VOLUME-7, ISSUE-12, DECEMBER-2018 • PRINT ISSN No 2277 - 8160

Original Research Paper

Economics

ROLE OF INDUSTRIAL FINANCIAL CORPORATION OF INDIA (IFCI)

Dr.S.Thirumaran

M.A., M.Phil., B.Ed., Ph.D., Associate Professor & Research Advisor, PG & Research Department of Economics, National College (Autonomous)

KEYWORDS : Finance Institutions – Industrial Finance – IFC – IDBI.

INTRODUCTION

After the Second World War, there was a great need for the expansion of industries in India. Again with the introduction of planned industrial development, the industrial finance became inadequate to meet the requirements of industrial development of the country. Thus in July 1, 1948 the Industrial Finance Corporation of India (IFCI) was established by the Government under a special Act.

The prime object of IFCI is to provide medium term and long-term finance to public limited companies and co-operative organisations. The authorised share capital of the IFCI is now raised to Rs 20 crore. The IDBI, scheduled banks, insurance companies, investment trusts and co-operative banks are the shareholders of the IFCI.

Later, by an amendment to the IFCI Act, private limited companies have become eligible to get financial assistance from IFCI. After the establishment of Industrial Development Bank of India (IDBI) in 1964, the IFCI became a subsidiary to the IDBI. Again on 24th March, 1993 the Industrial Finance Corporation (Transfer of Undertaking and Repeal) Bill 1993 was passed in the Parliament in order to privatize the I.F.C.I.

Now I.F.C.I. would be free to raise resources from the open market and face competition. Moreover, with effect from 1st July, 1993, the IFCI has been converted into a public limited company and it is renamed as Industrial Finance Corporation of India Ltd.India is a developing economy. But the progress of industry is very slow. This is mainly due to the non-availability of finance. Hence, the supply of adequate finance is required for the development of industries in India. Our National Government is fully aware of the said problem. Accordingly, various agencies have been set up for the supply of industrial finance to the public and private limited companies. One such agency is the Industrial Finance Corporation.

Establishment of Industrial Finance Corporation of India In 1948, the Government of India set up Industrial Finance Corporation of India (I.F.C.I) with a view of providing medium and long term finance to industries.

The Industrial Finance Corporation started with the authorized share capital of Rs. 10 crores divided into 20,000 share of Rs. 5,000 each. It can also issue bonds up to five times of its paid up capital. The Corporation is authorized to borrow from the Reserve Bank of India, the Central Government and the World Bank, in order to increase its resources.

FUNCTIONS

The Industrial Financial Corporation of India is authorized to grant loans to industrial companies repayable with twenty five years grants, loans in foreign currency to certain industries, under write bonds, shares and debentures etc. provided they are disposed of by the I.F.C.I. within seven years, guarantee deferred payments by importers of capital goods of foreign manufacturers, accept deposit from the local institution, guarantee loans from any bank of a foreign country, subscribe shares of industrial companies.

The corporation's role now extends to the entire industrial spectrum in the country. The facilities and services being provided by IFCI can be deemed to fall broadly under (a) project finance, (b) financial services and (c) promotional services.

The Industrial Finance Corporation has played a vital role in our industrial economy. Since its inception, the Corporation has provided financial assistance to the underdeveloped industrial concerns. The Corporation has the power to examine the financial aspects of the industrial companies and give valuable advice to the management for improving their schemes.

CAPITAL OF THE STATE CORPORATIONS

Each corporation can have a maximum authorized capital of Rs. 5 crores. The shares of the corporation can be purchased by the general public as well. The State Government concerned guarantees a minimum dividend of 3 1/2 per cent on the share capital.

The dividend however, cannot exceed 5 per cent on the share capital. The corporations can augment their resources by floating bonds and debentures. By the end of March 1974, the corporations had issued bonds amounting to Rs. 116 crores. The corporations can borrow from the Reserve Bank of India as well as from the State Governments.

FUNCTIONS OF THE STATE CORPORATIONS

State Finance Corporations provide financial assistance either by way of granting loans or advances or subscribing to debentures of industrial concerns, or by guaranteeing loans raised by industrial concerns or by underwriting the stocks, shares, bonds and debentures. The corporation can assist private limited concerns and partnership firms as well. The loans are granted against mortgaged assets and technical soundness of the project is given foremost consideration while granting loans.

WORKING OF INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

Since its inception in 1948, the IFCI has sanctioned net financial assistance up to March 1993 to the extent of Rs 15,430 crore against which the total disbursement was Rs 10,380 crore. The industries of high national priority which have been receiving financial assistance from IFCI include fertilizers, cement, power generation, paper, industrial machinery etc.

Again, the IFCI has registered an impressive performance by earning a net profit of 18.81 per cent, i.e.. to the tune of Rs 217.59 crore during the period of half year ending on September 30, 1997 as against Rs 183.14 crore during the same period of the previous year. In recent years about 50 per cent of the assistance has been advanced to industrial projects located in backward districts of country. However, in recent years, the performance of IFCI is not at all satisfactory. Total amount of loan sanctioned by IFCI initially increased from Rs 3,746 crore in 1993-94 to Rs 6,580 crore in 1995-96 and then it gradually declined to Rs 1,050.4 crore in 2006-07 and then increased to Rs 4,015 crore in 2008-09.

But the total amount of loan disturbed by the IFCI which initially increased from Rs 2.163 crore in 1993-94 to Rs 4,586.5 crore in 1995-

96 and then drastically fell to Rs 2,164.7 crore in 2000-01 and then to Rs 278 crore in 2003-04 and then finally to only Rs 3,311 crore in 2008-09.

In 2012-13, total amount of financial resources sanctioned and disbursed by the IFCI stood at Rs 2,219 crore and Rs 1,504 crore respectively. Unfortunately, IFCI has been worse affected due to its huge non-paying assets, willful defaults etc.

The Government of India have also made an attempt to rehabilitate IFCI by subscribing Rs 400 crore through long term convertible bonds and also advised IDBI, SBI and LIC for extending assistance worth Rs 200 crore each. In order to meet its outstanding liabilities the Government of India has provided Rs 2,096 crore as loan during 2002-03 and 2003-04.

Again the share of non-performing assets (NPAs) in net loans advanced by IFCI stood at 28.0 per cent as at the end of March, 2005. Even then the IFCI is gradually becoming sick. The Government of India is now seriously considering merging IFCI with a large PSU bank such as Punjab National Bank.

PROBLEMS OF THE STATE CORPORATIONS

1) The default in repayment of loans is very high with the result that the ability to roll over the funds is considerably restricted.
2) Most of the small business units which get loan from the Corporations do not follow accepted principles and practices of accountancy. Thus it becomes difficult to keep watch over the expenditure.
3) While granting loans to small scale industries, peculiar problem faced is that in these industries individuals very much count. An industry which might be running quite efficiently under one man might become inefficient after the death of the same man. Thus continuity of efficient management can hardly be assured. This enhances the difficulties of the Corporations.
4) While granting loans proper securities should be available, but in many cases there are not with the result that Corporations find it difficult to safely advance loans.
5) In order to ensure the return of loan, the Corporation is required to observe certain rules and regulations, but the difficulty is that the industries which approach for getting loans do not appreciate these difficulties and create many problems for the management.
6) The Corporations have no adequately trained staff to provide advisory service to the industry, when a request for financial assistance is received. In case permanent staff is maintained for processing each type of request that will be too costly for the Corporation and ad hoc staff cannot be depended upon.
7) The Corporation lack self-sufficient organizational set up and also specialized trained staff, thus there is no continuity in policy formulation and execution.
8) The Corporations have very limited financial resources, keeping in view the fact that new industries are coming up and more and more requests are being received from these industries for financial assistance.
9) The Corporation has no adequate provision, resources and arrangements to survey backward areas, which have potentialities for growth with the result that their growth suffers.
10) There is overlapping in the activities of state financial Corporations and commercial banks resulting in competition rather than cooperation. The competition creates many complex problems.

SUGGESTIONS FOR THE IMPROVEMENT OF WORKING

1) Due place and consideration should be given to the integrity and honesty of the persons applying for the loan, instead of rigid observance of the rules.
2) Conferences of representatives of the Corporations should be periodically convened to exchange ideas on points of common interest and also to enable each Corporation to get benefit of the experience of the others.
3) State governments should provide interest free loans to the Corporations to augment their financial resources.
4) Wastages of money and resources should be located and avoided.
5) Repayment schedule should be so arranged that at the time of repayment small scale and medium industries do not get burdened.
6) More concessions should be given to small scale industries, while granting loans.
7) Dividend requirements should be waived for some time, till Corporations financial resources get augmented.

RESERVE BANK OF INDIA WORKING GRO RECOMMENDATIONS

It appears that the State Governments are quite conscious of the difficulties of small scale and cottage industries. The problems have been discussed at the conference of the representatives of the State Financial Corporations. International development Financial Association has promised a $25 million credit in foreign exchange to these Corporations.

The Reserve Bank of India also set up in 1970 a working group to review the working of these Corporations and report of group was made available to the Bank in 1972. The working group recommended augmentation of financial resources of the Corporation and also suggested that scope of assistance of these Corporations should be enlarged. In the opinion of the group management of the Corporation should be strengthened, cost of resources lowered and recovery of loans quickened.

The working group came out with the recommendation that at least 2/3 of the assistance disbursed by the Corporations should go to small units and that dividend obligations should be waived for some time. In 1972 State Financial Corporations Act was amended to enable the Corporations to widen their functional role and to extend geographical coverage.

CONCLUSION

Thus it has been suggested that steps should be taken to improve the administrative machinery of the Corporation and also to increase its financial resources. The Industrial Finance Corporation has to see that all States in India receive financial aid from it on a sound economic basis.

REFERENCES

1. Agarwala N., Indian Economics (2002), Wiley Eastern Limited, New Delhi.
2. Nurkse Ragnar: Problem of Capital Formation in Underdeveloped Countries, OUP., London, 1962
3. Operational Statistics, IDBI, Publications Mumbai, Various issues.
4. RBI Bulletin, RBI Publications Mumbai, Various Issues.
5. Report on Development Banking, IDBI Publications Mumbai, Various Issues.