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IFCI : The First Financial Institution of India: An Overview

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Abstract

1948, the year of IFCI's birth, was a seminal year in development banking, not only in India but also all over the world. The World Bank at that time was just three years old, while Kreditanstalt-fur-weideraufau (KFW) of Germany was born in the same year. It was on Ist July 1948 that IFCI opened its doors for business. It was incorporated as a company under the Companies Act, 1956 on 21st May, 1993, the name of Industrial Finance Corporation of India was also changed to "IFCI Ltd" w.e.f. October 1999. The main objective of this study is to analyze the working of IFCI Ltd. A descriptive-analytical research methodology is applied. Various statistical techniques are used in this study. The study reveals that the performance of IFCI ltd shows a mixed picture. Growing NPAs is any concern as in case of IFCI Ltd. too is one of the biggest problems. On the other hand, it significantly contributes in the development of industrial sector. Some concrete suggestions have also been given to improve the financial position so that it may prove itself that old is gold.

Key Words: *Financial institution, Development Bank, Debt segment, Equity segment, Project financing, Capital market, Money market.*

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1. INTRODUCTION

India's political independence in 1947 also marked the beginning of the nation's march towards a long cherished goal of economic emancipation which the exploitative colonial economy of the British rule had so far denied to the Indian people. India's economy is traditionally agrarian. During the British rule agriculture both the agrarian and the non-agrarian sectors were in a bad shape. Agriculture engaged about 70% of the labor force and generated around 60% of the national income. The non-agriculture sector was not only small but also had a very unbalanced structure. The predominant activity in this sector was service (trade, money- lending, transport and communication, administrative defense and social services, professional services, personal services etc.) and not industry. The reason is not hard to trace. The lure of capturing Indian market for goods made in England especially cotton fabrics manufactured in the cloth mills of Manchester and Birmingham, led the British rulers to destroy indigenous industry calculatingly. The initial impact of British rule was to increase the percentage of labor force attached to agriculture, as the ruined artisans were obliged to seek their livelihood in this sector. Modern industrial enterprises had started taking root in India in the latter half of the 19th century, though a beginning had been made towards the end of 18th century when European planters began to manufacture indigo. Plantation industry from the very beginning, was owned, managed and controlled by the ex-employees of East India Company. Europeans became interested in indigo, tea and coffee plantation since they provide easy and high returns on the investments. Till the middle of the 19th century the Europeans took very little interest in establishing factories in India. Restrictions placed on Englishmen for acquiring land permanently in India, trading monopoly of the Company till 1833 and lack of internal communication were some of the factors responsible for this phenomenon. Some worthwhile progress in this direction could be made only after 1875. By the end of the century cotton and jute industries had recorded considerable progress. It was, however, only after the late nineties that industrial progress began to be felt conspicuously all over the country. During the first decade of the present century several mineral industries and some miscellaneous small industries came into prominence. Use of small machines and small engines was also becoming wide-spread. People everywhere started making more and more use of mechanical appliances.

2. REVIEW OF LITERATURE

It is the review that enables one to have a clear and comprehensive vision of all the pros and cons of the work, keeps abreast with the latest trends, methods, tools and techniques, makes aware with the frontier of the problem, contributes to scholarship of the investigation and develops deep insight into the problem, points out important aspects, stimulates thinking promotes creativity, and provides concepts and data for evaluation. Such data lead to interpretation, discussion and prove conducive to formulating aims and hypotheses, arriving at conclusions and suggesting remedial measures.

Kuchhal, S.C. is acknowledging authority on this subject. First published in 1960 1983 is an indispensable reference and has already gone in several editions. It is divided in ten parts and 38 chapters. Chapter third deals with Industrial evolution of India pre and post independence period. This book emphasizes on the problem of industrial evolution and progress in the context of developing countries like India that industrialization is a process of growth which is organically linked both to the social and economic past and to the parallel processes of social and economic development. Development plans for industry cannot be framed in isolation. They must be coordinated and adjusted with other sectors of the economy. The study analyses the progress, deficiencies and achievements of Indian industry, various new problems of industrial growth, emerging as a result of planned economy like regional development, taxation, institutional financing, capital formation workers participation in management, industrial productivity etc.

Srivastava, R.M. book entitled Management of Indian Financial Institutions, first published in 1984 and revised (in collaboration with Divya Nigam) in 2001 is an indispensable reference and has already undergone several editions. It is a mammoth work comprising 42 chapters and three sections, the last one dealing with management of development banks in India including an in-depth study of IFCI Ltd. Another book by Prof. Srivastava, which merits special mention, is Financial Management and Policy (2005), which deals with important aspects of financial management such as investment dividend, long-term financing decisions, working capital management financial instruments and analysis and interpretation of financial statements.

Bhole, L.M. Financial Institutions and Market is a commendable contribution towards financial institution literature. Apart from a history of Indian financial system in the post 1950 period, this book discusses systematically the regulatory and promotional institutions, banking institutions, non-bank financial intermediaries and statutory financial organizations market etc. It also makes a survey of the financial system in India as well as financial sector reforms affected from time to time.

Desai, Vasants Institutional Framework for Industries is a very illuminating and informative reference on the subject. Of special inertest is a detailed account of all the financial institutions in India, central as well as state level followed by a directory of useful financial institutions in India given at the end of section 2 Vol.

Ramesh Babu, G. Indian Financial System is a scholarly book written in a lucid style. It describes the Indian financial system, types of financial institutions in India, financial market and financial services in an easy-to-understand language.

Pandey, Shishir in his research paper entitled "Financial Structure and Profitability of IFCI Ltd: An Empirical Analysis" explain that A company capital structure determination constitutes a difficult decision that involves several antagonistic factors. The design of capital structure of any company mainly decides on profitability aspect. This paper is an attempt to analyse the capital structure of IFCI Ltd and checks the impact of present capital structure on shareholders as well as stakeholders.

3. OBJECTIVE OF STUDY

- To study the role of financial institutions in the development of industries.
- To study the relevance of establishment of IFCI Ltd.
- To study the functions of IFCI Ltd.
- To study the working of IFCI Ltd.

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4. Analysis of Study

4.1 Rationale of Financial Institutions

- The need to design an effective and efficient optimum rate of capital accumulation especially in under-developed countries can simply not be over-emphasized. The Post-War period of development planning in India necessitated an effective method of capital formation in order to accelerate the tempo of economic growth. After all the aim of development strategy is and should be to explore the best solution of removing the vicious circle between capital scarcity and under-development. In countries like India private investments are generally shy in participating in economic program. It is the institutional structure, which takes the bold measures for self-sustaining economic growth by mobilizing savings and investing them into productive pursuits for rapid development when private agencies fail to make a thrust forward. Financial institutions have to be sponsored by the Government to attain maximum growth within the shortest possible time. In fact a diversified and effective financial institutional structure has a positive and promisive role to play in the overall growth of under-developed and developing countries like India and understandably a pre-condition for the development of agriculture and industries. The need of such institutions in an economic system like ours becomes inevitable on a number of scores
- They support and sustain the leasing sectors in the process of growth by supplying their financial assets, and liabilities and open new horizons to possible alternatives. These institutions transfer savings from the slow growing sectors to the fast growing sectors and, thus, serve as a siphon for transferring economic surplus not only from one sector to another but also from one region to another.
- Such institutions spread the risk and uncertainties by calculating costs and benefits of various ventures and, thus, provide advice, guidance, and information on general investment, since they have the knowledge of economic opportunities and reduce those imperfections, frictions and rigidities in the market which are due to imperfect knowledge concerning purchasing, production, technical and market opportunities.
- They are a valuable medium for mobilization of internal savings and machinery for efficient utilization of domestic resources and effecting a balanced flow of capital into public and private sectors.
- They also convert the financial assets of the people into financial debt providing alternative opportunities of a high rate of return.
- They are helpful in removing financial dualism. Benefits resulting from the elimination of the financial dualism are reflected in the further improvements in the mobilization and allocation of savings.
- These institutions help in formulation and execution of economic plans by acting as consortium leaders of the capital markets. They are a medium through which the states can, make grants for the economic infrastructure and for the development of agriculture and industries.

5. Research Methodology

This study is descriptive in nature, for which researcher has applied analytical descriptive research methodology. It is an attempt to analyse the working of IFCI Ltd in depth. For this study secondary data is used. Data is collected from the annual reports of IFCI Ltd and literature published by IFCI Ltd and other financial institutions time to time. Scholarly books relating to this field and articles by eminent authorities are also consulted for this study.

Statistical Tools Used

1. Cost of equity capital is calculated as under:
   Earning Yield Method

$$\frac{\text{Earning Per Share}}{\text{Market Price Per Share}} \times 100$$

   For market price per share national stock exchange data is used. Market price is calculated as under:

$$\frac{\text{Highest price of equity shares + Lowers price of equity sars in the year}}{2}$$

2. Total cost of equity capital of the year is calculated as under:
   Total equity share capital in the year × % of cost of capital
3. Shareholders value is calculated through Economic Value Added Approach, which is calculated as under:

EVA= Net Operating Profit After Tax (NOPAT) - Total Cost of Equity Capital.

NOPAT is calculated as net operating income after depreciation, adjusted for items that move the profit measure closer to an economic measure of profitability. Adjustments include such items as: additions for interest expense after-taxes (including any implied interest expense on operating leases); increases in net capitalized R&D expenses; increases in the LIFO reserve; and goodwill amortization. Adjustments made to operating earnings for these items reflect the investments made by the firm or capital employed to achieve those profits. The capital charge is an appropriate charge for the opportunity cost of all capital invested in a company

6. ROLE OF FINANCIAL INSTITUTIONS IN THE DEVELOPMENT OF INDUSTRIES

- Delivering IFCI Ltd. Golden Jubilee Commemorative Lecture on 19-05-1998 Dr. Joseph. E. Stiglitz (Senior Vice President & Chief Economist, The World Bank.) opined: Financial system is the very brain of an economy. It plays an important role in collecting and aggregating savings from agents who have excess resources. These resources are allocated to others — such as entrepreneurs and home builders who can make productive use of them. Well-functioning financial systems do a very good job of selecting the most productive recipients for these resources. Selecting projects is only the first stage. The financial system must continue to monitor the use of funds, ensuring that they continue to be used productively. In the process of performing these tasks, financial markets serve a number of other functions, such as reducing risk, increasing liquidity and conveying information. All of these are essential to the growth of capital and the increase in the total factor productivity.
- Financial markets have been classified as organized-unorganized, formal-informal, official-parallel and domestic–foreign. In broad terms, however financial market may be categorized into two groups, viz., money market and capital market. Money market, like any other market, is concerned with the supply of and the demand for investible funds. Essentially, it is a reservoir of short-term funds. A money market provides a mechanism by which short-term

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IJTC

funds are lent out and borrowed. It is through this market that a large part of the financial transactions of a country is cleared. Such a market is composed of commercial and other types of banks and agencies (i.e. indigenous bankers) catering to the country's economy, ancillary institutions. The capital market, on the other hand, is the place where medium and long-term financial needs of business and other undertakings are met by financial institutions, which supply medium and long-term resources to borrowers. These institutions may further be classified into investing institutions and development banks on the basis of nature of their activities and the financial mechanism adopted by them. Investing institutions comprise those financial institutions which garner the savings of the people by offering their own shares and stocks, and which provide long-term funds especially in the form of direct investment in securities and underwriting capital issues of business enterprises. These institutions include investment banks, merchant banks, investment companies, insurance companies etc.

- In the field of industrial finance the concept of Development Bank is recent one. Long-term finance can be very difficult to get, especially in developing countries. Some projects especially with long repayment periods and uncertainty about the value of the collateral also will not get funded. Development banks can help to fill these gaps. When they are successful they can play an important role in economic development. In a country like India, the emergence of development banking is a post-Independence phenomenon though in the West the origin of development banking may be traced back to the establishment of 'Societe General Pour Favoriser Industric Nationale' in Belgium in 1822. In our economy development banks are the financial institutions which are engaged in providing different types of financial assistance to entrepreneurs in the form of medium and long-term loans, underwriting and investment and acting as catalytic agents in promoting balanced and viable development by assuming the promotional role of discovering project ideas, undertaking feasibility studies, providing technical, financial and managerial assistance for the implementation of projects, and when necessary, the establishment and management of industrial units.

7. NEED OF THE ESTABLISHMENT OF IFCI

Finance being the life-blood of economy, no sector, industrial or non-industrial can hope to develop if sufficient finances are not available. Timely availability of finances is all the more essential for industrial development in modern days when most of the industries are highly mechanized and depend on skilled labor necessitating huge capital. They require long-term finance (technically known as fixed capital) for building premises, purchase of machinery, tools and equipment and for investment in other fixed assets. Short-term finance or working capital is required for the purchase of raw material, payment of wages and for building up the stock of finished goods. Fixed capital is generally supplied by the capital market and working capital by the money market and both are a must for industrial advancement. The general health of national industry depends to a large extent on the nature and growth of capital and money markets. At the time of Independence Indian industries were facing both types of financial problems mentioned above. Although there were so many sources like issue of shares and debenture, public deposits, banks and indigenous bankers yet they were showing a poor performance. Commercial banks provided only short-term finance to industrial units to enable them to meet their working capital requirement. They were reluctant to meet the fixed capital requirement while investing of public deposits in shares and debentures of the industrial concerns was considered risky. Indigenous bankers had been rendering more useful service to industry. Their method of lending was simple but terms and conditions preferred by them (high rate of interest, criteria of allotment of money, non-availability of sufficient finance, conditions regarding security etc.) were far from encouraging. There was therefore an urgent need of financial institutions, which could provide long-term finance to, industries, on favorable and easy conditions. That was the raison d'etre behind setting up of the Industrial Finance Corporation of India (IFCI). Its aim was to provide long and medium term finance in different forms to industrial concerns on easy terms and conditions.

8. ESTABLISHMENT OF IFCI

1948, the year of IFCI's birth, was a seminal year in development banking, not only in India but also all over the world. The World Bank was just three years old, while Kreditanstalt-fur-weideraufau (KFW) of Germany was born in the same year. The first finance minister of independent India (Hon'able Shri Shanmukham Chetty), while moving the Industrial Finance Corporation Bill in the Constituent Assembly on November 20, 1947, gave an indication of the role IFCI was expected to play. He said "With…… our anxiety to go ahead at full speed with the industrial development of the country, the setting up of an industrial finance Corporation has acquired a new significance and urgency….the objective of this Bill is to set up a finance Corporation for the purpose of financing large-scale industries in this country".

Sir Shri Ram, the first Chairman of IFCI, aptly defined the objectives and importance of the Corporation in 1949; "The importance of the role which IFCI's called upon to fill at the present time is emphasised by the apathy of the money and stock market and the prevailing dearth of capital to meet the requirement of the industry. It is in many ways, a fortunate circumstance that IFCI has been brought into being as in the absence of the assistance rendered by us, many industrial concerns could have experienced difficulties. The facilities granted by IFCI have been calculated to further the expansion of industrial production, maintenance of employment and attainment of a more balanced economy".

The Bill was passed and became an Act on 27th March 1948. It was on Ist July1948 that IFCI opened its doors for business. It began initially with an authorised capital of Rs 100 million. IFCI was established with the specific objective to make medium and long-term credits more readily available to eligible industrial concerns in India, particularly where normal banking channels were unavailable, or where recourse to capital issue methods were impracticable. Now IFCI Ltd. is not only a term lending institution, but also an active financial intermediary and a provider of a wide range of services to industry. IFCI's services principally cover—project financing, financial services including merchant banking and allied services and promotional services. Apart from these IFCI is also providing other services like—corporate advisory services, project advisory services and finance, infrastructure advisory, corporate finance and investment banking, corporate restructuring advisory etc.

Initially IFCI was authorized to assist only those public limited companies and co-operative societies organized in the private sector and incorporated by an Act of Legislature or registered in India, which were engaged in the manufacture or processing of goods, or in shipping, or in mining, or in the hotel industry, or in the generation or distribution of electricity, or any other

form of power. The IFCI Act was amended in 1960 to widen the scope of its activities by including, in the definition of industrial concerns; those engaged or to be engaged in the preservation of goods. Public sector and proprietary and partnership concerns were, therefore, outside the ambit of the business of IFCI.
In 1970 a far-reaching decision was taken by the Government of India, whereby IFCI's business was broadened to assist such public sector undertakings as were organized as per public limited companies under the Companies Act 1956 or had declared at least a maiden dividend, built up sufficient internal resources to undertake expansion programmes, and had not approached, or did not approach, the Government for budgetary support for their expansion programmes. Since, most of the public sector projects are organized as 'private limited', they could not avail themselves of the assistance of IFCI. Accordingly the IFCI Act was further amended in 1973 to authorize IFCI to finance private limited companies in the public sector.
Again the IFCI (Amendment) Act, 1986 has made it possible for IFCI to provide assistance, inter alia medical, health or other allied services. Before its conversion into a company IFCI was eligible to assist any limited company in the public, joint or private sector or a co-operative society incorporated and registered in India which was engaged or proposed to engage itself in the manufacture, preservation or processing of goods or in the shipping, mining or hotel industry or in the generation of distribution of electricity or any other form of power, transport, setting up or development of industrial estates, fishing, maintenance, repair, testing or servicing of machinery, equipment, vehicles etc. providing medical, health, or allied services, providing services relating to information technology telecommunications or electronics, leasing or sub-leasing, providing engineering, technical, financial, managerial, marketing and allied services, research and development activities. It may be noted that IFCI does not provide financial support to financial institutions. Further, it can extend assistance only for productive purpose such as purchase of new machinery, construction of factory building and purchase of land. Its finance is not available for purchase of raw materials or for the repayment of existence facilities, save in exceptional circumstances. Financial assistance is available for setting up of new industrial projects as also for the expansion, diversification, and renovation or modernization of existing ones.
For ensuring greater flexibility and an ability to IFCI to respond to the needs of the changing financial system, an enactment called the Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993 was passed on the 2nd April 1993. Pursuant thereto, the Industrial Finance Corporation of India Ltd. was incorporated as a company under the Companies Act, 1956 on 21st May, 1993 and the Certificate for commencement of business was issued on the 24th June, 1993. As per the notification issued by the Government of India on the 7th June 1993, the undertaking of IFCI under IFC Act, 1948 stands transferred to and vests in the aforesaid company w.e.f. 1st July, 1993. Every shareholder of IFCI under IFC Act, 1948, has become the shareholder of the company with effect from the same date. Thus, after 45 years of a rich and varied history as the pioneer industrial finance organization in the country, IFCI has taken a major step towards future growth by converting itself into a company. It is the first institution in the financial sectors in India to be converted from a statutory corporation into a company. Subsequently, the name of Industrial Finance Corporation of India was also changed to "IFCI Ltd" w.e.f. October 1999. After becoming a company IFCI Ltd. made a public issue of new equity share aggregating Rs 525 crore (including premium).
Starting initially as the nation's premier industrial finance institution IFCI is now diversifying into a spectrum of facilities to offer total financial services to its customers. The transformation of

IFCI into a public limited company has brought in further flexibility in financial operations. Its financial operations principally include — project financing, financial services and comprehensive corporate advisory services

10. SUBSIDIARIES OF IFCI

IFCI Ltd. has two subsidiaries namely IFCI Venture Capital Funds Ltd (IVCF) and IFCI Finance Service Ltd. (I-FIN). Apart from the other activities IFCI Ltd also promoted various companies i.e. Institute of Labor Development (ILD), Tourism Finance Corporation of India Ltd (TFCI Ltd), Assets Care Enterprises Ltd (ACE Ltd), Rashtriya Gramin Vikas Nidhi (RGVN), Management Development Institute (MDI), Technical Consultancy Organization (TCO), Foremost Factors Ltd, ICRA Ltd. which are actively involved in the development of the society.

11. FUNCTIONS OF IFCI

Financial Products: IFCI offers a wide range of products to the target customer segments to satisfy their specific financial needs. The product mix offering varies from one business/industry segment to another with the object to maximize customer satisfaction. It includes Debt Segment and Equity Segment. In Debt segment some of products are: (i) Short-term loans for different short-term requirement including pre-operative project expenses, meeting temporary cash flow mismatch, general corporate purposes etc. (ii) Medium-Term Loans for project finance for new industrial/infrastructure projects, business expansion, technology up gradation, modernization projects etc. (iii) Long-Term Loans (more than 8 years) in infrastructure projects/ new manufacturing industries. IFCI Ltd also provides term loans in other sectors on selective basis based on strong ratings for long-term facilities to reputed corporate. (iv) IFCI has also introduced products like loans against future lease rentals, loan against shares for top rated corporate etc. In Equity Segments includes: (i) investment in IPO, Right issue, qualified institutional placement, warranty etc. as well as in the secondary markets for listed companies. (ii) Strategic investment in unlisted companies. (iii) Trading in the secondary market including equity derivates.

Services: As a catalyst of industrial growth, IFCI provides the following services (i) Corporate Advisory Services (ii) Infrastructure Advisory Services (iii) Monitoring of Public Issues. Under Corporate Advisory Services a series of consultancy services are being provided by IFCI like: Project Consulting, Mergers and Acquisition, Disinvestment/Bid Process Management, Joint Venture/PPP Advisory, Corporate Restructuring, Bidding Advisory. Under Infrastructure Advisory Service IFCI offers a range of services to the infrastructure sector, emphasize on roads, ports, power and urban infrastructure. IFCI offers its services as a Monitoring Agency as it is required under SEBI (Disclosure & Investor Protection) Guidelines, 2000, in case of issues exceeding Rs 500 crore, the issuer shall make arrangements for the use of proceeds of the issue to be monitored by one of the financial institutions.

Other Services: Apart from the above, IFCI also provides some other services for the development of industrial sector in India, which are summarized as under:
Nodal Agency for Sugar Development Fund: For the development of Sugar Industry, the premier industry in consumer goods, Government of India established a Sugar Development Fund in 1986 and appointed IFCI as a nodal agency. Since the establishment of Sugar Development Fund in 1986 by GOI, IFCI has been acting as a nodal agency for the purpose of disbursement, follow-up and recovery of sugar development fund loans sanctioned to private sugar factories for modernization, expansion etc.

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 Rs 200 crore will be allocated towards credit enhancement facility for young and start-up entrepreneurs, belonging to Scheduled Caste, who aspire to be part of neo middle class category with an objective to encourage entrepreneurship in the loser strata of the society resulting in job creation besides creating confidence in Schedule Castes. The Sponsoring Agency for the said scheme is Ministry of Social Justice and Empowerment. IFCI being the nodal agency has been entrusted with the responsibility of implementation the scheme.

12. SHAREHOLDING PATTERN

As on 31 March 2017 the shareholding pattern in IFCI Ltd. is as follows:

Category	%
Government of India	55.53
Bank and Financial Institutions	5.99
Insurance Companies	6.42
Mutual Funds	1.26
Other Bodies Corporate	3.25
FIIs and NRIs	9.14
Public	18.14
Total	100.00

Source: Annual report of IFCI Ltd. 2016-2017.

13. FINANCIAL PERFORMANCE OF IFCI LTD.

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Assets (Cr)	24268	28183	25884	28989	34968	36900	31674
Loans and Advances (Cr)	10677	9695	10869	16881	22094	22063	18247
Amount Sanctions (Cr)	13209	6765	2192	9717	12230	10895	7923
Amount Disbursements(Cr)	8399	6054	1504	8683	8687	7488	3053
Gross NPA (Cr)	2644	2608	3661	3451	2617	3545	7553
Net NPA (Cr)	156	327	1454	2123	1758	2466	5882
*% of Gross NPA	24.76	26.90	33.68	20.44	11.84	16.07	41.39
N.P. After Tax (Cr)	706	664	451	508	522	337	(458)
Capital Adeq. Ratio (%)	16.4	21.3	23.9	21.3	18.8	16.9	16.7
Earnings Per Share (Rs)	9.6	9.0	4.1	3.1	3.1	2.0	(2.8)
Dividend Per Share (Rs)	1	1	1	1	1	1	-
**MPS (BSE) (Rs) Low	19.65	20.15	17.85	21.80	17.55	19.50	21.30
**MPS (BSE) (Rs) High	68.5	49.4	40.2	44.9	41.55	30.85	32.60
Average MPS #	63.75	38.73	33.95	24.93	34.60	27.58	26.95
Equity Share Capital (Cr)	737.84	737.84	1660.84	1661.12	1661.53	1661.59	1927.19
Cos of Eq.Sh.Cap. (%) ##	15.06	23.24	12.08	12.43	8.96	7.25	10.39
Cost of Eq. Capital (Cr)	111.1	171.4	200.63	206.48	148.87	120.47	200.24
Shareholders value (Cr)	605.61	504.20	260.70	314.56	382.84	231.01	-

Source: *Annual reports of IFCI Ltd. (various issues).*

- Net NPA as %of net loans and advances.

The data has been calculated by the researcher through the statistics given in research methodology.

( ) Figures showing in brackets are loss.

The table envisages the dismal financial position of IFCI Ltd during study period. Amount sanctioned by IFCI Ltd which is the main function of any financial institution has a decreasing trend except in last two years of study period where it increased slightly over previous years. In 2012-13 sanctioned amount decreased dramatically i.e. 68% over the previous year. Net profit shows a decreasing trend except in the year of 2013-14 and 2014-15 where it increases slightly over the previous years. Earning per share needs special attention as it decreases continuously with sharp rate during the study period. It decreased Rs 9.0 per share to Rs. 2.0 per share up between 2010-11 to 2015-16 i.e. 80%. In current year i.e. 2016-17 performance of IFCI ltd remained pitiable. NPA increased more than 100%, amount sanctioned decreased by 27%, over the previous year. In this year for the first time in the last decade IFCI showed a net loss of Rs. 458 crore which affected the health of equity shareholders dramatically. One of the main causes for this sorry state of affairs is Non-Performing Assets (NPA). NPA is like blood-pressure for any financial institution, if blood pressure is not under control it may generate multiple diseases in human body. In IFCI Ltd. NPA shows an increasing trend during this period which is not a good sign for the health of IFCI Ltd. It multitudes different types of financial diseases to IFCI Ltd like decrease in net profit, decrease in earnings per share, low level of dividend per share, low market price of equity shares etc. Capital Adequacy Ratio shows some sort of satisfaction to IFCI Ltd. as it almost remained to near standard ratio i.e. 15%. Maximizing shareholder value has long been a key goal for a typical for-profit business. The idea behind this approach is that all decisions and company activities should align with the objective of making maximum profit and generating optimum growth in company share price. Despite some criticisms from social and environmental groups, maximizing shareholder value provides some key benefits to a business. As far as shareholders value is concerned IFCI Ltd can take a little bit sound breath as shareholders value is higher than its cost of capital. Apart from this positive sign, the main focus point regarding shareholders value is that it also shows a decreasing trend except in the year of 2013-14 and 2014-15 where it increases slightly during the previous year. One of the main causes of increasing shareholders value in these two years was increase in net profit in the relevant years. The above table depicts all these signs which are self explanatory.

14. MANAGEMENT OF NPAS

Considering the importance of NPA in any financial institution, IFCI Ltd also focused on management of NPA to reduce the amount of NPAs in coming years. IFCI Ltd. continued to take aggressive approach through continuous monitoring by Committee of Executives and Committee of Directors, Strategies adopted for recovery of NPAs included hard measures like sale of mortgage assets through Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SRFA&ESI**)**, prompt sale of shares pledged by the promoters, attachment of properties of borrowers/guarantors, filing of criminal complaint against borrower, arrest of borrowers/guarantors and other legal measures like filing of recovery application before

Debt Recovery Tribunals (DRT), Complaints under Negotiable Instruments Act, etc. wherever possible, One Time Settlements (OTS) were entered into or loans were assigned to Assets Reconstruction Companies to realize blocked funds in NPAs. In respect of sick but viable NPAs, measures were also taken through Joint Lending Forums for revival of such cases for possible up gradation in future.

15. CONCLUSION AND SUGGESTIONS

The performance of IFCI Ltd. shows a mixed picture. Growing NPAs in any concern is one of the biggest problems. It reflects the picture of overall performance of any organization. A high level of NPAs suggests high level of probability of a large number of credit defaults that affects the profitability and liquidity of any organization. If proper management of NPAs is not undertaken it may multitude various problems in any organization. In IFCI Ltd. NPAs adversely affected the financial position. Rapid and strict changes in norms relating to NPAs by RBI worsened this situation. It is not fair if we put all blames on NPA for this pitiable financial position of IFCI Ltd. Others factors like- appraisal system, monitoring system, criteria for loan sanctioned, management of NPA, favourism to big houses etc are also responsible for poor financial position of IFCI Ltd during this period, but this truth cannot be ignored that NPA remained the main cause for this sorry state of affairs which need special attention. Though IFCI Ltd is very much serious about this problem and strong steps have also been taken to reduce NPAs but still it requires a lot of attention and actions. IFCI Ltd neither protected nor maintained the shareholders interest during the study period due to poor financial positions. But, on the other hand, IFCI Ltd has also done tremendous work for the development of industrial sector such as promotion of Technical Consultancy Organization (TCO) specially in less developed state, assistance to self employed youth and women entrepreneurs, establishment of Management Development Instituter (MDI) for management and training development, ICRA for credit rating, TFCI for tourism development and along with other institutions and promoted various companies like SHCIL, DFHI, NSE, OTCE, STCI, LIC, GIC etc. As well said that there are fair chances of improvement of everything so the following suggestions merit serious attention for the improvement of financial position of IFCI Ltd so that it may prove itself through its functions that Old is Gold:

- Increase Net Operating Profit after tax (NOPAT) by increasing operational income and reducing cost of capital.
- Existing credit appraisal system is not yielding desired results, so it should be renovated and tightened.
- Big projects involving huge amounts or under the protective wings of big names receive preferential treatment augmenting the risk factor. This aspect should also be addressed and attended too.
- Liquidate capital or curtail further investment in sub-standard operations where inadequate returns are being earned.
- Invest in new projects that have a return greater than the cost of capital.
- Last but not least strong actions should be taken against NPA holders.

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