

Tutorial Notes

Class: M.Com, Semester IV (MC 4.3 / EC3)

Subject: Financial Institution & Market

Topic: Depository Institutions

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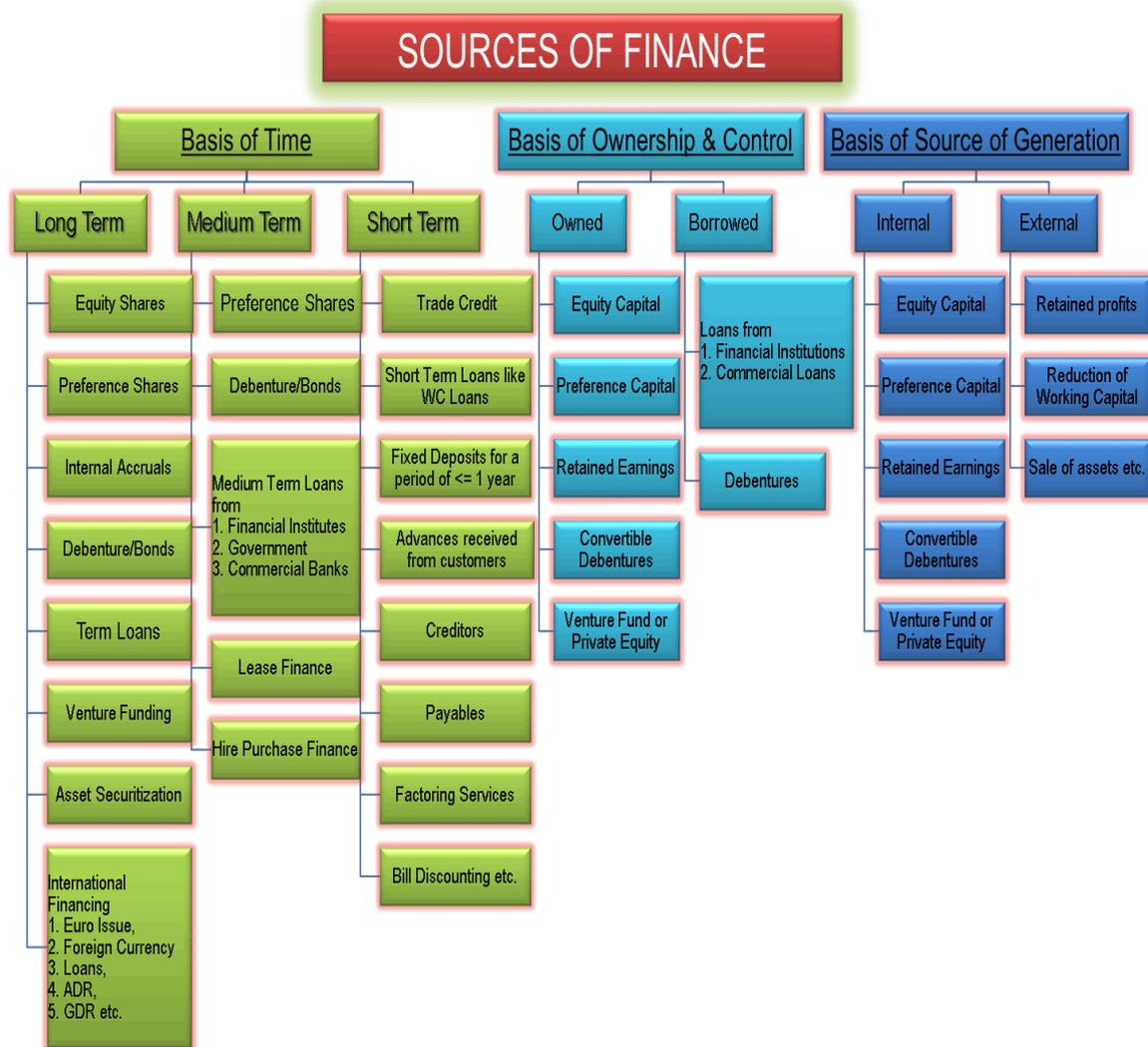
Industrial Finance

Indian industries need three types of finances long term, medium term and short term finances. Long term finances are required to purchase permanent assets like land, building, machinery etc. Industrial units also need long term finances for their extension and re-establishment. Medium term finance is generally a part of long term finance. Besides, industrial unit has to arrange raw material, intermediate goods and to meet out daily expenses short term finance is required for all these purposes. Industrial finance in India includes the major sources like shares and debentures, deposits from public, credit from banks and industrial finance institutions. The major industrial finance institutions are :

- Industrial Development Bank of India (IDBI)
- Industrial Finance Corporation of India
- Small Industrial Development Bank of India (SIDBI)
- UTI
- IIBIL
- NABARD
- EXIM Bank
- SFCs
- LIC
- GIC and its associate companies.

All the above mentioned financial institutions arrange medium and long term finances for industrial units. Scheduled commercial banks play the important role in providing short term finance to industrial units. Deposits from public and indigenous bankers are also the important sources of short term finance.

Sources of Finance



According to Time Period

Sources of financing a business are classified based on the time period for which the money is required. The time period is commonly classified into the following three:

LONG TERM SOURCES OF FINANCE / FUNDS	MEDIUM TERM SOURCES OF FINANCE / FUNDS	SHORT TERM SOURCES OF FINANCE / FUNDS
Share Capital or Equity Shares	Preference Capital or Preference Shares	Trade Credit
Preference Capital or Preference Shares	Debenture / Bonds	Factoring Services

Retained Earnings or Internal Accruals	Lease Finance	Bill Discounting etc.
Debenture / Bonds	Hire Purchase Finance	Advances received from customers
Term Loans from Financial Institutes, Government, and Commercial Banks	Medium Term Loans from Financial Institutes, Government, and Commercial Banks	Short Term Loans like Working Capital Loans from Commercial Banks
Venture Funding		Fixed Deposits (<1 Year)
Asset Securitization		Receivables and Payables
International Financing by way of Euro Issue, Foreign Currency Loans, ADR, GDR etc.		

According to Ownership and Control:

OWNED CAPITAL	BORROWED CAPITAL
Equity	Financial institutions,
Preference	Commercial banks or
Retained Earnings	The general public in case of debentures.
Convertible Debentures	
Venture Fund or Private Equity	

ACCORDING TO SOURCE OF GENERATION:

INTERNAL SOURCES	EXTERNAL SOURCES
Retained profits	Equity
Reduction or controlling of working capital	Debt or Debt from Banks
Sale of assets etc.	All others except mentioned in Internal Sources