

Appraisal of Commercial Paper

7524. SHRI SHANTARAM
POTDUKHE:
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DAL:

Will the Minister of FINANCE be pleased to state:

(a) whether any appraisal has been made either by his Ministry or the Reserve Bank of India of raising of funds by the Companies by issue of Commercial Papers;

(b) the guidelines laid down by the Reserve Bank of India in allowing companies to float Commercial Papers and what are the inherent weaknesses in this technique of raising funds;

(c) the action proposed to be taken by Government to set the matters right;

(d) the estimated amount raised by the various companies by issue of Commercial Papers and the particulars of the companies which have raised more than Rs. 10 crores each from this instrument; and

(e) its impact on the liquidity of money and stock markets atleast in the metropolitan cities?

THE DEPUTY MINISTER IN THE MINISTRY OF FINANCE (SHRI ANIL SHASTRI): (a) to (c). The scheme for raising of funds by companies through issue of Commercial Papers (CP) has been introduced in December, 1989 and some amendments to which have been made on 24th April, 1990. It is too early to make any appraisal of the impact of the scheme. The highly rated corporated borrowers satisfying the eligibility criteria have been permitted to issue Commercial Paper. The main criteria are as under:

(i) Tangible net worth of the Com-

pany should not be less than Rs. 5 crores as per latest audited balance sheet.

(ii) Working capital limit of the company should not be less than Rs. 15 crores.

(iii) The company obtains the specified credit rating from an agency approved by RBI.

(iv) The borrowal account of the company is classified into the top Health code Status by financing banks.

(v) Shares are listed on one or more stock exchanges (not applicable to Government companies).

(vi) The denomination of CP could be in multiples of Rs. 10 lakhs subject to the minimum size of issue being Rs. 50 lakhs.

The issue of CP Will provide the company concerned with an alternative source of funds and not an additional source.

(d) Till date, Reserve Bank of India has authorised issue of CP by six companies for an aggregate of Rs. 85.50 crores. The particulars pertaining to individual constituents of the bank namely companies who have raised more than Rs. 10 crores each through this instrument cannot be divulged in accordance with the statutes governing the nationalisation of banks and as per the customs and usages prevalent amongst the bankers.

(e) The total amount of CP issued so far is limited and it would take some time before the impact of this instrument on financial markets would be known.