

**ESTIMATES COMMITTEE
1962-63**

THIRTY-SIXTH REPORT

(THIRD LOK SABHA)

MINISTRY OF FINANCE

(DEPARTMENT OF ECONOMIC AFFAIRS)

**Industrial Finance Corporation of India,
New Delhi.**



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1963/Chaitra, 1885 (Saka)

Price : 'Re. 0.75 nP.

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ESTIMATES COMMITTEE

(1962-63)

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3. Shri D. Basumatari
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25. Shri Diwan Chand Sharma
26. Shri Vidya Charan Shukla
27. Shri Tekur Subramanyam

Elected w.e.f. 15th November, 1962 vice late Shri B. J. Singh.

Elected w.e.f. 18th August, 1962 vice Shri Shivram Rango Rane resigned.

(iv)

28. Shri G. G. Swell
29. Shri K. K. Warior
30. Shri Balkrishna Wasnik.

SECRETARIAT

Shri N. N. Mallya, Deputy Secretary.

INTRODUCTION

I, the Chairman, Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Thirty-sixth Report on the Ministry of Finance (Department of Economic Affairs)—Industrial Finance Corporation of India.

2. A general examination of the published Annual Reports and Accounts of the Industrial Finance Corporation of India upto the year ended 30th June, 1962 was conducted by the Sub-Committee of the Estimates Committee on Public Undertakings which took the evidence of the representatives of the Ministry of Finance and the Industrial Finance Corporation of India from the 21st to 23rd February, 1963. The Report was adopted by the Sub-Committee on the 5th April, 1963 and finally approved by the whole Committee on the 9th April, 1963.

3. A statement showing an analysis of the recommendations contained in this Report is also appended (Appendix XIII).

4. The Committee wish to express their thanks to the officers of the Ministry of Finance and the Industrial Finance Corporation of India for placing before them the material and information that they wanted in connection with the examination of the Annual Reports and Accounts of the Industrial Finance Corporation of India.

NEW DELHI;

11th April, 1963.
Chaitra 21, 1885 (S).

H. C. DASAPPA,

Chairman,
Estimates Committee.

INTRODUCTORY

Pursuant to the enactment of the Industrial Finance Corporation Act, (Act XV of 1948), the Industrial Finance Corporation of India was established on the 1st July 1948. The Corporation was set up for the purpose of "making medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable."

2. The circumstances leading to the setting up of the **General** Corporation are briefly as follows:

Prior to the Second World War, there was no well-developed capital market in India. There was a dearth of issue houses and underwriting firms. Commercial banks eschewed long term industrial finance. The need was therefore felt for a specialist institution for the financing of industrial enterprises in India. Government also recognised that they should play an active part in this development. In fact, the Statement on Industrial Policy issued by Government of India on April 21, 1945 referred to this need and indicated that it proposed to set up an industrial Investment Corporation. Subsequently, the General Purposes Committee appointed by the Planning and Development Department of the Government of India decided that the question of setting up the institution should be examined by the Ministry of Finance and the Reserve Bank of India. The Reserve Bank examined the question and prepared a Bill for the establishment of a central Industrial Finance Corporation. The Bill was introduced in the Constituent Assembly on November 20, 1947. It was passed in the Budget session of 1948 and came into force on the 1st July 1948.

3. It is for the first time that an examination of the working of this Corporation is being taken up by the Estimates Committee although in 1953 as a result of certain allegations regarding the grant of loans made in Parliament during the debate on the Industrial Finance

Corporation (Amendment) Bill, 1952, a Committee called the Industrial Finance Corporation Enquiry Committee (known as Sucheta Kripalani Committee) was appointed to enquire into its working. This Committee enquired into the allegations and also examined certain aspects of the working of the Corporation and submitted its Report on the 1st May, 1953. The decisions of the Government on the general recommendations and conclusions of the Committee were published as Resolution No. F. 2 (70)-F.III/53, dated 23rd December, 1953 in the Gazette of India (Extraordinary) Part I—Section I (No. 149) dated the 24th December, 1953. The Government accepted many of the recommendations of the Enquiry Committee. As a result, the Industrial Finance Corporation Act was also amended in 1955 to effect the necessary changes in the organisation of the Corporation, such as, (a) the appointment of a stipendiary Chairman assisted by a General Manager in the place of an honorary Chairman and a paid whole-time Managing Director; and (b) the constitution of a Central Committee instead of an Executive Committee.

II

ACTIVITIES OF THE CORPORATION

4. Under Section 23 of the Act, the Corporation is authorised* to carry on and transact the following kinds of business:—

- (a) *Granting loans or subscribing to debentures repayable within a period not exceeding 25 years (1948).*

[Sec. 23(1) (i)]

- (b) *Underwriting the issue of stock, shares, bonds or debentures by industrial concerns so, however, that it does not retain any shares etc. (which it might have had to take up in fulfilment of its underwriting liabilities) beyond a period of seven years except with the permission of Central Government. (1948).*

[Sec. 23(1) (d) & (h)]

- (c) *Guaranteeing loans:*

- (i) *raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the public market (1948);*

[Sec. 23(1) (a) (i)]

- (ii) *raised by industrial concerns from Scheduled Banks or State Co-operative Banks (1960);*

[Sec. 23(1) (a) (ii)]

- (d) *Guaranteeing deferred payments due from any industrial concern:*

- (i) *in connection with its import of capital goods from outside India. (1957).*

[Sec. 23(1) (b) (i)]

*The year from which the Corporation was authorised to undertake each type of activity has been indicated within brackets.

(ii) in connection with its purchase of capital goods within India (1960).

[Sec. 23 (1) (b) (ii)]

(e) *Guaranteeing loans* (with the prior approval of Central Government) raised from, or credit arrangements made with, any bank or financial institution in any country outside India by industrial concerns in foreign currency. (1960).

[Sec. 23 (1) (c)]

(f) *Acting as agent* for the Central Government or, with its approval, for the I.B.R.D. in respect of loans granted or debentures subscribed by either of them. (1952).

[Sec. 23 (1) (e)]

(g) *Subscribing to the stock or shares* of any industrial concern. (1960).

[Sec. 23 (1) (f)]

5. The details of the operations in respect of these activities are given in the succeeding paragraphs:

A. Loan Operations

Aggregate figures in respect of loan operations.

6. The table below shows the total number of applications received and dealt with by the Corporation upto 30th June, 1962.

Applications	No.	Amount
		(Rs. in crores)
(i) Received	822	221·31
(ii) Sanctioned	427	130·27
(iii) Rejected	223	25·71
(iv) Withdrawn or lapsed	141	45·65
(v) Pending	31	12·61
(as on 30-6-1962)		

The year-wise details of the applications are given at Appendix I.

Fluctuation in the number of applications received.

7. It will be seen from the statement that the number of applications, has been varying from year to year. It came down from 76 in 1960-61 to 59 in 1961-62. This fluctuation has been ascribed to the existence of other long-term financing institutions like Industrial Credit and Investment Corporation of India Ltd., Life Insurance Corporation, Refinance Corporation for Industry Ltd. e'tc. as also to the restrictive policies of Government regarding the grant of import licences, conditions governing the

same, such as, deferred payment terms etc. the country's overall position regarding foreign exchange resources, the conditions of the money market etc. obtaining from time to time.

8. The following criteria for judging the loan applications were determined by the Corporation in 1948:—

**Criteria for
judging
loan appli-
cations.**

- (1) National importance of the industry;
- (2) Experience and competence of the Management;
- (3) Feasibility of the scheme;
- (4) Reputation enjoyed by the products of the Company for quality;
- (5) Cost of the scheme as compared with resources of the Company;
- (6) Security offered and its proportion to loan;
- (7) Whether the aid is likely to help the Company to work efficiently;
- (8) Whether the industry is one of those whose production exceeds requirement;
- (9) Adequate technical personnel; and
- (10) Adequate raw materials.

9. It has been stated that the above criteria of 1948 are still being followed by the Corporation in judging the merits of the applications for financial assistance. With the experience gained over a number of years, the Corporation has been consistently trying to improve its methods and techniques of processing and appraisal of applications. More attention is now being paid to the following aspects:—

- (1) the projected profit-earning capacity;
- (2) the ways and means position of the concern during construction period and operating years;
- (3) the composition of financial structure of the applicant concern with particular reference to the ratio of equity to debt; and
- (4) the technical aspects of the project, such as, availability of raw materials, electric power, water supply, availability of administrative and technical personnel etc.

10. While the Committee are glad to note that the Corporation has tried to improve its methods and techniques of

appraisal of applications, these do not appear to have been properly publicised. It is only in the first annual Report of the Corporation that the original criteria of 1948 for assessing the applications found mention. No attempts have been made in the subsequent reports to give them due publicity and what is more, no publicity whatever is given to the above additional principles in any of the reports. The Committee would suggest that sufficient publicity should be given to the criteria so that intending applicants are fully aware of what is required of them.

**Rejection of
loan appli-
cations.**

11. During the last fourteen years, the Corporation rejected 223 applications for loans amounting to Rs. 25.71 crores. These constitute 27.1% of the total number of applications received and 11.6% of the total amounts applied for. The major grounds on which the applications were rejected and the number thereof are stated to be as follows:—

Major grounds for rejection	Total
(1) Lack of tangible assets or inadequate security	50
(2) Amount applied for disproportionate to aid-up capital	52
(3) Not recommended by Ministry of Commerce and Industry on grounds of low priority or for want of scope	26
(4) Heavy borrowings and successive losses	17
(5) Not eligible as loan required for repayment of existing borrowing or for working capital	29
(6) Policy decision	4
(7) Unsatisfactory financial position	21
(8) Uneconomic Scheme	15
(9) Terms and conditions not acceptable	2
(10) Scheme not properly drawn up or loan not justified on account of good financial position	5
(11) Unsatisfactory Working	4
	223

12. The Committee note that during the last five years the incidence of rejection of applications has considerably gone down and out of 247 applications received during this period only 8 were rejected, which appears to be an indication that more and more of deserving cases are coming up for assistance. This is a happy feature.

13. Upto the period ending 1961-62, 141 applications for an amount of Rs. 45·65 crores were withdrawn or treated as lapsed. These constitute 17·1 per cent of the applications received and 20·6 per cent of the amount applied for. The main reasons for which the applications were withdrawn or treated as lapsed during the last six years are given in Appendix II.

Withdrawal of loan applications.

14. It will be seen that a number of applications were withdrawn as the applicants made alternative arrangements. Alternative arrangements are usually made when there are delays in sanctioning loans or the conditions of the Corporation transpire to be not advantageous. The Committee suggest that the reasons for such withdrawals should be carefully investigated and suitable remedial measures taken to reduce their incidence. During evidence the Chairman of the Corporation agreed to this suggestion.

15. On an average, about 30 applications have been pending at the end of each of the past five years. The Chairman of the Corporation explained that about 5 or 6 applications were received per month and since it took three to four months' time to sanction a loan, it could be expected that 20 applications would be pending that way. The remaining 8 to 10 were bad cases where clearance took a long time. In his opinion, an average of 30 cases pending was not unduly large. The Committee have in para 19 referred to the desirability of reducing the time taken in sanctioning of loans. If this is brought about, the Committee expect that the number of pending applications at the end of each year would go down further.

Pending applications.

16. The Committee were informed that an application for loan passed through the following three stages from the time of its receipt to the time of disbursement:

- (i) Sanctioning stage.
- (ii) legal formalities stage.
- (iii) disbursement stage.

17. It was stated that the Corporation on an average, took three to four months' time in sanctioning loans. The

Time taken in sanctioning loans.

time taken in sanctioning the 427 applications till 30th June, 1962, is given below:—

Time taken	Number of applications	Percentage
Within 3 months	176	41.2
Within 6 months	147	34.4
Within one year	81	19.0
More than one year	23	5.4
TOTAL	427	100.0

18. The Chairman of the Corporation stated that the time taken by the Corporation compared favourably with that taken by other similar institutions. He added that it depended upon how complete the project was and how far the stages of the various formalities like capital issue, capital goods consent and other things had been gone through. He observed that in many cases the Corporation found that parties came to it without industrial licence, without capital goods clearance, without being clear about collaboration and the country from which machinery was to be imported etc. He assured the Committee that the Corporation was always trying to improve its functioning.

19. *The Committee consider that the percentage of applications, which have taken more than three months for being sanctioned, is capable of reduction. In any case, they feel that the time taken in sanctioning loans should not exceed six months. Since the application form itself calls for exhaustive information, the average time taken in sanctioning a loan could be reduced further. In the opinion of the Committee if wide publicity is given to the basic requirements to be fulfilled like licence, capital goods clearance, capital issue clearance, collaboration etc. by the applicant concerns before bringing forward applications for loans, it would help to reduce, if not eliminate altogether, the receipt of incomplete applications. It would also be necessary to simplify the procedures followed by the Corporation in dealing with the applications. The Corporation might also consider extending to the prospective applicants such guidance as may be required by them in regard to the fulfilment of various formalities such as, capital goods clearance, capital issue clearance etc. in which case many of the causes of the delay would be eliminated.*

20. The amount of loans disbursed *vis-a-vis* the amounts sanctioned as at the end of each year, as appearing in the 14th Annual Report of the Corporation for the year ended 30th June, 1962, is shown below:

Gap
between
loans sanc-
tioned and
disbursed.

As on 30th June	(Rupees in Crores)		
	Total Amount of loans sanctioned	Total amount of loans disbursed	Percentage of column 3 to column 2
1	2	3	4
			Percentage
1949 . . .	3.42	1.33	38.9
1950 . . .	7.19	3.41	47.4
1951 . . .	9.58	5.79	60.0
1952 . . .	14.03	7.57	53.9
1953 . . .	15.47	10.07	65
1954 . . .	20.74	12.89	62.1
1955 . . .	28.08	14.53	51.7
1956 . . .	43.21	16.73	38.7
1957 . . .	55.12	26.51	48.1
1958 . . .	62.90	34.84	55.4
1959 . . .	66.69	42.32	63.4
1960 . . .	84.61	50.73	59.9
1961 . . .	105.82	57.35	54.2
1962 . . .	130.27	68.14	52.3

21. It will be seen that during the last 14 years the actual disbursements have been only Rs. 68.14 crores out of Rs. 130.27 crores sanctioned thus constituting 52.3 per cent of loans sanctioned and 30.7 per cent of the loans applied for. On an average the disbursements work out to Rs. 4.86 crores per year. The percentage of loans disbursed to loans sanctioned has varied from year to year. During the last four years however it has declined from 63.4 per cent in 1959 to 52.3 per cent in 1962.

22. The following reasons have been given for the gap of Rs. 62.13 crores between the amount of loans sanctioned

Reasons
for gap.

and disbursed as on 30th June, 1962:—

(1) Certain loans or portions of loans were declined or were not made available due to either:—

- (a) abandonment or postponement of schemes by the applicant;
- (b) revision or amendment of schemes by the applicants;
- (c) improvement in the financial position of the applicant;
- (d) availability of accommodation from other sources;
- (e) inability to comply with the terms and conditions of the Corporation; and
- (f) adverse developments in the affairs of the applicant.

(2) Awaiting approval of the Central Government or the Development Loan Fund (regarding dollar sub-loans)

(3) Awaiting drawal by the applicants in accordance with their needs for meeting commitments.

(4) Time taken in negotiations or in fulfilment of terms and conditions.

23. It was stated that to accelerate the pace of disbursement of loans, the Corporation has adopted the practice of granting interim loans pending finalisation of legal formalities. But this does not seem to have had any appreciable effect on the amount disbursed as may be seen from the table given in para 20 above.

24. The normal time taken in disbursing the first instalment of a loan was about 3 to 4 months after the final acceptance of terms and conditions by a concern. The Corporation took from 15 days to a month's time in sending the tentative terms and conditions after a loan was sanctioned. Thus the various stages through which an

application passes and the time taken at each stage is as follows:—

(i) For sanctioning a loan	3 to 4 months
(ii) For sending tentative terms and conditions	15 days to 1 month
(iii) For finalisation of heads of agreement	2 months
(iv) For making the first disbursement after the fulfilment of legal formalities etc.	3 to 4 months
Total time taken	About 9 to 11 months

Thus, it will be seen that it takes on an average about 9 to 11 months for the Corporation to make the first disbursement after an application is received. During evidence, the Chairman of the Corporation stated that the time taken by the Corporation compared favourably with that taken by other like financial institutions.

25. The disbursement of the remaining instalments depended on the schedule of drawals given by the borrowing concerns. Asked whether there were any instances where the industry had suffered on account of the delay in payment, the Chairman of the Corporation stated that there was no way of determining it, since there were many factors and it was not possible to say on whose part the delay was. He stated that the main snag in effecting disbursement was the difficulty in the fulfilment of legal formalities particularly the establishing of a clear and marketable title by the borrowers to their properties which inevitably took time.

26. *One of the factors that make for efficiency of a lending institution besides speedy disposal of applications, is the prompt payments to the borrowers. Any delay in payments tends to affect the programme of execution of projects by the borrowing concerns. The Committee consider that the time taken at present by the Corporation in making the first payment seems to be long and could be reduced. As the legal documents have already been standardised it should be possible to reduce the delay in the completion of legal formalities. The Committee trust that the Corporation would address itself to this aspect and endeavour to quicken the pace of disbursements.*

27. The break-up of number of applications received and sanctioned, loans applied for and sanctioned and of

State-wise distribution of loans.

loans disbursed upto 30th June, 1962 (State-wise) together with their percentages, is given below:

(Rs. in Crores)

States	Applications			Amount				
	No. rec.	No. Sanctioned	% of (3) to (2)	Applied for	Sanctioned	% to total	Disbursed	% to total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Andhra Pradesh	33	21	63.6	12.63	7.50	5.80	5.37	7.88
Assam	12	6	50.0	5.81	5.23	4.50	.87	1.28
Bihar	39	27	69.2	12.89	8.68	6.71	3.66	5.37
Maharashtra	192	116	60.4	48.93	24.30	18.64	16.13	23.67
Gujarat	5	5	100.0	4.65	9.04	6.94	3.55	5.21
Madhya Pradesh	22	7	31.8	4.66	1.04	.78	.19	.28
Kerala	20	18	90.0	10.34	9.78	7.50	3.93	5.76
Madras	77	46	59.6	22.83	14.48	11.11	9.34	13.70
Mysore	45	26	57.7	10.38	8.13	6.24	5.09	7.47
Orissa	21	13	61.9	8.17	5.34	4.09	3.86	5.66
Punjab	45	27	66.6	13.47	6.42	4.92	2.57	3.77
Rajasthan	24	13	54.2	7.16	4.25	3.25	1.22	1.79
U.P.	65	32	49.2	17.48	9.69	7.43	4.65	6.82
West Bengal	114	67	58.8	25.37	14.46	11.09	7.48	10.97
*Delhi & other Part C States	9	2	22.2	1.51	.98	.74	.23	.37
Pondicherry	2	1	50	.25	.35	.27	..	..
Jammu & Kashmir	2	..	nil	.62	..	..	..	..
TOTAL	727	427		207.15	130.27	100.00	68.14	100.00

NOTE: (1) Figures regarding number of applications received and amount applied for during the year 1948-49 are not available and have hence not been included.

(2) Due to the reorganisation of States, figures relating to former States have been included in the manner shown below :—

(a) Maharashtra includes former Bombay and Saurashtra.

(b) Andhra Pradesh includes former Hyderabad.

(c) Madhya Pradesh includes former Madhya Bharat and Vindhya Pradesh.

(d) Punjab includes former PEPSU

Includes Andaman and Nicobar Islands.

28. It will be seen that the percentage of loans sanctioned in respect of Maharashtra, West Bengal and Madras to total sanctioned loans was 18.64, 11.09 and 11.11 respectively together making a total of 40.84%. It was however only 3.25 and 0.78 in the case of Rajasthan and Madhya Pradesh respectively. In regard to other States, it has ranged between 4.09 and 7.50. Similarly, while the percentage of disbursements of loans in respect of Maharashtra, Madras and West Bengal was 23.67, 13.70 and 10.97 respectively together making a total of 48.34%, it was only

0.28, 1.27 and 1.79 in respect of Madhya Pradesh, Assam and Rajasthan respectively. In regard to other States, it has ranged between 3.77 and 7.88. Thus, it is evident that the less developed States have received comparatively less assistance from the Corporation than the industrially more advanced States.

29. The Committee note that as early as August 1948 the Central Government issued the following instruction to the Industrial Finance Corporation.

"In its operations, the Corporation should assist, as far as may be practicable the industrial development of backward provinces and areas in order that such regions may attain a more balanced economic development."

Regarding the steps taken to implement the above directive, it was stated that the Corporation was not competent on its own initiative to promote directly the setting up of specific industrial projects. The extent to which the Corporation was in a position to help medium and big industries in the less developed areas ultimately depended on the industrial potential of the entrepreneurs coming up with acceptable schemes and projects to be set up in these areas. The smaller type of industries whose financial assistance was of the order of Rs. 10 lacs would, of course, fall within the purview of the respective State Financial Corporations. With a view to interesting the State Governments to co-operate in giving an impetus to industrial entrepreneurs starting industries in the less advanced States, the Chairman of the Corporation had been in correspondence with the Chief Ministers and Ministers of Industry of the industrially less developed States and offered the Corporation's assistance in all possible ways to promote the development of industries in their States. The Chairman had also been making personal visits, wherever necessary, to discuss problems connected with industrial development with the authorities there. The matter was followed up further with the State Governments concerned pursuant to the information received from the Planning Commission regarding the major industrial projects in the private sector proposed for development by the State Governments during the Third Plan period.

Steps taken by the Corporation to assist underdeveloped States.

30. During evidence, the Chairman of the Corporation stated that it was difficult to make a hard and fast distinc-

tion between under-developed States on the one hand and underdeveloped areas within a developed State on the other. He however, felt that certain States like Assam, Orissa, Kerala, Rajasthan and Madhya Pradesh were obviously less developed than other States. He added that during tours he called on the Chief Ministers, the Ministers of Industries, the Chief Secretaries of the States to see how far the Corporation could assist industries in less developed States. While every project was considered on merit, the factor of its being located in a less developed State was also borne in mind.

Responsibility of Government in the matter.

31. On enquiry as to how the Government ensured the proper implementation of the directive issued by them, the representative of the Ministry stated that an officer of the Ministry was a director in the Corporation, and it was possible for him to see that the directive was properly implemented. He added that whenever it was noticed from the annual reports that the Corporation had not granted loans to industrial concerns in less developed areas, it was an occasion for calling for information from the Corporation. He finally stated that Government was, by and large, satisfied that the Corporation had given proper attention to the needs of the under developed areas.

Observations of the Committee.

32. The Committee are somewhat concerned over the meagre disbursements made by the Corporation so far to the less developed States like Assam (Rs. 0.87 crores), Madhya Pradesh (0.2 crores) and Rajasthan (Rs. 1.22 crores) as against the total disbursements of Rs. 68.14 crores. This would indicate that the instructions issued to the Corporation at its very commencement that it should assist the industrial development of backward provinces and areas in order that they may attain a more balanced development has been of little effect. As things stand the Corporation could show no material on which they could satisfy the Committee that they had explored ways and means to implement the directive. The first D.O. letter from the Chairman of the Corporation to the Chief Ministers was written as late as 1957. It was in very general terms and does not appear to have been followed up vigorously. It seems the matter has been taken up in earnest only on receipt of a letter from Planning Commission in December, 1960. The Committee are alive to the fact that the initiative to implement the instruction is not all in the hands

of the Corporation and is dependent on other factors such as industrial licensing etc. The Corporation's difficulty if any, in implementing the Government directive, should have been specifically brought to the notice of the Government. This does not appear to have been done. It is regrettable that Government also did not pursue the directive issued by them and suggest measures to implement it. Positive steps were called for to assist the backward areas. Such steps could perhaps take the form of relaxation of any of the criteria governing assistance so as to suit the special needs of such areas or the offer of special incentives to induce industrial concerns to bring forward schemes for such areas. The Committee hope that Government will examine this aspect.

33. A statement showing loans sanctioned industry-wise is given at Appendix III. It will be seen that while the percentage of loans sanctioned to sugar, paper, textile and chemicals industries amounted to 29, 10.27, 10.78 and 13.32 respectively, it was only 0.18, 0.69 and 0.25 in respect of iron and steel (basic metal), electric light and power, and mining industry respectively'. The highest amounts of loan were to the sugar industry.

Industry-wise distribution of loans.

34. Rule 7 of the Industrial Finance Corporation Rules, 1957 lays down that the loan policy of the Corporation should be integrated with the objectives of the Second and subsequent Five Year Plans. In the Second Plan, highest priority was accorded to the expansion of iron and steel, heavy chemicals and other development commodities/producer goods like aluminium, cement etc. Modernization and equipment of textiles and sugar industries ranked only next in importance.

35. It was stated by the Corporation that the provisions of Rule 7 referred to above were deemed to have been followed if the industrial concerns to whom assistance was provided were in possession of industrial licences issued by Government. *Apart from satisfying itself regarding the industrial licence, the Corporation should have examined*

*At the time of factual verification, it was explained that the low percentage was due to the fact that the iron and steel (basic metal) fell within the public sector, and as a result of the setting up of Electricity Boards in each State, the Corporation had not been called upon to render financial assistance to Electricity Undertakings.

It was also stated that the total assistance by way of loans sanctioned to the engineering industries came to Rs. 19.20 crores as on the 30th June, 1962.

how far the industries which required loans were within the objectives and priorities laid down in the Five Year Plans. It looks as though there was no approach from this angle in affording assistance nor was any attempt made to compile a list of industries to be assisted.

36. The Committee are glad to learn that, in August, 1962, the Central Government published a list of 20 industries (vide Appendix IV) which were to be assisted and which alone were to be considered for the purpose of foreign exchange. Government had given a further list in September or October, 1962 of about 211 industries which were not covered for this purpose. The Committee trust that these lists would be borne in mind by the Corporation.

Pattern of assistance.

37. A statement showing the classification of loans sanctioned by the Corporation according to amounts approved for each industrial concern as on 30th June, 1962 is given at Appendix V. It will be seen that out of the total amount of Rs. 130.27 crores sanctioned, Rs. 35.33 crores (i.e., 27.2%) were sanctioned to industrial concerns which received less than Rs. 50 lakhs each, Rs. 54.90 crores (i.e. 42.1%) to those which received between Rs. 50 lakhs and Rs. 1 crore each and Rs. 40.04 crores (i.e. 30.7%) to those which received more than Rs. 1 crore each. The average size of the loan sanctioned by the Corporation works out to Rs. 48.8 lakhs per concern. Thus most of the loans sanctioned by the Corporation are to bigger concerns.

38. It was explained that though the Act did not prescribe any lower limit of loans to be sanctioned by Industrial Finance Corporation, an informal arrangement had been made with the State Financial Corporations that applications in respect of loans to new concerns upto and inclusive of a total of Rs. 10 lakhs would be entertained and dealt with exclusively by the State Financial Corporations and that only applications for loans exceeding this amount would be dealt with by Industrial Finance Corporation. This limit of Rs. 10 lakhs had been raised in 1962 to Rs. 20 lakhs by an amendment to the State Financial Corporations Act.

39. As to the reasons for the informal arrangement with the State Financial Corporations, the Chairman of the Corporation stated that this was done with a view to avoid overlapping of functions between Industrial Finance Corporation and the State Financial Corporations which were both set up by Acts of Parliament.

40. Asked whether the State Corporations were in a position to meet all the demand for loans of less than Rs. 10 lakhs, the Chairman of the Corporation stated that so far the State Financial Corporations had sanctioned loans worth about Rs. 50 crores which was a fairly substantial amount.

41. The Committee note that though the Industrial Finance Corporation Act does not contemplate any restriction as to the lower limit of assistance, the Corporation has entered into an informal arrangement with State Financial Corporations, whereby applications for loans upto Rs. 10 lakhs (now raised to Rs. 20 lakhs in respect of public limited companies/co-operative societies) are dealt with only by the State Financial Corporations. The Committee consider that where, on account of paucity of funds etc., State Financial Corporations are unable to entertain any applications for amounts upto Rs. 20 lakhs, it should be open in suitable cases for the Corporation to entertain them.

42. According to the Preamble to the Industrial Finance Corporation Act, the Corporation was set up "for the purpose of making medium and long term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable". It was stated that the Corporation had obtained legal opinion to the effect that these qualifying provisions were without prejudice to the general purpose of the Act, viz., provision of financial assistance to industrial concerns and that it was not necessary for the Corporation to establish first in each case that the applicant concern was not able to raise funds in the market.

Qualifying provisions in the Preamble and their interpretation.

43. The Chairman of the Corporation stated during evidence that notwithstanding the legal interpretation, the Corporation in practice did make sure, before entertaining applications, that the applicant concerns were not able to raise funds either from the capital market or from banks. This, he said, was being done in two ways. The first is the scrutiny by the Controller of Capital Issues who gives clearance only if the ratio of equity to debt is 1 : 2. Secondly, since the Corporation insists on a 50 per cent. margin of security, the Company concerned has to have sufficient funds to acquire such fixed assets. In addition each appli-

Steps taken by Corporation to give effect to the qualifying provisions in the Preamble.

ation was examined to find out whether the party's standing was such that it could raise the money by issue of debentures; if so, the party was advised to borrow from the market. If it was found that the party concerned could be helped by banks or State Financial Corporations or any other institution, then the party was advised to approach such institutions, as Industrial Finance Corporation was only a lender of the last resort.

Companies with large surpluses borrowing from the Corporation.

44. In this connection, the following observations contained in the Third Annual Report of the Company Law Administration on the Working and Administration of the Companies Act, 1956, were brought to the notice of the Chairman of the Corporation:

"Cases have come to notice where companies with large reserves have invested heavy amounts in shares of other companies in the same group, while borrowing heavily from Government and quasi-Government institutions like the Industrial Finance Corporation, State Bank of India, National Industrial Development Corporation, etc. While these companies appeared to be financially sound and could have apparently met their needs for expansion or modernisation of their plant and machinery by converting their investments into cash, they have preferred to borrow from outside bodies."

45. While he could not indicate the number of loans granted by the Corporation which would fall under the category referred to in the above observation, the Chairman of the Corporation stated that quite a number of bigger investments might fall under this category, because while working out the share of promoters in the overall contribution of promoters, their share, as well as the investment by the associated concerns was taken into account.

46. *From a perusal of the Appendix B to the Annual Reports of the Corporation which contains the statement of loans sanctioned by the Corporation during the year, the Committee formed the impression that there were concerns, among them, which could perhaps have raised their funds from the market. Further, there is already a provision in Rule 8 of the Industrial Finance Corporation Rules, 1957*

under which the Corporation is expected to satisfy itself that an applicant concern has not invested a substantial part of its surplus funds in other industrial concerns. The Committee feel that this provision has not been strictly adhered to as is seen from the observation contained in the report of the Company Law Administration referred to above. They recommend that this aspect of the matter should receive greater attention in the scrutiny of applications before sanctioning loans in future.

47. A statement showing the break-up of loans sanctioned and amounts disbursed upto 30th June, 1962 into 'new' and 'old' undertakings is given below:—

Assistance
to New
Units.

(Rs. in lakhs)

Year	Amounts sanctioned			Amounts disbursed		
	New Units	Old Units	Total	New Units	Old Units	Total
1948-49	2,15.75	1,26.50	3,42.25	85.90	47.00	1,32.90
1949-50	1,64.50	2,12.50	3,77.00	1,44.05	62.90	2,07.84
1950-51	1,65.45	73.50	2,38.95	1,62.40	75.52	2,37.92
1951-52	1,93.50	2,51.75	4,45.25	1,02.20	76.18	1,78.38
1952-53	41.50	1,01.75	1,43.25	1,23.01	1,26.75	2,49.76
1953-54	1,89.30	3,37.75	5,27.05	1,42.15	1,39.71	2,81.86
1954-55	5,52.50	1,81.50	7,34.00	79.31	84.	1,64.30
1955-56	10,48.00	4,65.00	15,13.00	1,60.88	59.3	2,20.23
1956-57	8,09.50	3,81.25	11,90.75	6,29.31	3,48.20	9,77.51
1957-58	7,18.50	60.00	7,78.50	6,98.30	1,35.04	8,33.34
1958-59	3,24.00	55.00	3,79.00	5,47.56	2,00.15	7,47.71
1959-60	15,37.74	2,54.00	17,91.74	7,30.41	1,10.40	8,40.81
1960-61	16,95.08	4,26.25	21,21.34	4,98.60	1,63.96	6,62.56
1961-62	20,38.05	4,07.26	24,45.31	9,76.81	1,01.69	10,78.50
TOTAL	96,93.37	33,34.01	130,27.38	50,81.69	17,31.93	68,13.62

48. The term 'new undertakings' has been defined as all those concerns which have gone into production since 15th August, 1947. While such a definition might have been proper in 1948 when the Corporation was set up, it is no longer appropriate and needs to be revised. It is surprising that this has not been done so far. The characterisation of 'new units' as all those which had gone into production subsequent to 15th August, 1947, tends to create an erroneous impression about the number of new undertakings assisted by the Corporation and make them loom

large. During evidence, the Chairman of the Corporation admitted that it was not a correct definition and assured that in future the assistance provided to the various concerns would be shown in the Annual Reports of the Corporation under the following heads:—

- (a) *New Units*
- (b) *Expansion of existing units*
- (c) *Modernisation and Rehabilitation.*

The Committee trust that this would be done.

**Foreign
Currency
Loans.**

49. Under the I.F.C. (Amendment) Act, 1952, the Corporation was authorised to borrow, with the previous consent of the Central Government, foreign currency from the International Bank for Reconstruction and Development or otherwise and grant loans in foreign currency to industrial concerns. But it was not till 1960-61, i.e., about 8 years later, that the Corporation was able to secure any foreign loan. Explaining the reasons for this, the Chairman of the Corporation stated that they made earnest efforts in 1952 itself but could not secure a loan from the World Bank. Later, with the setting up of the Industrial Credit and Investment Corporation of India Limited as a private sector institution, the World Bank, which had sponsored it, decided to route its loans only through that institution.

50. It was stated that, despite this initial handicap, the Corporation had secured so far two loans for 30 million dollars from the U.S. Development Loan Fund (now A.I.D.), 40 million DM from the German Bank for Reconstruction, 50 million new Francs from France and Yen credit equivalent to 2 million U.S. dollars. Out of these credits, the actual amount of loans sanctioned so far amounted to Rs. 7.27 crores and the letters of credit opened amounted to Rs. 1.36 crores only. The main difficulty experienced by the Corporation was that all the foreign currency loans were tied up loans while most of the demand was for loans in convertible currency. He added that unless the World Bank gave them loans in convertible currency, the Corporation would not be in a position to serve the business community as well as it wanted to.

51. *The Committee trust that the Corporation would continue to make efforts to secure as much foreign loans as possible including those in convertible currency.*

52. The principal terms and conditions on which loans are sanctioned by the Corporation are given in Appendix VI. These were stated to be similar to those imposed by other similar institutions in the country.

Terms and Conditions

53. In addition to a 50 per cent. margin on the security of fixed assets, the Corporation was stated to be taking the personal guarantee of directors of the borrowing concerns. As to the need for the personal guarantee, the Chairman of the Corporation stated that this was a normal banking practice since the guarantee was the best way of ensuring that the promoters and those who were in charge of running the concern would continue to take interest in managing the concern. Till recently, it was obligatory under the Regulations of the Corporation to take personal guarantee from all the Directors but the Regulations have now been amended to give the discretion to the Corporation to relax the requirement of personal guarantee on the merits of each case. Some of the criteria followed by the Corporation are: Profitability of the project, adequacy of security, reputation and competence of management and joint financing operations between the Industrial Finance Corporation and other institutions of standing, particularly international institutions. There were also cases where the Corporation had agreed to exempt certain directors of the borrowing concern from giving personal guarantee, where the circumstances justified.

Personal Guarantee.

54. It was represented by certain Chambers of Commerce that the Corporation's insistence on the maintenance of 50 per cent. margin at every instalment of release of sanctioned loans caused hardship to the borrowing concerns. The Chairman of the Corporation stated that this had since been liberalised and for purposes of margin the Corporation took into account the existing assets and those that were on the way. In such cases, after accepting trust receipts, the Corporation released the amount.

Insistence on maintaining the 50% margin at every instalment.

55. The Corporation divided the assets of a borrowing concern into three categories, (a) fixed assets on which the Corporation had a fixed charge, (b) stock-in-trade, raw materials and finished goods on which the Corporation had no charge at all, and, (c) machinery stores and

Negative charge on machinery stores, machinery spares etc.

machinery spares on which the Corporation imposed a negative charge in order to prevent any other charge from being created on the same. Asked about the imposition of negative charge, it was stated during evidence that such a charge was in the interests of the companies themselves as it would be possible for the company to replace the parts when required, if there was no charge on them. He added that in this respect the Corporation was more liberal than other institutions which asked for a fixed charge on fixed assets and a floating charge on all the other assets.

**Stamp
Duty.**

56. It was represented to the Committee that the document conveying the security was at present drawn up in the form of an English mortgage and that the stamp duty payable by the parties on loans granted by the Corporation was on the high side. During evidence, the Committee were informed that stamp duty was a State subject and the rate of duty varied from State to State ranging from 0.75 to 1.5 per cent. The representative of the Ministry opined that any move to fix a ceiling on the stamp duty should be initiated by the industrialists themselves and it was for them to persuade the State Governments to bring the rate down.

57. *The Committee consider that a high rate of stamp duty may cause some hardship on the applicant concerns. In any case, it is desirable that there is uniformity in these matters, which would prevent similar units in different States from being placed on unequal footing.*

**Application
Forms.**

58. It was represented to the Committee that the information called for by the Corporation at the time of applying for a loan was very exhaustive and the borrowing concerns experienced difficulty in filling the application form. The Chairman of the Corporation stated that it was better to ask for all the information in one lot, rather than asking for information piecemeal, as was being done by some of the other institutions. He added that the Branch Managers of the Corporation were already assisting the applicant concerns in filling the form without any fee and that the Corporation expected the party to be responsible for furnishing the basic information.

**Commit-
ment
charge.**

59. Regarding the levy of commitment charge at the rate of 1 per cent. on undrawn amounts and premium on premature repayments ranging from 1 to 6 per cent., it was stated that commitment charge was levied if the

mortgage deed was not executed within six months of the finalisation of terms and conditions and if the amounts were not drawn according to schedule of drawals submitted by the parties concerned. While the Corporation gave a period of six months to finalise the mortgage deed, all the other institutions charged 1 per cent. on all the undrawn amounts until the entire loan was drawn.

60. Regarding the premium on premature repayment, it was stated that the principle behind such imposition was that unexpected repayments would result in the locking up of the funds of the Corporation and consequent loss of interest. This practice had since been modified whereby there was no charge if the repayments were made out of the borrowing concerns' profits or from their share capital. The charge was levied if the repayments were made out of other sources like borrowings etc. The justification for such a charge was stated to be that in a period of falling interest rates, if the concerns had borrowed at 7% rate of interest, and if, subsequently, the general rate of interest fell to 5%, almost all the concerns were certain to repay the balance amount due.

**Premium
on prema-
ture repay-
ment.**

61. *While the Committee agree with the principle behind the imposition of such a charge, they feel that in view of the tight money market, it should be examined whether premature repayments should not be encouraged. This would also result in more funds being available for loans being given to a larger number of concerns.*

62. The Corporation is charging legal fees at the rates shown in Appendix VII. The Committee were informed that the fees charged by Industrial Finance Corporation were much less than those charged by other similar institutions. This was possible because the Industrial Finance Corporation had its own legal department and so arranged its legal fees as to balance the expenditure incurred by it in maintaining this department. *Since the legal documents have been standardised by the Corporation and it has also gained sufficient experience the Corporation should endeavour to reduce its legal charges as far as possible.*

Legal Fees

63. The Committee note that different rates of interest are being charged by various institutions (*viz.* State Financial Corporations, National Industrial Development Corporation, Industrial Finance Corporation) in the field

**Rates of
Interest.**

of industrial finance. The rates of interest charged by them are given in Appendix VIII. Some uniformity has now been reached and the difference in the rates of interest is not as much as it was before. As to the desirability of having some uniformity in the rates of interest charged by these institutions, the representative of the Ministry of Finance agreed that such disparities were not desirable. The Chairman of the Corporation stated that this was being attempted by the Reserve Bank of India. *The Committee recommend that effective steps should be taken to bring about uniformity in the rates of interest charged by the various financial institutions in the public sector, as far as possible.*

B. Underwriting Operations

Extent of operations

64. Under the Industrial Finance Corporation Act, 1948, the Corporation was authorised to underwrite the issue of stocks, shares, bonds or debentures of industrial concerns. The Committee were informed that the Corporation did not undertake this activity till 1957-58, i.e. nearly nine years after its being set up. The reason ascribed for the delay was that the Corporation's approach to this matter had been a cautious one. It was further stated that conditions of the capital market and the risk involved in this type of business warranted this caution. *The Committee are not convinced of the reasons for the delay in undertaking this activity. For, it is seen that other similar institutions lost no time in resorting to underwriting after they came into existence. They hope that such delays in taking up other activities would be avoided in future.*

65. A statement showing the applications for underwriting received and dealt with by the Corporation upto 30th June, 1962 is given at Appendix IX. It will be seen that the total amount underwritten by the Corporation upto 1960-61 amounted to Rs. 322.50 lakhs. The Committee note that a sum of Rs. 150 crores was drawn by private enterprise through new issues during the Second Plan period. Thus the operations of the Corporation, during Second Plan period, constituted roughly only 2 per cent of the total issues. The reasons advanced by the Chairman of the Corporation for this low performance was that it was not a good policy to advance a large loan and also underwrite the shares of the same concern in a large way

as this would entail double risk on the part of the Corporation. The Committee were surprised to learn that neither the Ministry of Finance nor the Industrial Finance Corporation could furnish information regarding the total amount of shares underwritten by all the institutions engaged in underwriting activities during the Second Plan period. They feel that collection of such information is necessary to assess the operations of the Corporation in this field.

66. It will be seen from the table at Appendix IX that out of Rs. 401.39 lakhs worth of shares etc. underwritten by the Corporation, shares and other stock of the value of Rs. 184.64 lakhs have devolved on the Corporation. The extent of devolution works out to about 46 per cent. The percentage of devolution for the year 1960-61 alone is as high as 67 per cent. The main reason advanced for such large scale devolution was that the market for preference shares was not very good, particularly in 1960-61. Further, the Corporation accepted only sound projects for underwriting, knowing that it might have to take up the bulk of shares. In this connection, it is significant to note that the market value of the total holdings of the Corporation which was more than the face value till recently had come down on the minus side nominally. The Chairman of the Corporation assured the Committee that the value of the shares held by the Corporation would improve as the projects concerned were sound. He further stated that in the light of the experience gained so far, the Corporation was now trying to establish close liaison with the market by engaging stock-brokers as sub-underwriters which would reduce the incidence of devolution.

**Extent of
Devolution
of shares
upon Cor-
poration.**

67. The high incidence of devolution of shares on the Corporation in the past, particularly in 1960-61, is not a happy reflection on the efficiency of its underwriting service. The Committee trust that the Investment Cell of the Corporation would be fully geared up to the task of studying the investment market trends so as to ensure that underwriting is undertaken in respect of sound concerns and that the incidence of devolution is not high.

68. As regards co-ordination between Life Insurance Corporation and the Industrial Finance Corporation in the matter of underwriting, the Chairman of the Corporation

**Co-ordina-
tion bet-
ween insti-
tutions.**

stated that usually the same party approached both of them at the same time for this service. In such cases, co-ordination was maintained by the institutions by keeping in touch and apprising each other of their reactions to the proposals. *The Committee welcome such co-ordination and trust that this would be further strengthened and extended to other institutions engaged in underwriting operations, such as Industrial Credit and Investment Corporation of India Ltd. etc. in the interest of closer co-ordination, the feasibility of giving representation to the Industrial Finance Corporation on the Investment Committee of the Life Insurance Corporation may be examined.*

**Joint un-
der writing
Operations.**

69. The Committee were informed that in some cases the Industrial Finance Corporation, Life Insurance Corporation and the Industrial Credit and Investment Corporation of India Ltd. had jointly underwritten the shares etc. Asked about the procedure for the examination of such proposals, the Chairman of the Corporation stated that they were processed jointly. *The Committee feel that in order to avoid duplication of examination and to achieve better co-ordination, it would be desirable if the procedure of 'joint processing' of cases is precisely laid down and a common machinery is evolved for the purpose.*

C. Guaranteeing and Other Operations

(i) Guaranteeing Deferred Payments:

70. The Corporation was authorised to guarantee deferred payments in respect of capital goods imported from abroad in 1957 by an amendment to the Industrial Finance Corporation Act. The total transactions in this respect carried out by the Corporation upto 30th June, 1962 are given below:—

(Rs. in crores)

Applications	Upto 30th June, 1959		1959-60		1960-61		1961-62		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Received	17	21.75	5	3.72	14	18.61	8	6.37	44	50.45
Approved	5	4.31	6	7.87	9	13.29	3	0.44	23	25.90
Withdrawn or lapsed	5	5.14	3	3.45	5	8.64	2	1.51	1	18.54
Not approved . . . . .	..	..	..	..	2	0.16	..	..	2	0.16
Pending	7	12.30	3	3.93	1	0.45	4	5.00	..	..

71. It will be seen that 15 applications amounting to Rs. 18.54 crores were withdrawn or lapsed which works out to 34% of the applications received and 36.7% of the amount involved. The high percentage of applications withdrawn/lapsed has been ascribed to making of alternative arrangements by the parties concerned or of non-materialisation of schemes or the parties not being able to furnish the requisite particulars. *The Committee have recommended in para 14 the desirability of investigating the reasons for withdrawal of loan applications. They trust that similar measures would be taken in regard to these applications also.*

(ii) Other Operations:

72. The progress made by the Corporation in respect of the other activities entrusted to it is given below:—

Serial No.	Particulars of Activity	Year in which entrusted to the Corporation	Progress made
1	Guaranteeing deferred payments in respect of capital goods purchased in India.	1960	Only one guarantee has been furnished so far.
2.	Guaranteeing loans raised from or credit arrangements made with foreign banks or financial institutions in foreign currency.	1960	Two foreign loans have been guaranteed by the Corporation so far.
3.	Guaranteeing loans floated by industrial concerns in the public market.	1948	Activity not undertaken so far.
4.	Guaranteeing loans raised by industrial concerns from Scheduled Banks or State Cooperative Banks.	1960	Do.
5.	Acting as agent to the Central Government or I. B. R. D. in connection with any loans or advances granted to an industrial concern by either of them.	1952	Do.
6.	Subscribing to the stock or shares of any industrial concern and also to convert loans granted or debentures subscribed to by the Corporation into stock or shares of that concern.	1960	Do.

At the time of factual verification it was stated that one proposal had been approved for subscribing to the shares of an industrial concern.

There was, however, no case where the Corporation had exercised the option of converting loan into shares or debentures.

73. It will be seen that of the above activities, the Corporation has not undertaken four, viz., Sl. Nos. 3 to 6. Much progress has also not been made in respect of other two. Asked about the reasons for this it was stated that the provisions in the Act were enabling provisions. Further, due to practical considerations, the Corporation took advantage of only a few of them.

D. Summing up

74. A general review of the operations of the Corporation in the various fields of activities are given in the preceding paragraphs. The Committee also desired to know whether any steps had been taken to expand the activities of the Corporation. In reply, it was stated that the following steps had been taken towards this end:—

- (i) The Branch Managers in Bombay, Calcutta and Madras function as Public Relations Officers and inform the public of the activities of the Corporation and how they could be made use of;
- (ii) The Corporation keeps in close touch with various Chambers of Commerce in different States; and
- (iii) Corporation publishes literature from time to time publicising its activities and mentioning the terms and conditions under which loans can be obtained.
- (iv) Corporation issues advertisements in economic and financial journals in India and abroad.

75. *In spite of these measures, it does not look as though there has been appreciable progress in the business of the Corporation* vide Appendix I. Further, some of the activities which were entrusted to the Corporation*

*At the time of factual verification, the following figures were supplied by the Corporation:

(Figures in crores of Rs.)

Years.	Sanctions	Disbursements	Gross income
1957-58	7.79	8.33	1.55
1958-59	8.79	7.48	2.04
1959-60	17.92	8.41	2.51
1960-61	21.21	6.62	2.99
1961-62	24.45	10.79	3.04
1962-63	13.84	9.44	1.91

(6 months)

have not been undertaken by it. If the Corporation is to increase its business, it will have to move in these directions also and shed itself of the idea that it is a 'lender of the last resort'. It would be befitting its role as a national institution if it followed a more liberal policy than hitherto, which would attract business on a larger scale. The Committee recommend that the Corporation should keep itself abreast with the activities and methods adopted by other similar institutions in India and abroad while continuing to maintain its high standards. These would guarantee a steady increase in its clientele and operations.

ORGANISATION

Board of Directors.

76. The general superintendence and conduct of the affairs of the Corporation are vested in a Board of Directors consisting of a Chairman and twelve other Directors. Of these, four are nominated by Central Government, two by the Reserve Bank of India and six are elected (two each) by the following categories of share-holders:—

- (i) Scheduled Banks;
- (ii) Insurance Companies, investment trusts, etc.; and
- (iii) Co-operative Banks.

77. The Committee note that some of the non-official Directors of the Corporation were also Chairmen or Directors of 25 to 30 other bodies. *They consider that it may perhaps be difficult for such busy persons to find time and to devote their attention to the business of the Corporation to the required extent. Since the Directors are expected to guide and direct the affairs of the Corporation in an effective manner, it is desirable that Board members should be persons who are comparatively less over-worked. The Committee note that there is already a provision in the Companies Act, 1956 (Section 275) to the effect that no person shall hold office at the same time as Director of more than 20 companies. It is possible that some of the companies or bodies, referred to above, are not joint stock companies and hence the provisions of the Companies Act are not attracted in these cases. Even so, the Committee feel that this is a salutary principle and should be applicable to other bodies also.*

78. Under Section 17 of the Act, the meetings of the Board can be held at such time and at such places as may be prescribed. It was stated that generally the Board met once every year at Bombay, Calcutta and Madras and held the remaining meetings during the year at Delhi. *To enable the Corporation to know more intimately the industrialists of various regions and their schemes, programmes and requirements, the Committee would recommend that the Board meetings should be held at other places also. It may help in popularising the activities of the Corporation. During evidence, the Chairman of the Corporation agreed to the suggestion.*

79. Section 14 of the Industrial Finance Corporation Act provides for the setting up of a Central Committee of the Board, which should consist of the Chairman, two Directors elected by the nominated Directors, and two Directors elected by the elected Directors. The functions of this Committee are to deal with any matter within the competence of the Board subject to such general and special directions as may be given by the Board from time to time. The Committee note that during the last three years the Central Committee had held only seven meetings as compared to thirty-six meetings of the Board. During 1961-62 it met only once against 12 meetings of the Board. **Central Committee.**

80. It was explained during evidence that originally the Executive Committee (now known as Central Committee) was the main body which used to sanction loans and therefore, had to meet very frequently. Later on in 1958, when the work increased, it was decided that the Board should take more direct responsibility. Since then the Board had to meet every month, and thus there was no need for the Central Committee to meet so often. It was stated that the Central Committee could be useful in times of emergency.

81. The Committee consider that at present the Central Committee which meets only once a year, is not discharging any useful function. One expects such a Committee of the Board to meet more often than the Board itself and to discharge most of its functions. If, however, the Central Committee cannot be re-activised, it is better to do away with it rather than keep it as a decorative appendage. The Committee suggest that the need for the Central Committee may be examined in the light of the above remarks.

82. Section 18 of the Industrial Finance Act reads as **Branch Offices.**
under:—

“The Corporation shall establish its head office in Delhi and offices in Bombay, Calcutta, Kanpur and Madras and may, with the previous sanction of the Central Government, establish offices or agencies in other places in India.”

The Committee were informed that the Corporation had set up Branch Offices at Bombay, Calcutta and Madras only. The office at Kanpur had not been set up. It was stated that except for U.P. and Bihar States, Kanpur Office would not be convenient for other States in North India which were better served from Delhi. The Committee are not convinced of the reasons for not opening the Branch Office at Kanpur, specially when the setting up of an office was mandatory and not optional. If such an office was not considered necessary, the proper course for the Corporation was to seek an amendment to the relevant provision in the Act rather than ignore it. The Committee are constrained to observe in this connection, that in spite of the attention of the Corporation having been drawn to this obligatory provision in 1960 by the audit party of Comptroller & Auditor General, no concrete steps have been taken so far in this direction. It is regrettable that Government also did not ensure the compliance with this mandatory provision in the Act.

83. The Committee discussed the question of entrusting the work of Branch Offices to the State Financial Corporations in the respective States. It was stated that the State Financial Corporations were autonomous bodies under the control of the State Governments, guided not always by the same principles and procedure as the Industrial Finance Corporation. Had there been a federal structure and the Industrial Finance Corporation were the apex institution with the State Financial Corporations as subsidiaries there would have been a great force in the suggestion. The Corporation, however, proposes to delegate to the State Financial Corporations agency functions in suitable cases in respect of specific loans relating to the projects which are financed jointly by it and the State Financial Corporations.

84. The Committee consider that it would greatly help to popularise the activities and to increase the business of the Corporation if the State Financial Corporations are given the agency functions by the Corporation. They, therefore, suggest that the question of giving the State Financial Corporations the agency functions to the extent possible may be examined. In States, where there are Branch Offices, the question of their inter-relationship with the respective State Financial Corporations may have to be defined.

85. The following table shows the number of cases of Government loans referred by the Corporation to Central Government during the last three years in terms of provisions of the Act or directives issued thereunder vis-a-vis the loan approved. **Government Control over the Corporation.**

(Rs. in Crores)

	1959-60		1960-61		1961-62	
	No.	Amount	No.	Amount	No.	Amount
(1) Total No. of loan cases approved	29	17.9	57	21.21	41	24.45
(2) Total No. of cases requiring references to Central Government	20	16.20	32	16.35	23	20.63
(3) Percentage of (2) to (1).	69%	90.4%	56.1%	77%	56%	84%

86. It will be seen that the approval of Central Government was sought for 90 per cent of amount of loans sanctioned in 1959-60, 77 per cent in 1960-61 and 84 per cent in 1961-62. It was stated that these references were made in terms of provisions of the Act or directives issued thereunder. *The Committee consider that reference to the Government of such a large number of cases, apart from causing avoidable delay in the disposal of cases, detracts from the autonomous status of the Corporation. The Committee recommend that the Corporation and the Ministry of Finance should review the types of cases which are to be referred to Government and see to what extent the same could be reduced. The representatives of the Ministry of Finance and the Corporation agreed to undertake the review.*

IV ACCOUNTS AND FINANCE

Share capital.

87 The authorised capital of the Corporation has been fixed by the Act at Rs. 10 crores, divided into twenty thousand fully paid-up shares of Rs. 5,000 each. The shares are to be subscribed by the following parties in the proportion indicated against each:—

(a) Government of India	20
(b) Reserve Bank of India	20
(c) Scheduled Banks	25
(d) Insurance Companies Investment Trusts etc.	25
(e) Co-operative Banks	10
	100

88. The present paid-up capital of the Corporation is Rs. 7 crores, out of which shares of the paid-up value of Rs. 5 crores were issued in the first instance and a further issue worth Rs. 2 crores was floated in March, 1962.

89. Two tables are given as Appendix X and XI which show the financial position and the working results of the Corporation.

Borrowing Powers.

90. The borrowing powers* of the Corporation are laid down in the Act. Sections 21 and 22 of the Act lay down the following limits:—

- (a) The total amount of borrowings from the Central Government, bonds and debentures outstanding, money raised from Reserve Bank of India for short term and contingent liabilities of the Corporation in the form of guarantees given by it or underwriting agreements entered into by it (all put together) should not exceed ten times the amount of the paid-up share capital and the reserve fund of the Corporation.
- (b) The total amount of deposits which the Corporation can take from State Governments, local

*At the time of factual verification it was stated that the Corporation was also authorised to raise loans in foreign currency with the approval of the Central Government, but no limit had been prescribed.

authorities or public shall not at any time exceed Rs. 10 crores.

91. It was stated during evidence that with the amount of loan expected from Government and the amount of repayments expected, the present borrowing powers would be adequate to disburse the present estimated amount of Rs. 60 crores during the Third Plan Period.

92. During recent years, the amount of cash and bank balances maintained by the Corporation registered a sharp increase. It rose from Rs. 21·36 lakhs in 1956-57 to Rs. 383·90 lakhs in 1957-58 and has been about Rs. 2 crores during the subsequent years. The Committee note that the percentage of cash and bank balances to the total assets of the Corporation in 1961-62 came to 3·2 while the percentages of the Industrial Development Bank, Canada (for the year 1958) and the Commonwealth Development Finance Company Ltd. U.K. (for the year 1960-61) come to 0·13 and 0·23 only respectively. The Chairman of the Corporation stated that the foreign institution (CDFC) followed a different procedure. According to his information, it did not borrow on a long-term basis by the issue of Bonds or debentures, but it took demand loans from banks with an understanding that the money would not ordinarily be recalled. The procedure followed by Industrial Finance Corporation was to keep ready amounts which would be required to meet disbursements over a quarter of a year. Thus it was necessary to maintain a sum of nearly Rs. 2 crores as cash and bank balance at the end of each year.

**Cash and
Bank
Balances.**

93. *Since the Corporation borrows its funds at the rate of interest between 4½% to 5% and the current deposits fetch an interest of only 3½ to 3¾%, it is necessary that the cash and bank balances which stood at Rs. 206·5 lakhs on 30-6-62 are kept to the minimum required. The Committee hope that every effort will be made by the Corporation to reduce its cash and bank balances to the barest minimum necessary.*

94. The table below shows the number of applications received, the total amount of establishment and other expenses and the average expenditure incurred by the

**Adminis-
trative
Expenses..**

Corporation per application during the last fourteen years:—

Year	Number of applications received	Establishment and other expenses	Average expenditure per application
		(Rs. in lakhs)	(Rs. in 000's)
1948-49 . . .	95	2.87	3
1949-50 . . .	65	4.78	7.35
1950-51 . . .	45	5.03	11.2
1951-52 . . .	54	5.70	10.55
1952-53 . . .	74	6.75	9.12
1953-54 . . .	43	7.37	17.1
1954-55 . . .	46	9.50	20.6
1955-56 . . .	86	7.94	9.2
1956-57 . . .	68	9.10	13.4
1957-58 . . .	49	9.82	20.0
1958-59 . . .	44	10.40	22.8
1959-60 . . .	57	11.7	20.5
1960-61 . . .	118	12.7	10.8
1961-62 . . .	92	14.68	15.96

95. It will be seen that while the number of applications received has been fluctuating from year to year, the establishment and other expenses have been steadily rising. While the total number of applications received has gone down from 118 in 1960-61 to 92 in 1961-62 (*viz.*, a decline of 22%), the establishment and other expenses have risen from Rs. 12.7 lakhs in 1960-61 to Rs. 14.68 lakhs in 1961-62 (*viz.*, an increase of 15.5%). Even taking the total amount involved in these applications, it will be seen that while the amount of loans etc. applied for in 1960-61 was Rs. 62.37† crores, it came to Rs. 43.26† crores

(a) applications *i.e.* for loans, underwriting, guarantee etc.

†The breakup of these amounts into loans, underwriting and guaranteeing is as follows:—

	1960-61	1961-62
	(Rs. in crores)	
Loans	36.86	31.40
Underwriting	6.90	5.49
Guaranteeing	18.6	6.37
	<u>62.37</u>	<u>43.26</u>

in 1961-62. The Committee note that in spite of a reduction in the number and amount of applications, expenditure has increased* by about Rs. 2 lakhs. There is thus a need to bring down the establishment and other expenses. The Committee recommend that the Corporation should take energetic measures to reduce its establishment and other expenses immediately. Efforts should also be made to relate expenses to the quantum of business and the work done.

96. The average percentage of gross income to total capital employed by the Corporation during the fourteen years of its existence comes to 4.25. From the year 1957-58 onwards it showed an upward trend and rose upto 6.50% in 1960-61 but fell to 5.67% in 1961-62. The following table shows the comparative performance of Industrial Finance Corporation with 113 private companies:

Return on Investment.

Year	Percentage of gross income to total capital employed	
	I.F.C.	Private Companies
1957-58	4.6	5.9
1958-59	5.58	6.4
1959-60	5.50	7.7
1960-61	6.50	7.6
1961-62	5.7	Not known

97. It will be seen that the percentage of gross income to total capital employed by the Corporation is less than that of the private companies. The representative of the Ministry stated that a distinction had to be made between a financial institution and an investment company. The Committee feel that the percentage of gross income to the total capital employed by the Corporation is on the low side. With the expansion in the operations of the Corpora-

*At the time of factual verification, it was stated that the increase in establishment and other expenses was due to the following :—

- | | |
|--|-----------------|
| 1. Increase in salaries and allowances consequent on the adoption of revised rates of Dearness and other allowances. | } Rs. 0.94 lac. |
| 2. Printing and Stationery. | |
| 3. Fees and travelling allowance. | Rs. 0.27 lac. |
| 4. Postage, Telegram and other charges. | Rs. 0.14 ac. |
| 5. Other expenses (like agency charges, halting allowance etc.) | Rs. 0.11 lac. |
| | } Rs. 0.44 lac. |

Total Rs. 1.90 lacs.

tion and reduction in the administrative overhead, the Corporation will, no doubt, be able to give a higher return on the investment. The Committee hope that the Corporation would exercise utmost control over its expenses to see that the rate of return shows a rising trend in future.

Bad Debts 98. The Corporation provided a sum of Rs. 64.75 lakhs during the year 1953-54 to 1956-57 towards Reserve for Doubtful Debts. Out of this the total amount of bad debts written off upto 30th June, 1962 came to Rs. 50.28 lakhs. The year-wise break-up of the amount written off is given below:—

			Rs. lakhs
1956-57	.	.	49.50
1957-58	.	.	0.11
1958-59	.	.	0.22
1959-60	.	.	0.01
1960-61	.	.	0.31
1961-62	.	.	0.13
TOTAL			50.28

Defaulting Concerns.

99. The table below shows the amounts which were due by way of repayment of principal, by way of interest and the amount at default under each category as at the end of the last four years:—

(Rs. in lakhs)

Year	Principal			Interest		
	Amount due	Amount at default	Percentage of (3) to (2)	Amount due	Amount at default	Percentage of (6) to (5)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1958-59	522.77*	28.41@	5.4	703.22	9.94	1.4
1959-60	712.34*	30.69@	4.3	921.35	10.77	1.2
1960-61	966.06*	22.66@	2.34	1170.00	2.96	0.25
1961-62	1263.66*	15.66@	1.24	1448.58	2.63	0.18

*Exclusive of amounts which proved irrecoverable and were consequently written off.

@Excludes amounts for which extension of time was granted.

100. Under Section 28 of the Industrial Finance Corporation Act, the Corporation is authorised to take over the management of the concern which has made a default in payment of any instalment of principal or interest. It also has the right to transfer by way of lease or sale the property pledged or mortgaged to it by such concerns. In respect of sale of assets, however, the Corporation is required to make a prior reference to Central Government and obtain their approval for selling the assets.

101. The Corporation has so far taken over the management of one concern and possession of assets in regard to six concerns. A statement showing the amount due from these concerns, the dates of taking over, the dates of selling etc. is given below:

Statement showing details in respect of defaulting concerns

(Rupees in lakhs)

Particulars of concern	Date on which first default occurred	Date on which concern was taken over	Date on which concern/assets were finally disposed of	Total amount due on the date of first default	Expenses incurred by the Corporation	Balance amount due after disposal of assets	Amount written off, if any	Remarks
Company 'A'	30-6-1951	1-11-1952	3-5-1957	39.45	40.65	49.01	49.42†	†Including legal expenses.
Company 'B'	1-1-1952	25-5-1954	20-4-1961	8.71	2.32	9.29	None so far	Question of taking legal steps to recover the amount from the Guarantors is under consideration. Provision for Rs. 10 lakhs has been made in Reserve for Doubtful Debts to cover the shortfall.
Company 'C'	1-6-1953	16-1-1956	18-12-1961	3.00	5.47 ^b	..	..	The Company raised funds and paid the dues. The Corpn. received a sum of Rs. 5.57 lakhs from rent by way of lease, sale of assets etc.

Company	Date	13-3-1957	5-14	0-06	1-70	None so far	Suit was filed in Madras High Court in August 1958, for recovery of the balance amount.
Company 'D'	1-4-1952	6-5-1955	5-14	0-06	1-70	None so far	Suit was filed in Madras High Court in August 1958, for recovery of the balance amount.
Company 'B'	1-4-1954	26-7-1956	10-27	0-37	Nil	Nil	
Company 'F'	6-10-1952	6-7-1954	2-57	0-10	0-86	0-86	
Company 'G'	1-7-1953	12-7-1954	10-79	0-54	4-62	None so far	The Company has been leased out and rent is being received by the Corpn. No loss is anticipated in this account.

*Includes capital expenditure of Rs. 2.74 lakhs on buildings.

102. It will be seen that the Corporation took a long time in taking over the management of a concern after default and again in disposing of its assets. In some cases, the Corporation had also spent large amounts in managing the defaulting concern. This was stated to have been done to secure better prices at the time of final disposal. It was further stated that as a result of such expenditure higher offers had been received by the Corporation for the disposal of those concerns. *The Committee recommend that the Corporation should periodically review the progress reports of the borrowing concerns and if there is any indication that the affairs of the concern are not being conducted on the right lines, it should initiate prompt action to improve matters and where necessary, take over the management of the concern and even resort to the sale of assets mortgaged when its becomes inevitable.*

MISCELLANEOUS

103. In their Hundred and Twenty-Second Report (Second Lok Sabha), the Committee had suggested that the field of activity of the National Industrial Development Corporation as a lending agency might be transferred to the Industrial Finance Corporation or any other agency whose operation might not result in losses entailing grants by way of subsidy. This recommendation was reiterated in the Twentieth Report (Third Lok Sabha) showing the action taken by Government on the recommendations contained in the Hundred and Twenty-Second Report.

**Merging of
NIDC with
IFC.**

104. Asked about desirability of combining the functions of the National Industrial Development Corporation with Industrial Finance Corporation, the representative of the Ministry of Finance stated during evidence that the matter was under consideration of Government. *In this connection, the Committee are glad to learn that the Chairman of Industrial Finance Corporation is also the Chairman of National Industrial Development Corporation which is a step in the right direction. The Committee could see no reason for having more than one financing agency in the public sector for performing what is more or less the same function. They hope that an early decision will be taken in the matter.*

105. At present various institutions both in the public and private sectors like Life Insurance Corporation, Industrial Credit and Investment Corporation of India Ltd., Refinance Corporation for Industry Ltd., etc. are engaged in providing financial assistance to the industries in the country. In regard to coordination between these institutions, it was stated that a Conference was convened at Bombay in January, 1962 to consider the question of co-operation between financial institutions. The representatives of the following institutions attended the Conference:—

**Co-ordination
between
institutional
agencies in
the field of
industrial
finance.**

(1) Industrial Finance Corporation

(2) Industrial Credit and Investment Corporation of India Ltd.

- (3) Life Insurance Corporation
- (4) State Bank of India
- (5) Eight leading Scheduled Banks.

The Committee take it that National Industrial Development Corporation was also represented on the above Conference as its Chairman is also the Chairman of Industrial Finance Corporation.

106. The Conference discussed the scope for joint participation and collaboration and the proposal received wide support. The Conference also felt the desirability of meeting again to discuss the points further. *The Committee welcome such Conferences which provide a forum for discussing points of mutual interest and also enable close co-operation between the institutions. The Committee are also glad to note that there is a proposal to constitute a Consortium for the purpose of joint financing of big projects. They hope that early action will be taken to finalise it and give it a proper shape in consultation with the agencies concerned.*

Co-ordination between S.F. Co. and I.F.C.

107. The Committee were informed that the Industrial Finance Corporation was represented by a Director on each of the Boards of State Financial Corporations. It also held annual conferences with them to discuss common problems. *The Committee consider such association very essential as the Industrial Finance Corporation, with its wider experience, can assist the State Financial Corporations in discharging their functions efficiently and economically. It would also be desirable if the Industrial Finance Corporation could examine* the procedure and practices followed by the various State Financial Corporations and rationalise them, if need be. The Committee further suggest that if any part of the loan sanctioned by State Financial Corporations is required in foreign currency, the Corporation should extend its co-operation in making available the foreign currency part leaving the rupee part to be provided by the State Financial Corporations.*

I.F.C. Rules.

108. Section 42 of the Industrial Finance Corporation Act contemplates the framing of Rules by Central Govern-

*At the time of factual verification, it was stated that the Reserve Bank of India had appointed a Committee to go *inter alia* into questions relating to the procedures and practices followed by the State Financial Corporations and that the Industrial Finance Corporation was represented on this Committee.

ment to give effect to the provisions of the Act. It will be seen that these Rules were framed by Government only in 1957, nearly nine years after the Act was passed. Asked about the reasons for the delay, the representative of the Ministry stated that as the Act provided for directives to be issued by Central Government as also for regulations to be framed by Industrial Finance Corporation, a view was held that it was not necessary to frame these rules. He added that when the Auditor General raised this point, the Reserve Bank was consulted and it was felt that the framing of the rules might not be necessary so long as matters worked smoothly. When the matter was examined again, the Minister held that it was necessary to frame rules and accordingly, the rules were framed in 1957.

109. *The Committee regret the abnormal delay in the framing of the rules in this case for which there was no justification. They recommend that in future the rules should be framed soon after the enactment of laws.*

110. *The Corporation has been bringing out fairly informative annual reports. The Committee suggest that the following information may also be incorporated in the Annual Reports:—*

**Annual
Reports
of I.F.C.**

- (i) *The present Appendix 'A' should be amplified so as to show the amount of loans sanctioned to concerns in which directors of the Corporation are interested.*
- (ii) *Statement showing (State-wise) the number of applications received, number sanctioned, number rejected, number withdrawn, number lapsed and number pending, amount applied for, amount sanctioned, amount disbursed, amount rejected, amount withdrawn, amount lapsed and amount pending.*
- (iii) *The productive capacity of each borrowing concern prior to its availing of the Corporation's loans and after. (This will help an assessment of the Corporation's contribution towards increasing industrial productivity.)*

NEW DELHI;
11th April, 1963.

Chaitra 21, 1885 (S).

H. C. DASAPPA,
Chairman,
Estimates Committee.

APPENDIX I

(Vide Paragraph 6)

Statement showing (year-wise) applications received and dealt with by the Corporation and the amounts involved

(Rupees in lakhs)

Particulars	1948-49		1949-50		1950-51		1951-52		1952-53		1953-54					
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount				
Applications received	95	1033.18	65	875.63	45	547.50	54	730.25	74	825.47	43	900.70				
Applications sanctioned	21	342.25	23	377.00	17	238.95	33	445.25	14	143.25	29	527.05				
Applications rejected	33	188.55	44	430.65	22	165.15	19	176.50	30	261.61	27	122.00				
Applications treated lapsed or with- drawn	..	..	20	280.00	7	109.65	3	69.00	6	55.75	11	122.11		
Applications pending	41	488.38	19	184.00	18	180.75	17	202.75	41	521.86	17	511.25				
<hr/>																
	1954-55		1955-56		1956-57		1957-58		1958-59		1959-60		1960-61		1961-62	
Particulars	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Applications received	46	1127.00	86	2770.72	67	2136.25	48	1488.50	26	1116.57	38	1754.10	76	3685.62	59	3140.42
Applications sanctioned	27	734.00	44	1513.00	51	1190.75	22	788.50	19	379.00	29	1791.74	57	2121.34	41	2445.31
Applications rejected	18	293.25	8	217.50	14	487.50	1	10.00	3	31.50	1	40.00	2	28.50	1	20.00
Applications treated lapsed or with- drawn	11	350.00	7	138.00	10	273.10	10	211.50	22	979.50	6	350.00	14	730.60	14	896.28
Applications pending	7	234.00	34	988.60	26	1137.00	41	1498.40	23	1170.97	25	788.10	28	1475.50	31	1261.33

Aggregate Position

	(Rs. in Crores)	
	No.	Percentage
(a) Applications received	822	221.31
(b) Applications sanctioned	427	130.27
Its percentage to (a) above . . . . .	..	58.8
(c) Applications rejected	223	25.71
Its percentage to (a) above . . . . .	..	11.6
(d) Applications withdrawn or treated as lapsed	141	45.65
Its percentage to (a) above . . . . .	..	20.6
(e) Applications pending as on 30-6-1962	31	12.61

APPENDIX II
(Vide Paragraph 13)

Statement showing applications withdrawn or treated as lapsed during the years 1956-57 to 1961-62, amounts involved and the reasons therefor.

APPLICATIONS WITHDRAWN

Sl. No.	Major ground for withdrawal	No.	(Rs. in crores) Amount
1	Submission of revised applications by the Companies	24	13.09
2	Companies arranging funds from other institutions	9	2.63
3	Subsequent lack of interest by Companies in taking loans from I.F.C.	9	3.80
4	Companies not agreeing to the Corporation's views on the application regarding valuation of property reducing the amount of loan, reimbursement of expenditure incurred, etc.	2	0.57
5	Standard terms and conditions not acceptable to the Companies	1	0.30
6	Abandonment of schemes by the Companies	1	0.50
7	On account of change in policy, e.g. jurisdiction of SFCs, State Government's holdings being substantial, etc.	2	0.85
TOTAL		48	21.74

APPLICATIONS TREATED AS LAPSED

1	Failure on the part of Companies to comply with the Corporation's requirements before processing the applications, viz., industrial licence, earnest money deposit, income tax clearance certificate, first charge, guarantee, etc.	7	5.20
2	Failure on the part of the Companies to furnish the particulars called for by the Corporation	15	6.15
3	Companies meeting their requirements of funds from their own resources or by arranging elsewhere	4	0.87
4	Failure on the part of the Companies to disclose material facts in application	1	0.40
5	On account of change in policy, e.g., jurisdiction of SFCs, State Government's holdings being substantial, etc.	1	0.05
		28	12.67

APPENDIX III

(Vide Paragraph 33)

Statement showing the loans sanctioned (industry-wise) so far (as per the International Standard Industrial Classification of all Economic Activities).

Type of Industry	Amount (Rs. in crores)
Food manufacturing industries, except beverage industries	38.04
Manufacture of textiles—spinning, weaving & finishing of textiles	14.05
Manufacture of artificial fibres	4.80
Manufacture of wood & cork except manufacture of furniture	1.11
Manufacture of paper & paper products	13.39
Manufacture of rubber products	2.22
Manufacture of basic industrial chemicals including fertilisers	15.13
Manufacture of vegetable and animal oil & fats	0.38
Manufacture of miscellaneous chemicals products	2.13
Manufacture of glass and glass products	2.60
Manufacture of pottery, china and earthenware	2.82
Manufacture of cement	7.62
Basic metal industries—iron and steel	0.23
Non-ferrous metals industry	3.33
Manufacture of metal products except machinery and transport equipment	4.96
Manufacture of machinery except electrical machinery	2.87
Manufacture of electrical machinery, apparatus, appliances and supplies	5.65
Manufacture of rail-road equipment	1.15
Manufacture of motor vehicles and ancillaries	1.91
Manufacture of bicycles	1.10
Miscellaneous manufacturing industries	0.65
Electric light and power	0.83
Electricity, gas and steam	1.09
Mining & Quarrying—Coal	0.32
Other industries—Hotel industry	1.89
TOTAL	130.27

APPENDIX IV

(Vide Paragraph 36)

Statement showing the Priority List of Industries for Import of Capital Goods

1. Alloy and special tool steels
2. Steel castings.
3. Steel forgings.
4. Heavy structurals including cranes.
5. Railway wagons and other railway equipment.
6. Industrial machinery for textiles, jute, tea, mining, washeries, cement making and paper making.
7. Machine tools, on a selective basis.
8. Pig iron.
9. Shovels and earth moving equipment.
10. Fertilisers.
11. Rayon grade pulp.
12. Special refractories.
13. Industrial explosives.
14. Ferro-chrome, ferro-molybdenum and ferro-silicon.
15. Modernizing steel re-rolling plants to enable them to manufacture wire rods and special steel sections.
16. Cotton textile machinery particularly for use of short and medium staple cotton.
17. Trucks and ancillaries.
18. Ball bearings.
19. Cast iron spun pipes from domestic pig iron and scrap.
20. Tin plates and steel wire.

NOTE :—The Corporation can entertain requests in respect of projects which though not covered by the Priority List have been granted import licence.

APPENDIX V

(Vide Paragraph 37)

Statement showing classification of loans approved by the Industrial Finance Corporation of India as on the 30th June, 1962

(According to amounts approved for each industrial concern.)

	No. of concerns	Amount (Rs. in crores)
(i) Loans not exceeding Rs. 10 lacs	47	2.83
(ii) Loans exceeding Rs. 10 lacs but not exceeding Rs. 20 lacs	53	8.68
(iii) Loans exceeding Rs. 20 lacs but not exceeding Rs. 30 lacs	37	9.70
(iv) Loans exceeding Rs. 30 lacs but not exceeding Rs. 40 lacs	22	7.95
(v) Loans exceeding Rs. 40 lacs but not exceeding Rs. 50 lacs	13	6.16
(vi) Loans exceeding Rs. 50 lacs but not exceeding Rs. 60 lacs	23	13.05
(vii) Loans exceeding Rs. 60 lacs but not exceeding Rs. 70 lacs	14	9.01
(viii) Loans exceeding Rs. 70 lacs but not exceeding Rs. 80 lacs	7	5.29
(ix) Loans exceeding Rs. 80 lacs but not exceeding Rs. 90 lacs	20	17.70
(x) Loans exceeding Rs. 90 lacs but not exceeding Rs. 1 crore	10	9.86
(xi) Loans exceeding Rs. 1 crore	21	40.04
	267	130.27

*It was only in respect of 9 out of these 21 concerns that any single application was submitted for an amount exceeding Rs. 1 crore in each case. In respect of the other twelve, every one of the applications approved was for not more than Rs. 1 crore, though the total of all the applications approved in respect of each of these twelve concerns came to more than one crore in all.

APPENDIX VI

Principal terms and conditions imposed by the Corporation while sanctioning loans

The principal conditions which the Corporation usually insists upon, in respect of its loans are:—

- (i) With a view to ensuring that there is no gap in the financial resources of the concern to implement the schemes submitted to the Corporation, the Corporation makes it a condition, wherever necessary that a stipulated portion of the total finance required is raised by the concern itself, preferably by raising it from the capital market, or by borrowing from other agreed sources. This condition is also necessary to secure that the loan that the Corporation gives is covered by a 50 per cent margin, which is prescribed by Government as a normal security requirement.

As on 30th June, 1961, the percentage which the total of the IFC loans bore to the total cost of the schemes for which loans were sanctioned by the IFC came to 43 only; the balance 57 per cent, most of which was found by raising share capital, was arranged for by the applicants themselves. The corresponding analysis of the financing done by IFC in respect of the loans sanctioned in the year, 1960-61 only is 38·70 per cent by way of IFC loans, and the balance 61·30 per cent by raising of share capital in the open market, etc.

- (ii) The amount of the loan will be drawn by the borrower concern by instalments to be agreed upon between the Corporation and the concern so that the releases are made as and when the machinery arrives, or the construction work progresses and the amount of the loan does not lie idle with the company for a long time.
- (iii) The amount will be utilised only in the manner indicated by the Corporation. For this purpose the concern has to open a special banking account and the payments made from this account are verified by the Corporation's officers from time to time. The concern is also required to obtain a letter from their Bankers waiving their

right of set-off in respect of the amounts advanced by the Corporation and lying in this special account. The utilisation of the loan is verified at the time of the periodic inspections by the inspecting officers of the Corporation.

- (iv) The Corporation insists on having a first charge on the block of the concern. In exceptional cases where the security is ample, and there is a case for allowing a pari passu charge in respect of debentures which may have been issued by the concern prior to the availing of the loan from the Corporation, this is agreed to.
- (v) The amortization is usually limited to 15 years from the date of advance and the concern's profit earning capacity is taken into account in deciding in what instalments the loan will be repaid within the above period.
- (vi) The Corporation reserves to itself the right to appoint two Directors on the Boards of the borrower concerns and in many cases at least one director is nominated by the Corporation.
- (vii) The loan is required to be guaranteed by one or more persons who are actively interested in the management of the concern.
- (viii) The Corporation insists on their previous approval being obtained to any dividend being declared by the loanee concern in excess of 8 per cent (subject to tax), such approval being usually given if the financial condition of the concern appears satisfactory and the provision for reserves adequate.

APPENDIX VII

(Vide Paragraph 62)

Statement showing the rates of legal fees charged by I.F.C.

Amount of loan and/or guarantee facility.	First loan and/or guarantee facility.	Additional loans/guarantee for deferred payment.		
		Where no examination of title to property is involved	Where the value of property the title of which is to be examined does not exceed Rs. 25,000.	Where the value of property the title of which is to be examined exceeds Rs. 25,000.
	Rs.	Rs.	Rs.	Rs.
1. Upto Rs. 10 lacs .	2,500	2,500	2,500	2,500
2. Above Rs. 10 lacs but not above Rs. 15 lacs .	3,000	2,500	3,000	3,000
3. Above Rs. 15 lacs but not above Rs. 20 lacs .	3,500	2,500	3,000	3,500
4. Above Rs. 20 lacs but not above Rs. 25 lacs .	4,000	2,500	3,000	4,000
5. Above Rs. 25 lacs but not above Rs. 30 lacs .	4,500	2,500	3,000	4,500
6. Above Rs. 30 lacs but not above Rs. 35 lacs .	5,000	2,500	3,000	5,000
7. Above Rs. 35 lacs but not above Rs. 40 lacs .	5,500	2,500	3,000	5,500
8. Above Rs. 40 lacs but not above Rs. 45 lacs .	6,000	2,500	3,000	6,000
9. Above Rs. 45 lacs but not above Rs. 50 lacs .	6,500	2,500	3,000	6,500
10. Above Rs. 50 lacs .	7,000	2,500	3,000	7,000

APPENDIX VIII

Statement showing the rates of interest charged by the various financial institutions in public sector in the country.

National Industrial Development Corporation Ltd.	6% p.a. (7½% in case of default).
Industrial Credit & Investment Corporation of India Ltd.	Rupee loans : Around 7% p.a. Foreign currency loans : 7½% p.a.
<i>State Financial Corporations.</i>	
Andhra Pradesh	7% p.a. with a rebate of ½% p.a.
Assam	7% p.a. with a rebate of ½% p.a.
Bihar	7% p.a. with a rebate of ½% p.a.
Gujarat	6½% p.a. payable half-yearly, on loans from Corporation's own funds—4% on loans under agency arrangements.
Jammu & Kashmir	6½ p.a. subject to a rebate of ½% p.a.
Kerala	7½% p.a. with a rebate of ½% p.a.
Madhya Pradesh	7% p.a. with a rebate of ½% p.a.
Madras	7½% with ½% rebate for medium and large scale units 6% without rebate and ½% guarantee commission (in case guarantee cover is obtained) for small-scale industries.
Maharashtra	7% p.a. Reduced rates charged for loans under the Agency-cum-guarantee arrangement with State Government (which subsidise the rates).
Mysore	7% p.a. subject to rebate of ½%
Orissa	7½% with ½% rebate.
Punjab	3% above Bank Rate with a minimum of 7% p.a.
Rajasthan	7½% with 1% rebate.
Uttar Pradesh	3% above Bank Rate, minimum 7% with ½% rebate.
West Bengal	7% with ½% rebate.

Industrial Finance Corporation of India

(i) Upto February, 1952	5½% with a rebate of ½% for punctual repayment of principal and payment of interest.
(ii) From February, 1952	6% with the rebate referred to above.
(iii) From 1952-53 to 22-4-1957	6% do.
(iv) From 23-4-1957	7% do.
(v) From 19-7-1962	7½ do.

APPENDIX IX

(Vide Paragraph 65)

Statement showing details of the Underwriting Operations of the I.F.C.

Year	Applications received		Applications approved		Applications Refected		Applications finalised		Extent to which the shares devolved on the Corporation under the agreement		Remarks	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount		
1957-58	.	.	1	75.00	Nil	Nil	1	75.00				
1958-59	.	.	2	87.50	Nil	Nil	1	37.50				
1959-60	.	.	17*	690.00†	Nil	Nil	1	50.00	1	34.08		
1960-61	.	.	28	690.08	12	232.00‡	4	160.00	3	107.19		
1961-62	.	.	25	548.59	11	72.50‡	13	78.89.	10	43.37		
TOTAL	.	.	70	1928.67	28	492.00	11	213.58	20	401.39	14	184.64

(In lakhs of Rs.)

Debenture.

57.

†The proportion of equity and preference capital applied for and approved in 1960-61 and 1961-62 was as under :—

	Equity capital	Preference capital
1. Applications received	922.54	316.13
2. Applications approved	152.00	152.50
3. Applications finalised	102.00	136.89
4. Applications taken up by Corporation itself	61.89	88.67

*†Represents total of the period ending 30th June, 1960 from 1957-58. Break up (Yearwise) not available.

APPENDIX X

(Vide Paragraph 89)

Statement showing (year-wise) the financial position of the I.R.C.

(In lakhs of Rs.)

	48-49	49-50	50-51	51-52	52-53	53-54	54-55	55-56	56-57	57-58	58-59	59-60	60-61	61-62
1. Total capital (1)	503.0	1043.0	1104.1	1138.7	1231.9	1471.0	1356.4	1475.6	2329.2	3376.8	3652.4	4315.8	4610.3	5357.7
2. Paid-up capital(2)	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	700.0
3. Net-worth (3)	500.0	500.5	501.0	502.0	503.0	515.1	534.6	561.7	539.98	555.9	574.4	617.2	684.9	930.5
4. <i>Property & assets :</i>														
(i) Cash & Bank balances	33.8	17.1	63.2	57.1	14.3	17.8	30.2	15.3	21.4	383.9	153.0	228.9	203.7	206.5
(ii) Investments	331.7	672.5	457.4	308.2	200.4	200.4	20.0	..	..	..	65.9	67.0	80.9	106.5
(iii) Loans & advances	133.0	341.3	565.7	725.0	986.8	1210.1	1272.8	1424.2	2190.2	2894.5	3336.7	3933.4	4222.8	4961.6
(iv) Other assets (4)	4.53	12.42	17.72	48.38	30.33	42.75	33.46	36.17	85.27	85.42	83.27	77.93	75.38	71.42
5. Fixed assets	..	..	..	..	..	..	..	..	..	..	..	..	..	..
6. Current Assets(5)	38.29	29.56	80.92	105.48	44.63	60.52	63.65	51.42	106.63	469.28	241.26	306.80	279.08	277.9
7. Long term borrowing	..	530.0	580.5	580.5	685.5	904.0	780.5	862.5	1710.0	2736.9	2975.9	3549.2	3749.2	422.5

(In lakhs of Rs.)

	48-49	49-50	50-51	51-52	52-53	53-54	54-55	55-56	56-57	57-58	58-59	59-60	60-61	61-62
8. Current liabilities (6)	0.16	7.81	9.36	33.37	11.60	21.73	41.77	66.76	54.68	63.97	63.69	89.39	93.12	122.3
9. Reserves (7)	..	0.50	1.00	2.00	3.00	10.06	15.62	19.18	23.74	39.80	58.48	101.32	169.39	213.1
10. Provision for Taxation (8)	2.00	2.00	5.30	13.53	8.59	18.01	9.84	9.53	2.80	6.32	25.16	46.15	49.88	53.7

(1) Total of Assets side in the balance sheet less fictitious assets and contra entries except cheques lodged for collection.

(2) As per Balance Sheet.

(3) Paid-up capital plus Reserves less fictitious assets.

(4) Excludes fictitious assets and contra entry in respect of cheques lodged for collection.

(5) Total of cash and bank balances and other Assets.

(6) Consists of the amount shown under the head other liabilities in the Balance Sheet excluding contra entry in respect of Cheques received for collection) and provisions for doubtful debts and contingencies.

(7) Consists of General Reserve and Special Reserve Fund only.

(8) As shown in the Balance Sheet after adjustments.

APPENDIX XI

(vide paragraph No. 89)

Statement showing (year-wise) the working results of the Industrial Finance Corporation

(In lakhs of Rs.)

	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
1. Gross Income (1)	5.73	23.47	35.87	42.05	49.30	54.74	60.71	67.73	96.33	154.9	203.9	250.0	298.9	304.2
2. Total expens (2)	2.87	20.41	22.94	24.57	26.13	32.56	36.02	34.94	53.27	101.5	130.8	141.6	159.5	175.5
(i) Interest on Bonds Debentures etc. (3)	15.63	17.91	18.87	19.38	25.19	26.52	27.00	44.17	86.9	115.8	128.2	146.8	158.8	
(ii) Brokerage & discount on Bonds (4)										4.8	4.6	1.7		
(iii) Establishment expense (5)	1.88	2.95	3.51	3.88	4.48	5.11	5.87	6.05	6.08	6.52	6.8	7.5	8.3	9.28
(iv) Other expenses	0.99	1.83	1.52	1.82	2.27	2.26	3.63	1.89	3.02	3.3	3.6	4.2	4.4	7.4
3. Net Profit before Taxation (6)	2.86	3.06	12.94	17.48	23.17	17.19	9.70	10.18	20.81	53.4	73.1	109.3	139.4	128.7
4. Tax Provision (7)	2.00		5.00	8.23	9.42	10.00	9.70	10.18	8.56	25.21	37.7	49.8	54.6	57.8
5. Net Profit after taxation	0.86	3.06	7.94	9.25	13.75	7.19			12.25	28.2	35.4	59.5	84.8	70.9
6. Percentage of Gross Income to total capital employed	1.14	2.25	3.24	3.70	4.00	3.72	4.5	4.6	4.1	4.6	5.6	5.8	6.5	5.7
7. %age of total exp. to Gross Income	50.1	87.0	64.0	58.4	53.0	59.4	59.3	51.7	55.4	65.5	64.1	56.4	53.5	57.7
8. %age of net profit, before tax to total capital	0.57	0.29	1.2	1.5	1.88	1.17	0.7	0.7	0.80	1.58	2.0	2.53	3.0	2.4

(In lakhs of Rs.)

	1948-	1949-	1950-	1951-	1952-	1953-	1954-	1955-	1956-	1957-	1958-	1959-	1960-	1961-
	49	50	51	52	53	54	55	56	57	58	59	60	61	62
9. %age of net profit after tax to net worth	0.67	0.61	1.59	1.80	2.70	1.39	•	•	2.27	5.3	6.2	9.8	12.4	7.6
10. %age of Establishment expenses to gross income	32.8	12.57	9.8	9.2	9.1	9.3	9.7	8.9	6.3	4.2	3.3	2.9	2.8	3.0
11. % age of Establishment expenses to total loans sanctioned	0.55	0.78	1.5	0.87	3.1	0.97	0.8	0.4	0.51	0.8	1.8	0.4	0.4	0.3

(1) As per profit & Loss Account.

(2) Excludes Tax provision.

(3) to (6)—As per Profit & Loss Account.

(7) Amount provided for out of the year's profits.

*The entire amount of net profit during these two years was set aside as Provision for Taxation.

APPENDIX XII

Summary of Conclusions/Recommendations

Sl. No.	Ref. to para No.	Summary of Conclusions/recommendations
1	2	3
1	10	While the Committee are glad to note that the Corporation has tried to improve its methods and techniques of appraisal of applications, these do not appear to have been properly publicised. It is only in the first annual report of the Corporation that the original criteria of 1948 for assessing the applications found mention. No attempts have been made in the subsequent reports to give them due publicity and what is more, no publicity whatever is given to the additional principles in any of the reports. The Committee would suggest that sufficient publicity should be given to the criteria so that intending applicants are fully aware of what is required of them.
2	12	The Committee note that during the last five years the incidence of rejection has considerably gone down and out of 247 applications received during this period only 8 were rejected which appears to be an indication that more and more of deserving cases are coming up for assistance. This is a happy feature.
3	14	It will be seen that a number of applications were withdrawn as the applicants made alternative arrangements. Alternative arrangements are usually made when there are delays in sanctioning loans or the conditions of the Corporation transpire to be not advantageous. The Committee suggest that the reasons for such withdrawals should be carefully investigated and suitable remedial measures taken to reduce their incidence.
4	15	The Committee have in para 19 referred to the desirability of reducing the time taken in sanctioning of loans. If this is brought about, the Committee expect that the number of pending applications at the end of each year would go down further.

- 5 19 The Committee consider that the percentage of applications which have taken more than three months for being sanctioned, is capable of reduction. In any case, they feel that the time taken in sanctioning loans should not exceed six months. Since the application form itself calls for exhaustive information, the average time taken in sanctioning a loan could be reduced further. In the opinion of the Committee if wide publicity is given to the basic requirements to be fulfilled like licence, capital goods clearance, capital issue clearance, collaboration etc. by the applicant concerns before bringing forward applications for loans, it would help to reduce, if not eliminate altogether, the receipt of incomplete applications. It would also be necessary to simplify the procedures followed by the Corporation in dealing with the applications. The Corporation might also consider extending to the prospective applicants such guidance as may be required by them in regard to the fulfilment of various formalities such as, capital goods clearance, capital issue clearance etc. in which case many of the causes of the delay would be eliminated.
- 6 26 One of the factors that make for efficiency of a lending institution besides speedy disposal of applications is the prompt payments to the borrowers. Any delay in payments tends to affect the programme of execution of projects by the borrowing concerns. The Committee consider that the time taken at present by the Corporation in making the first payment seems to be long and could be reduced. As the legal documents have already been standardised it should be possible to reduce the delay in the completion of legal formalities. The Committee trust that the Corporation would address itself to this aspect and endeavour to quicken the pace of disbursements.
- 7 28 From the amount of loans sanctioned to the less developed States as compared to others, it is evident that the less developed States have received comparatively less assistance from the Corporation than the industrially more advanced States.
- 8 32 The Committee are somewhat concerned over the meagre disbursements made by the Corporation so far to the less developed States like Assam (Rs. 0.87 crores), Madhya Pradesh (Rs. 0.2 crores) and Rajasthan (Rs. 1.22 crores) as against the total disbursements of Rs. 68.14 crores. This would indicate that the instructions issued to the Corpora-

tion at its very commencement that it should assist the industrial development of backward provinces and areas in order that they may attain a more balanced development has been of little effect. As things stand the Corporation could show no material on which they could satisfy the Committee that they had explored ways and means to implement the directive. The first D.O. letter from the Chairman of the Corporation to the Chief Ministers was written as late as 1957. It was in very general terms and does not appear to have been followed up vigorously. It seems the matter has been taken up in earnest only on receipt of a letter from Planning Commission in December, 1960. The Committee are alive to the fact that the initiative to implement the instruction is not all in the hands of the Corporation and is dependent on other factors such as industrial licensing etc. The Corporation's difficulty if any, in implementing the Government directive, should have been specifically brought to the notice of the Government. This does not appear to have been done. It is regrettable that Government also did not pursue the directive issued by them and suggest measures to implement it. Positive steps were called for to assist the backward areas. Such steps could perhaps take the form of relaxation of any of the criteria governing assistance so as to suit the special needs of such areas or the offer of special incentives to induce industrial concerns to bring forward schemes for such areas. The Committee hope that Government will examine this aspect.

- 9 35 Apart from satisfying itself regarding the industrial licence, the Corporation should have examined how far the industries which required loans were within the objectives and priorities laid down in the Five Year Plans. It looks as though there was no approach from this angle in affording assistance nor was any attempt made to compile a list of industries to be assisted.
- 10 36 The Committee are glad to learn that, in August, 1962, the Central Government published a list of 20 industries (*vide* Appendix IV) which were to be assisted and which alone were to be considered for the purpose of foreign exchange. Government had given a further list in September or October, 1962 of about 211 industries which were not covered
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for this purpose. The Committee trust that these lists would be borne in mind by the Corporation.

- 11 41 The Committee note that though the I.F.C. Act does not contemplate any restriction as to the lower limit of assistance, the Corporation has entered into an informal arrangement with the S.F.Cs, whereby applications for loans upto Rs. 10 lakhs (now raised to Rs. 20 lakhs in respect of public limited Companies/ Co-operative societies) are dealt with only by the State Financial Corporations. The Committee consider that where, on account of paucity of funds etc., State Financial Corporations are unable to entertain any applications for amounts upto Rs. 20 lakhs, it should be open in suitable cases for the Corporation to entertain them.
- 12 46 The Committee formed the impression that there were among the loanees concerns, some which could perhaps have raised their funds from the market. Further, there is already a provision in Rule 8 of the Industrial Finance Corporation Rules, 1957, under which the Corporation is expected to satisfy itself that an applicant concern has not invested a substantial part of its surplus funds in other industrial concerns. The Committee feel that this provision has not been strictly adhered to as is seen from the observation contained in the report of the Company Law Administration referred to in para 44. They recommend that this aspect of the matter should receive greater attention in the scrutiny of applications before sanctioning loans in future.
- 13 48 While the definition of new undertakings as those which went into production after 15th August, 1947 might have been proper in 1948 when the Corporation was set up, it is no longer appropriate and needs to be revised. It is surprising that this has not been done so far. The characterisation of 'new units' as all those which had gone into production subsequent to 15th August, 1947, tends to create an erroneous impression about the number of new undertakings assisted by the Corporation and make them loom large. The Committee were assured
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that in future the assistance provided to the various concerns would be shown in the Annual Reports of the Corporation under the following heads:—

(a) New Units.

(b) Expansion of existing units.

(c) Modernisation and Rehabilitation.

The Committee trust that this would be done.

- 14 51 The Committee trust that the Corporation would continue to make efforts to secure as much foreign loans as possible including those in convertible currency.
- 15 57 The Committee consider that a high rate of stamp duty may cause some hardship on the applicant concerns. In any case, it is desirable that there is uniformity in these matters, which would prevent similar units in different States from being placed on unequal footing.
- 16 61 While the Committee agree with the principle behind the imposition of the premium on premature repayment, they feel that in view of the tight money market, it should be examined whether premature repayments should not be encouraged. This would also result in more funds being available for loans being given to a larger number of concerns.
- 17 62 Since the legal documents have been standardised by the Corporation and it has also gained sufficient experience, the Corporation should endeavour to reduce its legal charges as far as possible.
- 18 63 The Committee recommend that effective steps should be taken to bring about uniformity in the rates of interest charged by the various financial institutions in the public sector, as far as possible.
- 19 64 The Committee are not convinced of the reasons for the delay in undertaking this activity. For, it is seen that other similar institutions lost no time in resorting to underwriting after they came into existence. They hope that such delays in taking up other activities would be avoided in future.

1	2	3
20	65	The Committee were surprised to learn that neither the Ministry of Finance nor the Industrial Finance Corporation could furnish information regarding the total amount of shares underwritten by all the institutions engaged in underwriting activities during the Second Plan period. They feel that collection of such information is necessary to assess the operations of the Corporation in this field.
21	67	The high incidence of devolution of shares on Corporation in the past, particularly in 1960-61, is not a happy reflection on the efficiency of its underwriting service. The Committee trust that the Investment Cell of the Corporation would be fully geared up to the task of studying the investment market trends so as to ensure that underwriting is undertaken in respect of sound concerns and that the incidence of devolution is not high.
22	68	The Committee welcome the co-ordination between I.F.C. and L.I.C. in regard to underwriting operations and trust that this would be further strengthened and extended to other institutions engaged in underwriting operations, such as Industrial Credit and Investment Corporation of India Ltd. etc. In the interest of closer co-ordination, the feasibility of giving representation to the Industrial Finance Corporation on the Investment Committee of the Life Insurance Corporation may be examined.
23	69	The Committee feel that in order to avoid duplication of examination and to achieve better co-ordination, it would be desirable if the procedure of 'joint processing' of cases is precisely laid down and a common machinery is evolved for the purpose.
24	71	The Committee have recommended in para 14 the desirability of investigating the reasons for withdrawal of loan applications. They trust that similar measures would be taken in regard to the applications for guaranteeing also.
25	75	In spite of these measures, it does not look as though there has been appreciable progress in the business of the Corporation <i>vide</i> Appendix I.

Further, some of the activities which were entrusted to the Corporation have not been undertaken by it. If the Corporation is to increase its business, it will have to move in these directions also and shed itself of the idea that it is a 'lender of the last resort'. It would be befitting its role as a national institution if it followed a more liberal policy than hitherto, which would attract business on a larger scale. The Committee recommend that the Corporation should keep itself abreast with the activities and methods adopted by other similar institutions in India and abroad while continuing to maintain its high standards. These would guarantee a steady increase in its clientele and operations.

- 26 77 The Committee note that some of the non-official Directors of the Corporation were also Chairmen or Directors of 25 to 30 other bodies. They consider that it may perhaps be difficult for such busy persons to find time and to devote their attention to the business of the Corporation to the required extent. Since the Directors are expected to guide and direct the affairs of the Corporation in an effective manner, it is desirable that Board members should be persons who are comparatively less over-worked. The Committee note that there is already a provision in the Companies Act, 1956 (Section 275) to the effect that no person shall hold office at the same time as Director of more than 20 companies. It is possible that some of the companies or bodies, referred to above, are not joint stock companies and hence the provisions of the Companies Act are not attracted in these cases. Even so, the Committee feel that this is a salutary principle and should be applicable to other bodies also.
- 27 78 To enable the Corporation to know more intimately the industrialists of various regions and their schemes, programmes and requirements, the Committee would recommend that the Board meetings should be held at other places also. It may help in popularising the activities of the Corporation.
- 28 81 The Committee consider that at present the Central Committee which meets only once a year, is not discharging any useful function. One expects such a Committee of the Board to meet more often than the Board itself and to discharge most of its functions. If, however, the Central Committee cannot be re-activated, it is better to do away with it rather than keep it as a decorative appendage. The Committee

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suggest that the need for the Central Committee may be examined in the light of the above remarks.

- 29 82 The Committee are not convinced of the reasons for not opening the Branch Office at Kanpur, specially when the setting up of an office was mandatory and not optional. If such an office was not considered necessary, the proper course for the Corporation was to seek an amendment to the relevant provision in the Act rather than ignore it. The Committee are constrained to observe in this connection, that in spite of the attention of the Corporation having been drawn to this obligatory provision in 1960 by the audit party of Comptroller & Auditor General, no concrete steps have been taken so far in this direction. It is regrettable that Government also did not ensure the compliance with this mandatory provision. in the Act.
- 30 84 The Committee consider that it would greatly help to popularise the activities and to increase the business of the Corporation if the State Financial Corporations are given the agency functions by the Corporation. They, therefore, suggest that the question of giving the State Financial Corporations the agency functions to the extent possible may be examined. In States, where there are Branch Offices, the question of their inter-relationship with the respective State Financial Corporations may have to be defined.
- 31 86 The Committee consider that reference to the Government of a large number of cases apart from causing avoidable delay in the disposal of cases, detracts from the autonomous status of the Corporation. The Committee recommend that the Corporation and the Ministry of Finance should review the types of cases which are to be referred to Government and see to what extent the same could be reduced. The representatives of the Ministry of Finance and the Corporation agreed to undertake the review.
- 32 93 Since the Corporation borrows its funds at the rate of interest between 4-1/2% to 5% and the current deposits fetch an interest of only 3-1/2% to 3-3/4%, it is necessary that the cash and bank balances which stood at Rs. 206.5 lacs on 30-6-1962 are kept to the minimum required. The Committee hope that every effort will be made by the Corporation to reduce its cash and bank balances to the barest minimum necessary.

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33	95	The Committee note that in spite of a reduction in the number and amount of applications the expenditure has increased by about Rs. 2 lakhs. There is thus a need to bring down the establishment and other expenses. The Committee recommend that the Corporation should take energetic measures to reduce its establishment and other expenses immediately. Efforts should also be made to relate expenses to the quantum of business and the work done.
34	97	The Committee feel that the percentage of gross income to the total capital employed by the Corporation is on the low side. With the expansion in the operations of the Corporation and reduction in the administrative overhead, the Corporation will no doubt, be able to give a higher return on the investment. The Committee hope that the Corporation would exercise utmost control over its expenses to see that the rate of return shows a rising trend in future.
35	102	The Committee recommend that the Corporation should periodically review the progress reports of the borrowing concerns and if there is any indication that the affairs of the concern are not being conducted on the right lines it should initiate prompt action to improve matters and where necessary, take over the management of the concern and even resort to the sale of assets mortgaged when it becomes inevitable.
36	104	The Committee are glad to learn that the Chairman of Industrial Finance Corporation is also the Chairman of National Industrial Development Corporation which is a step in the right direction. The Committee could see no reason for having more than one financing agency in the public sector for performing what is more or less the same function. The Committee hope that an early decision will be taken in the matter of merging the National Industrial Development Corporation Ltd. with the I.F.C. which was stated to be under consideration of Government.
37	106	The Committee welcome conferences of the representatives of the various institutional agencies which provide a forum for discussing points of mutual interest and also enable close co-operation between the institutions. The Committee are also glad to note that there is a proposal to constitute a Consortium for the purpose of joint financing of big projects. They hope that early action will be taken to finalise it and give it a proper shape in consultation with the agencies concerned.

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| 38 | 107 | The Committee consider the association between the I.F.C. and S.F.Cs. very essential as the Industrial Finance Corporation, with its wider experience, can assist the State Financial Corporations in discharging their functions efficiently and economically. It would also be desirable if the Industrial Finance Corporation could examine the procedure and practices followed by the various State Financial Corporations and rationalise them, if need be. The Committee further suggest that if any part of the loan sanctioned by State Financial Corporations is required in foreign currency, the Corporation should extend its co-operation in making available the foreign currency part, leaving the rupee part to be provided by the State Financial Corporation. |
| 39 | 109 | The Committee regret the abnormal delay in the framing of the rules in this case for which there was no justification. They recommend that in future the rules should be framed soon after the enactment of laws. |
| 40 | 110 | The Committee suggest that the following information may also be incorporated in the Annual Reports:— <ul style="list-style-type: none"> (i) The present Appendix 'A' should be amplified so as to show the amount of loans sanctioned to concerns in which directors of the Corporation are interested. (ii) Statement showing (State-wise) the number of applications received, number sanctioned, number rejected number, withdrawn, number lapsed and number pending amount applied for, amount sanctioned and amount disbursed amount rejected, amount withdrawn, amount lapsed and amount pending. (iii) The productive capacity of each borrowing concern prior to its availing of the Corporation's loans and after. (This will help an assessment of the Corporation's contribution towards increasing industrial productivity). |
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APPENDIX XIII

Analysis of Recommendations contained in the Report

I. CLASSIFICATION OF RECOMMENDATIONS

A. Recommendations for improving the organisation and working :

Sl. Nos. 1, 3, 4, 5, 6, 8, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 36, 37 and 38.

B. Recommendations for effecting economy:

Sl. Nos. 32, 33, and 34.

C. Miscellaneous :

Sl. Nos. 2, 7, 9, 35, 39 and 40.

II. ANALYSIS OF IMPORTANT RECOMMENDATIONS DIRECTED TOWARDS ECONOMY :

Sl. No.	No. as per summary of recommendations	Particulars
1.	32	Keeping of cash & bank balances to the minimum.
2.	33	Reduction in establishment & other expenses.

44. Jayana Book Depot,
Chhapparwala Kuan,
Karol Bagh, New
Delhi.

45. Oxford Book &
Stationery Company,
Scindia House, Connaught
Place, New Delhi-1.

46. People's Publishing
House, Rani Jhansi
Road, New Delhi-1.

47. Mehra Brothers, 50-G
Kalkaji, New Delhi-19.

48. Dhanwantra Medical
& Law Book House,
1522, Lajpat Rai Mar-
ket, Delhi-6.

49. The United Book
Agency, 48, Amrit
Kaur Market, Pahar-
ganj, New Delhi.

50. Hind Book House, 82,
Jan Path, New Delhi.

51. Bookwell, 4, Sant
Narankari Colony,
Kingsway Camp,
Delhi-9.

MANIPUR

52. Shri N. Chaoba Singh,
Newspaper Agent,
Ramalal Paul High
School, Annexe, Imphal
Manipur.

AGENTS IN FOREIGN COUNTRIES

U.K.

53. The Secretary, Estab-
lishment Department,
The High Commission
of India, India House,
Aldwych, London.
W.C.2.

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