



## The Pattern of Resource Mobilization and Application of Funds of IFCI- An Empirical Analysis

### KEYWORDS

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### Introduction

IFCI Ltd. was set up in 1948 as Industrial Finance Corporation of India, a Statutory Corporation, through 'The Industrial Finance Corporation of India Act, 1948' of Parliament to provide medium and long term finance to industry. After repeal of this Act in 1993, IFCI became a Public Limited Company registered under the Companies Act, 1956. IFCI became a Government controlled company subsequent to enhancement of equity shareholding to 55.53% by Government of India on December 21, 2012. In April, 2015, Government of India has acquired six crores Preference Shares of IFCI Ltd. of Rs.10/- each from six public sector banks. With this, the shareholding of the Government of India in paid-up share capital of IFCI has been increased to 51.04% and IFCI has become a Government Company under Section 2(45) of the Companies Act, 2013. IFCI is also a Systemically Important Non-Deposit taking Non-Banking Finance Company (NBFC-ND-SI), registered with the Reserve Bank of India.

The primary business of IFCI is to provide medium to long term financial assistance to the manufacturing, services and infrastructure sectors. Through its subsidiaries and associate organizations, IFCI has diversified into a range of other businesses including broking, venture capital, financial advisory, depository services, factoring etc. As part of its development mandate, IFCI was one of the promoters of National Stock Exchange (NSE), Stock Holding Corporation of India Ltd (SHCIL), Technical Consultancy Organizations (TCOs) and social sector institutions like Rashtriya Gramin Vikas Nidhi (RGVN), Management Development Institute (MDI) and Institute of Leadership Development (ILD).

The Government of India, as per the Budget for FY 2014-15 has mandated IFCI for setting up of a Venture Capital Fund under Social Sector initiatives with an aim to promote entrepreneurship among the Scheduled Castes (SC) and to provide concessional finance to them. The fund has been put in place after getting approval of SEBI under AIF regulation, 2012 with contribution of Rs.200 crore from Government of India. IFCI has committed Rs.50 crore as lead investor and sponsor of the Fund. IFCI's subsidiary IFCI Venture Capital Funds Ltd., is the Investment Manager of the Fund. Government of India has also provided Rs.200 Crore to IFCI Ltd. in March 2015 under the Scheme of Credit Enhancement Guarantee for Scheduled Caste (SC) Entrepreneurs for providing guarantee to banks against loans to young and start-up entrepreneurs belonging to Scheduled Castes with an objective to encourage entrepreneurship in lower strata of the society.

### Financing activities of IFCI

1. Project Financing
2. Financial services
3. Corporate advisory services
4. Corporate advisory services to foreign investors

### Recent Trends in Resource Mobilization Pattern of IFCI:

Now, it is proposed to analyze the resource mobilization pattern of IFCI. The principle sources of funds to the IFCI are:

- Share Capital
- Reserves and Surplus
- Borrowings (in rupees and foreign currencies)

### The Pattern of Application of Funds of IFCI:

In-order to analyze the application of funds of IFCI the application of funds is made by grouping various assets;

- Loans to assisted concerns
- Investments
- Fixed Assets
- Current Assets and Advances
- Other Assets.

### Objectives of the study

The following objectives have been framed to assess the trends of resource mobilization and investment pattern of IFCI

- To analyze the trends in resource mobilization pattern of IFCI during the period from 2001-02 to 2013-14.
- To examine the pattern of the application of funds during the study period.

### Research methodology

The data have been collected from IFCI bank annual reports as secondary source. For the purpose of analysis of data, statistical techniques such as average, growth and ANOVA have been exercised.

### Hypothesis

Further, the data have been statistically inferred by developing the following null hypotheses:

- H1:** There is no significance difference among various components of capital structure as far as mobilization of funds is concerned; and  
**H2:** There is no significance difference among various components of investment pattern as far as application of funds is concerned.

### Resource Mobilization pattern of IFCI:

The data pertaining to the trends in resource mobilization pattern of IFCI for the period of 14 years, from 2001-02 to 2013-14 is presented in Table - 1.

TABLE - 1					
RESOURCE MOBILIZATION PATTERN OF IFCI					
(Rs. In Crores)					
Year	Share Capital	Reserves & Surplus	Borrowings in Rupees	Borrowings in Foreign Currency	Total
2001-02	1067.95	497.66	17489.21	2299.48	21354.3
	(5.00)	(2.3)	(81.9)	(10.8)	(100)

2002-03	1067.95	469.7	18113.27	2089.72	21740.64
	(4.9)	(2.2)	(83.3)	(9.6)	(100)
2003-04	1067.95	454.95	15408.16	1822.02	18753.08
	(5.7)	(2.4)	(82.2)	(9.7)	(100)
2004-05	1067.95	447.42	13256.8	1768.15	16540.32
	(6.5)	(2.7)	(80.1)	(10.7)	(100)
2005-06	1067.95	442.98	12066.78	1611.4	15189.11
	(7.00)	(3.00)	(79.4)	(10.6)	(100)
2006-07	1067.95	873.84	11452.5	1471.78	14866.07
	(7.1)	(5.8)	(77.1)	(10.00)	(100)
2007-08	1190.32	2134.55	9595.91	627.08	13547.86
	(8.79)	(15.8)	(70.8)	(4.6)	(100)
2008-09	1108.29	2632.47	9042.49	631.29	13414.54
	(8.2)	(19.6)	(67.4)	(4.8)	(100)
2009-10	1001.68	3608.12	13028.27	534.19	18172.26
	(5.5)	(19.8)	(71.7)	(3.00)	(100)
2010-11	1001.68	4001.72	18737.72	526.85	24267.97
	(4.1)	(16.4)	(77.3)	(2.2)	(100)
2011-12	1001.68	4534.07	000.0	000.0	5535.75
	(18.1)	(81.9)			(100)
2012-13	1925.88	4757.31	000.0	000.0	6683.19
	(28.8)	(72.42)			(100)
2013-14	1924.96	5005.64	000.0	000.0	6980.6
	(27.58)	(72.42)			(100)
Total	15562.19	29860.43	138191.11	13381.96	197045.69
Average	1197.09	2296.96	13819.11	1338.20	15157.36

Source: Various issues of Annual Reports

### The analyses of data in Table - 1 provides the following observations:

Analysis of data in table-1 is revealed that the IFCI is mostly depends upon borrowed funds from Indian Capital Market as well as Foreign Capital Market during the under period review. Borrowings from the Indian Capital Market by issue of bonds, borrowings from the Government and IDBI contributing from 67.4 percent to 83.3 percent. In the year 2002-03 the borrowings in rupees constituting the highest of 83.3 percent of the cumulative resources of IFCI with Rs.18, 113.27 Crores.

Whereas in the year 2008-09 it was declined to 67.4 percent of the cumulative resources with an amount of Rs.9,042.49 crores. The average amount of borrowings in rupees constituted Rs.13, 819.11 crores from the period of 2001-02 to 2013-14. Similarly the borrowings in foreign currency contributing an average amount of Rs.1, 338.20 crores during the period of the study.

### Share Capital

With regard to ownership share capital there was no change from 2001-02 to 2006-07 however during 2007-08 and 2008-09 the Government of India acquired some preference shares of the company and consequently increased its holding, similarly in the year 2012-13 also the proportion of equity share capital increased and reached to Rs.1, 925.88 crores which constitute 28.8 percent of total resources. During 2013-14 due to the redemption of some preference shares the share capital was reduced to Rs.1, 924.96 crores.

The share capital position of IFCI is varied between 4.1 percent and 27.58 percent. Share capital of IFCI consists of both equity share capital and preference share capital. Total share capital constituting only 5 percent of cumulative resources of IFCI in the year 2001-02 than after by gradual increasing it was reached to around 28 percent in the year 2013-14.

### Reserves and Surpluses

The reserves and surpluses also contributing the significant amount has its owned funds. Generally the reserves of IFCI consist of;

- Capital Reserve.
- Capital redemption reserve for preference share.
- Debentures redemption reserve for preference share.
- Specific grant from Government of India in terms of KFW agreement out of interest differential funds.
- Share premium account.
- Special reserve
- Revaluation reserve
- Benevolent reserve fund
- General reserve

### Surplus

It is also reveals that the position of reserves and surplus of IFCI from 2001-02 to 2013-14. It is observed that the reserves and surpluses constituting very in significant amount of 2.3 percent to 5.8 percent from 2001-02 to 2006-07. Than after it was abnormally increased by 15.8 percent with an amount of Rs.2, 134.55 crores in the year 2007-08. Than after it was gradually increased year after year and reached to 72.42 percent with an amount of Rs.5,005.64 crores in the year 2013-14. It is concluded that the resource mobilization pattern of IFCI is dominated by borrowed funds than its owned funds almost in every year during the period under review.

### Borrowings

IFCI's main dependents for funds has been on borrowing both within country and outside the country with in the country IFCI borrows funds from the Government of India in terms of KF Agreement for interest differential funds. The principle source of rupees borrowings has been the bonds issued by IFCI carrying Government guarantees. Such bonds for eligible for subscription by commercial banks, under statutory liquidity requirements after the conversion of IFCI into a company it has raised funds in the capital market related terms. With substantial rise in its operations IFCI has been increasingly relying upon market borrowing particularly, when Government decided that IFCI should not depend on it, for its finances. But augment its resources from market borrowings. The market borrowing of IFCI of through issuing of bonds and debenture.

For meeting the format change requirements of its clients, IFCI rises Foreign Currency loans through the following two ways.

Lines of Credit – From KFW, Asian Development Banks and other Foreign Banks.

Commercial borrowings – through syndicated loans.

Besides, the above, the borrowing also consist of fixed deposits, certificate of deposit and other long term borrowings etc.

Further it is proposed to analyze the data by exercising ANOVA with the following null Hypothesis:

**HO:** There is no significant difference among the components of capital structure as far as resource mobilization is concerned.

**Table-2**  
ANOVA

Anova: Single Factor					
SUMMARY					
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>	
Share Capital	13	15562.19	1197.092	10695.66	
Reserves & Surplus	13	29860.43	2296.956	35009.91	

Borrowings in Rupees	13	138191.1	10630.09	45798907		
Borrowings in Foreign Currency	13	13381.96	1029.382	703578.3		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	8.24E+08	3	2.75E+08	21.91644	4.4E-09	2.798061
Within Groups	6.01E+08	48	12527608			
Total	1.43E+09	51				

It is evident from the ANOVA result that the calculated P value (4.4) is greater than the F-Crit value of (2.79), as such the null hypothesis stands rejected. Hence, it has been statistically inferred that there is a significance difference among the various components as far as mobilization of funds is concerned.

**Pattern of application of funds:**

The data of application of funds of IFCI for the period of lost 13 years from 2001-02 to 2013-14 in the Table - 3

**Table-3**  
**Application of funds of IFCI**

Year	Loans to assisted concerns	Investments	Fixed Assets	Other Assets	Total
2001-02	14751.65 (69.08)	4327.01 (20.26)	631.84 (2.96)	919.19 (4.30)	21354.50 (100)
2002-03	13212.76 (60.77)	3820.33 (17.57)	613.14 (2.82)	1160.31 (5.34)	21741.47 (100)
2003-04	10098.75 (53.85)	3563.64 (19.00)	587.83 (3.13)	4378.38 (23.34)	18753.14 (100)
2004-05	8099.72 (48.97)	2834.83 (17.14)	563.55 (3.40)	4699.06 (28.41)	16540.32 (100)
2005-06	6522.16 (42.93)	2068.90 (13.62)	541.28 (3.56)	4760.25 (31.34)	15191.29 (100)
2006-07	6051.78 (40.71)	2170.53 (14.60)	949.18 (6.38)	3518.62 (23.66)	14866.07 (100)
2007-08	5395.14 (28.56)	2270.72 (12.02)	922.64 (4.88)	2037.72 (10.79)	18888.70 (100)
2008-09	7019.90 (34.46)	4038.76 (19.83)	816.85 (4.01)	1726.31 (8.47)	20370.72 (100)
2009-10	10171.81 (35.91)	5882.43 (20.77)	1431.17 (5.05)	1387.44 (4.90)	28325.14 (100)
2010-11	14399.85 (37.25)	8005.56 (20.71)	1200.04 (3.10)	1020.91 (2.64)	38655.25 (100)
2011-12	9819.07 (35.16)	8728.29 (31.26)	1165.92 (4.18)	836.92 (3.00)	27923.70 (100)
2012-13	10542.78 (41.08)	5955.20 (23.21)	1172.59 (4.57)	726.79 (2.83)	25662.75 (100)
2013-14	16598.59 (57.63)	5751.86 (19.97)	1147.12 (3.98)	682.04 (2.37)	28801.19 (100)
Total:	132683.96	59418.06	11743.15	27854.03	297074.24
AVERAGE	10206.46	4570.62	903.32	2142.62	22851.86

Source: Various issues of Annual Reports.

Note: NA: Data not available.

**Loans to assisted concerns:**

It is observed on the analysis of the data in table - 3 that:

With regard to the loans to assisted concerns the data reveals that IFCI sanctioned and disbursed the net assistance of Rs.14, 751.65 crores during the year 2001-02, in keeping with the ongoing consolidation of operations. The lowest amount of loans assisted to various activities is Rs.5, 395.14 crores in the year 2007-08. As against this the highest amount of loans assisted to various subsidiary companies which synergized their operations with IFCI is Rs.16, 598.59 crores which constitute 57.63% of total application of funds in the year 2013-14.

The average amount of total loans assisted to concerns is Rs.10, 206.46 crores during the period under review. It can be concluded that around 35 to 70 percent of total funds used to extend the loans to assist various concerns during the period of the study.

**Investments:**

The important component of application of funds is investments which constitute around 12 to 31 percent of total application of funds during the period under review. The IFCI Investments are classified under two categories i.e., current and long term or value in accordance with RBI guidelines as applicable to Non-Banking Financial Companies (NBFCs).

(1) Long term investments are carried at acquisition cost. The RBI guidelines prescribe Accounting Standard - 13 on "Accounting for investments for valuation of long term investments.

Accordingly provision is made for diminution other than temporary on an individual basis. However, long term investments in equity shares with Firm buy-back commitment are assessed for diminution other than temporary only when there is a default in buy-back commitment by the promoter/Promoter group and provision is made accordingly an individual basis.

(2) Current investment is carried at the lower of cost or fair value on an individual basis. However, appreciation if any, within the category is available setoff.

It is evident from the data of the table-3 that the total investments moved between Rs.2068.90 crores which constituting 13.62 percent in the year 2005-06 and Rs.18, 728.29 crores which constituting 31.26% of the total application of the funds in the year 2011-12. The average amount of investments stood at Rs.4,575.62 crores.

**Fixed Assets:**

The fixed assets if IFCI which are long term tangible piece of property that company owns and uses in the production of income. The fixed assets include Buildings, Real Estate, equipment, furniture etc.

It is evident from the data of the Table 4.1 that the IFCI have used the minimum amount of funds at 2.82% and the maximum amount of funds 6.38% for fixed assets in the study period from 2001-02 to 2013-14. It is observed that there was no clear cut trend emerged in the application of funds in the fixed assets. The fixed assets are capitalized at cost including directly attributable cost of bringing the asset to the working condition for intended use, thus, the fluctuations were observed from year to year. The average amount of funds Rs.903.32 crores used in fixed assets in the period of 13 years study.

**Current Assets and Advances:**

Current assets is the another important component in the application of Funds of IFCI. The current assets and advances include;

- Current Assets:
- Accrued Income.
- Assets acquired in settlement of dues and held for sale.
- Sundry Debtors.
- Cash and Bank Balances

**Advances:**

- Advance tax paid
- Other loans and advances
- Amount receivable from Government of India
- Sundry Deposits
- Pre-paid expenses

The data reveals that the lowest amount of funds Rs.124.54 crores with 0.66% of total application funds noted in the year 2003-04 as against this the highest amount of funds invested in current assets Rs.14,028.89 crores with 36.29% of total application of funds is evident in the year 2010-11. The funds used in different types of current assets are fluctuating from year to year and no clear cut trend was emerged in the period of the study. However the average amount of Rs.5, 028.85 crores employed in current assets and advances in the period of 13 years from 2001-02 to 2013-14.

**Other Assets:**

With regard to the other assets which include differed taxes, miscellaneous expenditure and profit loss account balance constituting in significant amount of funds. It is observed that the average amount of funds Rs.2, 142.62 crores used in the other assets. The funds used in the other assets varied from 2.37% to 31.34%. Only in the year 2003-04, 2004-05 and 2005-06 the highest percentage of amount used in the other assets at 23.34%, 28.41%, 31.34% respectively. In all the remaining years the application of funds was negligible.

Further it is proposed to analyze the data by exercising ANOVA with the following null Hypothesis

**H2:** There is no significance difference among various components of investment pattern as far as application of funds is concerned.

**Table-4**

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
Loans to assisted concerns	13	132684	10206.46	13082764		
Investments	13	59418.06	4570.62	4696581		
Fixed Assets	13	11743.15	903.3192	90123.48		
Other Assets	13	27853.94	2142.611	2549721		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	6.64E+08	3	2.21E+08	43.33863	1.05E-13	2.798061
Within Groups	2.45E+08	48	5104798			
Total	9.09E+08	51				

It is evident from the ANOVA result that the calculated P value (1.05) is less than the F-Crit value of (2.79), as such the null hypothesis stands accepted. Hence, it has been statistically inferred that there is no significance difference among the various components as far as application of funds is concerned.

**Conclusion:**

The above analysis of resource mobilization of IFCI has reveue that there is upward trend in the deposits of past eight years though a

borrowing from these institutions is encouraging the reserves and surplus. It is playing an important role among all the internal resources. In fact the company augmenting these resources from time to time by public issues of bonds, equity and equity linked offerings in the markets which disserve appreciation.

According to the above analysis of application of funds of IFCI bank in loans, investments, fixed and other assets are growing during the study period. There is a significant growth in investment and loans and advances during past one decade of IFCI and also improved in fixed assets of the bank. In other words, IFCI increasing the assets not only in the form of fixed also investing other form during past ten years.

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