



#### D. VERY LONG ANSWER TYPE QUESTIONS

1. Explain the main objectives and functions of ICICI.

Answer: The ICICI has been established to achieve the following objectives:

1. To assist in the formation, expansion and modernization of industrial units in the private sector.
2. To stimulate and promote the participation of private capital (both Indian and foreign) in such industrial units.
3. To furnish technical and managerial aid so as to increase production and expand employment opportunities.

2. Explain in detail objectives and three important Primary functions of NABARD.

Answer: National Bank for Agriculture and Rural Development (NABARD): On 15th December, 1981, National Bank for Agriculture and Rural Development (NABARD) Bill was passed in the Parliament, which started functioning on 1st July, 1982. NABARD was established according to the Preamble to the Act, for providing credit for the promotion of:

1. Agriculture
2. Small-scale Industries
3. Cottage and Village Industries
4. Handicrafts and other rural crafts
5. Other economic activities in rural areas with a view for promoting IRDP.

Objectives:

1. The bank will serve as a financing institution for institutional credit such as long-term, short-term, and for the promotion of activities in rural areas.
2. To provide direct lending to any institution as may be approved by the central government.

Functions: The primary functions of NABARD can be classified under three heads:

1. Credit Functions: NABARD provides different types of refinance to eligible institutions. They assist entrepreneurs through: Short-term credit to State Cooperative Banks, Regional Rural Banks and Other financial institutions approved by RBI.
2. Developmental Functions:
  - NABARD coordinates the operations of rural credit institutions.
  - It develops expertise to deal with agricultural and rural problems so as to assist in rural development efforts.
3. Regulatory Functions:
  - NABARD is empowered to undertake inspection of RRBs and Cooperative Banks, other than the Primary Cooperative Banks.
  - To open a new branch, a recommendation of NABARD is imperative by RRBs or Cooperative Banks to seek permission from RBI.

#### E. HIGHER ORDER THINKING SKILLS

1. "TFCI is playing vital role in the development of entrepreneurship in modern economy". Comment.

Answer: The Tourism Finance Corporation of India (TFCI) was born as a result of the Government of India's decision, in 1987, to promote a separate all-India financial institution for providing financial assistance to tourism-related activities/projects. It was incorporated as a public limited company under the Companies Act, 1956 on 27 January, 1989. It became operational with effect from 1 February, 1989. It is a specialized all-India development financial institution to cater to the needs of the tourism industry.

Functions:

1. It provides financial assistance to enterprises for setting up or the development of tourism-related projects, facilities and services such as hotels, restaurants, holiday resorts, amusement parks, entertainment centres, education and sports, rope ways, cultural centres, convention halls, transport, travel and tour operating agencies, air services, tourism emporia and sports facilities.
  2. It provides advisory and merchant banking services in this field.
  3. The projects with a capital cost of Rs 1 crore or above are generally eligible for assistance from TFCI. Smaller projects would also be considered.
- (d) TFCI has sanctioned assistance to 2003 projects aggregating to Rs 5.2 billion during the last five years, resulting in more than 12,217 hotel rooms and direct employment to 22,938 people.

Values:

1. Universal and equality
2. Resourcefulness
3. Services to others
4. Readiness to cooperate
5. National awareness
6. Employment opportunities
7. Fulfilling the needs of the people
8. Helpfulness and contributing to entrepreneur for the growth of the country.

3. Hari is an entrepreneur who wants to start an amusement park in Indore. He knows that she needs a huge amount of initial capital. According to you, which of the financial institution will be more suitable to him? Suggest and Explain why?

Answer: Accordingly Hari should approach to Tourism Finance Corporation of India (TFCI), the financial institution.

TFCI is playing vital role in the development of entrepreneurship in modern economy. The Tourism Finance Corporation of India (TFCI) was born as a result of the Government of India's decision, in 1987, to promote a separate all-India financial institution for providing financial assistance to tourism-related activities/projects. It was incorporated as a public limited company under the Companies Act, 1956 on 27 January, 1989. It became operational with effect from 1 February, 1989. It is a specialized all-India development financial institution to cater to the needs of the tourism industry.

The various functions:

1. It provides financial assistance to enterprises for setting up or the development of tourism-related projects, facilities and services such as hotels, restaurants, holiday resorts, amusement parks, entertainment centres, education and sports, rope ways, cultural centres, convention halls, transport, travel and tour operating agencies, air services, tourism

- emporia and sports facilities.
- 2. It provides advisory and merchant banking services in this field.
- 3. The projects with a capital cost of ₹ 1 crore or above are generally eligible for assistance from TFCI. Smaller projects would also be considered.

Values:

- 1. Providing employment opportunities
  - 2. Cater to the financial needs of the tourism industry.
  - 3. To protect national property.
  - 4. Awareness of responsibility of citizenship
  - 5. Initiative
  - 6. Proper utilization of time and resources.
3. Assuming that you wish to start a small scale industry for manufacturing and selling detergent powder, discuss how would you seek support of financial institutions.
- Answer: Yes, to start with a small scale industries for manufacturing and selling is really a tough job in this competitive world where already many other detergent manufacturing units are there. Detergents are also known as synthetic detergents. They are different from oil-based soap though both soaps and detergents are surfactants. There are a number of varieties of detergents varying in percentages of active matter present in them and also different colours. Manufacturing process is very simple and only mixing is involved. Hence, this product is best suited for manufacturing in small-scale sector.
- An entrepreneur can seek support from various financial institutions and others.

1. Angel Investors:

- Business angel or an angel investor is an affluent individual who provides capital for a business start-up and early stage companies having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.
- Apart from investing funds, most angels provide proactive advice, guidance, industry connections and mentoring start-ups in its early days.

2. Venture Capitalist:

- Venture capital is an equity based investment in a growth-oriented small to medium business to enable the investors to accomplish objectives, in return for minority shareholding in the business or the irrevocable right to acquire.
- The private equity capital provided as funding to early-stage, high potential, high risk, growth up companies/entrepreneurs who lack the necessary experience and funds to give shape to their ideas.
- Accordingly, it is more accurate to view and go for venture capital broadly as a professionally managed pool of equity capital.
- Venture capital is a way in which investors support entrepreneurial talent with finance and business skills to exploit market opportunities and obtain long-term capital gains.

State Financial Corporations (SFCs):

- 1. It will be to meet the financial needs of small and medium enterprises, established as development banks for their respective regions. Under the Act, SFCs have been established by state governments to meet the financial requirements of medium and small sized enterprises. There are 18 SFCs at present. According to the location I can easily approach the

same.

2. Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years.
3. Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.
4. Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.

4. Discuss the advantages and disadvantages of financial institutions for an entrepreneur.

Answer:

Advantages of financial institutions for an entrepreneur:

1. Borrowing money from the bank is one of the simplest ways to get needed funds to start or grow your business.
2. To grant loans and advances.
3. To underwrite or to subscribe to shares or debentures of industrial concerns.
4. To guarantee loans raised by industrial concerns in the market.
5. To provide consultancy and merchant banking services in or outside India.
6. To provide technical, legal, marketing and administrative assistance to any industrial concern or person for promotion, management or expansion of any industry.
7. Co-ordination, regulation and supervision of the working of other financial institutions such as IFCI, ICICI.
8. To act as trustee for the holders of debentures or other securities.
9. To provide long and medium-term credit to industrial concerns engaged in manufacturing, mining, shipping and electricity generation and distribution.
10. The bank will serve as a financing institution for institutional credit such as long-term, short-term, and for the promotion of activities in rural areas.
11. Provides financial assistance to enterprises for setting up or the development of tourism-related projects.

Disadvantages:

Procurement of finance involves risk and formalities to comply:

1. State Financial Corporations only provide long and medium-term loan repayment ordinarily within a period not exceeding 20 years.
2. Some financial institutions provide financial assistance generally to those industrial concerns whose paid up share capital and free reserves do not exceed Rs 3 crore.
3. Rate of interest is too high sometimes not able to pay the debt amount and its interest.

5. Distinguish between ICICI and SIDBI.

Answer:

	ICICI	SIDBI
1.	To assist in the formation, expansion and modernization of industrial units in the private sector.	The financial assistance of SIDBI to the small scale sector is channelised through the following two routes: (i) Indirect assistance (ii) Direct assistance.
2.	To stimulate and promote the participation of private capital (both Indian and foreign) in such industrial units.	To stimulate and promote the participation of private capital (Indian) in such industrial units.
3.	To furnish technical and managerial aid so as to increase production and expand employment opportunities. (i) It provides medium and long-term loans in Indian and foreign currency for importing capital equipment and technical services. Loans sanctioned generally go towards purchase of fixed assets like land, building and machinery.	SIDBI has taken over the responsibility of administering following two funds which were previously administered by IDBI i.e.: (i) Small Industries Development Fund (ii) Small Industries Development Assistance Fund
4.	ICICI is a public sector institution.	SIDBI is a private sector institution.
5.	No such special financial assistance for women entrepreneur.	Extends seed capital/loan assistance under the National Equity Fund Mahila Udyan Nidhi and Mahila Vikas Nidhi and seed capital scheme through specified lending agencies.

6. How NABARD is different from TFCI?

Answer:

	NABARD National Bank for Agriculture and Rural Development	TFCI Tourism Finance Corporation of India
1.	NABARD was established according to the preamble to the Act, "for providing credit for the promotion of: • Agriculture • Small-scale Industries • Cottage and Village Industries • Handicrafts and other rural crafts • Other economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas...."	TFCI provides financial assistance to enterprises for setting up or the development of tourism-related projects, facilities and services such as hotels, restaurants, holiday resorts, amusement parks, entertainment centres, education and sports, rope ways, cultural centres, convention halls, transport, travel and tour operating agencies, air services, tourism emporia and sports facilities.
2.	The bank will serve as a financing institution for institutional credit such as long-term, short-term, and for the promotion of activities in rural areas.	The bank will serve as a financing institution for institutional credit such as long-term. The projects with a capital cost of ₹ 1 crore or above are generally eligible for assistance from TFCI. Smaller projects would also be considered.
3.	To provide direct lending to any institution as may be approved by the Central Government.	It also provides advisory and merchant banking services in this field.

7. Company A goes for public issue of 10,000 shares @ Rs 10 each. Application were received for only 5,000 shares. Can the company proceed with the process of issuing shares?

Answer.: In the case of Company A

Issued shares to public — 10,000 Shares @ 10 each.

Applied share public by — 5,000 Shares @ 10 each.

Company receives only 50% of the subscription within 120 days from the date of the issue, then it is called as Minimum subscription.

As per the SEBI guidelines, if the company does not receive 90% of the issue amount from the public subscription including development from underwriters within 120 days from the date of the issue, the amount of subscription received is required to be refunded to the applications. In case of disputed development also, subscription is required to be refunded if 90% of the issued amount plus accepted. Development from underwriters if any is not received within 120 days of the issue of prospectus, all the money received from the applicants for shares is required to be repaid forthwith without interest and if any such money is not so repaid in the next 10 days (after the expiry of 120 days), the directors of the company are jointly and severally liable to repay that money, with interest from the expiry of the 130 days.

The company should refund the amount within 10 weeks of the closing of the subscription list and pay interest, if refunds are delayed by more than 8 days after this period.

\*\*\*\*\* END \*\*\*\*\*

