

NPTEL ONLINE CERTIFICATION COURSES

Financial Institutions and Markets

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Non-Banking Financial Companies (NBFCs)-II

Infrastructure Finance Company (IFC)

- IFC is a non-banking finance company (a) which deploys at least 75 per cent of its total assets in infrastructure loans, (b) has a minimum Net Owned Funds of ₹ 300 crore, (c) has a minimum credit rating of ‘A ‘or equivalent d) and a CRAR of 15%.
- Infrastructure loan” means a credit facility extended by NBFCs to a borrower for exposure in the infrastructure sub-sectors like transport, energy, water and sanitation, communication and social and commercial infrastructure.
- **Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC)**:
  - IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

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Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI)

- NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the certain specific criteria
- Loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ₹ 1,00,000 or urban and semi-urban household income not exceeding ₹ 1,60,000
- Loan amount does not exceed ₹ 50,000 in the first cycle and ₹ 1,00,000 in subsequent cycles
- Total indebtedness of the borrower does not exceed ₹ 1,00,000
- Tenure of the loan not to be less than 24 months for loan amount in excess of ₹ 15,000 with prepayment without penalty
- Loan to be extended without collateral
- Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs
- Loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

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Non-Banking Financial Company–Factors (NBFC-Factors)

- NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.
- Factoring is a financial service in which the business entity sells its bill receivables to a third party at a discount in order to raise funds.

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Concept of Factoring

- The seller makes the sale of goods or services and generates invoices for the seller. The business man then sells all its invoices to a third party called the factor. The factor pays the seller, after deducting some discount on the invoice value. The rate of discount in factoring ranges from 2 to 6 percent. The factor does not make the payment of all invoices immediately to the seller. Rather, it pays only up to 75 to 80 percent of invoice value after deducting the discount. The remaining 20 to 25 percent of the invoice value is paid after the factor receives the payments from the seller's customers.
- Functions of Factor
  - Maintenance of sales ledger
  - Financing
  - Credit protection
  - Collection of money

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Advantages of Factoring

- It reduces the credit risk of the seller.
- The working capital cycle runs smoothly as the factor immediately provides funds on the invoice.
- Sales ledger maintenance by the factor leads to a reduction of cost.
- Improves liquidity and cash flow in the organization.
- It leads to improvement of cash in hand which helps the business to pay its creditors in a timely manner which helps in negotiating better discount terms.
- It reduces the need for the introduction of new capital in the business.

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Disadvantages

- The cost of factoring is very high
- Factors often avoid taking the responsibility for risky debtors
- Factor collecting the money on behalf of the company can lead to stress in the company and the client relationships

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Mortgage Guarantee Companies (MGC)

- MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ₹ 100 crore.
- Mortgage guarantee or mortgage insurance, is an Insurance product that helps cover the risk of default on a Home Loan. This is a cover provided to lending institutions such as banks and housing finance companies.

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NBFC-Non-Operative Financial Holding Company (NOFHC)

- It is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC)
- The objective of bringing into the concept of the NOFHC is to separate several financial activities carried out by the same holding company.
- The prudential norms would be on similar lines as that of banks.

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Residuary Non-Banking Company (RNBC)

- Residuary Non-Banking Company is a class of NBFC which is a company and has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner and not being Investment, Asset Financing, Loan Company.
- Offer a rate of interest of not less than 5% per annum on term deposits and 3.5% on daily deposits, both compounded annually.
- Cannot accept deposits for a period less than 12 months and more than 84 months
- Cannot offer any gifts/incentives to solicit deposits from public
- Accept deposit only against issue of proper receipt.
- The receipt should bear the name of the company and should be signed by an authorized official of the company.
- The receipt should mention the name of the depositor, the amount in words as well as figures, the rate of interest payable on the deposit amount and the date of repayment of matured deposit along with the maturity amount.

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New Regulatory Framework of NBFCs Registered with RBI

- The minimum Net Owned Fund (NOF) criterion for existing NBFCs (those registered prior to April 1999) has been increased to Rs. 20 million.
- In order to harmonise and strengthen deposit acceptance regulations across all deposit taking NBFCs (NBFCs-D) credit rating has been made compulsory for existing unrated asset finance companies (AFCs) by March 31, 2016.
- For NBFCs-ND-SI and all NBFCs-D categories, tighter prudential norms have been prescribed – minimum Tier I capital requirement raised to 10 per cent
- Non-deposit taking NBFCs shall henceforth be categorised into two broad categories: NBFCs-ND (those with assets less than Rs. 5 billion) and NBFCs-ND-SI (those with assets of Rs. 5 billion and above – deemed as systemically important) and regulations will be applied accordingly

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- Bhole, L. M., and Mahakud, J. *Financial institutions and markets: structure, growth and innovations, 6e*. Tata McGraw-Hill Education, 2017.

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Venture Capital

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What is Venture Capital?

- Venture Capital is “a fund established as a company/trust which raises money through loans, donations, issue of securities or units as the case may be and makes or proposes to make investments in accordance with the regulations”.[SEBI Regulation 1996]
- It is private or institutional investment made in the early-stage / start-up companies/ new ventures.
- It is the capital that is invested in businesses that are small; or exist only at an initial stage, but have high growth potential.

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Characteristics

- Long time investment horizon
- Lack of liquidity
- Huge risk
- Equity contribution
- Management participation

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Functions

- Finance new and speedily growing companies
- Acquire equity shares
- Support the development of new products or services
- Add value to the venture by providing active inputs.

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How does a VCF work?

Venture Capital can be formed in:

- Trust
- Company

Investors in venture capital funds are:

- Financial institutions
- Banks
- Pension Funds
- Corporations
- High Net worth individuals; etc

Venture capitalists act in the advisory capacity in the company and render their professional expertise to the venture, apart from capital investment

Typically funds are pooled in for a period of around 10 years and investing it in venture capital undertakings for a period of 3 to 5 years with an expectation of high returns.

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Advantages

- VCF infuse long term equity finance, providing a concrete capital support for growth in future.
- Venture capitalist give realistic guidance and assist the companies on the basis of their past experience.
- Venture capitalist has good networks in diverse areas adding value to the company.
- May provide additional funds to finance growth if required.
- Venture capitalists are well versed with the process of listing and initial public offering (IPO) which can further help in listing of the companies. They can also assist in trade sale.

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Stages of Financing

1. Seed Money

Low level finance required to establish a new idea.

2. Start-up

Firms in early phase which need funds for expenses related to marketing and product development.

3. First-Round

Initial sales and manufacturing funds.

4. Second-Round

Working capital for early stage companies that are selling product, but have not started earning profits.

5. Third-Round

Also known as Mezzanine financing. Funds required for the expansion of a newly profitable company .

6. Fourth-Round

Bridge financing and aimed to fund the "going public" process

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Financial Stage	Period (years)	Risk Perception	Activity to be financed
Seed Money	7-10	Excessive	To support a new idea or R&D of product development
Start Up	5-9	Considerably High	For initiating operations or developing prototypes
First Stage	3-7	High	For starting commercial production and marketing
Second Stage	3-5	Adequately huge	For market expansion and enhanced working capital requirement
Third Stage	1-3	Average	For market expansion, takeover & product development for profit making company
Fourth Stage	1-3	small	For aiding in public issue

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Methods of Venture Financing

- Equity shares
- Conditional loan
- Participating debentures
- Quasi equity

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Exit Route

- Initial public offer(IPOs)
- Trade sale
- Buy back by promoters
- Acquisition by another company

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Development of Venture Capital in India

- The concept of venture capital was formally introduced in India in 1987 by IDBI.
- In 1996 the regulatory environment of the industry was defined by the SEBI (Venture Capital Fund) Regulations, 1996 followed by the SEBI (Foreign Venture Capital Investor) Regulations, 2000 on the recommendation of Chandrasekhar committee.

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Registration of Venture Capital Funds

- VCF can be established as a trust under the Indian trust act or a company as defined under companies act 1956.
- An application for grant of certificate should be made to SEBI in Form A along with a fee of Rs 25,000, paid through a draft.
- The application for registration shall be complete in all respect. If SEBI discovers any discrepancy, the applicant will be given a time of thirty days to rectify the application, failing which it is liable to be rejected.
- SEBI after finding the eligibility of applicant will inform him. After that the applicant shall tender to SEBI the registration fee which is Rs 5 lacs and subsequently SEBI will issue the Certificate of registration.

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Guidelines for Foreign Venture Capital Funds Operating in India

- SEBI Foreign Venture Capital Investor Regulations prescribe the following investment guidelines, which can impact overall financing plans of foreign venture capital funds.
  - The foreign venture capital investor must disclose its investment strategy and life cycle to SEBI, and it must achieve the investment conditions by the end of its life cycle.
  - At least 66.67 per cent of the investible funds must be invested in unlisted equity shares or equity linked instruments.
  - Not more than 33.33 per cent of the investible funds may be invested by way of:
  - Subscription to initial public offer of a venture capital undertaking, whose shares are proposed to be listed.
  - Debt or debt instrument of a venture capital undertaking in which the foreign venture capital investor has already made an investment, by way of equity.
  - Preferential allotment of equity shares of a listed company, subject to a lock-in period of one year.
  - The equity shares or equity linked instruments of a financially weak or a sick industrial company (as explained in the SEBI FVCI Regulations) whose shares are listed.
  - A foreign venture capital investor may invest its total corpus into one venture capital fund.

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Venture Capital Funds in India

- Punjab Infotech Venture Fund
- Gujarat Venture Finance Ltd (GVFL)
- Kerala Venture Capital Fund Pvt Ltd.
- Canbank Venture Capital Fund
- SBI Capital Market Ltd
- IL&FS Trust Company Ltd
- Infinity Venture India Fund
- Walden International Investment Group
- HSBC Private Equity management Mauritius Ltd
- ICICI Venture Funds Ltd.
- IFCI Venture Capital Funds Ltd (IVCF)
- SIDBI Venture Capital Ltd (SVCL)

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- Bhole, L. M., and Mahakud, J. *Financial institutions and markets: structure, growth and innovations, 6e*. Tata McGraw-Hill Education, 2017.
- https://www.sebi.gov.in/

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Merchant Bank

Introduction

- Merchant Banking came into existence in 17th & 18th century in Italy & France.
- Merchant Banking officially came to India through Grindlays Bank in 1967.
- SBI floated its merchant banking division in 1972
- Recognized the requirements of upcoming class of Entrepreneurs for diverse financial services.

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Merchant Bank

- According to Mr. Rosenburg it is “an organization that underwrites securities for corporations, advices such clients on mergers, and is involved in the ownership of commercial ventures”.

- According to MOF, India “any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to the securities as manager; consultant adviser; or one rendering corporate advisory services in relation to such activities in the management” is called merchant banker.

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Major services offered by Merchant Bankers

- Project Counseling.
- Management of debt and equity offerings.
- Issue Management.
- Managers, Consultants or Advisers to the Issue.
- Underwriting of Public Issue.
- Portfolio Management.
- Restructuring strategies.
- Off Shore Finance.

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Functions of Merchant Banks

- **Promotional Activities** – Merchant Banks helps the entrepreneur in conceiving an idea, identification of projects, preparing feasibility reports, obtaining Government approvals and incentives etc.
- **Issue Management** - Management of issues refers to effective marketing of corporate securities viz., equity shares, preference shares and debentures or bonds by offering them to public. Merchant banks act as intermediary whose main job is to transfer capital from those who own it to those who need it .

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Functions of Merchant Banks(Cont..)

- **Credit Syndication** - Credit Syndication refers to obtaining of loans from single development finance institution or a syndicate or consortium. Merchant Banks help corporate clients to raise syndicated loans from commercials bank.
- **Project Counseling-** It includes preparation of projects reports, deciding upon the financing pattern, appraising the project relating to its technical, commercial and financial viability. It includes filling up of application forms for obtaining funds from financial institution
- **Acceptance credit and bill discounting:** Activities relating to the acceptance and discounting of bills of exchange, besides advancement of loans to business concerns on strength of such instruments. Collecting credit information and credit rating is part of this function.

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Functions of Merchant Banks(Cont..)

- **Portfolio Management** - It refers to the effective management of Securities i.e., the merchant banker helps the investor in matters pertaining to investment decisions. Taxation and inflation are taken into account while advising on investment in different securities. The merchant banker also undertakes the function of buying and selling of securities on behalf of their client companies. Investments are done in such a way that it ensures maximum returns and minimum risk.
- **Working capital Finance**: Merchant bankers provide the following services as a part of working capital finance
  - Assessment of working capital requirement
  - Preparing the application for the sanction of appropriate credit facilities
  - Providing assistance in negotiations with the banks.
  - Advising on issue of debenture for augmenting long term requirement of working capital.

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Functions of Merchant Banks(Cont..)

- **Mergers and acquisitions**: This is a specialized service provided by merchant bankers who arrange for negotiating acquisitions and mergers by offering expert valuation regarding the quantum and nature of consideration. The activities involved include:
  - Undertaking management audits to identify the areas of strength and weakness in order to help formulate guidelines for future growth.
  - Conducting exploratory studies on a global basis to locate overseas market, foreign collaborations, and joint ventures.
  - Obtaining approval from shareholders, depositors, creditors, government and other authorities.
  - Identifying organizations with matching characteristics.
  - Assisting in capital restructuring.
  - Assisting in legal compliance.

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Functions Of Merchant Banks(Cont..)

- **Leasing and Finance** – Many merchant bankers provide leasing and finance facilities. Some of them even maintain venture capital funds to assist the entrepreneurs. They also help companies in raising finance by way of public deposits.
- **Servicing Issues** – Merchant Bankers helps in servicing the shareholders and debenture holders in distributing dividends, debenture interest.
- **Other Specialized Services** – Merchant Banks also provide corporate advisory services on issues like mergers and amalgamations, tax matters, recruitment of executives and cost and management audit etc.

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SEBI Guidelines

- Multiple categories of merchant banker will be abolished and there will be only one equity merchant banker.
- The merchant banker is allowed to perform underwriting activity. For performing portfolio manager, the merchant banker has to seek separate registration from SEBI.
- A merchant banker cannot undertake the function of a non-banking financial company, such as accepting deposits, financing others' business, etc.
- A merchant banker has to confine himself only to capital market activities.
- SEBI gives authorization for a merchant banker to operate for 3 years only. Without SEBI's authorization, merchant bankers cannot operate.
- The minimum net worth of merchant banker should be Rs. 1 crore.
- Merchant banker has to pay authorization fee, annual fee and renewal fee.
- All issue of shares must be managed by one authorized merchant banker. It should be the lead manager.
- The responsibility of the lead manager will be clearly indicated by SEBI.
- Lead managers are responsible for allotment of securities, refunds, etc.
- Merchant banker will submit to SEBI all returns and send reports regarding the issue of shares.
- A code of conduct for merchant bankers will be given by SEBI, which has to be followed by them.
- Any violation by the merchant banker will lead to the revocation of authorization by SEBI.

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Categories of Merchant Bankers

Category-I

- Issue Management
- Advisor
- Consultant
- Manager
- Underwriter
- Portfolio Manager

Category-II

- Advisor
- Consultant
- Co-Manager
- Underwriter
- Portfolio Manager

Category-III

- Advisor
- Consultant
- Underwriter

Category-IV

- Advisor
- Consultant

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Capital Adequacy Norms

A merchant bank will be registered by SEBI in different Categories on the basis of Capital Adequacy Norms in terms of its Net worth.

- Category I – Rs. 5 cores
- Category II – Rs, 50 lakhs
- Category III – Rs. 20 lakhs
- Category IV – Nil

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Role of MB in issue Management

Principal steps in the issue of Prospectus

- Design and vetting of prospectus
- Nature of instrument
- Pricing of the issue
- Appointment of underwriters
- Appointment of bankers
- Appointment of registrars
- Appointment of brokers and principal brokers.

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Pre-Issue Obligation of MB

- Entering into an agreement with the body corporate
- Appointment of Compliance Officer
- Appointment of all other Intermediaries & coordinating with them
- Preparation of Offer Document of Letter of Offer or Prospectus and filing them with Registrar, Stock Exchange & SEBI
- Due Diligence Report
- Inter-Se Allocation of Responsibilities
- Pricing, Coordinating with the Stock Exchange for Book Building process including software, bidding terminals and book building
- Collection of application forms from bankers and statement of amount received
- Redresser of Investor Grievances
- **Post Issue Monitoring** - It includes screening of applications, deciding allotment procedure, mailing of allotment letters, share certificates and refund orders

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Code Of Conduct

- Should make all efforts to protect the interest of investors
- Should maintain high standards of integrity, dignity and fairness in conduct of business
- Should fulfill all obligations in a professional and ethical manner
- Should not discriminate among the clients
- Should endeavor to ensure that the inquiries, grievances are adequately dealt with in a timely and appropriate manner
- Should ensure that prospectus/letter of offer is available to investors at the time of issue

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Leading Merchant Bankers in India

- Public sector: SBI Capital Markets, Punjab National bank, IFCI Financial Services.
- Private sector: ICICI Securities, Axis Bank, Bajaj Capital, Tata Capital Markets, Yes Bank, Kotak Mahindra Capital Company, Reliance Securities
- Key Foreign Players: Goldman Sachs (India) Securities Pvt. Ltd, Morgan Stanley India Company Pvt. Ltd., Barclays Securities (India) Pvt. Ltd., Bank Of America, Citigroup Global Markets India Pvt. Ltd., DSP Merrill Lynch Ltd.

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Credit Rating Agencies

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Meaning Of Credit Rating & Credit rating Agency

A credit rating is an evaluation of the credit worthiness of a debtor, especially a corporation or a government. The ratings are expressed in alphabetical or numerical symbols.

A Credit Rating Agency is a company that assigns credit ratings, which rate a debtor's ability to pay back debt (considering timely interest payment and probability of default).

According to CRISIL, credit rating is “an unbiased and independent opinion as to issuer’s capacity to meet its financial obligations. It does not constitute a recommendation to buy , sell or hold a particular security”

According to Moody's , “ratings are designed exclusively for the purpose of grading bond according to their investment qualities”

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Need for Credit Rating

- Maintenance of investor's confidence.
- Protect the interest of investors
- Motivate savers to invest

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Advantages of Credit Rating for Company

- Improved corporate image
- Good for non popular companies
- Act as a marketing tool
- Reduced costs of borrowings
- Easy to raise resource
- Helps in growth and expansion

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Advantages of Credit Rating for Investors

- Helps in investment decision
- Choice of instruments
- Easy understandability of investment proposal
- Dependable credibility of issuer
- Advantages of continuous monitoring

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Credit Rating Agencies in India and Abroad

India

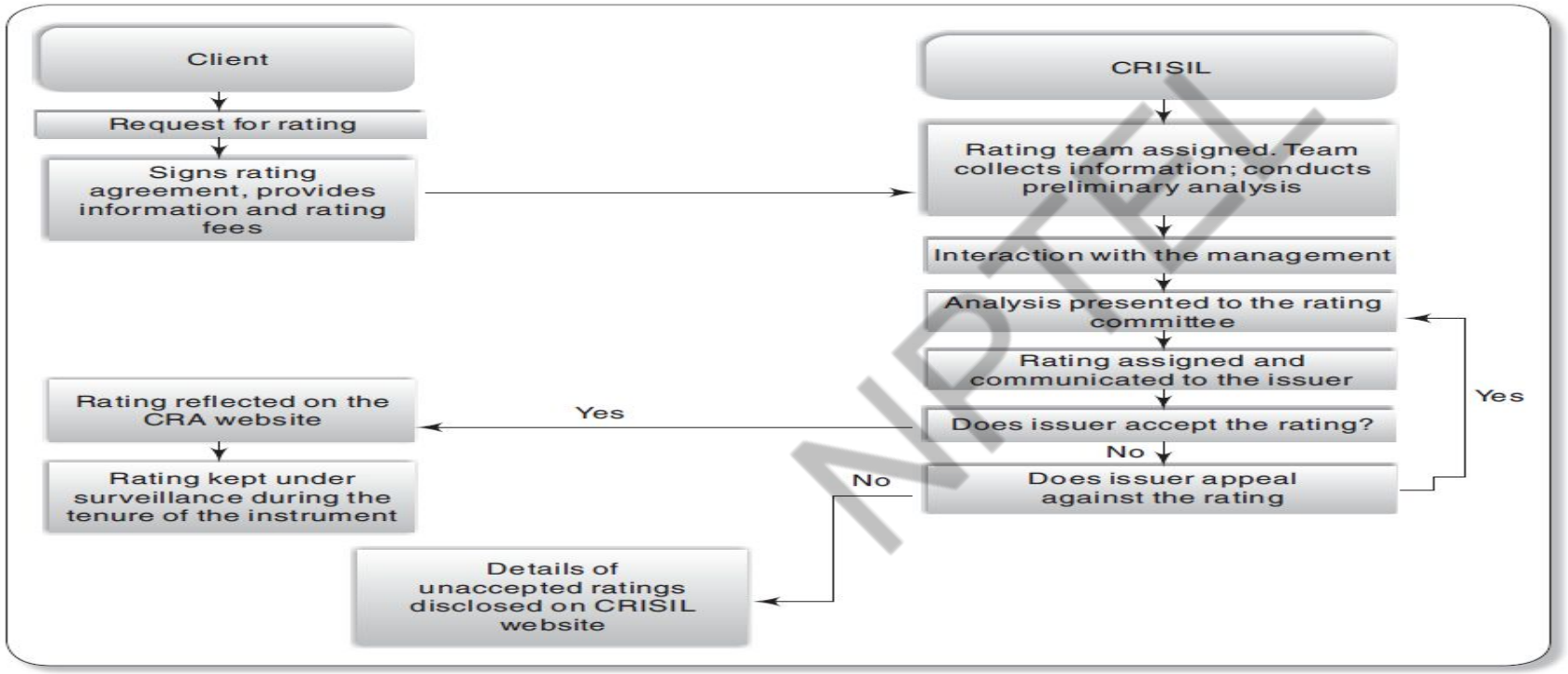
- Credit Rating and Information Services of India Ltd. (**CRISIL)**
- Investment information and Credit Rating Agency Ltd. **(ICRA)**
- Credit Analysis and Research Ltd. **(CARE)**
- Brickwork Ratings India Private Limited (BWR)
- SME Rating Agency of India Ltd. (SMERA**)**

Global Players

- Moody's
- Standard & Poor
- Fitch Ratings

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CRISIL's Rating Process



Source: www.crisil.com

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Credit Rating Methodology

- Business Analysis
- Financial Analysis
- Management Evaluation
- Geographical Analysis
- Regulatory & Competitive Environment
- Fundamental Analysis

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Credit Rating Methodology Cont…

Business Analysis

- Industry Risk
- Market Position
- Operating efficiency
- Legal position
- Size of business

Financial Analysis

- Accounting quality
- Earnings or profitability
- Cash flow analysis
- Financial Flexibility

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Credit Rating Methodology Cont…

Management Evaluation

- Management goals
- Plans and strategies
- Capacity to overcome unfavorable conditions
- Planning and controlling system

Geographical Analysis

- Multinational Presence
- Geographical advantages enjoyed by the company.
- Regional subsidies

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Credit Rating Methodology Cont…

Regulatory and Competitive Environment:

- Structure of the Financial System
- Regulatory framework of the financial system

Fundamental Analysis:

- Liquidity management
- Asset quality
- Profitability and financial position
- Interest and tax sensitivity

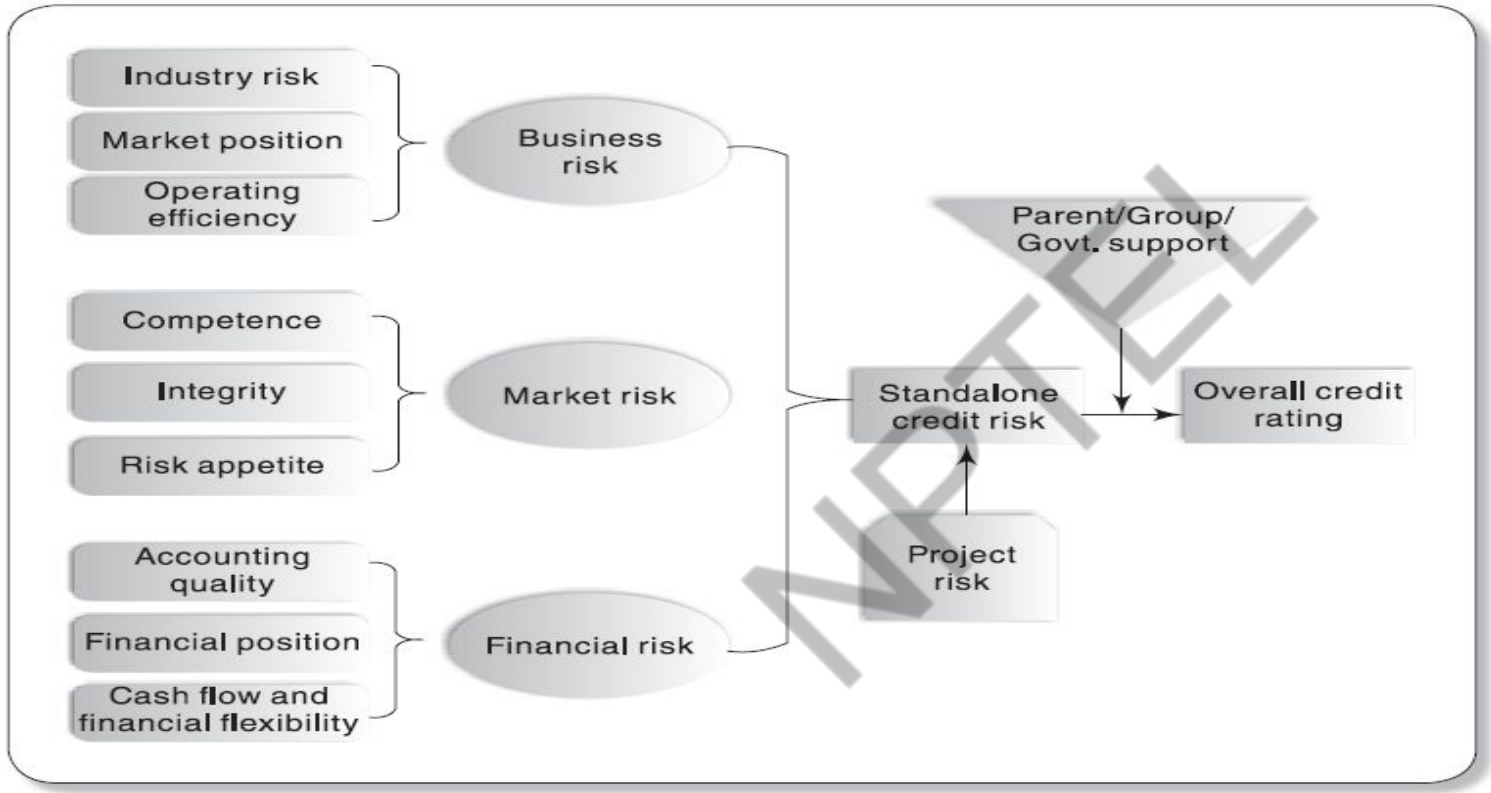
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Rating Framework for Banks and Financial Institutions

- Capital Adequacy
- Resource-Raising Ability
- Asset quality
- Management and Systems Evaluation
- Earnings Potential
- Liquidity/ Asset Liability Management

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Credit Rating Framework for Manufacturing and Service Sector



Source: www.crisil.com

CRISIL Debenture Rating Symbols

Symbol	Safety Level
CRISIL AAA	Highest Safety
CRISIL AA	High Safety
CRISIL A	Adequate Safety
CRISIL BBB	Moderate Safety
CRISIL BB	Inadequate Safety
CRISIL B	High Risk
CRISIL C	Substantial Risk
CRISIL D	Default

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Non Bank Statutory Financial Organizations

What is Non Bank Statutory Financial Organization?

- These are also recognised as "development banks", or "term lending institutions", or "special (specialised) development financial institutions (organisations)".
- They are not financial intermediaries because they generally do not mobilise savings from the ultimate surplus spending units and instead obtained their resources primarily from the government and the RBI, but now some of them have begun mobilising public savings directly or indirectly.
- They have mostly been set up statutorily by the government, but some private sector participation in the ownership and functioning of some of them may also exist.

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Major NBSFOs Operating in India

- All India Financial Institutions (AIFIs)
  - Export Import Bank of India (EXIM Bank)
  - National Bank for Agriculture and Rural Development (NABARD)
  - National Housing Bank (NHB)
  - Small Industries Development Bank of India (SIDBI)
- Other Major NBSFOs
  - Industrial Financial Corporation of India (IFCI)
  - Industrial Reconstruction Bank of India (IRBI)
  - Infrastructure Leasing and Financial Services Ltd. (IL&FS)
  - State Finance Corporations (SFCs)
  - Warehousing Corporations (WCs)
  - Tourism Finance Corporation of India (TFCI)

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EXIM Bank Structure

- It is wholly owned by Government of India, set up on January 1st, 1982, for financing, facilitating and promoting foreign trade of India.
- Currently, board comprises 12 directors appointed by the Government of India, including the Chairman and Managing Director, which Includes five Government of India functionaries, three directors from scheduled commercial banks and four industry/trade experts.
- Its sources of funds come from share capital, reserves, repayment of loans, loans from the RBI and the government, bond issues in the domestic and foreign capital markets, loans from international financial institutions, and so on.

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Functions of EXIM Bank

- Post-shipment term finance
- Preshipment credit
- Term loans for export-oriented units
- Overseas investment finance
- Finance for export marketing
- Overseas buyer's credit lines of credit to foreign governments
- Re- lending facility to banks abroad
- Rediscounting of export bills
- Refinance of export credit
- Bulk import finance
- Research, analysis, advisory and information services.

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National Bank for Agricultural and Rural Development (NABARD)

- The NABARD was set up on July 12, 1982 under an Act of Parliament as a central or apex institution for financing agricultural and rural sectors.
- The amendments to NABARD Act in 2001, classifying it as a "Development Bank", have permitted it to enhance its capital, subject to minimum holding of 51 per cent by the GOI and RBI.

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Functions of NABARD

- It is a co-ordinating agency, in respect of agriculture and rural development activities/policies of the Central and state governments, and other institutions
- It undertakes inspection of co-operative banks and RRBs without prejudice to the powers of the RBI
- it provides credit for the development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts, and allied economic activities in rural areas
- It provides short-term refinance assistance for a period up to 18 months to state co-operative banks, commercial banks, RRBs and so on for a wide range of activities in the areas of production, trading, marketing and storage.
- It also gives long-term loans (up to 25 years of maturity) to SCBs, SLDBs, RRBs, commercial banks, and other approved institutions for the purpose of making investment loans. It gives loans up to 20 years of maturity to the state governments to enable them to subscribe to the share capital of co-operative credit societies.

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Functions of NABARD Cont…

- Long-term refinance for minor irrigation, plantation, horticulture, land development, farm mechanisation, animal husbandry, fisheries, etc.
- Short-term loan assistance for financing of seasonal agricultural operations,marketin of crops, purchase/procurement/distribution of agricultural inputs, etc.
- Medium-term loan facilities for approved agricultural purposes
- Working capital refinance for handloom weavers
- Refinance for financing government-sponsored programmes such as IRDP, Rozgar Yojana,etc.

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Sources of Resources of NABARD

- Its resources comprise a line of credit from the RBI, loans from the central government, World Bank, IDA, and other multilateral and bilateral aid agencies, sales of bonds and debentures, direct-borrowings, deposits, gifts, grants, and so on.
- It has been associated with the implementation of a number of projects with financial assistance from the World Bank and International Fund for Agricultural Development (IFAD).

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National Housing Bank (NHB)

- NHB was set up in July 1988 as an apex level housing finance institution and as a wholly-owned subsidiary of the RBI.
- The explicit and primary aim of the NHB is to promote housing finance institutions at local and regional levels in the private and joint sectors by providing financial and other support to such institutions.
- It refinances housing loans under its refinance schemes for scheduled commercial and co-operative banks, housing finance companies, apex co-operative housing finance societies, and so on.

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Small Industries Development Bank of India (SIDBI)

- It was set up on 2nd April 1990 under an Act of Indian Parliament.
- It acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities.

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Objectives of SIDBI

- To promote marketing of products of small scale sector.
- To upgrade technology and also undertaking modernization of small scale units.
- To provide more financial assistance to small scale ancillary and tiny sector.
- To encourage employment oriented industries.
- To coordinate all the other institutions involved in the promotion of small scale industries.

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Functions of SIDBI

- Refinance to SSI
- Discounting the bills of SSIs
- SIDBI offers assistance to exports
- Seed capital and also soft loan Assistance
- Non finance services
  - Factoring, Leasing and HP finance
  - Assistance to other financial institutions
  - Automatic finance scheme
  - Venture capital

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Industrial Financial Corporation of India (IFCI)

- This is the first term-financing institution and was set up in July 1948 by the Government of India under the IFCI Act, 1948 with the objective of providing medium and long-term loans to large industrial concerns in the private sector.
- The constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Companies Act to ensure greater flexibility to respond to the needs of rapidly changing financial system and to have an access to the capital market.
- With effect from October 1999, its name has been changed to IFCI Limited.
- From August 2007 onwards, it is being regulated as a non-banking financial company.
- IFCI became a Government controlled company subsequent to enhancement of equity shareholding to 55.53% by Government of India on December 21, 2012.

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Industrial Financial Corporation of India (IFCI) Cont…

- 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.
- It provides direct rupee and foreign currency loans for setting up new industrial projects and for expansion, diversification, renovation, and modernisation of existing units.
- It also underwrites and directly subscribes to industrial securities, provides financial guarantees, merchant banking services, and lease finance. As a development financial institution, a major portion of the financial assistance of IFCI was being made to Greenfield projects and to the projects in underdeveloped states.
- Its resources are in the form of (a) loans from the RBI, (b) share capital, (c) retained earnings, (d) repayment of loans, (e) issue of bonds, (I) loans from the government, (g) lines of credit from foreign lending agencies, and (h) commercial borrowings in international capital markets.

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Industrial Reconstruction Bank of India (IRBI)

- To provide financial assistance as well as to revive and revitalise sick industrial units in public/private sectors, an institution called the Industrial Reconstruction Corporation of India (IRCI) was set up in 1971 with a share capital of Rs. 10 crores.
- In March 1985, it was converted into a statutory corporation called the Industrial Reconstruction Bank of India (IRBI), with an authorised capital of Rs. 200 crores and a paid-up capital of Rs. 50 crores.

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Functions of IRBI

- To provide financial assistance to sick industrial units
- To provide managerial and technical assistance to sick industrial units
- To secure the assistance of other financial institutions and government agencies for the revival and revitalisation of sick industrial units
- To provide merchant banking services for amalgamation, merger, reconstruction, etc.
- To provide consultancy services to the banks in the matter of sick units
- To undertake leasing business

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Infrastructure Leasing and Financial Services Ltd. (IL&FS)

- The IL and FS was set up in May 1988 jointly by the Central Bank of India (CBI), UTI, HDFC, International Finance Corporation, ORIX Corporation from Japan, Credit Commercial de France, and SBI.
- The areas of its assistance are: (a) Financing of large infrastructure projects like highways, bridges, and power plants; (b) Equipments leasing for infrastructure development, pollution control, transportation, and communication; (c) Investment banking services including promotion of mutual funds and extension of venture capital; (d) Participation as a member of stock exchanges with a focus on the development of secondary markets.

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State Financial Corporations (SFCs)

- Established to meet the financial needs of small and medium scale industrial units which are not governed by Industrial Finance Corporation, the Government of India passed State Finance Corporation Act in 1951, empowering the State Governments to start financial corporations.
- The main function of State Finance Corporations is to provide long term finance to small and medium scale Industrial concerns formed as public or private limited companies, corporations, forms or proprietary concerns repayable with in a period of 20 years.
- The SFCs grant loans mainly for acquisition of fixed assets like land, building, plant and machinery.
- They act as an agent of the central or state governments or some industrial financing institutions for sanctioning and disbursing loans to small industries.

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Warehousing Corporations (WCs)

- The Warehousing Corporation in India, established during 1957 providing logistics support to the agricultural sector
- Warehousing activities of CWC include food grain warehouses, industrial warehousing, custom bonded warehouses, container freight stations, inland clearance depots and air cargo complexes
- CWC also offers services in the area of clearing & forwarding, handling & transportation, procurement & distribution, disinfestation services, fumigation services and other ancillary activities
- CWC also offers consultancy services/ training for the construction of warehousing infrastructure to different agencies

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Tourism Finance Corporation of India (TFCI)

- Tourism Finance Corporation of India Ltd.(TFCI) has been set-up as an All India Financial Institution, pursuant to the recommendations of "National Committee on Tourism" set-up under the aegis of Planning Commission in 1988.
- The main object of setting-up the specialised financial institution was to expedite the growth of tourism infrastructure in the country by providing dedicated line of credit on long term basis to tourism related projects in the country.

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Tourism Finance Corporation of India (TFCI)

- Primary business is to provide medium to long term financial assistance to enterprises, for setting up and / or development of tourism related activities, facilities and services, which includes hotels, restaurants, holiday resorts, amusement parks and complexes for entertainment, education and sports, safari parks, rope- ways cultural centres, convention halls, all forms of transport industry, ropeways, travel and tour operating agencies, tourism emporia, sports facilities etc.

- Extends financial assistance to sectors, such as services sector and related activities, facilities & services which are further expected to augment the growth of tourism in the Country.

- TFCI also provides high quality Research & Consultancy services to facilitate identification, conceptualization, promotion / implementation of specific tourism - related projects & for taking policy level decisions with respect to investment and infrastructural augmentation etc.

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