Listing on the OTCEI

The minimum issued equity capital of a company for eligibility for listing on the OTCEI is Rs. 30 lakh, subject to a minimum public offer of equity shares worth Rs. 20 lakhs. For companies with an issued equity capital of more than Rs. 30 lakh but less than Rs. 300 lakh the minimum public offer should be 40 per cent of the issued capital or Rs. 20 lakh worth shares in face value, whichever is highest. Companies with an issued equity capital of more than Rs. 300 lakh seeking listing on the OTCEI will have to comply with the listing requirements and guidelines as are applicable to such companies for enlistment on other recognised Stock Exchanges.

Any company which wants to list its shares on the OTCEI will have to be sponsored by a sponsor. The responsibilities of the sponsors include appraising the project/company properly, valuing the scrip fairly and promoting its sales.

One of the main functions of the sponsor is *market making, i.e.*, giving two way (both buy and sell) quotes for the scrip concerned. The sponsor has to do *compulsory market making* for at least three years from the date trading commences. This is intended to provide enforced liquidity for investors. After a period of three years, the sponsor will continue to make market in the scrip till an alternative market maker is arranged for. A sponsor, who is the *compulsory market maker* (CMM) may appoint *additional market maker* (AMM) or dealer. An AMM has to make market in the scrip for at least one year continuously.

Both members and dealers can act as *voluntary market makers* (VMMs) on the OTC Exchange. An VMM has to make market in a scrip for at least three months continuously.

A company listed on any other recognised stock exchange in India would not simultaneously be eligible for listing on the OTCEI.

(For more information about the OTCEI, refer V.A. Avadhani, *Investment and Securities Markets in India* (Himalaya Publishing House, Mumbai).

NATIONAL STOCK EXCHANGE OF INDIA

The National Stock Exchange of India (NSE) was established in 1994 by financial institutions and banks with IDBI as a nodal agency.

The NSEI has been conceived as a model exchange with a nation-wide electronic screen based "scripless" and "floorless" trading system in securities which is both efficient and transparent and offer equal and nation-wide access to investors.

NSE operates on the 'National Exchange for Automated Trading' (NEAT) system, a fully automated screen based trading system, which adopts the principle of an order driven market. NSE consciously opted in favour of an order driven system as opposed to a quote driven system. This has helped reduce jobbing spreads not only on NSE but in other exchanges as well, thus reducing transaction costs.

Till the advent of NSE, an investor wanting to transact in a security not traded on the nearest exchange had to route orders through a series of correspondent brokers to the appropriate exchange. This resulted in a great deal of uncertainty and high transaction costs. NSE has made it possible for an investor to access the same market and order book, irrespective of location, at the same price and at the same cost.

STOCK HOLDING CORPORATION OF INDIA

A new company, namely, the Stock Holding Corporation of India Ltd. (SHCI), was recently established with its registered office in Mumbai, in order to secure efficient post-trade processing services for transactions in securities carried out by the all-India financial and investment institutions (IDBI, ITCI, ICICI, IRBI, LIC, UTI and GIC). SHCI is owned at the outset by the seven sponsoring institutions. It would hold custody of securities of the sponsoring institutions and handle transfer of securities as also collection of dividend/interest in respect of such securities on their behalf. It was also intended to extend its services to others such as stock-brokers and individual investors after setting up the infrastructural facilities and gaining experience in the field.

REGULATION OF STOCK EXCHANGE

In India the development of the Stock market is directed and the dealings on the stock exchanges are regulated by the Central Government in accordance with the Securities Contracts (Regulation) Act, 1956 (SCRA), and the Securities and Exchange Board of India (SEBI) established by the Central Government.

SECURITIES CONTRACTS (REGULATION) ACT

The Securities Contracts (Regulation) Act, enacted in 1956, came into force on February 20, 1957.

Objectives of the Act

According to the preamble to the Securities Contracts (Regulation) Act, 1956, (SCRA), the objective of the Act is to *prevent undesirable transactions in securities by regulating the business of dealings in securities and by providing for certain other matters connected with transaction in securities.*

A perusal of the important provisions of the SCRA will indicate that the important objectives of the Act are:

1. To empower the Central Government to regulate the dealings in and functioning of the stock exchange in India.
2. To promote healthy and orderly development of the stock market in India.
3. To prevent unhealthy speculation and other undesirable activities on the stock exchange.
4. To protect the interest of the investors.
5. To provide for reasonable uniformity in respect of the bye-laws and rules of the different stock exchanges in India.

Main Provisions

The Securities Contracts (Regulation) Act, 1956, empowers the Central Government to take appropriate measures to achieve the objectives mentioned above. The important provisions of the Act encompass the authority given to the Central Government, or, in certain cases the SEBI, pertaining to:

1. The grant of recognition or withdrawal of recognition to any stock exchange.
2. Approval of the bye-laws and rules of stock exchanges.

3. Power to direct the stock exchange to make or amend roles and bye-laws in certain cases.
4. Power to make or amend bye-laws or roles for stock exchanges.
5. Monitoring the activities and functioning of the stock exchanges by calling for periodic returns and specific information as and when required and by conducting inquiry into certain matters when the situation so warrants.
6. Power to suspend business of stock exchanges.
7. Power to supersede governing body of any stock exchange on account of specific reasons.
8. Regulation of listing of securities.

Recognition to Stock Exchanges

After the coming into effect of the Securities Contracts (Regulation) Act, 1956, only those stock exchanges which are granted recognition by the Central Government can function in India.

Any stock exchange which is desirous of being recognised may apply to the Central Government in the prescribed manner with the required particulars and a copy of the bye-laws of the stock exchange and the rules relating to the constitution of the stock exchange.

The Central Government may grant recognition to a stock exchange if it is satisfied that the rules and bye-laws of the stock exchange are in conformity with such conditions as may be prescribed with a view to ensure fair dealing and to protect investors. The conditions which the Central Government may prescribe in this respect may relate to *(a)* the qualifications for membership of the stock exchange *(b)* the manner in which contracts shall be entered into and enforced between members, *(c)* the representation of the Central Government on the stock exchange, and the maintenance of accounts of members and their proper audit. Further, the stock exchange shall be bound to comply with any other conditions which the Central Government may impose in accordance with the Act.

The Act lays down that the Central Government shall not refuse grant of recognition to a stock exchange without giving it an opportunity to be heard and that the reasons for the refusal shall be communicated to the stock exchange in writing.

If the Central Government is of the opinion that the recognition granted to a stock exchange should be withdrawn in the interest of the trade or in the public interest, may do so after properly serving a notice on the governing body of the stock exchange and after giving the governing body an opportunity for being heard in the matter.

Consequent to the Securities Laws (Amendment) Act, 1995, a Stock Exchange may establish additional trading floor with the prior approval of the SEBI in accordance with the terms and conditions stipulated by SEBI.

Power of Recognised Stock Exchange to Make Rules Restricting Voting Rights, Etc.

A recognised stock exchange may make rules or amend any rules made by it to regulate the voting rights.

No such rules of a recognised stock exchange made or shall have effect until they have been approved by the Central Government and published by that Government in the Official Gazette and, in approving the rules so made or amended, the Central Government may make such modifications therein as it thinks fit, and on such publication, the rules as provided by the Central Government shall be deemed to have been validly made.

The Act empowers the Central Government to supersede SEBI, if on account of grave emergency, SEBI is unable to discharge the functions and duties under any provisions of the Act, or SEBI persistently defaults in complying with any direction issued by the Central Government under the Act, or in the discharge of its functions and duties under the Act and as a result of such default the financial position of SEBI or its administration has deteriorated, or in public interest.

Objectives

According to the Act, the objectives of SEBI are *to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market for matters connected therewith or incidental therewith.*

Powers and Functions

The SEBI Act casts upon SEBI the duty to protect the interests of investors in securities and to promote the development of and to regulate the securities market through appropriate measures, These measures provide for:

1. Regulating the business in stock exchanges and any other securities market.
2. Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities market in any manner.
3. Registering and regulating the working of collective investment schemes, including mutual funds.
4. Promoting and regulating self-regulatory organizations.
5. Prohibiting fraudulent and unfair trade practices in securities market.
6. Promoting investor education and training of intermediaries in securities market.
7. Prohibiting insider trading in securities.
8. Regulating substantial acquisition of shares and take-over of companies.
9. Calling far information from, undertaking inspection, conducting enquiries and audits of the stock exchanges and intermediaries and self-regulatory organisations in the securities market.
10. Performing such functions and exercising such powers under the provisions of the capital issues (Control) Act, 1947, (subsequently repealed) and the Securities Contracts (Regulations) Act. 1956, as may be delegated to it by the Central Government.
11. Levying fees or other charges for carrying out the purposes of Section 11 of the Act.
12. Conducting research for the above purpose.
13. Performing such other functions as may be prescribed by the government.

The Board may, for the protection of investors, specify, by regulations, the matters relating to issue of capital, transfer of securities and other matters incidental thereto and the manner in which such matters, shall be disclosed by the companies.

The Sebi is also empowered to issues such directions as may be appropriate to certain person or class of persons or company, intermediary or other persons referred to in section 12 (stock-broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, merchant banker, underwriter, registrar to an issue, investment adviser, portfolio manager etc.) *(i)* in the interest of

investors, or orderly development of securities market; or *(ii)* to prevent the affairs of any intermediary or other persons referred to in section 12, being conducted in a manner detrimental to the interests of investors or securities market; or *(iii)* to secure the proper management of any such intermediary or person.

CAPITAL MARKET REFORMS AND DEVELOPMENTS

The number of Stock Exchanges has increased and the capital market has expanded substantially. However, the functioning of the stock exchanges were characterized by many shortcomings with long delays, lack of transparency in procedures and vulnerability to price rigging and insider trading. A number of measures have been taken to overcome these problems. The objectives of these measures, broadly, have been to:

- Provide for effective control of the stock exchange operations.
- Increase the information flow and disclosures so as to enhance the transparency.
- Protect the interests of investors.
- Check insider trading.
- Improve the operational efficiency of the stock exchanges.
- Promote healthy development of the capital market.

Important measures of reform and development include the following.[8]

Free Pricing

Raising of capital from the securities market before 1992 was regulated under the Capital Issues (Control) Act, 1947, which required companies to obtain approval from the Controller of Capital Issues (CCI) for raising resources in the market. New companies were allowed to issue shares only at par. Only the existing companies with substantial reserves could issue shares at a premium, which was based on some prescribed formula. In 1992, the Capital Issues (Control) Act, 1947 was repealed and with this ended all controls relating to raising of resources from the market. Since then the issuers of securities could raise the capital from the market without requiring any consent from any authority either for making the issue or for pricing it. Restrictions on rights and bonus issues have also been removed. New as well as established companies are now able to price their issues according to their assessment of market conditions. However, issuers of capital are required to meet the guidelines of SEBI on disclosure and investor protection. Companies issuing capital are required to make sufficient disclosures, including justification of the issue price and also material disclosure about the 'risk factors' in their offering prospectus. These guidelines have served as an important measure for protecting investor interest and promoting the development of the primary market along sound lines.

Introduction of Book Building

To help overcome the problem of determining the right price at which the market would clear an issue the book building mechanism which introduced in 1995. The Book building mechanism is a method through which an offer price of an Initial Public Offering (IPO) is based on investors' demand. The introduction of book building mechanism gave the issuer the choice to raise resources either through this or the fixed price mechanism. The book building mechanism of floating new

a quarterly basis. India is one of the few countries in the world to have a system of quarterly disclosures and it has served a useful purpose in that price-sensitive information on earnings and revenues is now available at greater frequency. The publication of half-yearly corporate results on the basis of limited review by its auditors has also been made mandatory for listed companies. The disclosures of material information, which would have a bearing on the performance/operations of the company, are now required to be made available to the public immediately. Recently, a decision has been taken that the companies would be required to make decisions regarding dividend, bonus and rights announcements or any material event within 15 minutes of the conclusion of the board meeting where the decisions are taken. Following the international practices, companies in India are also required to provide shareholders with cash flow statements in the prescribed format along with the complete balance-sheet and profit and loss statement. Companies are also required to furnish to the stock exchanges on a quarterly basis, a statement on the actual utilisation of funds and actual profitability, as against projected utilisation of funds and projected profitability. As part of better corporate governance practices, disclosures about segment reporting, related party transactions and consolidated balance sheet are also expected to be introduced.

Emphasis on Fair Trading Practices

Insider trading has been made a criminal offence punishable in accordance with the provisions under the SEBI Act, 1992. The Regulations define an insider as a person who has access to price-sensitive non-public information with regard to a company. Such a person is prohibited from trading in the securities of such a company under the regulations.

There are now separate regulations in place governing substantial acquisition of shares and takeovers of companies. The regulations are aimed at making the takeover process more transparent and to protect the interests of minority shareholders.

Increasing Integration of Various Segments of Securities Markets

In India, different stock exchanges have so far followed their own practices relating to settlement procedures creating segmentation of the market. While stock exchanges continue to follow different systems, certain developments have resulted in better integration of the various segments of the Indian securities market. The two major stock exchanges, *viz.*, BSE and NSE, have expanded their operations in different locations, thus, providing investors across the country with the facility to trade in the stocks listed/permitted in these stock exchanges. The Inter-connected Stock Exchange of India Ltd. (ICSI) has been set up as an inter-connected market system and provides its trading members a facility to trade on the national market in addition to the trading facility at the regional stock exchanges. This has integrated the various regional stock exchanges, although the trading activity in the ICSI has not been very significant. Many regional stock exchanges have also become members of BSE and NSE, which further strengthened the integration process of various stock exchanges in the country. Equity market is also increasingly integrating with the Government securities and private corporate sector debt market. The interest rate structure of Government securities and securities issued by the corporate entities is better aligned at present than in the past.

The Impact of the Changing Structure

The changing structure of capital market has had some positive impact on the volatility, liquidity and transaction cost.

SUMMARY

According to the Securities Contracts (Regulation) Act, 1956, *stock exchange means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.* Thus, the Stock Exchange is a market in which securities are brought and sold.

Stock exchange is an essential component of a developed capital market. It brings together large amounts of capital necessary for the economic progress of a country.

An organised securities market can provide sufficient marketability and price continuity for shares, so necessary for the needs of investors, and a reasonable measure of safety and fair dealing in the buying and selling of securities. Further, through the interplay of demand for and supply of securities, properly organised stock exchange assists in a reasonably correct evaluation of securities in terms of their real worth. Lastly, through such evaluation of securities the stock exchange helps in the orderly flow and distribution of savings as between different types of competitive investments.

There are 23 stock exchanges functioning in India including the Over The Counter Exchange of India (OTCEI) and the National Stock Exchange (NSE).

The establishment of the Over The Counter Exchange of India (OTCEI) and the National Stock Exchange of India (NSE) added significant new dimensions to the stock exchange system of India.

The OTCEI is a stock exchange with a lot of differences with those of others. "Although the basic framework of the OTC Exchange is that of a *national market, yet there is no physical location, no counters, no trading ring, no stock exchange building and no hustle and bustle scenes as the conventional stock exchanges.* The buyers and sellers living apart from each other trade in corporate securities over the telephone. The system cuts across urban and rural areas extending the frontiers of the stock market to the entire country. These OTC markets are fully automated exchanges where transactions are completed through a network of telephones/tellers computers right from the first centre to the last centre. In addition, only professional people are authorised to render financial services".

In the past, an investor wanting to transact in a security not traded on the nearest exchange had to route orders through a series of correspondent brokers to the appropriate exchange. This resulted in a great deal of uncertainty and high transaction costs. The establishment of the NSE in 1994 has made it possible for an investor to access the same market and order book, irrespective of location, at the same price and at the same cost. The NSE is a nodel exchange with a nation-wide electronic screen based "scripless" and "floorless" trading system in securities which is both efficient and transparent and offer equal and nation-wide access to investors.

The stock market is directed and the dealings on the stock exchanges are regulated by the Central Government in accordance with the Securities Contracts (Regulation) Act, 1956 (SCRA), and the Securities and Exchange Board of India (SEBI) established by the Central Government.

The objective of the Securities Contracts (Regulation) Act, 1956, (SCRA), is to prevent undesirable transactions in securities by regulating the business of dealings in securities and by providing for certain other matters connected with transaction in securities.

After the coming into effect of the Securities Contracts (Regulation) Act, 1956, only those stock exchanges which are granted recognition by the Central Government can function in India.

The important provisions of the Act encompass the authority given to the Central Government, or, in certain cases the SEBI, pertaining to the grant of recognition or withdrawal of recognition to any stock

portfolio, by reducing the risk. Hedging does not mean maximization of return. It only means reduction in variation of return. It is quite possible that the return is higher in the absence of the hedge, but so also is the possibility of a much lower return.

The basic logic is "If long in cash underlying - Short Future and if short in cash underlying - Long Future". *For example*, if one has bought 100 shares of Company A and wants to Hedge against market movements, he should short an appropriate amount of Index Futures. This will reduce his overall exposure to events affecting the whole market (systematic risk). In case a war breaks out, the entire market will fall (most likely including Company A). So his loss in Company A would be offset by the gains in your short position in Index Futures.

Some examples of where hedging strategies are useful include:[3]

- Reducing the equity exposure of a Mutual Fund by selling Index Futures;
- Investing funds raised by new schemes in Index Futures so that market exposure is immediately taken; and
- Partial liquidation of portfolio by selling the index future instead of the actual shares where the cost of transaction is higher.

Advantages of Derivatives

As Sanjiv Agarwal observes, the introduction of derivatives in the Indian Capital Market could be seen as an effort to improve the present day mechanics of speculative trading in Forward Scrips. They are more scientific and better suited to fulfil the needs of the market participants and would lead to a mature and efficient market. He points out that derivatives have the following advantages.[4]

1. Derivatives help the market participants to hedge their underlying positions, thereby aiding them in managing their risks. It shall also act as a pro-speculative vehicle for the market traders by providing them a higher degree of leverage and would thereby provide an impetus to the liquidity of the underlying market.
2. Derivatives would insulate the small retail investors from the negative effects of the high speculative activities associated presently with the capital markets. Further, derivatives will provide a genuine risk management tool for the burgeoning institutional players in the Indian Capital Market and the trading members are also corporatising themselves and would be capable of handling sophisticated tools.
3. The major economic benefits of derivatives are that they reduce the risk/increase the willingness to hold the underlying asset; lower transaction costs; enhance the price discovery process; and enhance the liquidity of the underlying asset market.

Index Based Derivatives

As price volatility in individual stocks is very high, futures based on individual stocks are not very common. In India, L. C. Gupta committee has not mentioned Futures on Individual Stocks as a possible derivative contract. The Index based derivatives is very popular.

The value of an index is derived from the value its underlying. *For example*, the value of the BSE 30 Sensex, is derived from the value of the 30 shares on which the index is based. These are shares of large well-established and financially sound companies. An index, thus, is an indicator of the broad market. For instance, tracking the changes in the Sensex enables one to effectively gauge stock market movements.

Index based derivatives have several advantages over derivatives based on specific securities. According to the Committee on Derivatives set up by the Securities and Exchange Board of India (SEBI) under the chairmanship of L.C. Gupta, Stock index futures are internationally the most popular form of equity derivatives for the following reasons:

1. They provide portfolio hedging facility.
2. There is lesser risk of manipulation of stock index as compared to individual stock prices.
3. Their greater popularity makes them more liquid.
4. Stock index is generally less volatile than individual stock prices.
5. Index futures are cash settled all over the world as the index value is derived from the cash market.

Both the Bombay Stock exchange (BSE) and the National Stock Exchange (NSE) have launched index futures in June 2000.

According to the sources of the Stock exchange, Mumbai,[5] the Sensex futures would evolve to become the most liquid contract in the country. This is because Institutional investors in India and abroad, money managers and small investors use the Sensex when it comes to describing the mood of the Indian Stock markets. Thus it has been observed that the Sensex is an effective proxy for the Indian stock markets. Higher liquidity in the product essentially translates to lower impact cost of trading in Sensex futures. The arbitrage between the futures and the equity market is further expected to reduce impact cost. Trading in Stock index futures is likely to be pre-dominently retail driven. Internationally, stock index futures are an institutional product with 60% of the volumes generated from hedging needs. An immense retail participation to the extent of 80 - 90% is expected in India based on the following factors:

1. Stock index futures will require lower capital adequacy and margin requirements as compared to margins on carry forward of individual scrips.
2. The brokerage costs on index futures will be much lower.
3. Savings in cost is possible through reduced bid-ask spreads where stocks are traded in packaged forms.
4. The impact cost will be much lower in case of stock index futures as opposed to dealing in individual scrips.
5. The market is conditioned to think in terms of the index and therefore would prefer to trade in stock index futures. Further, the chances of manipulation are much lesser.

The Stock index futures are expected to be extremely liquid given the speculative nature of our markets and the overwhelming retail participation expected to be fairly high. In the near future, stock index futures will definitely see incredible volumes in India. It will be a blockbuster product and is pitched to become the most liquid contract in the world in terms of number of contracts traded if not in terms of notional value. The advantage to the equity or cash market is in the fact that they would become less volatile as most of the speculative activity would shift to stock index futures. The stock index futures market should ideally have more depth, volumes and act as a stabilising factor for the cash market. However, it is too early to base any conclusions on the volume or to form any firm trend.

Private Placement: The term *private placement* refers to the sale of an entire issue of securities by a company directly to one or a few investors, usually financial institutions. Here, the appeal to subscribe to or purchase the securities is made to the investors either directly or through brokers. Insurance companies, investment companies, trust accounts, pension and provident funds, etc., re-suitable institutions with whom the securities can be directly placed for subscription. The growth of institutional investors has increased the scope of private placing.

An important advantage of private placement is the absence of the risk of uncertainty in raising the capital. Moreover, the cost of raising the capital is very low because the commission and other charges are either nil or comparatively low, and no expenditure has to be incurred on issuing a prospectus. The cost of promotion, in general, is very low.

Offer to Special Classes: An established company may raise additional capital by any of the following methods:

Rights Issue: The rights issue is an offer with a pre-emption right to the existing shareholders of the company to further contribute to its share capital. Under the rights issue, new shares are offered to the existing shareholders in certain proportion to their existing share ownership. However, the rights themselves are transferable and saleable in the market.

Issue of Bonus Shares: A company may capitalise its profits or free reserves by the issue of bonus shares to shareholders. Bonus shares are allotted to shareholders in proportion to their respective share holding.

Offer to the Employees: The issue of shares may be offered to employees. This promotes better industrial relations and higher productivity. *Employees stock option schemes* /issue of *sweat equity* have become very popular in recent years.

Offer to the Customers: This is popular with public utilities. Share holdings by customers gives them some say in the affairs and functioning of the concern.

Offer to the Creditors: At the time of reorganisation of the capital structure, creditors may be requested to purchase the shares in full settlement of their loans or advances.

Underwriting: The marketing of securities with the support of, or by, underwriting is very popular because this method ensures that the subscription to or sale of the whole of the securities is underwritten.

UNDERWRITING OF SECURITIES

The marketing of securities is greatly facilitated by underwriting. An underwriting agreement is defined as "an agreement entered into before the shares are brought before the public that, in the event of the public not taking up the whole of them or the number mentioned in the agreement, the underwriter will, for an agreed commission, take an allotment of such part of the shares as the public has not applied for."

From the point of view of the issuing company, underwriting insures the risk of the public not taking up the required amount of securities. Needless to say, the facility of underwriting enables the company to raise the required capital; for if the public does not take up the whole of the issue, the balance left is taken up by the underwriter.

Methods of Underwriting

An underwriting agreement may take any of the following three forms.

*1. **Standing Behind the Issue:*** Under this method, the underwriter guarantees the sale of a specified number of shares within a specified period. If the public does not take up the whole of the specified amount of the issue, the underwriters standing behind the issue purchase the balance.

*2. **Outright Purchase:*** Under this method, the underwriters purchase the issue outright and resell the securities to the investors. The purchase price may be negotiated between the issuer and the underwriter, or may be determined by competitive bidding.

*3. **The Consortium Method:*** Under consortium method, also known as the syndicated method, as the name indicates, underwriting is jointly done by a group of underwriters who form a syndicate for this purpose. This method is usually adopted for large issues. The underwriting of large issues by a consortium enables the spread of the risk among the members of the syndicate—no single underwriter bears the entire risk.

Importance and Advantages of Underwriting

Industrial development is fostered, among other things, by the development of the securities market. A good securities market is one of the prerequisites for the growth of joint stock companies. The marketing of securities is necessary for raising the owned capital. Underwriting, therefore, assumes great significance.

A public company will have to secure the minimum subscription within the stipulated time after the issue of the prospectus without which the allotment of shares cannot be made; and without the declaration that it has received the stipulated minimum subscription, the company will not be able to obtain the certificate from the Registrar of Companies to commence business. Underwriters are of great help in ensuring that the company raises the required share capital. Underwriting, thus, plays a very important role in the development of the capital market and in fostering industrial development. It may be mentioned here that the growth of the underwriting business has been one of the important factors that have contributed to the development of the Indian capital market in the post-independence period.

The underwriting business offers the following advantages to the corporate sector.

1. Underwriting relieves the issuer of the risk of not being able to find buyers for all the issues offered to the public. Thus, the company can be reasonably sure of raising adequate share capital.
2. Underwriters help the company to fulfil the statutory regulations, like securing the prescribed minimum subscription within the stipulated period.
3. Underwriters relieve the issuer of the burden of undertaking the highly specialised function of distributing securities.
4. Underwriters, having expert knowledge of the capital market conditions, can render expert advice to the company on the timing of security issues, the size and type of securities to be issued, the value at which they may be offered, etc.
5. Underwriting business is of enormous assistance in the mobilisation of funds in the capital market because public confidence is enhanced by the underwriting of issues by reputed underwriters.
6. The activities of underwriters help stabilise capital market conditions.

2. The increase in corporate investment increases employment opportunities.
3. Internal financing reduces the demand for funds in the capital market. It would, thus, increase the availability of funds for other investors.
4. Society benefits from the stability accorded to the industrial sector by the internal availability of funds.

Dangers of Ploughing Back Profits

Some dangers are associated with indiscriminate policy of ploughing back profits. Some of the possible dangers are:

1. It may lead to concentration of economic power because large retained earnings enable companies to enlarge their business easily by a continual reinvestment of the profits.
2. It gives scope for manipulation. The controlling powers of the company may depress share prices by keeping the dividend rate very low by ploughing back a substantial part of the profit so that they might purchase the shares at low prices and later benefit from a higher dividend and appreciation of the share value due to the rise in the rate of dividends.
3. The top brass of the management may misuse the funds by locking them up in their pet concerns or companies under the same management against the overall interest of the shareholders.
4. It may lead to over-capitalisation if the reserves are capitalised by issuing bonus shares or bonus issues.
5. The ploughing back of profits interferes with the rights and freedom of shareholders. If shareholders get higher dividends, they will be at liberty to distribute their investments as they like, whereas they, especially the small shareholders, do not have any significant say in the investment or utilisation of retained earnings.
6. From the above point of view, it follows that excessive ploughing back of profits may hinder the natural growth of the capital market.

Determinants of Retained Earnings

The following are the three important determinants of retained earning.:

Profits: Obviously, the question of the ploughing back of profits does not arise if a company does not earn profits. Normally, a company has to declare a reasonable rate of dividend to satisfy the shareholders and to prevent a depreciation of share values. Hence, only what is left over after paying a reasonable dividend can be ploughed back. Thus, the amount of net profits is an important determinant of internal savings.

Taxation: The rate of corporate taxation is an important determinant of net profits. A high rate of corporate tax imposes limitations on the building up of internal savings.

Dividend Policy: The dividend policy is an important determinant of retained profits. A conservative dividend policy is regarded as necessary to build up internal savings. Some people advocate a statutory ceiling on dividends to facilitate a greater ploughing back of profits. At times, the Government imposed ceilings on dividends.

PUBLIC DEPOSITS

Public deposits is an important source of finance for companies (here the reference is to deposits with non-financial joint stock companies). Public deposits played an important role in industrial finance in the past as well. For instance, in the 1930s, it was an important source for the textile mills of Ahmedabad, Bombay, Solapur, Bengal and the Punjab. The tea gardens of Bengal and Assam also depended on this source of finance.

Reasons for Popularity

The increasing popularity of public deposits has been mainly due to the following reasons:

1. The rate of interest the companies have to pay on deposits from the public is lower than the interest on bank loans.
2. As the rate of interest offered by the companies have been significantly higher than the rates offered by banks for the same periods, there has been a good public response.
3. Public deposit has been an easier method of mobilising funds than from banks, especially during periods of credit squeeze.
4. To obtain credit from a commercial bank, the company has to satisfy the credit-worthiness of the purpose for which the loan is sought; but in the case of public deposits, there is no such need.
5. It follows from this that public deposits may form a source to finance business activities for which bank finance is not available.
6. A further attractiveness of public deposits from the point of view of the companies is that they are unsecured.
7. Some public sector undertakings have also been drawing upon this source of finance.

Limitations

Public deposits, however, have certain demerits from the point of view of society.

1. As public deposits are unsecured, depositors bear the risk of loss of money in the event of the failure of the company.
2. Public deposits with companies may cause a diversion of resources into non-priority and undesirable areas.
3. Public deposits tend to defeat the objectives of monetary policy, especially a dear money policy. They also distort the planned interest rate structure in the economy.
4. It has been argued by some people that public deposits adversely affect bank deposits. But this argument has been countered by pointing out that if public deposits activate the idle resources in the economy, they would help increase the deposits with commercial banks.

Regulation of Public Deposits

Acceptance of public deposits by companies needs to be regulated in the interest of the depositing public, the efficacy of the monetary policy and resource utilisation. From time to time, the Reserve Bank has issued directives regulating public deposits.

These regulations pertain to the ratio of deposits to the paid-up capital and free reserves; the maximum period of deposits; obligation to invest a specified percentage of the deposit in a current

ANNEXURE 25.1

LEASING

Leasing which is an alternative to selling capital goods is a common thing in business marketing. Basically, leasing is an arrangement between the leasing company or the *lessor* and the user or the *lessee*, the former arranging to buy the capital equipment for the use of the latter. The lessee has to pay the lessor in the form of rentals and the lessor remains owner of the equipment during the specified period.

There are four types of leases, *viz.*,

1. Operating lease
2. Financial lease
3. Sale and lease back transaction
4. Leveraged lease

Operating Lease refers to a short-term lease of an asset for an hour, a day, etc.

The financial lease is for a basic term during which the lease is non-cancellable. The length of this basic period is determined primarily by the economic life of the asset, and is usually shorter than the expected life. This arrangement provides some means by which the company may continue to use the asset after the expiry of the basic lease period, or alternatively a market purchase price is negotiated on the lease termination.

The sale and lease back transaction provides for an arrangement by which an entity that owns a given asset may sell it to the leasing company, and lease it back. This enables the lessee to immediately defreeze the money that it had locked into the original asset, which becomes available to it for working capital or further expansion.

In case of very large assets, a single lessor may not be capable of acquiring it or may not be willing to shoulder the whole risk associated with. Hence, two or more lessors may jointly acquire the asset and lease it to the lessee. Such an arrangement is known as leveraged lease. The leveraged lease is, thus, similar to consortium financing.[1]

Leasing companies claim the following principal advantages for the lessee.[2]

1. Leasing conserves cash flow by providing hundred per cent finance and enables the companies to employ their funds for working capital requirements.
2. Lease obligations are not reported as company's liabilities, whereas loan obligations must be recorded. Consequently, by financing the asset acquisitions with lease, rather than borrowing, a company can report a better debt-equity ratio.
3. Leasing facilities provide certainty and cash flow forecasts as well as budget controls can be more accurate.
4. Leasing, although a firm commitment, is a revenue expense and lease rental, is an allowable expenditure under the Income-tax Act.
5. Leasing also offers additional cost recovery for such contracts which allow recovery of rent, but not interest costs.
6. Formalities to be gone through for obtaining the lease financing are much less than bank or institutional financing arrangements.
7. Leasing facilities are more flexible. Adjustments to rentals schedule can be made to accommodate the special needs of leases.

Haas points out that that leasing has the following disadvantages[3].

In the long run, leasing usually requires a greater outlay of capital than debt financing does. Thus, the customer may pay more for the same equipment. In addition, although the customer may view lease payments as operating expenses, they are fixed payments that must be met. Lease agreements can be hazardous if the customer is not careful.

Leasing as a financial alternative to equity capital or bank term finance was introduced to the modern world by the United States of America where it became effective during the 1940s and 1950s. In some of the industrially advanced countries, leasing today plays a very important role in the acquisition of capital goods. It is estimated that in the USA, leasing industry finances about 25 per cent of capital goods acquisition and in the United Kingdom it accounts for about 15 per cent. The leasing industry has taken great strides in the United States.

In India, the leasing industry took roots with the establishment of the First Leasing Company of India Ltd., in Madras, which started functioning in 1973-74. "The Indian leasing industry grew disjointedly with the First leasing Company of India Limited operating alone for almost seven years, followed thereafter by several other companies in the late seventies after which a mini entrepreneurial revolution took place."[4] Several public sector institutions like the ICICI, IFCI, State Bank of India, Canara Bank, some SIDCs, etc. have also entered the leasing business, either directly or indirectly.

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2. These are mentioned in the feature on Leasing Industry, *Commerce*, May 28, 1983.
3. Robert W. Haas, *Business Marketing*, (Boston: PWS-KENT Publishing Company, 1992), p. 634.
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largely as government owned specialised institutions. These were set up with the principal objective of providing term finance for fixed asset formation in industry. IDBI was entrusted with the additional responsibility of acting as the principal financial institution for co-ordinating the activities of institutions engaged in the financing, promotion or development of industry.

IDBI was initially established as a wholly-owned subsidiary of Reserve Bank of India. In 1976, the ownership of IDBI was transferred to the Government of India (GoI). The IDBI Act was amended in October 1994 to, inter alia, permit IDBI to raise equity from the public, subject to the holding of GoI not falling below 51% of the issued capital.

According to the Bank's Corporate Mission "IDBI's strategic objective is to position itself as India's premier wholesale bank through a full range of wholesale products – lending, capital markets, advisory and risk management - through an integrated group structure."

According to IDBI sources, its strengths lie in:

- Diversified portfolio across different industries, regions and sectors.
- Long-standing business relationships with all major industrial houses.
- Proven core competence in project financing .
- Large balance sheet and sound financials.
- Capacity to take large single party exposure.
- Capacity to leverage.
- Sizeable stock of cost-effective, long-term funds.
- Fairly good retail network with a large investor base.
- Lean organisation with a sizeable pool of qualified, experienced professionals.

Subsidiary Organisations

IDBI has set up a host of subsidiaries and associates with a view to expand the functional reach of the IDBI Group and take advantage of opportunities in a liberalised market economy.

SIDBI: To give focussed attention to the needs of small-scale industry, IDBI had set up the Small Industries Development Bank of India (SIDBI) in 1990 as a wholly owned subsidiary. The SIDBI Act was amended in March 2000, enabling, among other things, the transfer of IDBI shareholding to a maximum 51% from IDBI.

IDBI Capital: A stock broking company, IDBI Capital Market Services Limited (IDBI Capital) was set up in 1993 to provide a range of capital market related services. It commenced operation as a Primary Dealer in November 1999. In the private placement market, it acts as arranger for several institutional and corporate users. IDBI Capital markets public issues of securities through its strong network of agents. As a depository participant, the company offers institutional and retail clients the facility to maintain their investments and securities in electronic form. It also acts as a portfolio manager and manages the investment portfolios of several provident and pension funds. IDBI Capital is one of the primary dealers accredited by RBI to act as a market maker in government securities.

IDBI Bank: Consequent upon opening up of commercial banking to the private sector, IDBI set up a commercial bank, IDBI Bank Limited in 1994. IDBI Bank offers high technology based top-of-the-line branded products, which have been well received by the market. It is also a leading player in Depository Participation services enabling customers to hold and trade shares electronically.

Consequent upon the initial public offering of the equity share in February 1999, IDBI now holds 57.14% of the equity of IDBI Bank Limited.

INTECH: To take advantage of the emerging business prospects of the IT sector, IDBI set up IDBI Intech Limited (INTECH) in March 2000 to undertake IT-related activities. With the domain knowledge in the financial sector, acquired by its professional staff over the year, and their experience in the development of software for the financial sector, INTECH would capitalise on the business and IT knowledge to offer the IT-related products and services to the IDBI Group and the other organisations in the financial sector. INTECH is also in the process of identifying an appropriate overseas partner to have access to the export market segment. To realise its goals, INTECH will operate in multi-dimensional framework — as advisor, software developer, systems integrator and implementer, provider of shares services, specialist training and development and also as a forum for ideas on digital economy solutions.

ITSL: Consequent to amendment of the Debenture Trustee Regulation, 1993, requiring arms length relationship to be maintained between the issuer and the Trustee, IDBI set up IDBI Trusteeship Services Ltd, (ITSL) under the Companies Act, 1956 in March 2001. It proposes to induct an international strategic partner into this venture in due course. The new company would be technology-driven to provide safety, up-to-date information and professional services to the subscribers and issuers of debentures.

BOX 26.1 : FUTURE STRATEGY

IDBI is fundamentally a stable organisation deriving its strength from its long experience of financing projects in various industries and its close relationship with major business groups of the country. Virtually all the major industrial houses are clients of the Bank. It is one of the few organisations in the country that can provide total financial solutions to global-sized projects. Its active involvement in various policy forums for presenting the lenders' viewpoint has bestowed on it the ability to influence the operating environment. The strong brand equity for its resource-raising instruments and well-trained professionals in its area of core competence add to the strength of the organisation. This coupled with healthy business growth would be aimed at maintaining its leadership position in the Indian financial system as well as assuming a prominent position among international financial institutions.

IDBI would continue to focus on the infrastructure sector. It would also target increased assistance to the new economy segments like information technology, pharmaceuticals, bio-technology, communication and entertainment. The core service would be fund based, dovetailed by client-driven business deals and a structured product-matrix, in line with the continuing strategic accent on providing integrated financial services to the client. Further, in order to increase its business and overall profitability, IDBI would intensify its efforts in the area of equity participation and fee-based activities. The Bank would aim at pursuing growth in the volume of business and endeavour to maintain asset quality.

As a conscious policy to meet the changing needs of corporates, IDBI has laid greater emphasis on non-project finance in the recent past, which would continue in the current year. The Bank would make efforts to add to its existing range of products viz. short term/working capital finance, investments in shares and debentures, secondary market operations and other asset based loans. Focus on fee-based income and non-fund based activities would be in line with the strategy of the Bank to provide one-stop services. The proposed labour and insolvency legislations would provide the much-needed flexibility to corporates in their restructuring endeavours, giving rise to increased business opportunities for the Bank in both fund-based and non-fund based activities. The Bank will also maintain its thrust on debt recovery efforts, aided by strengthening of bankruptcy and foreclosure laws.

The Project Finance Group has helped take strategic projects from the drawing board to financial closure, leveraging the expertise of parent organizations. i-SEC has also executed several assignments in M & A, including business valuations, spin-offs and mergers, for both domestic and overseas clients.

The range of products offered by i-SEC includes *(i)* Corporate Finance - Mergers and Acquisitions, Equity, Bidding (especially for Telecom Projects); *(ii)* Fixed Income - Primary Dealership, Debt Research; *(iii)* Equities - Lead Management, Underwriting, Syndication, Private Equity Placement, Sales, Trading, Broking, Sectoral and Company Research.

ICICI Brokerage Services Limited: Set up in March 1995, ICICI Brokerage Services is a 100% subsidiary of I-SEC. It commenced its securities brokerage activities in February 1996 and is registered with the National Stock Exchange of India Limited and The Stock Exchange, Mumbai.

ICICI Personal Financial Services Limited (ICICI PFS): Formerly *ICICI-Credit*, was one of the first four companies to obtain registration as a Non-Banking Financial Company (NBFC) from the Reserve Bank of India (RBI) in 1997.

During the year 1998-99, there was a significant shift in the Company's operations from leasing and hire purchase to distribution and servicing of all retail products for the ICICI Group. It is now a focal point for marketing and distribution of all retail asset products for ICICI, including auto loans, consumer durable finance and other financial products. The Company has thus become a critical part of ICICI's retail strategy aimed at offering a comprehensive range of products and services to retail customers. In view of this reorientation of the business, the name of the Company was changed from ICICI Credit Corporation Limited to ICICI Personal Financial Services Limited (ICICI PFS) effective March 22, 1999.

ICICI Capital Services Limited: ICICI Capital Services Ltd. was incorporated in the name of SCICI Securities Ltd., on September 24, 1994 as a wholly owned subsidiary of erstwhile SCICI Ltd., with the objective of providing stock broking services to the institutional clients and undertaking activities such as underwriting, primary market placements & distribution industry & company research etc. After the amalgamation of SCICI with ICICI, it became a wholly owned subsidiary of ICICI effective from April 1,1996 resulting in the change of name.

The Company is mandated, under review by ICICI, to carry out on its behalf the retail resource raising activities and to provide front office services related to all retail and semi retail liability products of ICICI. The Company also operates the network of ICICI Centres being set up by ICICI. As on date the company has set up 91 centers across the country.

The Company was earlier involved in distribution of bond product (in the brand name of Safety Bonds) and private placement treasury products from ICICI. However from December 1999 onwards the Company has focussed on being a provider of a comprehensive range of financial products and services, being a ONE STOP SHOP for various financial products like ICICI Bonds, ICICI Fixed deposits, Mutual Funds, IPOS, e - invest accounts, Depository services, select IPOS, investment consulting and all set for the forthcoming product of insurance.

The widespread geographical locations of centres, which are well equipped with the necessary infrastructure, have provided the Company with strategic distribution initiatives so as to become one of the top distribution houses in the country. The company has also strengthened its distribution network by effectively managing over 11000 agents.

The Company now proposes to focus on furthering its product base by expanding the product range.

ICICI Bank: ICICI Bank, the commercial banking outfit of the ICICI Group, was established in 1994. In October 2001, the ICICI and two of its retail finance subsidiaries – ICICI PFs and ICICI Capital Services Ltd. – were merged with the ICICI Bank. It is now India's second largest bank.

INDUSTRIAL INVESTMENT BANK OF INDIA

In 1971, the Government of India established an institution, namely, Industrial Reconstruction Corporation of India (IRCI), with the main objective of reconstruction and rehabilitation of industrial units which were closed down or were facing the risk of closure but which could be made viable with suitable assistance.

The need for a more powerful institution to deal with the problem of industrial sickness was felt and on March 20, 1985, the Industrial Reconstruction Bank of India (IRBI) was established as per the provisions of the Industrial Reconstruction Bank of India Act, 1984, and the erstwhile Industrial Reconstruction Corporation of India was vested and transferred to the IRBI on that date.

In 1997, IRBI was converted into a company and transformed it into a full pledged financial institution known as Industrial Investment Bank of India Ltd. (IIBI). The Bank has moved in to business-oriented activities from simple revival of sick units.

DISCOUNT AND FINANCE HOUSE OF INDIA

The Reserve Bank of India, together with public sector banks and financial institutions, has recently set up a company called the Discount and Finance House of India Limited (DFHI), to deal in short-term assets in order to provide liquidity in the money market.

STATE FINANCIAL CORPORATIONS

The State Financial Corporations Act, 1951, has enabled the State Governments to set up State Financial Corporations (SFCs) to function as regional development banks, making a significant contribution to the industrial advancement of their respective States.

The SFCs are meant to finance small and medium-scale industries.

Apart from their share capital, the SFCs depend for financial resources on repayment of loans and income from investments, issue of bonds, refinancing of loans from the IDBI and to a limited extent on borrowings from the RBI, deposits from the public and occasionally loans from the State.

Types of Assistance

Financial assistance from State Financial Corporations takes the following forms:

1. Granting of loans or advances and subscribing to the debentures of industrial concerns.
2. Guaranteeing loans raised by industrial concerns in the capital market or from scheduled banks or state co-operative banks.
3. Guaranteeing deferred payments due from any industrial concern in connection with its purchase of capital goods within India.
4. Underwriting the issues of stocks, shares, bonds or debentures by industrial concerns.
5. Subscribing to the stocks, bonds or debentures of an industrial concern out of the funds representing the special class of share capital subscribed by the State Government and the IDBI in accordance with the provisions of Section 4A of the SFCs Act, 1951.

The SFCs grant loans mainly for the acquisition of fixed assets like land, buildings and plant and machinery.

Sometimes, they also provide loans for working capital margin in combination with loans for acquisition of fixed assets.

SFCs are also providing foreign currency loans to small and medium scale industrial units for import of plant and machinery and/or technical know-how under IDA-World Bank credits to IDBI.

STATE INDUSTRIAL DEVELOPMENT/ INVESTMENT CORPORATIONS

Since 1960, many States and Union Territories have set up State Industrial Development Corporations (SIDCs)/State Industrial Investment Corporations (SIICs), with the main object of accelerating the industrial development of the respective States and Union Territories.

The SIDCs/SIICs have been promoted as promotional bodies entrusted with the major task of promoting industries and ensuring balanced regional growth within each State/UT.

For efficiently carrying out the functions of promotion, improvement and development of industries, these Corporations are empowered to plan, formulate and execute industrial undertaking, project or enterprise which is likely to accelerate industrial development. Further, they promote medium/large industrial ventures as joint sector units in collaboration with private entrepreneurs, or as wholly owned subsidiaries and provide risk capital to new generation entrepreneurs. Various incentive schemes of Central/State Governments are also administered through them.

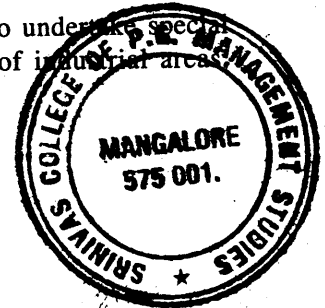
Functions

These Corporations undertake a wide range of functions. The important functions are:

1. Grant of financial assistance to industrial concerns in the form of:
   (a) Direct investment
   (b) Loans
   (c) Extension of guarantee for loans and deferred payments
   (d) Underwriting and subscriptions to the issue of shares, bonds and debentures

2. Promotion and management of industrial concerns
3. Provision of industrial sheds/plots: and
4. Promotional activities such as identification of project ideas, selection and training of entrepreneurs, provision of technical assistance during project implementation, etc.

The Corporations in States like Karnataka and Bihar are empowered to undertake special activities like establishing and managing industrial estates, development of industrial areas, generation, transmission and sale of electricity etc.



INVESTMENT INSTITUTIONS

Unit Trust of India

The Unit Trust of India (UTI), a public sector Mutual Fund was established in 1964. The share capital of the UTI was subscribed by the IDBI, LJC, SBI and its subsidiaries and other scheduled banks and financial institutions.

Sale of units and other savings schemes are the main sources of funds for the Trust.

The main objective of the UTI is to mobilise the savings of the community and channelise them into productive corporate investments so as to provide for growth and diversification of the economy. It is at the same time intended to provide the facility for an equity type of investment to the large and growing number of investors in the small and medium income groups.

The UTI mobilises funds from the public through a number of schemes. The savings thus mobilised is channeled into productive activities by the Trust by investing them in the shares and debenture of industrial concerns.

It is one of the main intentions of the UTI to provide opportunity to investors belonging to small and medium income groups to indirectly participate in the ownership of shares and debentures of joint stock companies.

For small investors, the UTI has been expected to offer the advantages of *(i)* considerably reduced risk since funds are invested in a balanced and well distribute portfolio; *(ii)* the benefit of expert management; *(iii)* a steady income: and *(iv)* liquidity.

The management and performance of the UTI for some time has been so bad that in by mid 2001 the financial crisis of the Trust became public and it has virtually betrayed the trust of millions of investors.

Life Insurance Corporation of India

Consequent to the decision to nationalise the life insurance business, the Life Insurance Corporation of India was established in 1956 as a wholly owned corporation of government of India in order to carry on the business of life insurance and deploy the savings to the best advantage of the policy holders and the community as a whole.

A large part of the funds of LIC is deployed as loans to assist the development of social overheads like housing, rural electrification, water supply and sewerage schemes.

However, LIC provides substantial assistance to the industrial sector.

Besides normal investment operations by way of sale and purchase of securities in stock markets and investment in government securities, the Corporation has been anticipating with other all-India institutions in extending direct assistance to industries in the form of loan and direct subscription to shares and debentures of industrial concerns.

LIC extends resource support to the term lending institutions by way of subscription to their bonds and thus contributes to industrial financing in an indirect manner.

The Corporation has also helped small and medium industries by granting loans for setting up of industrial estates.

General Insurance Corporation of India

As a member of the consortium of all-India Financial Institutions, the General Insurance Corporation of India and its four subsidiaries (The United India Insurance Co. Ltd., Oriental Fire and General Insurance Co. Ltd., National Insurance Co. Ltd., and New India Assurance Co. Ltd.) provide assistance to industries in the form of loans, underwriting and direct subscriptions to shares and debentures, placement of short-term deposits with companies, etc.

Besides taking right entitlement and underwriting of debenture issues, GIC, along with LIC and UTI, buys back debentures tendered by individual holders back to companies for encashment after a stipulated period and thus provides liquidity to such long-term financial assets.

INSTITUTIONS FOR SMALL INDUSTRY

There are several institutions specifically to assist the development of the small and village industries.

SIDBI

The Small Industries Development Bank of India Act, 1989, under which SIDBI was established on April 2, 1990, envisages SIDBI to be "the principal financial institution for the promotion, financing and development of industry in the small scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected therewith or incidental thereto".

As an apex institution, SIDBI makes use of the network of the banks and state level financial institutions, which have retail outlets. SIDBI supplements the efforts of existing institutions through its direct assistance schemes to reach financial assistance to the ultimate borrowers in the small scale sector. Refinancing, bills rediscounting, lines of credit and resource support mechanisms have evolved over the period of time to route SIDBI's assistance through the network of other retail institutions in the financial system. Improved levels of co-ordination for development of the small scale sector is also achieved through a system of dialogue and obtaining feedback from the representatives of institutions of small scale industries who are on the SIDBI's National Advisory Committee and Regional Advisory Committees.

Business Domain

The business domain of SIDBI consists of small scale industrial units, which contribute significantly to the national economy in terms of production, employment and exports. In addition,