



Financial Engineering : A Case Study of IFCI

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Abstract- The Industrial Finance Corporation of India is the first development financial institution established on 1st July 1948 to cater a long term financial needs of the Indian industries by act of parliament. The main objective of this development financial institution is to promote Entrepreneurial thinking of the different sectors in Indian Industries. Since from 1947, IFCI supported wide variety of Indian industries through its financial resources as well as advisory services to create a huge difference from other countries and made our country developing. In early 1990, after the economic reforms Industrial Finance Corporation of India is not responding according to the changing scenario, which creates a huge non performing assets during 1995 to 2008. To revive again from this dark period, IFCI has adopted strategic steps by starting special schemes for project financing and economic development. IFCI has fulfilled its original mandates as a developing financial institution by providing long term and medium term financial support to all segments of Indian industries. So the main theme of this paper is to examine the financial engineering about the project financing, advisory services and promotional schemes started by IFCI to wide variety of industries and sectors for the revival of itself. It also focuses on development of all the community and removing regional disparity as well as providing low rate loans to entrepreneurial needs. This research paper has a great impact on those factors which shows potential performance in coming future years.

Keywords: Statutory Liquidity Ratio (SLR), Credit Enhancement Guarantee Scheme, lending institution .

INTRODUCTION

At the time of independence in 1947, India's capital market was relatively under-developed. Although there was significant demand for new capital, there was a dearth of providers. Merchant bankers and underwriting firms were almost non-existent. Also commercial banks were not equipped to provide long-term industrial finance in any significant manner. It is against this backdrop that the government established The Industrial Finance Corporation of India (IFCI) on July 1st, 1948, as the first Developing Financial Institution in the country to cater to the long-term finance needs of the industrial sector.

The newly-established DFI was provided access to low-cost funds through the central bank's Statutory Liquidity Ratio (SLR) which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates. Financial institutions like IFCI have been experiencing considerable difficulties in recovering loans and enforcement of securities charge with them.

FINANCIAL RESOURCES:

Financial institution, as stated earlier is primarily concerned with mobilization of resources and channelization of the pooled resources in productive outlets. IFCI main dependence for funds has been borrowing both within the country and outside. Institution may also meet their financial requirements by resorting to state and institutional borrowings to meet their growing

demand of funds from up and coming enterprises. The principal source of rupees borrowing has been the bond issued by IFCI carrying government guarantees. Such bonds were eligible for subscription by commercial banks under the statutory liquidity requirements. The authorized Share capital of IFCI is Rs 1925.37 crore divided into equity shares of Rs 10 each in 31 march 2015. IFCI placed a heavy responsibility on it to fill in this gap consequently; it became equally important that it be also equipped with the adequate resources for meeting the rising demand for industrial finance in the country. The Corporation came out with public issue of its shares in 1993. Thus, they need burgeoning funds to dispense financial support to up and coming industrial projects of national priority. After the conversion of IFCI into a company, it has raised funds in the capital market on market related terms by way of certificates of deposits, bonds, fixed deposits and other borrowings.

The IFCI has been evincing greater interest in raising funds through short-term deposits and placing greater reliance on generation of internal resources to meet its growing funds requirements. IFCI also borrows fund from government of India in terms of KFW agreement for interest differential fund. Since these institutions are supposed to fund capital expenditure projects through investment in and underwriting of securities and extend term loans to these projects, their fund requirements tend to be of permanent or long-term nature. However it felt

that in relation to the investment needs which were likely to arise for industrial development in future financial institution role goes more important. The Government provides subsidized financial assistance to the financial institutions so as to help develop priority sector industries particularly in backward regions of the country. The authorized Share capital of IFCI is Rs 1000 crore divided into equity shares of Rs 10 each at the annual general meeting 1996, 10 percent of this amount (100 crore) has been converted into cumulative redeemable preference shares of the face value of Rs 10 each. The principal forms in which financial institution may raise long-term resources from outside are issue of equity shares, preference shares and debentures, long-term deposits and long-term borrowings. The Corporation was earlier empowered to accept deposits for a period of 5 years; but the amount of deposits can in no case exceed Rs. 10 crores. Besides capital and reserves, the Bank is empowered to raise funds by Borrowing from the Central Government interest free loans on terms and conditions as may be agreed upon, Borrowing from such other authority, organization or institution in India as may be generally or specially approved by the central Government.

The recommendations of the Narsimham Committee, the financial institutions including IFCI, ICICI and IDBI have, of late, been permitted to raise funds from the open market. The IFCI Act was amended in July, 1993 to convert the Industrial Finance Corporation into a public limited company so as to enable the IFCI to access the capital market and to reduce its dependence on Government guaranteed funds. Recently, the Government has allowed these financial institutions to raise foreign currency loans with a maturity of 10 years and above without any ceiling from external commercial borrowing. The Fund comprises amounts received by way of loans, gifts, grants, donations etc. from the Central Government or any other source. The financial position of the Corporation with debt-equity ratio ranging between 5.7:1 and 10:1 is quite satisfactory as per the international norm of the World Bank. This leads us to suggest that the IFCI has the potential for resorting to long-term borrowings subject to its availability at reasonable cost. The profits and losses arising out of the operations of the Fund are respectively credited or charged to the Fund.

The IFCI provides financial assistance to a wide variety of industries. Its investments are concentrated in food products, chemical products, basic metals, infrastructure, power generation, telecom services, textiles, electronics, fertilizers, petroleum refining and cement. The assistance by the IFCI to industrial enterprises is spread over 30 states and union territories. But its substantial share is concentrated in certain states like, Andhra Pradesh, Karnataka, Gujarat, Maharashtra and Delhi. However, during the period as a whole, a trend is perceptible that the percentage share of finance to these states has continuously declined from Rs. 6664.40 crore in year 1995-96 to Rs. 2010.40 crore in year 2008. IFCI has sanctioned majority of the loans in traditional sectors

such as iron and steel, textiles, plastics, and so on. These traditional sectors are facing rough times due to recession, price fluctuations, and abolition of import controls. Hence, this has led to a rise in NPAs of IFCI. Loopholes in project appraisals are also a big cause of creating huge NPA. Only ten regional offices are not sufficient for effective functioning. IFCI has been used as a handmaiden of politicians and most of the loans have been sanctioned under political pressures.

RESEARCH OBJECTIVE:

The objectives of this research paper are:

To know the financial assistance and advisory services provided by the IFCI to revive itself.

To know IFCI stake holders and financial position through analyzing balance sheets and annual reports.

To know the consultancy and promotional assistance provided by IFCI to different groups and communities for entrepreneurial projects.

RESEARCH METHODOLOGY:

This research paper is basically descriptive research in nature. It basically explains that how Industrial Finance Corporation of India is helping to those intellectual minds who want to startup but don't have much more Finance for their projects it is only the industrial Finance Corporation of India Which provides financial assistance to wide variety of projects and to the industries for the development of their own and economy. It also mentions different type of schemes as well as promotional services which assist entrepreneurs as well as IFCI.

In this research paper data is secondary in nature and is totally find out by the annual reports of industrial Finance Corporation of India as well as different articles and reports available in magazines and government manuals.

The tools used to analyze these data are comparative tables, pie chart diagrams, percentage, BA chart diagrams and financial ratios.

DATA ANALYSIS:

Operational income for FY 2015 was higher than that of FY 2014 by 12.7% due to increase in interest income, the interest income though was impacted by `247 crore due to reversal of income on account of fresh Non-Performing Assets (NPAs) (`55 crore) and interest funding of restructured assets (`192 crore). The operational income included income of `251 crore from NPAs as against `166 crore in FY 2014. However, income from other financial services was lower at `355 crore vis-a-vis `491 crore in FY 2014 mainly due to lower profit on sale of shares/debentures at `269 crore in FY 2015 as against `365 crore in FY 2014.

Table 1: shares/debentures at `269 crore in FY 2015 as against `365 crore in FY 2014.

EQUITY & LIABILITIES	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012	March 31, 2011
Share Capital	1925.37	1924.96	1924.68	1001.68	1001.68
Reserves and Surplus	5220.28	5005.64	4766.28	4534.07	4001.72
Non-current Liabilities	22494.23	17500.56	14340.84	17689.39	17608.69
Current Liabilities	5328.08	4508.15	4849.61	4958.66	2915.89
TOTAL	34967.96	28989.31	25881.41	28183.80	25527.98
APPLICATION					
Fixed Assets	1121.50	1147.12	1172.59	1165.92	1208.79
Deferred Tax Assets	567.90	682.04	726.79	836.92	1020.91
Non-current Assets	26354.89	22538.57	16718.87	18807.46	17361.54
Current Assets	6923.87	4621.58	7263.16	7373.50	5936.74
TOTAL	34967.96	28989.31	25881.41	28183.80	25527.98
EARNINGS					
Total Income ` (crore)	3347.99	2953.29	2759.30	2850.20	2480.11
Profit before tax ` (crore)	718.02	660.45	664.12	957.74	1166.25
Profit after tax ` (crore)	521.60	508.10	450.87	663.62	706.25

Source : annual reports of IFCL.

Other income at `97 crore was higher by 45% than `67 crore in FY 2014, the increase primarily being due to profit of `29 crore on sale of surplus properties during the current year. The finance cost of borrowing continued to increase due to higher borrowing required for growth in business at average cost of 10.24% as against average carrying cost of existing borrowing of

9.55%. The cost of borrowing for FY 2015 at `2,102 crore was higher by 26.17% than `1,666 crore for FY 2014. During the year, long term borrowing of `7,947 crore was made while `3,258 crore was repaid as per the schedule. The carrying cost of borrowings as at March 31, 2015 increased to 9.6% as compared to 9.5% as at March 31, 2014. The increasing trend is expected to

continue for some more time till the cost of fresh borrowing falls below the carrying cost of borrowing. The overhead expense towards employee benefits and establishment cost for FY 2015 at `104 crore was also higher by 11.8% than 93 crore for FY 2015. This was mainly due to increase in employee benefit expenses and new recruitments and increase in corporate campaigning and advertisement expenses for branding prior to public issue as also for various business transactions through open tender process. However, overall the ratio of overhead expenses (excl. depreciation) to total income stood favorably at 3.2%

for the year ended March 31, 2015, same as that for the year ended March 31, 2014.

Ownership & Equity Shareholding:

There is no change in the ownership of the Government of India in Company during the FY 2013-14 as Government of India continues to hold 55.53% equity stake in IFCI as on March 31, 2014 thereby continuing to be the majority stakeholder of the Company. The equity shareholding pattern of Company as on March 31, 2014 is depicted below:

Table 2: The equity shareholding pattern of Company as on March 31, 2014

Particulars	% Share	No. of Equity Shares
Government of India	55.53	92,30,00,000
Banks, Financial Institution	6.28	10,43,57,628
UTI and Mutual Funds Insurance Companies	6.42	10,66,98,758
Foreign Institutional Investors NRIs & OCBs	6.00	9,97,19,180
Bodies Corporate	6.12	10,17,37,323
Individuals and Trust & Foundation	19.65	32,65,24,346
TOTAL	100	1,66,20,37,235

Source : annual reports of IFCI.

Findings: After analyzing the whole data it has been found that IFCI industrial Finance Corporation of India is an government owned company In which the Government of India holds 55.53% while banks and Financial Institutions hold 6.28 %, UTI and mutual funds corporations hold 6.42 %, Foreign institutional

investors and arise holds 6 % , Bodies corporate colts 6.12% , the individual and trust foundations hold 19.65 % it also was that these of industrial Finance Corporation of India has been widely spread to different segments for better performance and the portfolios of this institution is quite good .

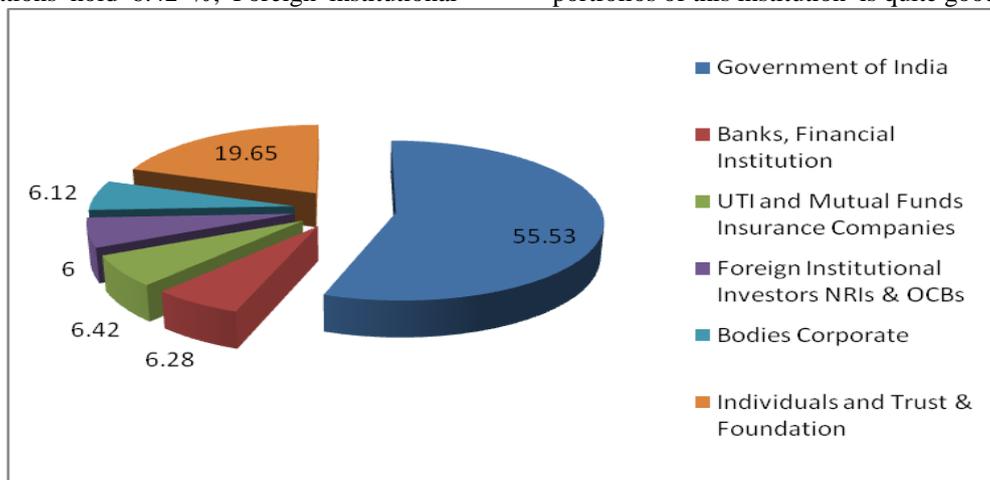


Fig 1 : Annual reports of IFCI (Source : annual reports of IFCI.)

The basic data analyzed from year 2010 to 2015 on the basis of data available on IFCI financial reports published annually, and the main focus is on the financial assistance provided by the IFCI and its financial position by balance sheets, its every years income and expenditure as well as profit before tax and after tax .

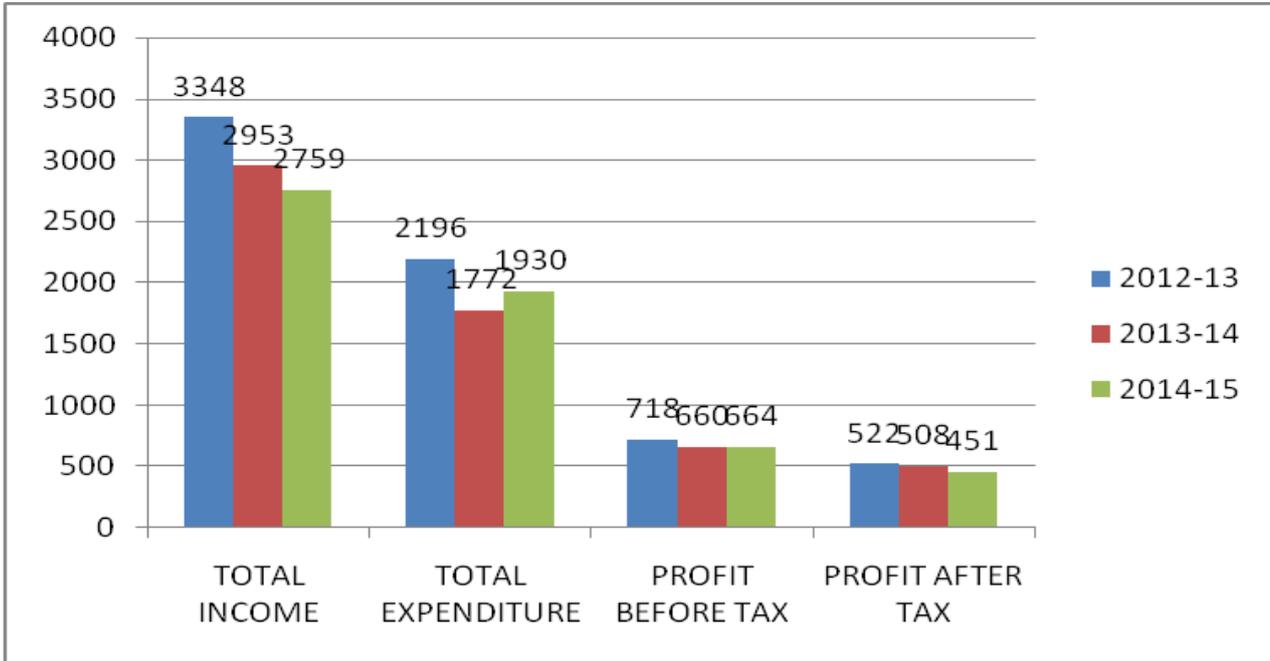


Fig 2: Income and Expenditure as well as profit before tax and after tax (Source : annual reports of IFCI.)

As per data analyzed from year 2012 to 2015 it has been found that in year 2012 the total income of IFCI is 2759 crore which is increased to 3348 crore in the year 2015. In a same manner total expenditures from year 2012 to 2015 it has been found that in year 2012 the total expenditures of IFCI is 1930 crore which is increased to 2196 crore in the year 2015. the profit before tax of IFCI is 664 crore which is increased to 718 crore in the

year 2015. while the profit after tax of IFCI is 451 crore which is increased to 522 crore in the year 2015. So as per above data, it has been clear that the industrial finance corporation of India has shown continuous increase in its performance during all these years. These increasing trends are basically due to operational efficiency of the IFCI because in project financing IFCI has given more importance to the entrepreneurial projects.

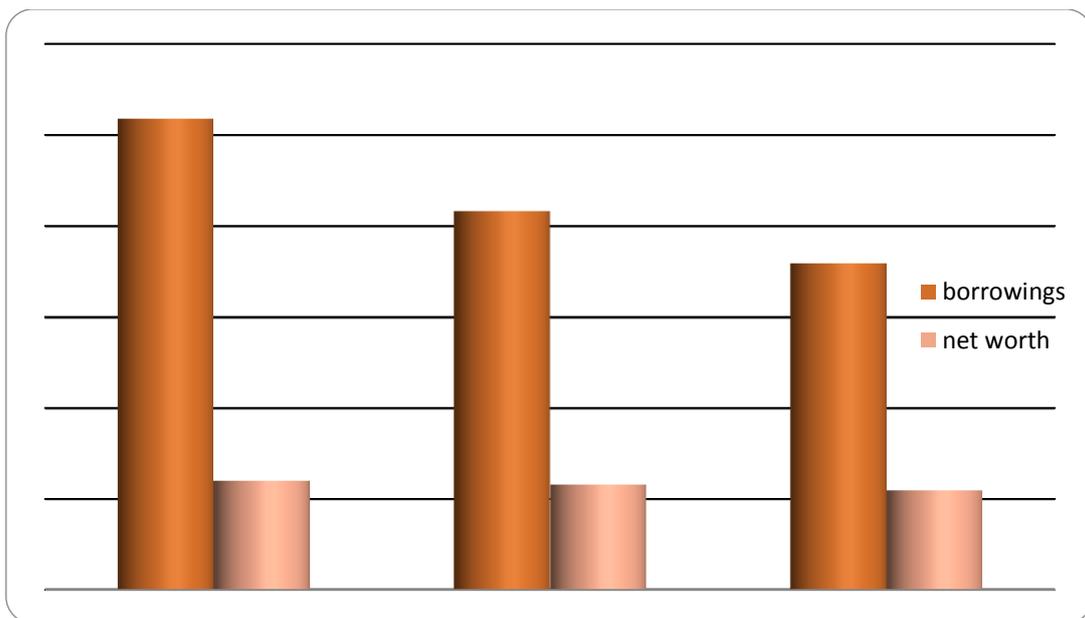


Fig 3: Borrowings and net worth (Source : annual reports of IFCI).

Above figure shows about the capital structure of the IFCI and explains the debt load over the net worth. In year 2013 the borrowings are 17973 crores while in 2015 it reduces to 25895 crores only. In same manner net worth of the industrial finance corporation of India in year 2012 the are 5488 crores while in 2015 it reduces to 5996 crores only.

CREDIT ENHANCEMENT GUARANTEE SCHEME FOR SCHEDULED CASTES (CEGSSC) : The Finance Minister during the Union Budget speech 2014-15 on July 18, 2014, had announced that a sum of 200 crore will be allocated towards credit enhancement facility for young and start-up entrepreneurs, belonging to Scheduled Castes, who aspire to be part of neo middle class category with an objective to encourage **entrepreneurship** in the lower strata of the society resulting in job creation besides creating confidence in Schedule Castes.

IFCI, having decided to frame a Scheme for the purpose of providing guarantees to Scheduled Caste Entrepreneurs, hereby make the following Scheme: 1. Title and date of commencement: (i) The Scheme shall be known as the Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGSSC). (ii) It shall come into force during 2014-15. (iii) It shall cover eligible credit facility extended by the lending institutions to eligible borrowers effective from the date of approval of scheme by Ministry of Social Justice and Empowerment. 2. Definitions: For the purposes of this Scheme: (i) "Amount in Default" means the principal and interest amount outstanding in the account(s) of the borrower in respect of term loan or Composite Term Loan (including interest), as on the date of the account becoming NPA, or the date of lodgement of claim application whichever is lower subject to a maximum of amount of guarantee cover. (ii) "Collateral Security" means the security provided in addition to the primary security, in connection with the credit facility extended by a lending institution/MLI to a borrower. (iii) "Credit facility" means any financial assistance by way of term loan or Composite Term Loan facilities extended by the lending institutions/MLI to the eligible borrower. For the purpose of calculation of guarantee fee, the "credit facility extended" shall mean the amount of financial assistance committed and disbursed by the lending institutions/MLIs to the borrower. (iv) "Eligible borrower" means Scheduled Caste Entrepreneurs as covered under Para 3 of Section-III the main policy to which credit facility has been provided by the lending institutions/MLIs without any collateral security and/or third party guarantees/and or are not under any restricted category, defined in the eligibility criteria. (v) "Guarantee Cover" means maximum cover available per eligible borrower of the amount in default in respect of the credit facility extended by the lending institution/MLI. (vi) "Lending institution(s)" / "MLI(s)" means a commercial bank for the time being included in the second Schedule to the Reserve Bank of India Act, 1934 and Regional Rural Banks as may be specified by IFCI from time to time, or any other institution (s) as

may be directed by the Govt. of India from time to time. IFCI may, on review of performance, remove any of the lending institution/MLI from the list of eligible institution. (vii) "Material date" means the date on which the guarantee fee on the amount covered in respect of eligible borrower becomes payable by the eligible institution/MLI to IFCI. (viii) "Non-Performing Assets" means an asset classified as a non-performing based on the instructions and guidelines issued by the Reserve Bank of India from time to time. (ix) "Primary security" in respect of a credit facility shall mean the assets created out of the credit facility so extended and/or existing unencumbered assets which are directly associated with the project or business for which the credit facility has been extended. (x) "Base Rate" for a lending institutions/MLI means the rate so declared by that lending institutions/MLI for the relevant time period/ duration for which the credit facility has been extended. (xi) "Scheme" means the Credit Enhancement Guarantee Scheme for SCs. (xii) "Tenure of guarantee cover" means the maximum period of guarantee cover from Guarantee start date which shall run through the agreed tenure of the term Loan or Composite Term Loan or loan termination date, whichever is earlier, subject to a maximum period of 7 years. (xiii) "Fund" means the Credit Enhancement Guarantee Fund set up by Government of India with IFCI and parked in NLA with the purpose of guaranteeing credit facility (ies), extended by the lending institution(s)/MLI(s) to the eligible Scheduled Caste borrowers. (xiv) "Composite Loan" means the Combination of term loan, Working Capital Facility and Non fund based facility. Working Capital loan non fund based facilities can only be availed alongwith with the term loan facility and not independently.

CONCLUSIONS

From the above study, it is evident that IFCI is one of the best development financial institutions so it is also conscious of its responsibility in matter of raising financial resources for assistance to different industrial sectors. IFCI is able to manage financial resources for project financing for new establishment, modernization, diversification, rehabilitation. Above study shows that there is drastic variation in financial assistance of IFCI but management of the institution is so efficient that it handles all the problems effectively. All these effective measures help IFCI institution for comeback and also get success through improvement in industrial development. It can be said that IFCI will be also to strengthen the steps further by having more rigorous follow up of the existing measures and also search for more effective ways for dealing with the problem of financial resources. IFCI should also enforce a satisfactory proportion of equity capital while sanctioning financial assistance to projects. IFCI handles its project financing very tactfully by applying the policy of financing entrepreneurial projects in broader manner all over the industrial sectors. IFCI has

also promoted technical consultant organizations (TCOs), Management Development Institute (MDI) for management training and development, ICRA for credit assessment rating, Tourism Finance Corporation of India (TFCI) for promotion of the hotel and tourism industry, Institute of Labor Development (ILD) for rehabilitation and training of displaced and retrenched labor force, Rashtriya Gramin Vikas Nidhi (RGVN) for uplifting rural and urban poor in east and north-east India, credit enhancement guarantee scheme for scheduled castes, consultancy fee subsidy schemes, interest subsidy schemes by these potential measures IFCI revived itself and again come in profit zone.

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