**Meaning of Corporate Finance**

Corporate finance is the finance required for running a corporation or joint-stock company. Today no business can survive without finance. Finance is the life blood of any organization; no economic activity can be carried out without finance. Finance is required throughout the working life of a company. It acts as a lubricant keeping machinery of business in a continuous state of activity.

**Definition of Corporate Finance**

According to B.O. Wheeler the definition of corporate finance are: ↓

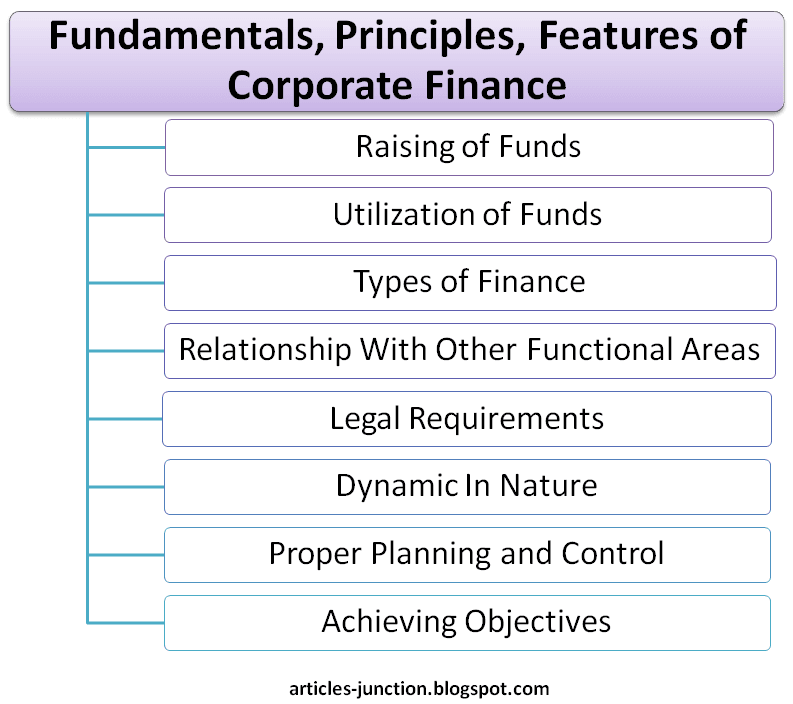
“Corporate finance / business finance is that business activity which is concerned with the acquisition and conservation of capital funds in meeting the financial needs and overall objectives of business enterprises.”

According to Guthmann and Dougale the definition of corporate finance are: ↓

“Business finance can be broadly defined as the activity concerned with planning, raising, controlling and administering of funds used in the business.”

**Fundamentals, Principles, Features of Corporate Finance**

**Fundamentals** of corporate finance are given in the diagram below. ↓

[](http://3.bp.blogspot.com/-SqSpSrmIukE/UiTvHjkQ-pI/AAAAAAAABB8/WjDlR8EFLOw/s1600/Fundamentals,+Principles,+Features+of+Corporate+Finance.png)

**Essentials**, **characteristics**, **basics**, **principles** of corporate finance are: ↓

1. Raising of Funds,
2. Utilization of Funds,
3. Types of Finance,
4. Relationship With Other Functional Areas,
5. Legal Requirements,
6. Dynamic In Nature,
7. Proper Planning and Control,
8. Achieving Objectives.

**Features** of corporate finance are discussed below. ↓

**1. Raising of Funds**

Corporate finance is concerned with [raising of funds](http://articles-junction.blogspot.com/2013/09/methods-of-raising-funds-from-primary.html). If the organization is new, people are reluctant to invest unless they are confident about the credibility of promoters. However, if the organization is old and reputed one funds can easily be raised. The funds can be raised by way of loans and advances from [financial](http://articles-junction.blogspot.com/2013/09/functions-of-financial-system-functions.html) institutions, preference / equity share [capital](http://articles-junction.blogspot.com/2013/09/methods-of-raising-funds-from-capital.html), debentures; [public](http://articles-junction.blogspot.com/2013/09/process-of-initial-public-offering-ipo.html) deposits, etc.

**2. Utilization of Funds**

In corporate finance, the utilization of the fund plays an important role. In order to achieve business objectives i.e. maximizing profits, [market](http://articles-junction.blogspot.com/2013/09/what-is-stock-market-features-of-stock.html) share, etc. The funds should be used in best possible ways for financing fixed assets, working capital needs, Investment in bonds.

**3. Types of Finance**

In corporate finance, there are three types of finance. A business firm requires different types of finance. It requires funds for meeting short term as well as long-term needs. Medium term finance is also required for medium term needs.

**4. Relationship With Other Functional Areas**

In corporate finance, finance is the life blood of business. It is required for major business activities and is closely connected with other functional areas like production, purchase, marketing, personnel, etc. These other operational areas can run smoothly only with the support of finance.

**5. Legal Requirements**

In corporate finance, there are no legal restrictions on the finance collected by a sole trading concern or a partnership firm. However, a company has to take permission from the controller of capital issue regarding the capital to be collected.

**6. Dynamic In Nature**

Corporate finance is dynamic in nature. Creativity on the part of finance managers brings success to the organization. Finance managers need to be more innovative towards organization.

**7. Proper Planning and Control**

Corporate finance planning is required in order to procure funds and put them to proper use. It control is required to ensure that the funds are productively used. Hence, periodic monitoring of finance [function](http://articles-junction.blogspot.com/2013/09/functions-of-stock-exchange-role-of.html) is necessary.

**8. Achieving Objectives**

In corporate finance, proper utilization of funds helps a company to achieve its objectives. Every company has certain objectives. The finance [function](http://articles-junction.blogspot.com/2013/09/what-is-primary-market-functions-of.html) ensures that the funds are used properly.

**Importance of Corporate Finance**

The following points bring out the importance of [corporate finance](http://kalyan-city.blogspot.com/2011/09/what-is-corporate-finance-meaning-what.html).

[](http://lh5.googleusercontent.com/-Kjazjzz60UM/TnoSHdUBn3I/AAAAAAAAFSA/qsILJXq14A4/Need-and-Importance-of-Corporate-Finance.png)

1. **Research and Development** : Corporate Finance is needed for Research and Development. Today, a company cannot survive without continuous research and development. The company has to go on making changes in its old products. It must also invent new products. If not, it will be get automatically thrown out of the market.
2. **Motivating Employees** : Manager and employees must be continuously motivated to improve their performance. They must be given financial incentives, such as bonus, higher salaries, etc. They must also be given non-financial incentives such as transport facilities, canteen facilities (eatery), etc. All this requires finance.
3. **Promoting a Company** : Finance is needed for promoting (starting) a company. It is needed for preparing Project Report, Memorandum of Association, Articles of Association, Prospectus, etc. It is needed for purchasing Land and Buildings, Plant and Machinery and other fixed assets. It is needed to purchase raw materials. It is also needed to pay wages, salaries and other expenses. In short, we cannot start a company without finance.
4. **Smooth Conduct of Business** : Finance is needed for conducting the business smoothly. It is needed as working capital. It is needed for paying day-to-day expenses. It is needed for advertising, sales promotion, distribution, etc. A company cannot run smoothly without finance.
5. **Expansion and Diversification** : Expansion means to increase the size of the company. Diversification means to produce and sell new products. Modern machines and modern techniques are needed for expansion and diversification. Finance is needed for purchasing modern machines and modem technology. So, finance becomes mandatory for expansion and diversification of a company.
6. **Meeting Contingencies** : The company has to meet many contingencies. For e.g. Sudden fall in sales, loss due to natural calamity, loss due to court case, loss due to strikes, etc. The company needs finance to meet these contingencies.
7. **Government Agencies** : There are many government agencies such as Income Tax authorities, Sales Tax authorities, Registrar of Companies, Excise authorities, etc. The company has to pay taxes and duties to these agencies. Finance is needed for paying these taxes and duties.
8. **Divident and Interest** : The company has to pay dividends to the shareholders. It has to pay interest to the debenture holders, banks, etc. It also has to repay the loans. Finance is needed to pay dividends and interest.
9. **Replacement of Assets** : Plant and Machinery are the main assets of the company. They are used for producing goods and services. However, after some years, these assets become old and outdated. They have to be replaced by new assets. Finance is needed for replacement of old assets. That is, finance is needed to buy new assets.

Principles of Corporate Finance: Every discipline has first principles based on which it accomplishes the given objectives. The three principles on which the corporate finance is structured are: 1. The Investment Principle – According to investment principle, funds raised by the firm should be invested to obtain maximum ROI (return on investment). Also it is important to invest at minimum and acceptable hurdle rate. Hurdle rate reflects equity and debt of the project. As a matter of fact the hurdle rate is higher for riskier projects. The market today is very competitive investment decisions are expected to yield more than revenues and profits. Those decisions should save money and channelize an effective distributive system. During the assessment of any project prior to investment, the financial team should also consider the side costs and side benefits respectively. 2. The Financing Principle – The financing principle states that the ratio of debts and equity should be chosen to maximize the value of investment and to match the financing nature of the assets. Almost every economic activity is run by financing mix i.e. money borrowed from someone (debt) and owner’s funds (equity). It’s often noticed that optimal financing mix or the required financing mix is different from the current one. When this happens, the first thing finance manager does is the analyses of how to reach to the optimum level. The process involves determining short-term or long-term and fixed or variable investments to maximize the revenue cost ratio. 3. The Dividend Principle – Everyone wants to expand their business to their maximum potential. But as the business grows, it reaches its saturation point where the cash flow is more than the required fund and as this happens the owners begin their hunt for an alternative source to balance the monetary flow and capital required for investment. In most cases dividends, stocks and other assets of the owner are used to compensate. The dividend principle is about choosing the most effective asset among all.

CONCEPT OF CAPITAL:

The concept of capital structure is understood variously. To an indivi

dual capital is synonymous with cash in hand and at bank. The Standard English Dictionaries have used the term mostly in this sense. The Random House Dictionary of the English Language defines capital in the following manner.

I.The wealth, whether in money or property, owned or employed in business by an individual, firm, corporation etc.

II.An accumulated stock of such wealth.

III.

Any form of wealth employed or capable of being employed in the production of more wealth.

IV.Accounting :

a.Assets remaining after deduction of liabilities : The net worth of a business

b.The ownership interest in a business.

According to LONGMAN DECTIONARY capital means money of property, especially when it is used to start a business or to produce more wealth.But in economic viewpoint capital is one of the factors of production which is used in the production of further wealth in accounting practice, capital is used in the sense of a fund and an asset. Under the fund concept, the capital of a firm is the sum total of funds that have been employed for its running. It corresponds to the idea of the total capital and may also be described as financial capital. The fund concept recognizes the separate entity of the firm and considers capital from liability side of the balance sheet. Funds collected from various sources are interested in acquisition of assets of a business. The assets are employed for earning revenue and, as such, they are called capital goods or produced means of production. But in the accountant’s eyes capital is rather, the collected funds invested in the business. Such a capital which in other words, may be called the financial capital. Financial capital, as consisted of components derived from various sources, is usually known as the capital structure of a business.

According to the assets concept, capital means capital invested in fixed assets and current assets. In both the cases, the assets may comprise either of tangible or intangible including fictitious assets. To an accountant, as asset is a capitalized expenditure and represents claims to services. It need not always be associated with material object having a tangible existence. Further, though assets in general should possess value, all assets may not have value in exchange. Thus, in so far as the intangible assets satisfy these criteria, there is no constraint on the part of the accountants in including intangibles among assets. Fictitious assets, such as, debit balance of profit and loss account, balance of share or debenture discount are, however, to be rated more as deduction from relevant liabilities than assets by themselves.

From the above mention fact we can take chance to say that every business requiring capital will exist. The amount of capital needed by a concern should also be adequate. As the capital gives the return, the return should be reasonable. To get an appropriate return the capital invested should also be appropriate. No businessman wants to invest if the return is not proper. As such every firm tries to get adequate return as the amount invested. Then ultimately the amount invested will also be adequate. If the capital is not adequate to the returns, then the concern may face the danger of over capitalization or under capitalization. So in order to prevent this danger, every firm should have adequate capital keeping in view the return on that.

CAPITAL STRUCTURE

The Random House Dictionary of the English defined the Word “structure”

as: Mode of building, Mode of construction organization or arrangement of parts, elements or constituents, a pyramidal structure.Anything composed of parts arranged together in someway: and organization the system of relations between the constituent groups of a society.

To give a structure, organization or arrangement to construct a

systematic framework for Essentially the Word “Structure” is a term used in the science of engineering in case of construction of a building there are some standard proportion in which various elements are integrated .together. It is expected that business enterprises while raising the resources should also think of proportions in which they can mix the sources of capital. This is the basis for the concept of capital structure. Capital structure is defined is two Ways. According to some authors capital structure refers to the relationship between the long term debt and equity.

In other worlds, it takes in to consideration only the long term sources of capital it excludes short term capital from its purview. The RBI and the All India Financial Institutions also use the term in this sense. As a matter of fact the controller of capital issues fixed a guideline for the capital structure of companies basing on the relation between long term debt and equity.

On other hard, some believe that capital structure refers to the relationship among all sources all sources of capital. They do not want to distinguish between long term and short term sources. In the opinion of walker and Baughn capital structure is synonymous with total capital: this term refers to the makeup of the credit side of the balance sheet or the division of claims among trade creditors, bank creditors bond holders stock holders, stock holders etc. The latter expression has wide connotation and is known as financial structure. Landsay and sametz feel that in view of the great importance of bank credit and trade credit it,seems artificial to short term or informal debt from capital structure problems especially for small firms where current liabilities compromise a large part of the sources of funds. Thus, the concept of capital structure is interpreted in two Ways. This problem is tackled cleverly in finance by interpreting the second situation as that of financial structure. Above these, there are different definition given by different authors viz Gesternberge. Bhandari & Kulshreshta, J.K. Sarkar M.C. Shukla, James C. Vanukne, I.M.pandey, Ravi Kishor etc. considering the various expressions capital structure, only long term sources also. In this study, the Word capital structure is used to the to the firm’s concept, which includes the composition of different sources also in this study Word capital structure is used to the firm’s concept, Which includes the composition of different sources of long funds only, i.e. long term debt and equity.

**OBJECTIVES OF CORPORATE FINANCE**

| **PROFIT MAXIMIZATION** | **WEALTH MAXIMIZATION** |
| --- | --- |
| Profit Maximization is based on the increase of sales and profits of the organization. | Wealth Maximization is based on the cash flows into the organization. |
| Focused On | |
| Profit Maximization emphasizes on short term goals. | Wealth Maximization emphasizes on long term goals. |
| Time Value of Money | |
| Profit Maximization ignores the time value of money. Time value of money refers the money receivable today is more valuable than the money which is going to be recieved in future. | Wealth Maximization considers the time value of money. In wealth maximization, the future cash flows are discounted at an suitable discounted rate to represent their present value. |
| Risk | |
| Profit Maximization ignore the risk and uncertainity. | Wealth Maximization considers the risk and uncertainty. |
| Reliability | |
| In the new business environment Profit maximisation is regarded as unrealistic, difficult, inappropriate and immoral. | Wealth maximisation objectives ensures fair return to the shareholders, reserve funds for growth and expansion, promoting financial discipline in the management. |
| Objective | |
| Profit Maximization objective leads to exploiting employees and consumers. it also leads to inequalities and lowers human values. | Wealth Maximization provides efficient allocation of resource, It ensures the economic interest of the society. |

# UNIT-4 PART B – CORPORATE FUND RAISING

## Indian depository receipts (UPSC Economics)

Indian depository receipt is financial instruments that allow different companies to mobilize funds from Indian markets by offering entitlement to foreign equity and getting instead on Indian stock exchanges. This device is similar to the GDR and the ADR the Indian depository receipts need to be registered with the SEBI (stock exchange board of India ) the government opened this avenue for the foreign companies to raise funds from the country as step  towards globalizing the Indian capital market and to provide local investors exposure in global companies.

The company issuing IDR’s should have a pre-issue paid-up capital and free reserves of at least 100 million US dollars, and an average turnover of us dollar is 500 million during the three financial years. Preceding the issue IDR’s can not be redeemed into underlying equity shares before the expiry of one year from the issue date only qualified institutional investors and Indian companies are allowed to invest in IDR’s and fills can not purchase of possess IDR’s without explicit permission of the RBI “ reference standard chartered PIC ,u.k.” first IDR issued

### Advantages of the  IDR’s

* Provides access to more liquid markets.
* Provides funds for lower costs and better terms
* It expands the investor base for the issuing company.
* Establishes name recognition for the company in new capital markets.
* Provides marketing advantages due to improved brand image.
* Reduces the possibility if hostile takeovers.
* There is no exchange risk since the issuer pays dividends in their home currency.
* Helps to exploit international demand for shares of the company.
* Contributes to use global demand for shares of the enterprise.

1. Source for foreign currency resources for overseas accuiquistions, joint ventures, import financing, project funding, etc.
2. Indian depository receipts eliminates the equity fund risk.

This is because the global depository receipts holders do not acquire voting rights and therefore the promoters are not in a danger of losing management control:

1. The companies who are having international operations can build a brand image who help in their marketing efforts.
2. Investors have the benefit of having access to high-quality businesses in other countries without political risk, operational risk, and excessive regulatory control.
3. Trough the Indian depository receipts issue the company can create a potential demand for its shares at the international level which results in a higher valuation for its shares at the domestic markets.This results in a higher PE ratio which reduces the cost of the capital.
4. Indian companies with an excellent financial track record of three years are readily allowed access to the trough of the international market such issues. Clearances are required for the foreign investment board FIPB and the ministry of finance.

### Advantages of the IDR’s to the investors

* Access to the best investment possibilities across the world.
* It is an easy and cost effective way for individuals to hold and own shares in a foreign company.
* The mechanism helps investors to avoid international procedural hurdles and clearances
* Means of wealth protection and investment diversification.
* Hedge against adverse developments in the domestic economy.

### Risk of the Indian depository receipts

The price of the   IDR is connected to the local price of the underlying shares. The local price and or the overseas price may be adversely affected due to localized factors. The shares, as well as Indian depository receipts prices, therefore, face greater uncertainties.

The investors bear the exchange risk and all other hazards incurred by an equity holder.

## What is an 'American Depositary Receipt - ADR'

An American depositary receipt (ADR) is a [negotiable](http://www.investopedia.com/terms/n/negotiable.asp) certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock traded on a U.S. exchange. ADRs are denominated in U.S. dollars, with the [underlying security](http://www.investopedia.com/terms/u/underlying-security.asp) held by a U.S. financial institution overseas, and holders of ADRs realize any dividends and [capital gains](http://www.investopedia.com/terms/c/capitalgain.asp) in U.S. dollars, but [dividend](http://www.investopedia.com/terms/d/dividend.asp) payments in euros are converted to U.S. dollars, net of conversion expenses and foreign taxes. ADRs are listed on either the [NYSE](http://www.investopedia.com/terms/n/nyse.asp), [AMEX](http://www.investopedia.com/terms/a/amex.asp) or [Nasdaq](http://www.investopedia.com/terms/n/nasdaq.asp) but they are also sold [OTC](http://www.investopedia.com/terms/o/otc.asp).

## BREAKING DOWN 'American Depositary Receipt - ADR'

American depositary receipts were introduced in 1927 as an easier way for U.S. investors to purchase stock in foreign companies. Non-U.S. companies also benefit from ADRs as it makes it easier to attract American investors.

Before ADRs existed, if American investors wanted to purchase shares of a non-U.S. listed company, they had to buy the shares on international exchanges. Purchasing shares on international exchanges has potential drawbacks, particularly currency exchange issues and regulatory differences. Publicly traded companies have to answer to regulatory bodies with jurisdiction over their country. In the United States, the regulatory body is the Securities Exchange Commission (SEC), which works to protect investors. The regulatory bodies implement and enforce rules on companies including how companies should present pertinent financial information. Before investing in an internationally traded company U.S. investors had to familiarize themselves with the different rules, or they could risk misunderstanding important information such as the company's financials.

## Benefits

ADR holders do not have to transact in foreign currencies because ADRs trade in U.S. dollars and clear through U.S. settlement systems. The U.S. banks require that the foreign companies provide them with detailed financial information, making it easier for investors to assess the company's financial health compared to a foreign company that only transacts on international exchanges.

## Trading ADRs

To offer ADRs, U.S. banks simply purchase shares from the international company and reissue them, typically on U.S. exchanges. An ADR may represent the underlying shares on a one-for-one basis, or it may represent a fraction of a share or multiple shares. The depositary bank sets the ratio of U.S. ADRs per home-country share at a value that is appealing to investors. If an ADR’s value is too high, it could deter some investors, but if it is too low, investors may think they are like riskier penny stocks.

## What is a 'Global Depositary Receipt - GDR'

A global depositary receipt (GDR) is a bank certificate issued in more than one country for [shares](http://www.investopedia.com/terms/s/shares.asp) in a foreign company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares but are offered for sale globally through the various bank branches. A GDR is a [financial instrument](http://www.investopedia.com/terms/f/financialinstrument.asp) used by private markets to raise capital denominated in either U.S. dollars or euros.

## BREAKING DOWN 'Global Depositary Receipt - GDR'

A GDR is very similar to an [American depositary receipt](http://www.investopedia.com/terms/a/adr.asp) (ADR). GDRs are called EDRs when private markets are attempting to obtain euros.

GDRs may be traded in multiple markets, generally referred to as capital markets, as they are considered to be negotiable certificates. Capital markets are used to facilitate the trade of long-term debt instruments, primarily for the purpose of generating capital. GDR transactions in the international market tend to have lower associated costs than some other mechanisms that can be used to trade in foreign securities.

## Shares Per Global Depositary Receipt

Each GDR represents a particular number of shares in a specific company. A single GDR can represent anywhere from a fraction of a share to multiple shares, depending on its design. When multiple shares are involved, the receipt value shows an amount higher than the price for a single share. Depository banks manage and distribute various GDRs and function in an international context.

## Trading of Global Depositary Receipt Shares

Companies issue GDRs to attract interest by foreign investors, providing a lower-cost mechanism in which these investors can participate. These shares are traded as though they are domestic shares, but they can be purchased in an international marketplace. Often, the actual shares that are allocated within the GDR are put in the possession of a custodian bank as transactions are processed, ensuring both parties a level of protection while facilitating participation.

The purchase and sale of GDRs are managed through brokers representing the buyer, generally from the home country, and seller within the foreign market. The actual purchase of the assets are multi-staged, involving a broker in the investor's home, a broker located within the market associated with the company that has issued the shares, a bank representing the buyer and the custodian bank.

If an investor desires, GDRs can be sold through their brokers as well. They can be sold as is on the proper exchanges, or they can be converted into regular stock for the company. Additionally, they can be canceled and returned to the issuing company.

**PUBLIC FINANCING INSTITUTIONS IN INDIA**

# Industrial Development Bank of India (IDBI)

**Establishment**The Industrial Development Bank of India or IDBI was established on 1st July, 1964 as an apex bank (the counterpart of Reserve Bank) in the field of industrial finance and capital market. However, it was de-linked from Reserve Bank on 16th February, 1976 and was given a separate independent entity under Central Government. It has completed 35 years on 30th June, 1999.

**Objectives**It is the apex institution to co-ordinate, supplement, and integrate the activities of all existing specialized financial institutions. It is a re-financing and re-discounting institution operating in the capital market to re-finance term loans and export credits. It is in charge of conducting lechno-economic studies. It offers loans on purpose and not merely on the security of property as mortgage or pledge.

In the beginning it was a subsidiary of the Reserve Bank of India and both had common board of directors. But since 1976 (Feb.) it has been de-linked from RBI. It has now its independent board representing the Government, Commercial Banks, Financial Institutions and industries. As an independent institution, it can now play much more effective role in rendering financial assistance. Thus, now we have evolved an integrated capital market structure for industrial finance functions. The IDBI undertakes:

Refinancing of loans granted by other special financial institutions, banks and cooperatives.

Granting of loans to industrial units.

Rediscounting of bills of exchange.

Guaranteeing of loans and deferred payments.

Planning and promoting industries.

Investment in other financial corporations.

Underwriting the issue of shares and debentures of industrial units.

Financial Resources, (i) Share Capital. The Present authorized capital of IDBI is Rs. 1,000 crores (Increased from Rs. 500 crores to Rs. 1,000 crores). It can be increased up to Rs. 2,000 crores.

The paid-up capital in 1998-99 stood at Rs. 660 crores as against Rs. 659 crores in 1977-78.

Bonds: The IDBI is authorized to issue bonds.

Loan from Central Government: The IDBI is empowered to take loan from the central government.

Loan from Reserve Bank: The IDBI is authorized to take loan from the Reserve Bank on its securities for a period of 90 days.

Loan in Foreign Currency: The IDBI is empowered to take loan in foreign currency.

Reserve Fund: The reserve fund during 1998-99 stood at Rs. 8,033 crores as against Rs. 8003 crores in 1997-98.

Other Sources: Other financial sources of IDBI includes public deposits, grants etc.

**Management**The IDBI is managed by a board of directors. The maximum number of directors in the board is twenty two only. At present there are in all eighteen directors in the board of directors. The head-office of IDBI is situated in Mumbai. It has five regional offices situated in New Delhi, Kolkata, Chennai and Guwahati. Besides the regional office, the IDBI has 20 branch offices situated in different parts of the country.

**Review of Progress (Operations)**IDBI has given special attention to better regional development and innovational and promotional activities. It has conducted surveys of backward regions. It has given special help to backward regions on concessional terms. IDBI is playing a more dynamic role in promoting growth of industries as an innovator in the area of industrial finance. The financial resources are being diverted into socially more desirable channels. Emphasis is being placed on assistance to small and new entrepreneurs and units located in underdeveloped regions in the country.

IDBI is the major source of industrial finance. Its sanctioned and disbursed amount is 37% and 40% respectively of the total sectioned and disbursed amount of all the term-lending institutions. In the field of company promotion, IDBI has set up technical consultancy organisation which helps in the preparation of feasibility studies, project reports, guidance in the economic, financial and managerial aspects of the new prospect.

Refinance of export credit is offered at a lower rate of interest. In the field of export financing, it was acting as an export bank. It is due to the fact that IDBI is the apex  bank in the world of industrial finance and it must act primarily as a residual lender of last resort and fill up the gaps in industrial finance which are left out by other financial institutions.

**CriticalEvaluation**The IDBI, during 35 years of its working has done commendable job in different areas. It has given special attention to better regional development and innovational and promotional activities. It has conducted surveys of backward regions. It has provided special help to backward areas of the country on concessional terms. The financial resources of IDBI are being directed into socially more desirable channels, refinance of export credit is offered at the lower rate of interest. It sanctioned and disbursed amounts are nearly 37% and 40% respectively of the total sanctioned and disbursed amount of all the term lending institutions of India. Thus, under the able leadership of IDBI, the specialized term financial institutions of our country are poised to play a vital and dynamic role  in the process of industrial development of our country.

Industrial Credit and Investment Corporation of India (ICICI)

**Establishment**The Industrial Credit and Investment Corporation of India or ICICI was established on 5th January, 1955 to assist industrial units in the private sector. It was sponsored by the World Bank.

**Objects**The primary object of ICICI is to assist industrial units in the private-sector. The main objects of ICICI are as follows:

To assist in the creation, expansion and modernization at industrial units in the private sector.

To encourage the inflow and participation of foreign capital in the private sector industrial units.

To expand the investment market in India.

**Functions**The main functions of ICICI are as follows:

To sponsor and underwrite new issues.

To provide medium and long-term loans to industrial units in the private sector.

to guarantee loans taken from other private sources.

to furnish managerial, technical and administrative advice to industrial units by the private sector.

To make funds available for reinvestment.

To advance loans in foreign currency towards the cost of imported capital equipments.

to extend guarantee for deferred payments.

To purchase the shares and debentures of new companies.

**Management**The ICICI is managed by a board of 11 directors out of whom 7 directors are elected by Indian shareholders, 2 by British shareholders, 1 by American shareholders and the remaining 1 is nominated by Government of India, It has a full-time chairman and a general manager.

**Financial Resources (Capital)**The authorized capital of ICICI is Rs. 25 crores which was raised to Rs. 60 crores. The present subscribed capital is Rs. 22 crores. The capital has been subscribed by (i) Indian banks and insurance companies, (ii) general public in India, (iii) foreigners including British and American investors.

**Loans**The ICICI is empowered to accept foreign currency loans. Loan provided by the World Bank is dominating feature. Besides World Bank loan, the ICICI is also obtaining loans from IDBI, IBRD, AID and KFW of the Federal Republic of Germany, America, Britain and also from Government of India.

**Review of Progress (Operations)**The ICICI has a commendable record of assistance to industrial units in the private sector. The main industries getting financial assistance from ICICI includes pulp paper, chemicals, electrical equipments automobiles and cycles, machinery manufacturing industries, cotton textiles, sugar and cement etc. The assistance has been provided in the form of rupee loans, foreign currency loans, guarantees, underwriting and direct subscription securities. The performance of the merchant banking division of ICICI is excellent.

**Critical Evaluation**No doubt that the ICICI, since its inception, has been rendering valuable services to private-sector industries. It has developed and strengthened underwriting market, an important branch of our capital market. It has assumed great importance as a supplier of foreign currency loans to industrial units in the private sector. Further, it has developed vast associations in foreign countries.

In spite of the progress made by the ICICI in different economic fields, it is subject to criticism on the following grounds:

The ICICI has adopted an indifferent attitude towards providing assistance in backward regions of the country.

The gap between loans sanctioned and disbursed is quite wide.

It has failed to take necessary interest in the development of rural economy of our country.

In spite of the above criticisms, the overall performance of ICICI in financing the private sector industrial units is commendable. It has started taking interest in the economic development of rural and backward areas of our country. Thus, the future of ICICI in India is quite bright.

IFCI: Industrial Finance Corporation of India Ltd.

The Government of India set up the Industrial Finance Corporation of India (IFCI) under IFCI Act in July 1948. Since July 1, 1993, it has been brought under Companies Act, 1956. The IFCI extends financial assistance to the industrial sector through rupee and foreign currency loans, underwriting / direct subscriptions to shares/debentures and guarantees and also offers financial services through its facilities of equipment procurement, equipment finance, buyers’ and suppliers’ credit, equipment leasing and finance to leasing and hire purchase companies. It also provides merchant banking with its Head Office in Delhi and a bureau in Mumbai.

**The financial resources of the IFCI are constituted of the following three components:**

(i) Share capital,

(ii) Bonds and Debentures; and

(iii) Other Borrowings.

The IFCI started its lending operations on a modest scale in 1948.

**In recent years, the IFCI has started new promotional schemes, such as:**

(a) Interest subsidy scheme for woman entrepreneurs;

b) Consultancy fee subsidy schemes for providing marketing assistance to small-scale industries;

(c) Encouraging the modernisation of tiny, small-scale, ancillary units; and

(d) Control of pollution in the small and medium-scale industries. The IFCI has shown its increasing concern in the development of backward districts.

No doubt, the IFCI has experienced impressive performance over the years. At the same time, it is also true that there are certain flaws in its functioning which have invited criticism from different quarters.

**To quote:**

(i) The IFCI’s lending operations have encouraged concentration of wealth and capital. It still pursues a discriminatory policy to the disadvantage of medium and small- scale units,

(ii) there are great delays in sanctioning of loans and, then making the amount of the loan available,

(iii) The IFCI has failed to exercise necessary control over the defaulting and misusing borrowers.

What are Mutual Funds? Define Mutual Fund / Definition of Mutual Funds ( MF ) in India

Mutual funds are in the form of Trust (usually called Asset Management Company) that manages the  pool of money collected from various investors for investment in various classes of assets to achieve certain financial goals.  We can say that Mutual Fund is trusts which  pool the savings of large number of investors and then reinvests those funds for earning profits and then distribute the dividend among the investors.    In return for such services,  Asset Management Companies charge small fees.    Every Mutual Fund / launches different schemes, each  with a specific objective.   Investors who share the same objectives invests in that particular Scheme.   Each Mutual Fund Scheme is  managed by a Fund Manager with the help of his team of professionals (One Fund Manage may be managing more than one scheme also).

 Where does Mutual Funds usually invest their funds :

 The Mutual Funds usually invest their funds in equities, bonds, debentures, call money etc., depending on the objectives and terms of scheme floated by MF.   Now a days there are MF which even invest in gold or other asset classes.

 What is NAV ? Define NAV :

 NAV means Net Asset Value.   The investments made by a Mutual Fund are marked to market on daily basis.   In other words, we can say that current market value of such investments is  calculated on daily basis.  NAV is arrived at after deducting all liabilities (except unit capital) of the fund from the realisable value of all assets and dividing by number of units outstanding.   Therefore,  NAV on a particular day reflects the realisable value that the investor will get for each unit if the scheme is liquidated on that date.   This NAV keeps on changing with the changes in the market rates of equity and bond markets.    Therefore, the investments in Mutual Funds is not risk free, but a good managed Fund can give you regular and higher returns than when you can get from fixed deposits of a bank etc.

WHAT ARE VARIOUS TYPES OF MUTUAL FUNDS :

A common man is so much confused about the various kinds of Mutual Funds that he is afraid of investing in these funds as he can not differentiate between various types of Mutual Funds with fancy names.  Mutual Funds can be classified into various categories  under the following heads:-

(A) ACCORDING TO TYPE OF INVESTMENTS :- While launching a new scheme,  every Mutual Fund is supposed to declare in the prospectus the kind of instruments in which it will make investments of the funds collected under that scheme. Thus, the various kinds of Mutual Fund schemes as categorized according to the type of investments are as follows :-

               (a) EQUITY FUNDS / SCHEMES

               (b) DEBT FUNDS / SCHEMES (also called Income Funds)

               (c ) DIVERSIFIED FUNDS / SCHEMES (Also called Balanced Funds)

               (d) GILT FUNDS / SCHEMES

               (e) MONEY MARKET FUNDS / SCHEMES

               (f) SECTOR SPECIFIC FUNDS

               (g) INDEX FUNDS

B) ACCORDING TO THE TIME OF CLOSURE OF THE SCHEME :  While launching  new schemes, Mutual Funds also declare whether this will be an open ended scheme (i.e. there is no specific date when the scheme will be closed) or there is a closing date when finally the scheme will be wind up.  Thus, according to the time of closure schemes are classified as follows :-

          (a) OPEN ENDED SCHEMES

          (b) CLOSE ENDED SCHEMES

Open ended funds are allowed to issue and redeem units any time during the life of the scheme, but close ended funds can not issue new units except in case of bonus or rights issue.   Therefore, unit capital of open ended funds can fluctuate on daily basis (as new investors may purchase fresh units), but that is not the case for close ended schemes.   In other words we can say that new investors can join the scheme by directly applying to the mutual fund at applicable net asset value related prices in case of open ended schemes but not in case of close ended schemes.  In case of close ended schemes, new investors can buy the units  only from secondary markets.

C) ACCORDING TO TAX INCENTIVE SCHEMES :  Mutual Funds are also allowed to float some tax saving schemes.   Therefore, sometimes the schemes are classified according to this also:-

         (a) TAX SAVING FUNDS

         (b) NOT TAX SAVING FUNDS / OTHER FUNDS

(D) ACCORDING TO THE TIME OF PAYOUT :  Sometimes Mutual Fund schemes are classified according to the periodicity of the pay outs (i.e. dividend etc.).  The categories are as follows :-

         (a) Dividend Paying Schemes

         (b) Reinvestment Schemes

 The mutual fund schemes come with various combinations of the above categories.  Therefore, we can have an Equity Fund which is open ended and is dividend paying plan.   Before you invest, you must find out what kind of the scheme you are being asked to invest.   You should choose a scheme as per your risk capacity and the regularity at which you wish to have the dividends from such schemes

 How Does a Mutual Fund Scheme Different from a Portfolio Management Scheme ?

 In case of Mutual Fund schemes, the funds of large number of investors is pooled to form a common investible corpus and the gains / losses are same for all the investors during that given peirod of time.  On the other hand, in case of Portfolio Management Scheme, the funds of a particular investor remain identifiable and gains and losses for that portfolio are attributable to him only.  Each investor's funds are invested in a separate portfolio and there is no pooling of funds.

# Unit Trust of India: Objectives, Functions and Schemes

**Unit Trust of India: Objectives, Functions and Schemes!**

Unit Trust of India (UTI) is a statutory public sector investment institution which was set up in February 1964 under the Unit Trust of India Act, 1963.

UTI began operations in July 1964. It provides opportunity for small-savers to invest in areas where their risk is diversified.

The Unit-holders, if necessary, can sell their units to UTI at the prices determined by UTI. One of the attractions is that the investment in UTI has an income-tax rebate and the income from the UTI is exempted; from income-tax subject to certain limits.

#### Objectives:

**The primary objectives of the UTI are:**

(i) To encourage and pool the savings of the middle and low income groups.

(ii) To enable them to share the benefits and prosperity of the industrial development in the country.

#### Organisation and Management:

UTI was established with an initial capital of Rs. 5 crore, contributed by the RBI, LIC, SBI and its subsidiaries and scheduled banks and financial institutions. The initial capital of Rs. 5 crore was divided into 1,000 certificates of Rs. 50,000 each. To supplement its financial resources, the trust can borrow from the Reserve Bank of India, the amount being repayable on demand’ or within a period of 18 months.

UTI is managed by a Board of Trustees, consisting of a chairman and four members nominated by Reserve Bank of India, one member nominated by LIC, one member nominated by the State Bank of India, and two members elected by the contributing institutions.

#### Functions of UTI:

**The UTI functions are discussed below:**

(i) To accept discount, purchase or sell bills of exchange, promissory note, bill of lading, warehouse receipt, documents of title to goods etc.,

(ii) To grant loans and advances.

(iii) To provide merchant banking and investment advisory service.

(iv) To provide leasing and hire purchase business.

(v) To extend portfolio management service to persons residing outside India.

(vi) To buy or sell or deal in foreign exchange dealings.

(vii) To formulate unit scheme or insurance plan in association with or as agent of GIC.

(viii) To invest in any security floated by the Central Government, RBI or foreign bank.

#### Activities of UTI:

The UTI can sell and purchase the units issued by it, investing, acquire, hold or dispose off securities. Keep money on deposit with the scheduled banks and undertake related functions incidental or consequential to that. All the units issued by the UTI are of the value of Rs. 10 each. These units were put on sale at face value and thereafter at prices fixed daily by the UTI. Units can be purchased in ten or multiples of ten.

#### Schemes of UTI:

**The familiar schemes of UTI are given below:**

(i) Unit scheme—1964.

(ii) Unit Linked Insurance Plan—1971.

(iii) Children Gift Growth Fund Unit Scheme—1986.

(iv) Rajyalakhmi Unit Scheme—1992.

(v) Senior Citizen’s Unit Plan—1993.

(vi) Monthly Income Unit Scheme.

(vii) Master Equity Plan—1995.

(viii) Money Market Mutual Fund—1997.

(ix) UTI Growth Sector Fund—1999.

(x) Growth and Income Unit Schemes.

#### Advantages of Unit Trust:

**The advantages of Unit Trust are:**

(i) The investment is safe and the risk is spread over a wide range of securities.

(ii) The Unit-holders will be getting regular and good income, as 90 percent of its income will be distributed.

(iii) Dividends up to Rs. 1,000 received by the individual are exempt from income-tax.

(iv) There is a high degree of liquidity of investment as the units can be sold back to the trust at any time at prices fixed by trust.

# Life Insurance Corporation of India (LIC): Management, Objectives and Activities

**Life Insurance Corporation of India (LIC): Management, Objectives and Activities!**

The Life Insurance Corporation of India (LIC) came into existence on July 1, 1956 and the LIC began to function on September 1, 1956.

The LIC gets a large amount of insurance premium and has been investing in almost all sectors of the economy, viz, public sector, private sector, co-operative sector, Joint Sector and now it is one of the biggest term-lending institutions in the country. LIC was established to spread the message of Life Insurance in the country and mobilise people’s savings for nation-building activities.

#### Organisation and Management:

LIC with its central office in Mumbai and seven Zonal offices at Mumbai, Kolkata, Delhi, Chennai Hyderabad, Kanpur and Bhopal operates through 100 divisional offices in important cities and 2048 branch offices. As on March 31, 2003 LIC had 9.88 lakh agents spread over the country. LIC also entered the international insurance market and opened its offices in England, Mauritius and Fiji.

#### Objectives of LIC:

**The important objectives of LIC are as follows:**

(i) To mobilise maximum savings of the people by making insured savings more attractive.

(ii) To extend the sphere of life insurance and to cover every person eligible for insurance under insurance umbrella.

(iii) To act as trustees of the insured public in their individual and collective capacities.

(iv) Promote all employees and agents of the LIC, in the sense of participation and job satisfaction through discharge of their duties with dedication towards achievement of LIC objectives.

(v) To ensure economic use of resources collected from policy holders.

(vi) To conduct business with utmost economy and with the full realization that the money belong to the policy holders.

#### Activities of LIC:

The LIC subscribes to and underwrites the shares, bonds and debentures of several financial corporations and companies and grants term-loans. It maintains a relationship with other financial institutions such as IDBI, UTI, IFCI, etc. for coordination of its investment.

The LIC is a powerful factor in the securities market in India. It subscribes to the share capital of companies, both preference and equity and also to debentures and bonds. Its shareholding extends to a majority of large and medium sized non-financial companies and is significant in size.

It is no doubt to say that the LIC acts as a kind of downward stabilizer of the share market, as the continuous inflow of fresh funds enables it to buy even when the share market is weak.

#### Investment Policy:

The investment policy of the LIC of India should bring a fair return to policy holders consistent with safety. Since the funds at the disposal of the LIC are in the nature of the trust money, they should be invested in such securities which do not diminish in value and give the highest possible return.

In other words, principles of safety, yield, liquidity and distribution should be taken into consideration while investing insurance funds. The way in which these funds are invested is a great significance not only to policy holders but also to the entire economy.

**INTERNATIONAL MONETARY FUND :-**  
International Monetary Fund was established in 1947. Following were the main objectives of this fund.  
  
**1.** To promote exchange rate stability among the different countries.  
  
**2.** To make an arrangement of goods exchange between the countries.  
  
**3.** To promote short term credit facilities to the member countries.  
  
**4.** To assist in the establishment of International Payment System.  
  
**5.** To make the member countries balance of payment favourable.  
  
**6.** To facilitate the foreign trade.  
  
**7.** To promote The international monetary corporation.  
 **Management Of Fund :-**  
The twelve member executive committee manages the affairs of IMF. Five members are the representatives of U.K, U.S.A, China, [France](http://www.studypoints.blogspot.com/) and India. The remaining are elected by the other members countries. Its head office in in U.S.A.  
  
**Source Of IMF :-**  
The initial capital of IMF was 8.5 billion dollar which was contributed by the 49 members. The quota of each member country was fixed in proportion to the national income and volume of foreign trade. Every country was required to pay in the form  of gold and domestic currency.

### FUNCTIONS OF IMF FUND

* 1. **Merchant Of Currencies :-**  
     IMF main function is to purchase and sell the member countries currencies.  
       
     **2. Helpful For The Debtor Countries :-**  
     If any country is facing adverse balance of payment and facing the difficulty to get the currency of creditor country, it can get short term credit from the fund to clear the debt. The IMF allows the debtor country to purchase foreign currency in exchange for its own currency upto 75% of its quota plus an addition 25% each year. The maximum limit of the quota is 200% in special circumstances.  
       
     **3. Declared Of Scarce Currency :-**  
     If the demand of any particular country currency increases and its stock with the fund falls below 75% of its quota, the IMF can declare it scare. But IMF also tries to increase its supply by these methods.  
       
     **1. Purchasing :-**  IMF purchases the scare currency by gold.  
       
     **2. Borrowing :-**  IMF borrows from those countries scare currency  who has surplus amount.  
       
     **3. Permission :-**  IMF allows the debtor countries to impose restrictions on the imports of creditor country.  
       
     **4. To promote exchange stability :-**  The main aim of IMF is to promote exchange stability among the member countries. So it advises the member countries to conduct  exchange transactions at agreed rates. On the other hand one country can change the parity of the currency without the consent of the IMF but it should not be more than 10%. If the changes are on large scale and IMF feels that according the circumstances of the country these are essential then it allows. The country can not change the exchange rate if IMF does not allow.  
       
     **5. Temporary aid for the devalued currency :-**  When the devaluation policy is indispensable or any country then IMF provides loan to correct the balance of payment of that country.  
       
     **6. To avoid exchange depreciation :-**  IMF is very useful to avoid the competitive exchange depreciation which took place before world war 2.

*WORLD BANK*

***International Bank for Reconstruction and Development (IBRD) and its associate institutions as a group are known as the World Bank****. It is headquartered in****Washington, D.C****and presently****189 countries****are the member of this organization. So basically we can say that the World Bank is an international financial institution that provides loans to developing countries for capital programs.*

*The World Bank was established in December 1945 with the IMF on the basis of the recommendation of the****Bretton Wood Conference****. That is the reason why IMF and World Bank are called '****Bretton Wood Twins****'. The World Bank has 30 founder members who attained membership by December, 1945.****India is also among the founder members****.*

*The basic difference between World Bank and IMF is - that****World Bank provided long term loans for promoting balanced economic development, while IMF provides short term loans to member countries for eliminating BOP (Balance of payments) disequilibrium****. Both of these institution are complementary to each other.*

*The World bank aims to reduce poverty in middle income and credit worthy poorer countries but promoting sustainable development through loans, guarantees, risk management products and analytical and advisory services.*

*The World Bank is a component of the World Bank Group, which is part of the United Nations system.****India is a member of 4 constituents of the World Bank group - IBRD (International Bank for Reconstruction and Development), IDA (International Development Association), IFC (International Finance Corporation) and MIGA (Multilateral Investment Guarantee Agency) but not of its 5th institute ICSID ( International centre for the settlement of investment disputes).***

*The parts of the World Bank Group :*

***The IBRD****, the original arm of the WB, offers assistance to****middle income and poor but credit worthy countries****and it also works as an umbrella for more specialized bodies under the World Bank.*

***The IDA****offers loans to the****world's poorest countries****. These loans come in the form of "credits," and are essentially interest-free. They offer a 10-year grace period and hold a maturity of 35 years to 40 years.*

***The IFC****works to****promote private sector investments by both foreign and local investors****. It provides advice to investors and businesses and it offers normalized financial market information through its publications, which can be used to compare across markets. The IFC also acts as an****investor in capital markets****and will help governments privatize inefficient public enterprises.*

***The MIGA****supports direct foreign investment into a country by offering****security against the investment in the event of political turmoil****. These guarantees come in the form of political risk insurance, meaning that MIGA offers insurance against the political risk that an investment in a developing country may bear.*

***The ICSID****facilitates and works towards a****settlement in the event of a dispute between a foreign investor and a local country****.*

***World Bank & India :***

*India has been borrowing from the World Bank through IBRD and IDA for various development projects in the areas of poverty reduction, infrastructure, rural development etc.****IDA funds mostly used in Social sector projects****. IBRD funds are relatively costlier but cheaper than commercial external borrowings. The GOI utilized****IBRD loans primarily for infrastructure projects****.*

*Recent activity India related to World Bank :*

* *Government of India and World Bank Sign US$1.5 Billion Agreement to Support India’s Universal Sanitation Initiative.*
* *World Bank will work with Indian Railways for the Railway Development Fund.*
* *India signs financing agreement with World Bank for US$ 3OO million.*
* *India has signed $35 million loan agreement with the World Bank for MP project.*