

A STUDY OF FINANCIAL INSTITUTIONS IN INDIA TOWARDS ITS ASSISTANCE TO CORPORATE UNITS

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Abstract

An attempt has been made to study the assistance provided by major financial institutions in India towards the leading corporate units .the study has covered the assistance of financial institutions viz. HDFC bank towards the financial networking and its evolution in the context of emerging Indian market. The relationship between the financial institutions and corporate units reveals a positive outcome on the basis of proper functioning which generates the right approach of making the financial sector more conducive towards managing the business activities. Among private-sector lenders. HDFC Bank, the country's second-largest private sector lender that has been predominantly known for its retail banking, is now aggressively growing its corporate loan book. With this push, in the last three years the book has more than doubled from Rs 47,000 crore to more than Rs 1 lakh crore at the end of FY16.

Keywords: Financial Assistance, corporate sector, Indian Market, Retail banking

Introduction

Financial institutions play a major role in the economic development of any country by activating savings and investments. A flawless financial system propels the small and diffused savings of the community, and arranges them for increasing productivity of the enterprises. **In this connection, the banks perform two important functions:**

(a) Assembling of deposits into the corporate units by offering them assistance at an attractive rates of interest, which lead to increase in savings and help in making immobile funds into active capital.

(b) Distribution of these savings in the form of loans among corporate units which are connected with economic development. In this way, they promote the development of agriculture, trade and industry.

The creation of HDFC is another milestone in the growth of the Indian Capital Market. It was incorporated in the year 1955, as a company registered under the Companies Act. The HDFC was incorporated to finance small scale and medium industries in the private sector. As India's fastest growing financial services conglomerate, with deep moorings in the Indian economy for over five decades, HDFC Group of companies have endeavored to contribute to address the challenges posed to the community in multiple ways. HDFC Bank will play a larger role in financing M&A deals for Indian companies looking abroad. This is, in fact, one of the reasons

for the massive public issue just completed by the bank, according to Chanda Kochhar, deputy managing director, HDFC Bank.

HDFC bank is an Indian financial conglomerate based in Mumbai, India. It is a major provider of finance for housing in India. It also has a presence in banking, life and general insurance, asset management, venture capital and education loans.

Definitions of Micro, Small & Medium Enterprises

In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two:

Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

a	Micro enterprises	Where investment in plant and machinery does not exceed Rs.25.00 lakhs.
b	Small enterprises	Where the investment in plant and machinery is more than Rs.25.00 lakhs but not exceeding Rs.5.00 crores.
c	Medium enterprises	Where the investment in plant and machinery is more than Rs.5.00 crores but does not exceed Rs.10.00 crores.

Service Enterprises: The enterprises engaged in providing or rendering of services defined in terms of investment in equipment.

a	Micro enterprises	Engaged in providing services where the investment in equipment is not more than Rs.10.00 lakhs.
b	Small enterprises	Engaged in providing services where the investment in equipment is more than Rs.10.00 lakhs but does not exceed Rs.2.00 crores.
c	Medium enterprises	Engaged in providing services where the investment in equipment more than Rs.2.00 crores but does not exceed Rs.5.00 crores.

REVIEW OF LITERATURE

A few volume of literature available on the aspects of small-scale industries has been studied at length. A brief review of such important studies is made here.

Roy Roth Well and ‘Water Zegveld (1982) reveals that SME have been and in general, continue to be, technologically innovative. Technology based new SMEs plays an important part in the emergence of new technology and in economic growth SME, particularly, young technology based SMEs also make an exceptional contribution to employment creation., and their larger counterparts, does represent an important vehicle for regional regeneration.

Ram Vepa (1983) in his study reports that over the last 25 years a network of institutions and policies has been developed in the country but not all of them have been success. But taken in totality, they have provided a well-organized frame works in which the small and cottage industry have been allowed to grow

Dias Syrian (1991) examines the scale, nature and effects of current sub contracting linkages between small and large Industries in Sri-Lanka, In general weaker relationships exist between large and small industries, however strong links exhibit with respect to more organized few larger firms. The reason for this weaker relationship is the immaturity of small Industries in meeting the requirements of large Industries in terms of technology, production cost, and quality and delivery services.

Sandesara (1988) describes the Institutional framework for the small and medium Industries in India. The impact of assistance on firms in this sector and the working of these institutions are also analyzed. He argues for a fresh approach to the institutional set-up and policy framework for this sector.

S.Ravi Prakash Singaravelu (1982) pinpoints the need to establish national level institutions or institutions at state level to finance tiny units, which come within the scope of small-scale sector. He also states that the loan should be project based, not security based.

OBJECTIVE OF THE STUDY

- To understand the concept of SMEs and their financial requirements.
- To study the financial assistance provided by HDFC to SMEs and other sectors.
- To study size wise sanctions of HDFC to SMEs
- To offer suggestions based on findings of the study.

SCOPE OF STUDY AND DATA COLLECTION

The present study is confined to HDFC and the data will be analyzed based on the information obtained from HDFC. And data will be collected for the period of eight years financial assistance provided by HDFC to small and medium scale enterprises. Data has been collected from HDFC annual reports, Research Journals and other documents etc.

DATA ANALYSIS

Table 1. Gross sanctions by HDFC with number of enterprises from 2007-2008 to 2014-2015(Rs. In crores)

Years	Number of units	Amount
2007-2008	1,161	316.20
2008-2009	1,326	424.53
2009-2010	1,195	368.15
2010-2011	1,420	565.24
2011-2012	1,461	631.49
2012-2013	1,537	731.63
2013-2014	1,485	817.32
2014-2015	1,598	944.06

Source: Survey data

Interpretation: The above table indicates that the gross sanctions was Rs 316.20 crores to promote 1,161 units during 2005-06, Rs 424.53 crores to promote 1,326 units, Rs.368.15 crores to 1195 enterprises in the year 2007-08 & it increased to Rs.565.24 crores to 1420 enterprises in 2008-09 , and again it increased to Rs. 631.49 crores to 1461 enterprises in 2009-10, and in 2010- 11 it increased to Rs. 731.63 crores to 1537 enterprises, and it increased to Rs. 817.32 crores to 1485 enterprises in 2011-12 .if we look at 2012-2013 gross sanction is 944.06 crore to promote 1,598 enterprises.

Inference: It can be inferred generally, there is a continuous increase in gross amount sanctioned during all the years. HDFC from its inception promoted 1, 66,726 units by financing Rs 12,226.27 crore over the last 54 years. The above graph depicts total enterprises promoted by HDFC from 2005-06 to 2012 -13 with investment. It can see that during 2012-13 maximum number of enterprises promoted with good amount of investment of Rs.944.06 crore. **Table 2.**

Financial assistance to micro and SMEs with number of units by HDFC from the year 2005-06 to 2012-2015

(Rs. In crores)

Years	Number of units	Amount
2005-2006	788	165.00
2006-2007	875	178.53
2007-2008	795	173.05
2008-2009	923	262.50
2009-2010	892	287.67
2010-2011	1,316	549.27
2011-2012(Micro and Small)	1,226	529.76
2012-201(Micro and Small)	1,271	606.96

Interpretation: The above table depicts financial assistance to micro and small scale enterprises. During the Financial year 2005-06 HDFC promoted 788 enterprises by lending 165.00 crore, during 2007-08. 875 enterprises promoted by financing 178.53 crore of amount, 2007-08 the sanctions were made to 795 small scale enterprises that is Rs.173.05 crores. This is gradually increased to 923 enterprises that is Rs.262.5 crores in the financial year 2010-11 and in the financial year 2009-2010 it is slightly decreased to 892 enterprises but the amount sanctioned is higher when compared to the previous year 2008-09. It increased to 1316 enterprises that is Rs.549.27 crores in 2010-11. And in 2012-13 it is decreased to 1226 enterprises that is Rs.529.76 crores. Again during 2013-14 numbers of enterprises are decreased but investment amount is increased.

Inference: It can be inferred that there are a little fluctuations in financial assistance to micro and small scale enterprises but there is increase in amount sanctioned to small scale enterprises in the first 5years but, during the year 2011-12 it has made less sanctions when compared to 2010-2011. This indicates that there has been less enterprises came for the financial assistance to HDFC, or it may also indicate that, only these enterprises were selected by the corporation for the financial assistance during the previous year. And number enterprises and amount is increased during 2012-13.

Table 3. Financial assistance to medium scale enterprises HDFC from the year 2010-11 to 2014-2015(Contd....)

(Rs. In crores)

Years	Number of units	Amount
2010-2011	40	75.69
2014-2015	37	88.87

Source: Survey data

Interpretation: The above table depicts the financial assistance to medium scale enterprises.. In 2011-12 there is a rapid growth that it has sanctioned Rs.75.69 crores to 40 enterprises. During 2012-13 number of units is 37 with investments of 88.87

Table 4. Table showing financial assistance to transport by Karnataka State Financial Corporation from the year 2007-08 to 2011-2012

(Rs. In crores)

Years	Number of units	Amount
2007-2008	29	2.05
2008-2009	28	1.93
2009-2010	69	6.05

Table 4. Table showing financial assistance to transport by HDFC from the year 2007-08 to 2011-2012 (Contd....)

(Rs. In crores)

Years	Number of units	Amount
2010-2011	54	5.17
2011-2012	71	6.38
2012-2013	89	12.18

Source: Survey data

Interpretation: The above table depicts the financial assistance to transport by HDFC. In 2007-08 HDFC has sanctioned Rs. 2.05 crores to 29 transports, in 2008-09 it decreased to 28 transports and the sanctioned amount decreased to Rs.1.93 crores, in 2009-10 it rapidly increased to Rs.6.05 crores to 69 transports, but in 2010-11 it decreased to Rs.5.17 crores to 54 transports and in 2011-12 it increased to Rs.6.38 crores made to 71 transports. During 2014-15 89 transportations units got financed by HDFC with an amount of 12.18 crore.

Table 5. Financial assistance to other sectors by HDFC from the year 2007-08 to 2011-2012

(Rs. In crores)

Years	Number of units	Amount
2007-2008	367	178.40
2008-2009	459	269.56
2009-2010	490	315.21
2010-2011	153	131.15

Interpretation: The above table depicts the financial assistance to other sectors. In 2007-08 HDFC has sanctioned Rs.178.40 crores to 367 service sectors, in 2008-09 it increased to Rs.269.56 crores to 459 service sectors, and in 2009-10 its sanctions increased to 490 service sectors that is Rs.315.21 crores and it swiftly decreased to 153 services sectors and the amount decreased to Rs.131.15 crores. In 2011-12 the sanctions decreased to 148 companies but the amount is higher when compared to previous year 2011-12 that is Rs.205.49 crores. In 2012-13

HDFC investments on other sector is 236.05 crore to 201 enterprises.

CONCLUSION

Financial Assistance to Small and Medium scale Enterprises plays a vital role because Small and Medium scale Enterprises have been considered as the engine of Economic growth. It encourages the new entrepreneurs by providing them the loans and helping their dreams to be alive and come true.

Karnataka State Financial Corporation has promoted many enterprises and helped newly emerging entrepreneurs to develop their plan towards their objectives and implement it, which also helps in economic growth of the country and it also provides employment opportunities to many people. HDFC also gives suggestions to the enterprises which have taken financial assistance from HDFC at the initial stage and it also provides working capital loan to the enterprises. It has a good recovery policy which ensures that the assets will not slip in to Non Performing Assets (NPAs).

HDFC financial assistance should be reached to semi-urban and rural segments also to achieve balanced regional development. HDFC should try to finance for knowledge intensive industry like IT, ITES, Nano technology, clean technology, health care and life science etc for the growth of knowledge intensive industry in Karnataka. HDFC should try to promote not only manufacturing and service sector along with this HDFC should try to promote Agro based industries, banking etc. Service industry contributes more than 60% to GDP where as

HDFC's lending to service sector has decreased, so they should try to contribute more and more to service sector. For the regional balance development it should also concentrate on medium scale enterprises instead of concentrating only on small scale enterprises.

The SME sector is the backbone of the economy in high-income countries. So India as a developing country has to undertake various measures or techniques to encourage and assist the new entrepreneurs and the enterprises by providing them the financial assistance through various Financial Institutions.

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