of assistance sanctioned by IDBI up to 1979-80. From 1980 onwards their share to total assistance of IDBI declined. In the period 1964-70, Textiles’ share of the total assistance sanctioned by IDBI accounted for 25.7 per cent whereas it was only 5.5 per cent during 1996-97. From 1980-81 to 1989-90, Service industries claimed the major portions of the assistance sanctioned by IDBI. From 1990 onwards,
there were fluctuations in their shares. During 1990-95, Electricity Generation claimed the major share 13.3 per cent. But during 1995-96 and 1996-97 Chemical and Chemical products claimed significant shares, 11.5 per cent and 15 per cent respectively. The Scheme-wise assistance sanctioned by IDBI to various industries reveals that 87.65 per cent of the total assistance sanctioned by IDBI since inception to the end of March 1997 had been routed to various industries through three schemes, namely Underwriting and Direct subscriptions, Guarantees for loans and Deferred Payments and Direct Discounting of Bills. The industry-wise assistance sanctioned by the bank shows that the tendency of different industries are depending upon any of the two major schemes of IDBI, namely loans and refinance of industrial loans depends on the scale at which their industries are established. The large scale units depend on mainly loans. For example, refinaries and oil exploration which consist of large scale units depend mainly on project loans 97.55 per cent. and zero per cent on Refinance Scheme. The same position appears in the case of Cement, Fertilisers and Transport Equipment. But the Service Industries (40.09%) which consist of only small and medium scale units, and industries, included under the heading “Others” (25.03%) which mostly
consist of village, cottage and tiny industries depend mainly on Refinance Scheme. Similar is the position with regard to Metal Products and Food Manufacturing.

The sector-wise assistance sanctioned by IDBI clearly reveals that Private Sector claimed bulk of the assistance sanctioned (78.96%), followed by Public Sector (13.24%), Joint Sector (6.23%) and Co-operative Sector (1.52%). But the growth rate of the sectors had wide variations.

IDBI is playing a specific role in the context of regional development. The role of IDBI in the development of backward areas has been assessed from the trends during the initial six-year period (1964-70) of operations. The sanctions to backward areas formed only 15.8 per cent of its total assistance. But after the IDBI re-oriented its lending policy and took a number of promotional measures, the flow of assistance to backward areas increased considerably. Its assistance to backward areas increased from 15.8 per cent during 1964-70 to 33.96 per cent during 1970-75 and 45.10 per cent during 1975-80. During the period 1980-85, the share of assistance to backward areas accounted for 42.90 per cent and in 1985-90, it was slightly reduced to
38.48 per cent of the total sanctions. It still got reduced to 32.34 per cent during the period 1990-95. The same situation prevailed in the case of disbursements also. From the analysis, it is clear that nearly 36 per cent of IDBI's resources are being deployed for the purpose of development of backward areas. Hence, IDBI is playing a significant role in the balanced regional development of the country. The scheme-wise analysis of assistance sanctioned to backward areas shows that the major share was that of Loans (65.63%) followed by Refinance (20.29%) Underwriting and Subscriptions (5.44%), Guarantees (4.40%), Bills Re-discounting (3.79%) and Bills Discounting (0.65%). The state-wise assistance sanctioned to backward areas during the study period reveals that the Backward states have enjoyed relatively larger share as against relatively lower share claimed by developed states. Cumulatively it is found that during the period from July 1970 to March 1997, the backward areas in backward state, received more assistance (67%) than the backward areas in developed states (33%). The above analysis thus refutes the contention that the backward areas in traditionally developed states are getting more flow of backward assistance than the backward states.
In developing economics, the development banks are expected to play a significant role in resource mobilisation. The study of trends in resource structure of the bank revealed that its equity base was not sound enough to meet the challenges of the banks and the bank had raised its required funds mainly through debt. The share capital as percentage of owned funds has gradually declined from 40.12 per cent in 1987-88 to 9.14 per cent in 1996-97 indicating the dominance of reserves and surplus in the owner’s funds. The trends in debt structure of the bank reveals, that rupee bonds constituted the major source of debt to the bank, followed by foreign currency borrowings, borrowings from RBI and deposits/bonds. They together account for 79.41 per cent of the total debt leaving the remaining 20.59 per cent constituted by various other sources of debt. The Bank is actually taking steps to increase public participation. Further, the Bank should take adequate steps to attract private savings from the general public.

To assess the profitability of the Bank two conventional ratios namely profit after tax to net-worth and profit after tax to total assets are used. The ratio of profit after tax to net-worth varied in between 14.12 per cent and
The profit after tax to total assets varied from 1.17 per cent to 2.27 per cent. It had steadily increased from 1.57 per cent in 1993-94 to 2.27 per cent in 1995-96. The PAT to total assets ratio in 1996-97 was more or less at the same level in the previous year. For a development bank like IDBI, the analysis of its profitability based on conventional ratios alone may not give a correct picture. Hence, the profitability is examined with three factors namely, Profit Margin, Asset Utilisation and Equity Multiplier. The profitability model is referred to a ROOF Model of profitability. An analysis of the profitability with Profit Margin revealed that the profitability position of the bank was at its best during 1991, 1992, and 1995 (that is 19 per cent). A further analysis of the three critical factors namely Profit Margin, Asset Utilisation Index and Equity Multiplier, would reveal that all the three factors had shown growth during 1991, 1992 and 1993 and the Roof increased at a faster rate during this period. During the last two years, the Profit Margin as well as Asset Utilization Index showed an increasing trend but the Equity Multiplier was falling and the value of the Roof decreased. During 1989 because of the decrease in Asset Utilisation Index, the value of the Roof fell to the lowest
level of 14.19 per cent. Further, the figures relating to the Asset Utilisation Index during the study period had shown a steady improvement. The Equity Multiplier slowly declined during the study period particularly after 1992. The Bank built up a sizeable portfolio during the three decades of its operations. Its overall assets increased from Rs.70 crores in 1964-65 to Rs.50,328.89 crores in 1996-97. The annual growth in assets of IDBI had been around 15 per cent as a whole during the study period. It reveals that the performance of the bank in terms of growth in assets was better. The emerging competitive environment demands that financial viability be ensured through adoption of internationally accepted accounting policies. The Bank has followed the norms with regard to income recognition and provisioning for the last several years and in maintaining capital adequacy norms well above the required minimum. The RBI has towards the end of the financial year 1993-94, issued detailed guidelines for balance sheet disclosure, asset classification, income recognition and provisioning.

Accordingly assets are classified into Standard assets, Substandard assets, Doubtful assets and Loss assets. Substandard assets, Doubtful assets
and Loss assets are non-performing assets. The non-performing assets during 1992-93, 1993-94, 1994-95, 1995-96, and 1996-97 were 7.5 per cent, 7 per cent, 7.8 per cent, 9.4 per cent and 10.3 per cent respectively. The rise in the level of non-performing assets was mainly due to the revision in the tightened guidelines regarding the asset classification of IDBI. But the Bank had made full provisions/write-off in respect of all its non-performing assets as per RBI norms. From the above observations, it is clear that the Bank has more performing assets. Even for non-performing assets also, necessary provisions had been made. Further for managing the risks inherent in long-term lending, it has been the Bank’s policy to spread its assistance over different industry/promoter groups. The assets’ concentration has been kept well within the prudential norms mentioned, from 1992-93 to 1994-95. In order to strengthen the capital base of banks, the RBI in 1992, based on the recommendation of the Narashimham Committee introduced a risk-weighted asset ratio system as the basis of assessment of capital for banks (including foreign banks) in India as a capital adequacy measure. It has been stipulated by RBI that financial institutions should achieve a minimum Capital Adequacy Ratio of 4 per cent by March 1993 and 8 per cent by March 1996.
It is observed that the bank had sound Capital Adequacy Ratio during the study period as against RBI stipulation. Due to the inflow of funds through its equity issue, the Bank’s Capital Adequacy Ratio improved significantly during the year 1995-96.

The Debt Equity Ratio of IDBI during the study period reveals that neither the very cautious ratio suggested by the foreign experts (2:1) nor the little more liberal one suggested by the world bank (3:1) is being adopted by IDBI. The ratio prevailing appears to be rather on the higher side. The fact that the banks depend heavily on debt for augmenting their resources, has inflationary implications and it needs serious consideration. A welcome sign is that, there had been a significant decrease in the D.E. ratio in the recent years although it continued to be far higher than the norms suggested by the financial experts.

6.3 SUGGESTION

The following suggestions may be considered for channelising the flow of institutional assistance on rational lines.
Statutorily, financial institutions in the country should serve all the States and areas. Hence assistance to backward areas and States in the country should be made as a statutory objective of the financial institutions. If it is made so, it would reinforce a wider support to backward states, as only a handful of units in a few districts now receive a lion's share in the total assistance.

The Banks should earmark adequate funds specially for backward states towards assistance and also provide infrastructure development.

The amount of assistance extended to a given State, either backward or developed, should as far as possible be equitably distributed among different parts of the State. The idea is that concentration of assistance in a few areas of a State or in the few units should be avoided so that a wider diffusion of the assistance can be secured.

IDBI should further strengthen the financial resources of the state-level institutions and provide them with technical, managerial and other kinds of help.
IDBI is still at the start in the field of equity research and fee-based services. Hence the Bank has to strengthen itself in this regard and progress further.

As a global player, IDBI should set up branches in aboard for its operation like the branches of other multinational banks.

IDBI is expected to stimulate the capital market through underwriting operations, but their performance in this area has been quite insignificant. Only 3.32 per cent of the total disbursements by IDBI upto the end of March, 1997 have been channalised for underwriting and direct subscription to shares and bonds of industrial entrepreneurs. More clearly, they have not been able to induce sufficiently by investing public to invest in equity issues by lending the support of their prestige to such issues. Hence, it is suggested that IDBI should undertake the underwriting business on a large scale. With their high credit standing and sound financial position, the researcher expects that it would not be difficult for them to attract large savings of the public to nurse new and existing industrial units. In this connection it is however suggested that the IDBI should not hang on to the shares they acquire because of the
undersubscription of issue, but should part with their holdings as early as possible.

IDBI should sell their shares in the open market on a larger scale to augment its own resources.

Most of the development banks at the State-level do not possess adequate staff with sufficient knowledge and training. IDBI should assume primary responsibility for providing training facilities in Development Banking. This is essential because it is the quality of financial and technical staff in development banks which would ultimately determine the quality of their operations.

The needs of entrepreneurs in a competitive environment are diverse requiring a range of financial products and services. The Bank would further specifically focus on services such as venture finance, forex services and capital market related services.

As the process of deregulation gathers further momentum, market forces will exert greater influence in the direction of industrial development. Hence the Bank would have to ensure that the resources at its disposal are efficiently deployed.
6.4 CONCLUSION

The industrial and financial sectors in India are in the midst of important structural changes. Competition and efficiency will form the pivot for sustained growth in the future. While the establishment of a competitive financial system will exert pressure on financial institutions to adapt and innovate, it would simultaneously throw open many new opportunities for business diversification and growth. Now the traditional development banking has gained a new meaning. In the old order, development essentially meant offering financial assistance at concessional rates of interest. In the dynamic and competitive environment facing the economy, the development role of institutions like IDBI has to expand phenomenally. The two-pronged strategy of IDBI is now towards diversification of products and services operated and on the ability to tap the market for raising resources at competitive rates. In addition to project specific financing, IDBI has devised a host of new products to meet the needs of industrial enterprises including financial products for Technology Upgradation, Venture Capital to provide finance to technocrats for introduction of innovative products/services, equipments finance for energy conservation and pollution control, equipment leasing and
bridge loans against public issues. The Bank has also given a sharper focus to its non-fund based activities and financial services making an entry in the areas of Merchant Banking, Debenture Trusteeship and Forex services. Even though new products are introduced by IDBI, it performs the role of term lending institution laying the emphasis only on the distribution of loan assistance. Only 36 per cent of their resources are deployed towards the development of backward areas. But the Bank’s performance in the area of industrial diversification has been quite satisfactory. In resource mobilisation, the Bank depends more on debt. But the forces of competition in the emerging environment would ensure that the cost to the borrower remains at the minimum level. With its strong financial position, geographical spread and highly motivated staff, the bank is well placed to meet the challenges and remain a leader in the expanded and transformed financial system of India.