RECOMMENDATIONS OF PATIL’S COMMITTEE ON CORPORATE BONDS AND SECURITISATION: SOME INSIGHTS

By

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ABSTRACT

The debt market is much more popular than the equity markets in most parts of the world but in India, equity markets are more popular and more developed than the debt markets, especially the corporate debt market remains underdeveloped. The major obstacle for this has been the rigid regulatory framework imposed by various acts and regulatory bodies which regulate the issues and trading of different debt securities in India like the Securities Contracts Regulation Act (SCRA), 1956, the Reserve Bank of India, the Securities and Exchange Board of India (SEBI) etc. But in order to promote and develop the bond market, the government appointed a High Level Expert Committee on Corporate Bonds and Securitisation under the chairmanship of Dr. R.H. Patil in 2005 to look into the legal, regulatory, tax and market design issues in the development of corporate bond market in India. The objective of the paper is to evaluate the status of implementations of recommendations made by the aforesaid Committee for the development of Indian corporate bond market.

Key Words: Repo in corporate bonds, Trade Reporting System, Clearing and Settlement System, Central Electronic Registry
INTRODUCTION

The corporate debt market is a market wherein debt securities of corporates are issued and traded. The corporate debt market in India has been in existence since independence. After some debt market reforms, it comes into force as an investment sector in 1985-86 when state owned public enterprises (PSU’s) began issuing PSU bonds. However, in absence of a well functioning secondary market, such debt instruments remained highly illiquid and unpopular among the investors at large. Several measures have been taken in the recent past years to transform the corporate debt market in India predominantly under the aegis of SEBI. Some of these measures include de-materialization and electronic transfer of securities, rolling settlement, introduction of sophisticated risk management, trading and settlement system etc.

The National stock Exchange of India Ltd. set up a separate segment for trading in debt securities known as the Wholesale Debt Market (WDM) segment of the exchange in June 1994. Prior to this, the only trading mechanism available in the debt market was telephone. The NSE provided, for the first time in the country, an online, automated and screen-based system known as NEAT (National Exchange for Automated trading) across a wide range of debt instruments. Since then NSE is performing a major role for the securities trading in Indian debt market.

In India, there are five acts which presently regulate the securities market; a) SEBI Act, 1992 which regulates and promotes the securities market as well as protect the interests of investors in securities, (b) the Companies Act, 1956 which deals with the issue, allotment, and transfer of securities, as well as various aspects relating to company management, (c) the Securities Contracts (Regulation) Act, 1956 which provides for the regulation of transactions in securities through control over stock exchanges, (d) the Depositories Act, 1996 which provides for electronic maintenance and transfer of ownership of dematerialized shares, and (e) the Prevention of Money Laundering Act, 2002 to prevent money laundering, and to allow the confiscation of property derived from or involved in money laundering.

There are also various regulating bodies which govern and regulate the debt market. The Reserve Bank of India regulates the government securities market and segment of debt instruments in money market like commercial papers, certificates of deposits etc. The corporate debt market is regulated by the Securities and Exchange Board of India (SEBI). The SEBI also regulates the stock exchanges where the both segment of debt market instruments are traded. Therefore the securities
which have common characteristics in regulating transactions have to be dealt with by both the regulators (RBI and SEBI) through mutual cooperation. Department of Company Affairs also regulates the debt market.

High Level Expert Committee on Corporate Bonds and Securitisation

For the analyzing and looking into the loopholes existing in corporate bond market, the Finance Minister in Budget 2005-06 announced to appoint a High Level Expert Committee on Corporate Bonds and Securitisation under the Chairmanship of Dr. R. H. Patil (founder of the National Stock Exchange).

The objective of committee was to look into and to make recommendations on the following issues:-

a. Identify the factors inhibiting the development of an active corporate debt market in India.

b. Recommend policy actions necessary to develop an appropriate market infrastructure for development of the corporate bond market.

c. Recommend specific actions necessary to develop mechanisms for
   i. trading platform
      ii. clearing and settlement system
      iii. risk management
      iv. novation

d. Measures necessary for inducing the emergence of market makers.

e. Identify the different kind of intermediaries necessary for the bond market and measures necessary for their regulation.

f. Recommend system for information dissemination.

g. Recommend measures necessary for developing the participation of small investors in the debt markets including examination of any regulations that inhibit such participation.

h. Recommend policy actions necessary to develop bond insurance in the country.

Recommendations of the Committee

In December 2005, the High Level Expert Committee on corporate bonds and securitization submitted its report with following recommendations:
For Development of Primary Market

(i) Uniform stamp duty:
There should be uniformity for stamp duty on partly secured and unsecured debentures across all States and to be linked to the tenor of the securities, with an overall cap. The Government should coordinate with the State governments to bring uniformity in the application of stamp duties on corporate bonds.

(ii) Tax Deduction at Source
Tax Deduction at Source (TDS) rules for corporate bonds should be similar to the ones applicable to Government Securities.

(iii) Enhancing Issuer Base
In order to motivate corporates to raise a part of their requirements through bonds, the time and cost for public issuance and the disclosure and listing requirements for private placements should be reduced and made simpler.

(iv) Market-Makers
There is lack of market making scheme in corporate bonds. A suitable framework needs to be put in place to promote efficient market-making which will support the market-makers. They should also have the permission to undertake repos in corporate bonds.

(v) Listing of Issues
There is a need to strengthen the role of debenture trustees, and also provide for more accountability on their part. Debenture trustees should ensure that information on rating downgrades is made available to all investors.

- Timely payment of interest and redemption amounts with regard to corporate bonds issued by firms to the depositaries. After which depositaries will pass them on to the investors through ECS/warrants and this will improve transparency about soft defaults.
- It may be made mandatory for the issuers to get the privately placed bonds listed within 7 days from the date of allotment, similar to the norms applicable to public issues.
- The credits to the demat account within 2 days from the date of allotment should be made mandatory. SEBI should issue suitable guidelines in this regard.
(vi) Investors Base

- The scope of investment by provident/pension/gratuity funds and insurance companies in corporate bonds should be enhanced.
- Retail investors should be encouraged to participate in the market through stock exchanges.
- In order to encourage banks to invest in corporate bonds, investment in corporate bonds should be considered as part of total bank credit while computing credit deposit ratio by banks.

(vii) Consolidation of Privately Placed Bonds

Consolidation of Privately Placed Bonds enhances the liquidity in the market by creating a large floating stock. There should be limit to the fresh issuances and move to a system where most new issuances are re-issuances rather than fresh issues which will help to create secondary market liquidity.

(viii) Bonds Primary Issuance Database

There is vital necessity for immediate creation of a centralized database of all bonds issued by corporates. This database should also track rating migrations. This should be made available free of cost to all the investors.

For Development of Secondary Market

i) Trade Reporting System

Steps should be taken to immediately establish a system to capture all information related to trading in corporate bonds as accurately and as close to execution as possible, and disseminate it to the entire market in real time.

ii) Clearing and Settlement System

The clearing and settlement of trades in this market must follow the IOSCO standards and the global best practices by way of well established clearing and settlement procedures through recognized clearing and settlement agencies. In order to improve secondary market trading, repos in corporate bonds may be permitted by RBI to be operated by the proposed clearing entities for corporate Bonds.
iii) Order Matching Trading System
Efforts should be made to develop online order matching platforms for corporate bonds by the stock exchanges or jointly by regulated institutions like banks, financial institutions, mutual funds, insurance companies, etc.

iv) Reduction in Market Lot
The minimum market lot criteria of Rs.10 lakhs for trading in corporate bonds at the stock exchanges should be reduced to Rs.1 lakh to enable better access to smaller investors.

v) Introduction of Interest Rate Derivatives
Currently, the interest rate derivatives market is confined to the OTC market with only a handful of participants. Strong steps should be taken to immediately introduce the revised and approved exchange traded derivative products which have been pending for a long time so that this market can expand to a large number of active participants.

vi) Unified Market Convention
FIMMDA, being the representative of the banks and institutions, should take a lead role to put in place unified market conventions to be followed for corporate bonds as the standardized practice of 30/360 day count convention, followed for dated Government Securities.

vii) Repos in Corporate Bonds
RBI should allow Repos in corporate bonds because it will give an opportunity to investors who have illiquid corporate bonds to recycle the same and borrow money against these securities and its trading also will be regulated by RBI.

FOR DEVELOPMENT OF SECURITIZED DEBT MARKET

i) Stamp Duty
The Central Government should establish an appropriate institutional process to evolve a consensus across the States on the affordable rates for stamp duty on securitized products.

ii) Taxation
The Central Government should clarify and make explicit the tax treatment of pass through payments for securitized Special Purpose Vehicles (SPVs) and Non-Performing Assets (NPA) securitization for central government, similar to the SEBI registered Venture capital funds. And there should not be any withholding tax as most investors are Qualified Institutional Buyers, QIBs, and tax exempt.
Listing of Securitized Debt

The Central Government should consider notifying PTCs and other securities issued by securitization SPVs/Trust as “securities” under SCRA so that they can be listed.

OBJECTIVE OF THE STUDY

The objective of the paper is to evaluate the status of implementations of recommendations made by Patil’s High level Committee for development of Indian corporate bond market.

SOURCES OF INFORMATION

The study is based on secondary information and data. The data and information were collected from various books, research papers and reports from official websites such as Reserve Bank of India, Securities and Exchange Board of India (SEBI) and National Stock Exchange and Bombay Stock Exchange.

IMPLEMENTATIONS ANALYSIS OF RECOMMENDATIONS

In February 2006, The Government accepted the recommendations of the Report submitted by the Committee (announced by Finance Minister in his Budget Speech of 2006-07). The various steps taken by Government, SEBI, RBI and other authorised bodies in order to implement the recommendations of the aforesaid committee have been mentioned chronologically as below:

- The very first step taken is that in December 2006, SEBI permitted BSE and NSE to set up a reporting platform to capture all information related to trading in corporate bonds as accurately and as close to execution as possible from January 1, 2007 which became operations from July 1, 2007. The both exchanges were advised to provide data pertaining to corporate bonds comprising, issuer name, maturity date, current coupon, last price traded, last amount traded, last yield (annualized) traded, weighted average yield price, total amount traded and the rating of the bond and any other additional information as the stock exchanges think fit.

- Determination of Responsibilities

  In January 2007, Government discussed the relevant issues of regulatory jurisdiction and market design of corporate bonds. The government provided clarity on responsibilities of different regulating bodies and also clarified the market design of corporate debt market. Some important decisions are as following.
(i) SEBI will be responsible for primary market for all listed corporate debt securities whether it may public issues or private placement.

(ii) RBI will be responsible for the market for repo/reverse repo transactions in corporate debt. If it is traded on stock exchanges, trading and settlement procedure would be determined by SEBI.

(iii) SEBI will be responsible for the secondary market (OTC as well as Exchanges) for the corporate debt securities.

(iv) The above framework would apply irrespective of the parties (bank or non bank involved in a transaction.

(v) OTC as well as exchange based transactions need to be reported to reporting platforms.

(vi) All the eligible and willing national stock exchanges need to be allowed to set up and maintain reporting platforms if they approach SEBI for the same. SEBI needs to coordinate among such reporting platforms and assign the job of coordination to a third agency.

(vii) The trades executed on or reported to an Exchange need not be reported to a reporting platform.

(viii) The participants must have a choice of platform. They may trade on OTC or any exchange trading platform.

(ix) Existing exchanges could be used for trading of corporate debts. NSE and BSE could provide trading platforms for this purpose. There is no need to create a separate infrastructure.

- In April 2007, SEBI decided to reduce the shut period in corporate bonds to align it with that applicable for Government Securities in 3 days.
- In April 2007, SEBI decided to reduce tradable lots in corporate bonds in respect of all entities including Qualified Institutional Investors to Rs.1 lakh from Rs. 10 lakh and advises exchanges to have a limited segment for transactions in similar market lots.
- In April 2007, SEBI made amendment to the listing agreement for debentures to ensure that no material modification shall be made to the structure of the debentures issued in terms of coupon, conversion, and redemption or otherwise without prior approval of the stock exchanges where they are listed.
- In August 2007, SEBI started placing information on secondary market trades (both exchange and OTC trades) on its website on the basis of data provided by BSE and NSE.
- In March 2007, the Fixed Income Money Market and Derivatives Association of India (FIMMDA) proposed to set up a reporting platform for corporate bonds and also provide value added dissemination of information on corporate bonds as in the case of government...
securities. SEBI granted approval to FIMMDA for it in August 2007. In September 2007, FIMMDA reporting platform became operational as the third reporting platform after BSE and NSE.

**DIP Guidelines**

In order to facilitate development of a vibrant primary market for corporate bonds in India, SEBI amended certain provisions of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 in December, 2007. The changes to the Guidelines were as following:

- For public/ rights issues of debt instruments, issuers need to obtain rating from only one credit rating agency instead of from two. This would reduce the cost of issuances.
- In order to facilitate issuance of below investment grade bonds to suit the risk/ return appetite of investors, the stipulation that debt instruments issued through public/ rights issues shall be of at least investment grade has been removed.
- Further, in order to afford issuers with desired flexibility in structuring of debt instruments, structural restrictions such as those on maturity, put/call option, on conversion, etc have been done away with.

**Tax Deduction at source**

In February 2008, the Finance Minister announced in his Budget speech of 2008-09 that the listed corporate debt securities issued in demat form would be exempt from Tax Deduction at Source (TDS).

In May 2008, SEBI started placing the information on transfers in corporate bonds at depositories on its website after gathering information from depositories National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Limited (CDSL) on a monthly summary basis.

**Corporate Bonds and Securitization Advisory Committee (CoBoSAC)**

In May 2008, SEBI set up an advisory committee named “Corporate Bonds and Securitization Advisory Committee” (CoBoSAC) under the chairmanship of Dr. R. H. Patil for making recommendations on developing the market for corporate bonds and securitized debt instruments further. The committee held various meeting to make more efficient the mechanism for reporting, clearing and settlement and developing the corporate bond market.
The committee recommended that mandatory DvP-III clearing and settlement on exchanges with Real Time Gross Settlement (RTGS) should be implemented.

- **Clearing and Settlement of trades in corporate bonds**
  October 16, 2009, SEBI declared through issue of a circular that all trades in corporate bonds regulated by SEBI, RBI and IRDA would be cleared and settled through the National Securities Clearing Corporation Limited (NSCCL) or the Indian Clearing Corporation Limited (ICCL) from December 1, 2009. This would be applicable to all corporate bonds traded over the counter (OTC) or on the debt segment of Stock Exchanges.

- **Simplification of Debt Listing Agreement for Debt Securities**
  SEBI issued a circular dated May 11, 2009 regarding the Simplified Listing Agreement for Debt Securities.

  The amendments are as under:

  1) **100% Asset cover**: All issuers must maintain 100% asset cover to redeem the principal amount at all time for debt securities issued.

  2) **Submission of certificate on maintain of securities**: Prior its amendments, half yearly certificate on security cover in respect of all listed secured debt securities was submitted. But now, there has been provided an option for submission of certificate at a later date. Besides it, Banks, NBFCs and government bodies have been exempt.

  3) **Statement on Use of Issue Proceeds**: All issuers shall be required to furnish a statement of deviations in use of issue proceeds, if any, to the stock exchange on a half yearly basis. It is done with the view of enhancing the quality of disclosures for the investors.

  4) **Deposit of 1% of issue proceeds**: Now the issuer would be required to deposit the 1% of the amount of debt securities offered for subscription to the public. It is done with the view to ensure the protection of interest of investors investing in public issues of debt securities

  5) **Publication of Financial Statements**: All issuers would now have to publish/ furnish to the Exchange, either audited half yearly financial statements or unaudited half yearly financial statements within 45 days from the end of the half year.
Repo in Corporate Debt Securities

The Repo in Corporate debt securities (Reserve Bank) Directions, 2010 were released on January 8, 2010 and were brought into effect from March 1, 2010. These direction define the Corporate Debt Security as “non-convertible debt securities, which create or acknowledge indebtedness, including debentures, bonds and such other securities of a company or a body corporate constituted by or under a Central or State Act, whether constituting a charge on the assets of the company or body corporate or not, but does not include debt securities issued by Government or such other persons as may be specified by the Reserve Bank, security receipts and securitized debt instruments”.

It was also directed that the participants eligible to undertake repo transaction in corporate debt securities are required to report the repo trades within 15 minutes of the trade to the clearing corporations of the exchanges, National Securities Clearing Corporation of India Ltd. (NSCCL) or Indian Clearing Corporation Ltd. (ICCL) for settlement and also on the FIMMDA Reporting Platform from August 2, 2010 after its launching.

Forward Contract in Corporate Debt Securities

April 16, 2010, the India Infrastructural Finance Company Limited (IIFCL) was permitted to undertake ready forward contracts in corporate debt securities by the RBI. According to the Repo in Corporate debt securities (Reserve Bank) Directions, 2010, following entities were allowed to enter into ready forward contracts in corporate debt securities:

- Scheduled commercial banks excluding Regional Rural Bankss and LABs,
- Primary dealers authorised by RBI,
- NBFCs registered with RBI
- All India Financial Institutions — Exim Bank, NABARD, NHB and SIDBI and other regulated entities such as any mutual fund registered with SEBI, any housing finance company registered with National Housing Bank and any insurance company registered with the Insurance Regulatory and Development Authority.

In February 2011, High-Level Coordination Committee on Capital and Financial Markets clarified that RBI would regulate the issuance of instruments of maturity less than one year, SEBI would regulate issuances of listed instruments of maturity more than one year, and MCA would regulate unlisted securities of instruments of maturity more than one year.
FII Investment limits in corporate bonds
SEBI announced FII Investment limit in long-term corporate bond through the circular CIR/IMD/FIIC/18/2010 dated November 26, 2010 as follows:

- The investment limit by foreign institutional investors (FIIs) in corporate bonds issued by companies in the infrastructure sector would be now US $ 25 billion which was earlier to US $ 5 billion.
- The FIIs shall now be eligible to invest in unlisted bonds issued by companies in the infrastructure sector.
- FII Investments in such bonds shall have a minimum lock-in period of three years. During this, they cannot sell it to domestic investors and to avoid risk.
- The FIIs/sub-accounts can now avail of these limits without obtaining SEBI’s approval until the overall FII investments reaches 90 percent i.e., US $ 22.5 billion and to avoid risk, they have a special trading window by the exchanges to check the maximum limit.

Setting up of Central Electronic Registry
The Finance Minister in the budget speech for 2011-12 announced to establish the Central Electronic Registry under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 with the aim of preventing frauds in loan cases involving multiple lending from different banks on the same immovable property. And it became operational on March 31, 2011.

Issue and listing of structured products/market linked debentures
In September 2011, the SEBI announced some conditions for the issue of structured products. The structured products are debt instruments issued with returns linked to equity or other underlying assets. This was done with a view to enhance disclosures of such securities. The framework was as follows:

- Only those issuers who have a minimum net worth of Rs 100 crore are eligible to issue such instruments.
- They should have a minimum ticket size for subscribing to such securities is Rs. 10 lakh.
- They should have additional disclosures pertaining to the riskiness of such instruments, the scenario analysis showing its value under various market conditions, the commission structure embedded therein and the requirements for primary issuance and sale of securities to retail investors.
Third party valuation of such securities by a credit rating agency, was made mandatory, and the same should be disclosed to the public.

- **Ban on incentives in public issues of debt**
  
  SEBI found the information that some brokers and distributors are providing the advantages to final investors in getting subscription in public issues of debt securities on the part of their brokerage and commission. In December 2011, in order to prevent such practices, the SEBI advised that with regard to the public issues of debt securities, no person connected with the issue should offer any incentive, whether direct or indirect, in any manner, whether in cash, kind, services, or otherwise, to any person for making an application for the allotment of such securities.

- **Online applications for public issue of debt securities**
  
  In July 2012, the SEBI decided to extend the Applications Supported by Blocked Amount (ASBA) facility to the public issues of debt securities, and provide an option for subscribing to debt securities through an online interface with the facility to make online payment so that the timelines of the issue process for the public issue of debt securities may reduce.

- **Public Issues in Electronic Form**
  
  The Finance Minister in the budget speech for 2012-13 announced that it is mandatory for companies to issue IPOs of Rs.10 crore and above in electronic form through nationwide broker network of stock exchanges in order to simplifying the process of issuing Initial Public Offers (IPOs), lowering their costs and helping companies reach more retail investors in small towns.

- **Increase in FII debt limit for Government and Corporate Debt category**
  
  In January, 2013, The Reserve Bank of India had enhanced the limit for investment by FIIs in the Government Debt Long Term category by US$ 5 billion to US$ 15 billion and the Corporate non-infrastructure debt category by US$ 5 billion to US$ 25 billion but not applicable for investment in Certificate of Deposits (CD) and Commercial Papers (CP).
Sharing of information regarding issuer companies between Debenture Trustees and Credit Rating Agencies

In March, 2013, SEBI decided after consultation with Debenture Trustees (DTs) and Credit Rating Agencies (CRAs) that registered DTs and CRAs would share information with each other as specified in circular dated March 15, 2013 and any other information from time to time in respect of issues/issuer companies which would help them in effective discharge of their duties.

Corporate bonds and Government securities as collateral

In March, 2013, RBI (Circular No. 90 dated March 14, 2013) permitted FIIs to use their investment in government securities, corporate bonds, cash and foreign sovereign securities with AAA ratings as collateral to meet their margin requirements towards their transactions on the recognized Stock Exchanges.

Rationalisation of Debt Limits

The Government of India proposed to simplify the framework of FII debt limits in Press Release dated March 23, 2013 the merger of existing debt limits into following two broad categories:


ii. Corporate bonds of US$ 51 billion (by merging US$ 1 billion for QFIs, US$ 25 billion for FIIs and US$ 25 billion for FIIs in long term infra bonds).

Summary of Implementations of recommendations

On the basis of the above discussions, it may put up the implementations status of the report in a tabular form which is as under:
Table: 1 Summary of Implementations of recommendations

<table>
<thead>
<tr>
<th>List of recommendations</th>
<th>Implemented or Not</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uniform stamp duty</td>
<td>No</td>
</tr>
<tr>
<td>TDS</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Increasing the issuer base</strong></td>
<td>Yes (Permission to banks to issue bonds of maturity greater than 5 years (ALM purpose) and Regulatory limits for such subscriptions are under consideration).</td>
</tr>
<tr>
<td>Market-Makers</td>
<td>No</td>
</tr>
<tr>
<td>Listing of Issues</td>
<td>Yes</td>
</tr>
<tr>
<td>Enhancing Investors Base</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Consolidation of Privately Placed Bonds</strong></td>
<td>No (But under consideration by SEBI)</td>
</tr>
<tr>
<td>Bonds Primary Issuance Database</td>
<td>No</td>
</tr>
<tr>
<td>Trade Reporting System</td>
<td>Yes</td>
</tr>
<tr>
<td>Clearing and Settlement System</td>
<td>Yes</td>
</tr>
<tr>
<td>Reduction of Shut Period</td>
<td>Yes</td>
</tr>
<tr>
<td>Reduction in Market Lot</td>
<td>Yes</td>
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<tr>
<td><strong>Introduction of Interest Rate Derivatives</strong></td>
<td>Yes</td>
</tr>
<tr>
<td>Order Matching Trading System</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Introduction of Interest Rate Derivatives</strong></td>
<td>Yes</td>
</tr>
<tr>
<td>Unified Market Convention</td>
<td>Yes</td>
</tr>
<tr>
<td>Repos in Corporate Bonds</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Stamp Duty on Securitized Debt</strong></td>
<td>No (Under consideration by Government)</td>
</tr>
<tr>
<td>Taxation</td>
<td>No (Under consideration by Ministry of Finance)</td>
</tr>
<tr>
<td>Listing of Securitized Debt</td>
<td>No</td>
</tr>
</tbody>
</table>

**Performance of Corporate Bond Market**

Performance of corporate bond market after 2005 has been analysed in different segment.
Primary Market

In India, more than 90% of the corporate bonds are issued through private placement. The dominance role of private placement issue in primary corporate debt market can be seen through chart 1. It is clear that the amount raised through private placement has been continuously increasing since the last seven years which is enlarged by more than 350 per cent over the period of times. While the growth rate in public issue processes is also significant over the last five year but even it has very small share in total resource mobilization. It increased from Rs. 605 crores to Rs. 35,610 crores during 2006-07 to 2011-12 while it fell down to Rs. 16,982 crores in 2012-13. Even after all of these, it is a good signal for development of primary market.

Chart 1: Resource mobilized from the Primary Market (in Rs. Crore)

![Chart 1: Resource mobilized from the Primary Market (in Rs. Crore)](chart1.png)

Source: SEBI

Secondary Market

The performance of secondary corporate debt market in India has been visualized by table 2. The turnover in corporate bond market followed a rising trend. It increased from Rs. 95,890 crores to Rs. 738,632 crores during the last seven years but when it is in term of market share it is only 2.34 % as compared to government securities market.
Chart 2: Trading in Corporate Bonds

![Chart 2: Trading in Corporate Bonds](image)

*Source: SEBI*

- **Clearing and Settlement**
  The Exchange currently allows settlement periods ranging from same day (T+0) settlement to a maximum of two business days from the date of trade (T+2). Chart 3 provides the data regarding the settlements of corporate bonds from Dec 2009 to March 2013 on both stock exchanges NSE and BSE. The total no. of settled trades has been raised as well as the settlement value to Rs. 478,091crores which is about 74 percent higher than during the year 2009-10.

- **FII Investment**
  In order to increase the FII’s investment in corporate bond market, in November, 2010, SEBI permitted to increase the investment limit by foreign institutional investors (FIIs) in corporate bonds issued by companies in the infrastructure sector to US $ 25 billion which was earlier to US $ 5 billion which gave a good impact on corporate bond market. From chart 4, it is clear that their investments rose up to Rs. 49,988 crores in 2011-12 which was only Rs. 5,605crores in 2005-06. And from 2009-10 to 2011-12, it has shown a good increasing trend but its progress declined in 2012-13 which was 43% less as compared to that of year 2011-12.
Chart 3: Settlements of Corporate Bonds

*Data available only from Dec 2009 to Mar 2010

Source: SEBI

Chart 4: FII Investment in Debt market

Source: SEBI
CONCLUSIONS

It has been observed that a number of recommendations have been implemented either in part or in full through various regulatory and infrastructural changes like setting up the reporting platform by NSE and BSE to capture all information related to trading in corporate bonds, starting the placing information on secondary market trades by SEBI, exemption from TDS, introduction of Repo in Corporate debt securities, public issues of bonds in electronic form etc. SEBI reduced the requirement of getting the rating of securities for public issues from only one credit rating agency in the place of two. FIIs investment limits were enhanced upto US $ 25 billion from US $ 5 billion. These implementations have given a good impact on corporate bond market. Primary market as well as secondary market have made a good progress and shown a rising trends during the last seven years. The enhancement of FIIs investment limits, it has also shown a good progress. However, a large number of recommendations are as yet pending from the various regulatory and government bodies such as uniform stamp duty, increasing the issuer base, market-makers, consolidation of privately placed bonds, primary issuance database, taxation, mutual fund regulation, listing of securitized debt etc.. The government and other regulatory bodies should take strong steps to implement other remaining recommendations so that the corporate bond market may become more develop and it can attract more investors and optimally mobilized and utilized the public funds for the development of economy.

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ROLE OF DEVELOPMENT FINANCIAL INSTITUTIONS IN ALL ROUND GROWTH OF ECONOMY DESPITE CHALLENGES AHEAD - INDIAN PERSPECTIVE

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ABSTRACT

The development financial institutions are specialized institutions which mainly perform developmental role in economics of the country. Initially, development financial institutions were started after second world war to rehabilitate war shattered economies as a result of which IBRD, international bank for reconstruction and development was started which is commonly known as world bank. In the similar lines International Monetary Fund (IMF) was also established to strengthen world economy. In India, first development bank was established immediately after independence i.e. in 1948. It was Industrial Finance Corporation of India (IFCI). It was started to promote industrial growth for strengthening Indian economy. In succession many development banks or development financial institutions were set up in Indian sub continent for all round growth of economy. The present research paper is devoted to analyze herculean growth of macroeconomic parameters in different five year plans but the development banks have challenge of nonperforming assets with them.

Key Words: Macroeconomic, Financial Institutions, Development, Growth
INTRODUCTION

Presently there are more than ninety development financial institutions in our country. Few and major of them are Industrial Finance Corporation of India (IFCI), Industrial Credit Investment Corporation of India (ICICI), National Bank for Agriculture and Rural Development (NABARD), Industrial Development Bank of India (IDBI), Housing Development Finance Corporation of India (HDFC), Axis Bank erstwhile UTI Bank which are now involved in lending to corporate houses, industries and institutions, National Housing Bank, Infrastructure Development Finance Company etc. Nowadays, some of these development banks are providing universal banking solutions to the society to net higher profitability in era of higher competition.

The present research paper is devoted to analyze advances given to different sectors of economy by major development financial institutions like IFCI Limited, ICICI Bank, Axis Bank, HDFC Bank and IDBI Bank for all round growth of Indian economy and achievement of ever increasing sector-wise growth in different five year plan periods despite challenges of growth in value of nonperforming assets in the banking economy and challenges of maintaining financial viability in the era of steep competition amongst them.

RESEARCH METHODOLOGY

In the present research paper secondary data has been collected from annual statements of different development banks and analyzed thoroughly from 2004-05 to 2011-12 and it has been analyzed that how much advances have been given by major development banks for all round growth for different sectors of economy and it is visualized in relation to the growing macroeconomic variables India. Further, the data of nonperforming assets of important development banks have also been projected to show that development banks have been providing advances for growth despite ever increasing challenges ahead. It has also been taken through secondary data that how much portion of GDP comes from which sector of economy and how Indian sub continent has attained exponential economic growth in different 5-year plan periods.
OBJECTIVES OF RESEARCH PAPER:

The main objectives of research paper are to show that:

01. Development banks are relying on giving more and more advances for all round growth of India.

02. Because of development banks, industry and services have attained good growth in the past.

03. Investment and saving rate has increased in the past because of which growth rate has increased because of huge advances of development banks to different sectors of economy.

04. Development banks are facing challenge of management of Nonperforming assets.

HYPOTHESIS TESTING

1. The net NPAs to net advances for major Development banks are matter of concern for them and there is immense need to recuperate and reduce NPAs.

2. Massive growth of macroeconomic variables in Indian sub continent has been possible because of ever increasing advances of Development Banks of growth of different sectors.

3. The NPAs of selected Development Banks have increased in the past along with advancing.

ADVANCES OF MAJOR DEVELOPMENT BANKS IN INDIA:

The following tables (Table No 1 to 5) show that advances of selected Development Banks have grown in the past and this has been responsible for mammoth growth of economy.

**TABLE NUMBER 1**

POSITION OF ADVANCES OF ICICI BANK FOR DIFFERENT TIME HORIZONS

<table>
<thead>
<tr>
<th>Year</th>
<th>Advances to Priority Sector in India</th>
<th>Advances to Public Sector in India</th>
<th>Advances to Banks</th>
<th>Advances to Others in India</th>
<th>Total Advances in India</th>
<th>Total Advances outside India</th>
<th>Total Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>20089.29</td>
<td>1115.43</td>
<td>451.71</td>
<td>63530.32</td>
<td>85186.75</td>
<td>6218.39</td>
<td>91405.15</td>
</tr>
</tbody>
</table>
TABLE NUMBER 2

POSITION OF ADVANCES OF IDBI BANK FOR DIFFERENT TIME HORIZONS:
Rupees in Crores

<table>
<thead>
<tr>
<th>Year</th>
<th>Advances to Priority Sector in India</th>
<th>Advances to Public Sector in India</th>
<th>Advances to Banks</th>
<th>Advances to Others in India</th>
<th>Total Advances in India</th>
<th>Total Advances outside India</th>
<th>Total Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>4319.22</td>
<td>3496.03</td>
<td>276.23</td>
<td>37322.07</td>
<td>45413.56</td>
<td>Nil</td>
<td>45413.56</td>
</tr>
<tr>
<td>2005-06</td>
<td>6872.28</td>
<td>464083</td>
<td>83.27</td>
<td>41142.68</td>
<td>52739.06</td>
<td>Nil</td>
<td>52739.06</td>
</tr>
<tr>
<td>2006-07</td>
<td>9290.40</td>
<td>6682.80</td>
<td>808.26</td>
<td>45689.34</td>
<td>62470.82</td>
<td>Nil</td>
<td>62470.82</td>
</tr>
<tr>
<td>2007-08</td>
<td>15233.00</td>
<td>7802.45</td>
<td>31.72</td>
<td>59145.51</td>
<td>82212.68</td>
<td>Nil</td>
<td>82212.68</td>
</tr>
<tr>
<td>2008-09</td>
<td>22738.26</td>
<td>2247.55</td>
<td>1.27</td>
<td>78441.25</td>
<td>103428.33</td>
<td>Nil</td>
<td>103428.33</td>
</tr>
<tr>
<td>2009-10</td>
<td>31004.94</td>
<td>7315.47</td>
<td>57.55</td>
<td>99540.10</td>
<td>138201.85</td>
<td>283.77</td>
<td>138207.85</td>
</tr>
<tr>
<td>2010-11</td>
<td>42205.70</td>
<td>15949.42</td>
<td>368.97</td>
<td>96733.54</td>
<td>155257.65</td>
<td>1840.41</td>
<td>157098.06</td>
</tr>
<tr>
<td>2011-12</td>
<td>48450.20</td>
<td>20515.07</td>
<td>186.74</td>
<td>106603.46</td>
<td>175755.48</td>
<td>5402.94</td>
<td>181158.43</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports Of ICICI Bank for different years.
### TABLE NUMBER 3

**POSITION OF ADVANCES OF HDFC BANK FOR DIFFERENT TIME HORIZONS:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Advances to Priority Sector in India</th>
<th>Advances to Public Sector in India</th>
<th>Advances to Banks</th>
<th>Advances to Others in India</th>
<th>Total Advances in India</th>
<th>Total Advances outside India</th>
<th>Total Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>5616.62</td>
<td>437.16</td>
<td>10.87</td>
<td>19801.65</td>
<td>25566.30</td>
<td>Nil</td>
<td>25566.30</td>
</tr>
<tr>
<td>2005-06</td>
<td>10864.53</td>
<td>384.99</td>
<td>11.87</td>
<td>23799.87</td>
<td>35061.26</td>
<td>Nil</td>
<td>35061.26</td>
</tr>
<tr>
<td>2006-07</td>
<td>17683.07</td>
<td>205.15</td>
<td>38.32</td>
<td>29018.24</td>
<td>46944.78</td>
<td>Nil</td>
<td>46944.78</td>
</tr>
<tr>
<td>2007-08</td>
<td>17426.29</td>
<td>477.20</td>
<td>8.75</td>
<td>45514.65</td>
<td>63426.90</td>
<td>Nil</td>
<td>63426.89</td>
</tr>
<tr>
<td>2008-09</td>
<td>29781.59</td>
<td>3083.10</td>
<td>366.66</td>
<td>64818.29</td>
<td>98049.66</td>
<td>833.38</td>
<td>98883.04</td>
</tr>
<tr>
<td>2009-10</td>
<td>44157.56</td>
<td>5263.47</td>
<td>622.91</td>
<td>73808.21</td>
<td>123852.16</td>
<td>1978.42</td>
<td>125830.59</td>
</tr>
<tr>
<td>2010-11</td>
<td>54781.22</td>
<td>5400.10</td>
<td>28.60</td>
<td>95119.19</td>
<td>155329.12</td>
<td>4653.54</td>
<td>159982.66</td>
</tr>
<tr>
<td>2011-12</td>
<td>63863.00</td>
<td>7053.85</td>
<td>371.42</td>
<td>118210.18</td>
<td>189498.45</td>
<td>5921.57</td>
<td>195420.02</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports Of HDFC Bank for different years.

### TABLE NUMBER 4

**POSITION OF ADVANCES OF AXIS BANK FOR DIFFERENT TIME HORIZONS:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Advances to Priority Sector in India</th>
<th>Advances to Public Sector in India</th>
<th>Advances to Banks</th>
<th>Advances to Others in India</th>
<th>Total Advances in India</th>
<th>Total Advances outside India</th>
<th>Total Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>4403.58</td>
<td>38.33</td>
<td>1.97</td>
<td>11159.02</td>
<td>15602.92</td>
<td>Nil</td>
<td>15602.92</td>
</tr>
<tr>
<td>2005-06</td>
<td>7729.93</td>
<td>63.60</td>
<td>25.16</td>
<td>14495.49</td>
<td>22314.19</td>
<td>0.0331</td>
<td>22314.23</td>
</tr>
<tr>
<td>2006-07</td>
<td>13196.33</td>
<td>21.54</td>
<td>27.68</td>
<td>21055.36</td>
<td>34300.92</td>
<td>2575.56</td>
<td>36876.48</td>
</tr>
<tr>
<td>2007-08</td>
<td>16572.25</td>
<td>6.21</td>
<td>27.63</td>
<td>37674.12</td>
<td>54280.22</td>
<td>5380.92</td>
<td>59661.14</td>
</tr>
<tr>
<td>2008-09</td>
<td>22949.04</td>
<td>158.16</td>
<td>18.50</td>
<td>48264.82</td>
<td>71390.53</td>
<td>10166.22</td>
<td>81556.76</td>
</tr>
<tr>
<td>Year</td>
<td>Advances to Power Sector in India</td>
<td>Advances to Diversified Infrastructure Sector in India</td>
<td>Advances to Iron &amp; Steel Industries</td>
<td>Advances to Infrastructural Development</td>
<td>Advances to Textile Units</td>
<td>Other Advances</td>
<td>Total Advances</td>
</tr>
<tr>
<td>--------</td>
<td>----------------------------------</td>
<td>-----------------------------------------------------</td>
<td>-------------------------------------</td>
<td>----------------------------------------</td>
<td>--------------------------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>2004-05</td>
<td>611.00</td>
<td>442.0</td>
<td>2317.00</td>
<td>1053.00</td>
<td>873.00</td>
<td>2804.00</td>
<td>8100.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>704.00</td>
<td>450.0</td>
<td>1964.00</td>
<td>1154.00</td>
<td>556.00</td>
<td>1694.00</td>
<td>6522.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>618.00</td>
<td>466.0</td>
<td>1913.00</td>
<td>1084.00</td>
<td>397.00</td>
<td>1574.00</td>
<td>6052.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>635.34</td>
<td>491.04</td>
<td>1757.99</td>
<td>1126.38</td>
<td>309.93</td>
<td>1034.70</td>
<td>5355.38</td>
</tr>
<tr>
<td>2008-09</td>
<td>830.70</td>
<td>587.84</td>
<td>1766.53</td>
<td>1418.54</td>
<td>222.84</td>
<td>2193.49</td>
<td>7019.94</td>
</tr>
<tr>
<td>2009-10</td>
<td>942.49</td>
<td>1077.90</td>
<td>1927.34</td>
<td>2020.39</td>
<td>321.58</td>
<td>3882.06</td>
<td>10171.76</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports Of IFCI Limited for different years.

**N.B.:** Since segregated advances have not been given on sector-wise basis after 2010-11 for IFCI Limited in the available annual report, they have not been shown in the above table.

It is evident from the above tables that the advances to different sectors of economy during 2011-12 have been Rs.169759.53crores for Axis Bank, and Rs 195420.02crores for HDFC Bank while Rs. 253727.65crores for ICICI Bank. Because of such huge advances, Indian sub continent has been in a position to become a trillion dollar economy in the recent past. These advances have been responsible for better macro-economic indicators in the economy. Let us discuss in following tables the major macro economy indices regarding all round growth of economy of India for different plan periods. The Table No.6 shown below shows growth rate achieved during different plan periods. These growth rates would not have been possible without advances and they have been highly responsible to strengthen economy of our country in the past.
TABLE NUMBER 6

ACHIEVED GROWTH RATE PERCENTAGE DURING DIFFERENT FIVE YEAR PLAN PERIODS:

<table>
<thead>
<tr>
<th>Five Year Plan</th>
<th>Period</th>
<th>Achieved Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eighth</td>
<td>1992 to 1996</td>
<td>6.5%</td>
</tr>
<tr>
<td>Ninth</td>
<td>1997 to 2001</td>
<td>5.5%</td>
</tr>
<tr>
<td>Tenth</td>
<td>2002 to 2006</td>
<td>7.8%</td>
</tr>
<tr>
<td>Eleventh</td>
<td>2007 to 2011</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

Source: Central Statistical Organization

Now let us discuss comparative analytical spectrum of contributions of different sectors in total gross domestic product in ninth and tenth five year plan period so that an insight can be developed regarding growing economies of the country.

TABLE NUMBER 7

CONTRIBUTION IN PERCENTAGE OF GROSS DOMESTIC PRODUCT IN NINTH AND TENTH FIVE YEAR PLANS:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Ninth Five Year Plan</th>
<th>Tenth Five Year Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>25.7%</td>
<td>22.2%</td>
</tr>
<tr>
<td>Mining &amp; Excavation</td>
<td>2.4%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>15.5%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Electricity, Gas and Water Resources</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Constructions</td>
<td>6.0%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Trades</td>
<td>12.8%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Railway Transport</td>
<td>0.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other Transport</td>
<td>4.80%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Communication</td>
<td>1.40%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>6.2%</td>
<td>7.0%</td>
</tr>
<tr>
<td>General Administration</td>
<td>6.40%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Other Services</td>
<td>15.06%</td>
<td>16.4%</td>
</tr>
</tbody>
</table>
The above table shows that as far as contribution in percentage of GDP is concerned the main contribution comes from service sector, infrastructure, trade and communication etc. It has increased if ninth and tenth five years plans are compared and this increase is attributed to increased advances of development banks and these advances are sanctioned for all round development of economy. Since the above sectors are growing economies of the country development banks can harvest more benefit and can generate more returns if more advances are sanctioned in such growth areas of economy.

Now let us see sector-wise growth in different plan periods and compare them from other plan periods.

### TABLE NUMBER 8

<table>
<thead>
<tr>
<th>Sector</th>
<th>Eighth Five Year Plan</th>
<th>Ninth Five Year Plan</th>
<th>Tenth Five Year Plan</th>
<th>Eleventh Five Year Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>4.72%</td>
<td>2.44%</td>
<td>2.30%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Industry</td>
<td>7.29%</td>
<td>4.29%</td>
<td>9.17%</td>
<td>10.11%</td>
</tr>
<tr>
<td>Services</td>
<td>7.28%</td>
<td>7.87%</td>
<td>9.30%</td>
<td>9.11%</td>
</tr>
<tr>
<td>Total</td>
<td>6.54%</td>
<td>5.52%</td>
<td>7.74%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

Source: Draft outline of different Five year plans.

It is evident from the above table that there has been tremendous growth potential in the industrial sectors and service sectors economies in different plan periods. Thus it is evident that advances given by development banks or development financial institutions have been solely responsible to accelerate growth indices in such sectors of economy.

Now let us see and compare rate of investment and rate of savings in different five year plan periods.
TABLE NUMBER 9

<table>
<thead>
<tr>
<th>Five Year Plan</th>
<th>Period</th>
<th>Investment Rate</th>
<th>Rate of Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eighth Plan</td>
<td>1992 to 1996</td>
<td>24.4%</td>
<td>23.1%</td>
</tr>
<tr>
<td>Ninth Plan</td>
<td>1997 to 2001</td>
<td>24.3%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Tenth Plan</td>
<td>2002 to 2006</td>
<td>32.1%</td>
<td>31.9%</td>
</tr>
<tr>
<td>Eleventh Plan</td>
<td>2007 to 2011</td>
<td>36.7%</td>
<td>34.8%</td>
</tr>
</tbody>
</table>

Source: Draft outline of different Five year plans.

The above table (Table No. 9) shows that investment rate and savings rate in different five year plan period horizons have increased than the earlier periods. This has been possible because of ever increasing deposits and savings with Development Banks because of which different segments of society have attained phenomenal economic growth in the past years. People have developed investment habit in the past and have also been doing more savings than before. This has been possible because development banks have been providing universal banking solution to the society which is responsible for giving thrust to the economy of the country. But these development banks have been facing challenges of nonperforming assets also in the past and the following tables show concerning composition of nonperforming assets with major development banks in India.

TABLE NUMBER 10

<table>
<thead>
<tr>
<th>NET NON PERFORMING ASSETS TO NET ADVANCES OF DIFFERENT DEVELOPMENT BANKS FOR DIFFERENT TIME HORIZONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2004-05</td>
</tr>
<tr>
<td>2005-06</td>
</tr>
<tr>
<td>2006-07</td>
</tr>
<tr>
<td>2007-08</td>
</tr>
<tr>
<td>2008-09</td>
</tr>
<tr>
<td>2009-10</td>
</tr>
<tr>
<td>2010-11</td>
</tr>
<tr>
<td>2011-12</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports Of selected Development Banks for Different Years.
TABLE NUMBER 11

NET NON PERFORMING ASSETS OF DIFFERENT DEVELOPMENT BANKS FOR DIFFERENT TIME HORIZONS

<table>
<thead>
<tr>
<th>Year</th>
<th>IFCI Limited</th>
<th>ICICI Bank</th>
<th>IDBI Bank</th>
<th>HDFC Bank</th>
<th>Axis Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>2688.01</td>
<td>1983.00</td>
<td>847.49</td>
<td>60.63</td>
<td>216.85</td>
</tr>
<tr>
<td>2005-06</td>
<td>667.01</td>
<td>1075.00</td>
<td>563.12</td>
<td>155.18</td>
<td>219.83</td>
</tr>
<tr>
<td>2006-07</td>
<td>Nil</td>
<td>2019.00</td>
<td>721.93</td>
<td>202.89</td>
<td>266.33</td>
</tr>
<tr>
<td>2007-08</td>
<td>463.28</td>
<td>3564.00</td>
<td>1082.91</td>
<td>298.52</td>
<td>248.29</td>
</tr>
<tr>
<td>2008-09</td>
<td>Nil</td>
<td>4619.00</td>
<td>948.96</td>
<td>627.62</td>
<td>327.13</td>
</tr>
<tr>
<td>2009-10</td>
<td>55.62</td>
<td>3901.00</td>
<td>1406.32</td>
<td>394.63</td>
<td>419.00</td>
</tr>
<tr>
<td>2010-11</td>
<td>150.32</td>
<td>2407.36</td>
<td>1677.91</td>
<td>296.41</td>
<td>410.35</td>
</tr>
<tr>
<td>2011-12</td>
<td>112.71</td>
<td>1860.84</td>
<td>2910.93</td>
<td>354.19</td>
<td>472.64</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports Of selected Development Banks for Different Years.

It is evident from the above tables that major development banks in India are facing tremendous challenges of nonperforming assets in their financial systems which should be a matter of concern for them. Amongst the selected Development Banks, HDFC Bank has managed NPAs with great prudence followed by Axis Bank and IFCI Limited. So far as NPAs of ICICI Bank is concerned, they are higher than other counterparts. However, following measures may be taken to control ever increasing nonperforming assets so as to boost position of profitability, liquidity and solvency in the banking business. These suggestions are delineated as under:

SUGGESTIONS TO CONTROL NON PERFORMING ASSETS IN THE BANKING BUSINESS:

01. By strengthening and evaluating workshops, credit risk management committees in the banking business.

02. By setting goals and objectives of credit monitoring cells and enforcing management control system to watchdog their performances.
03. Continuous serious and sacrosanct credit monitoring and credit recovery process

04. Credit should be given after seriously evaluating character, collateral capacity and conditions of the clients.

05. Development of more authentic IT systems for probing directly on the issues of credit management and credit risk management.

06. Settlement Advisory committee can be entrusted task of enforcing settlements in case of small scale business lending operations.

07. Enforcement of sound legal framework as it is highly responsible for speedy recovery of debts.

08. By selling bad debts to other parties which are more capable of speedy recovery of debts.

09. Lok Adalats have proved to be more effective in speedy recovery of loans but they have to be strengthened which is a basic lacunae with the prevailing systems and taking more recourse on mortgage based lending and collateralized lending process.

10. By Securitization of debt as enunciated in SARFAESI ACT.

11. Observing management ethics and honesty while disbursement of debts.

12. The ability and experience as well as expertise of the loan officers can be increased with better training and better facilities to them.

13. Report of the clients can be made available from other banks, credit information bureau, credit rating agencies prior to sanction of debt

The above methodologies will surely be important in reducing nonperforming assets of the major developments banks in India and if the banking system enforces such steps with judicious credit monitoring, the banks will be in a position to improve their financial viability and in turn banks can further contribute towards wholistic development of economy of Indian subcontinent in a better way.
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Books:

ANALYSING STRESS AND ITS MANAGEMENT IN AN ORGANIZATION

By

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ABSTRACT

In an organization when we are struggling with a deadline, grappling with cut-throat competition, managing paradigm changes or dealing with delicate decisions, we have to deal with “people”. Few “people problem” can be solved quickly control and can only be contained and but some are totally beyond control and can only be contained and do formula works this give “stress”. Stress resulted outcome effect the organizations overall performance. This paper is an effort to make out the initial causes of stress and how meet them to manage the stress with motivation, commitment, job-satisfaction, to resolved job-related anxiety and depression

Keywords: Stress, people, struggle, delicate decisions.

INTRODUCTION

Stress is the reaction people have to excessive pressure or other type of demand placed upon them. It arises when they worry that they can’t cope. It is body’s automatic response to and physical or mental demand as “Adrenaline is a chemical naturally produced in our body as a response to stress. As stress is an adaptive response to a situation that is perceived as challenging or threatening to the persons well being.
IDENTIFICATION OF STRESS

Situations, activities and relationship that cause “trauma” to one’s physical, emotional or psychological self is stress. Stress is unique and personal. A situation may be challenging for someone but the same situation may be stressful for others. For example: A business is successful when we pay careful attention to members; but the truth is that when we come up with all the right numbers and still be feel a failure. As we can meet one targets improve profitability, enhance market share, increase efficiency and still feel less happy, stressed out unfulfilled and bitter. Although people work well under certain stress leading to increased productivity. As stress is not always necessarily harmful in words of Hans Selve.

“Stress is not necessarily something bad-it all depends on how you take it. The stress of exhilarating, creative successful work is beneficial, while that of failure, humiliation or infection is detrimental”

SOURCE OF STRESS

As the same time stress may be life threatening when it is prolonged that exist for months and years. This is due to poverty, broken or stressed families marriages, chronic illness and successive failures in life. Stress can be externally or internally generated.

- **External Stress:** External stress may include the physical environment which surrounds us and in that environment how do we move socially and interact with people other aspect which give us stress is the organization where we work we live more of our live hours in this organization only where we perform our major life events and also the external factor which effects us in the daily hassles we face.

- **Internal Stress:** Internal stressor is the choice of life style we have according to our work pattern self-criticism, over analyzing and pessimistic thinking with unrealistic mind traps as well as personality traits as yearning for perfection include internal stressors.
Negative Stress
It is a contributory factor in minor conditions, such as headaches digestive problem, skin complaints, insomnia and ulcers. Excessive prolonged and unrelieved stress can have a harmful effect on mental, physical, and spiritual health. By management of stress, we can recognize the source of the negative stress. This is not an admission of weakness or inability to cope. It is a way to identify the problem and plan measures to overcome it.

Positive Stress
Stress can also have a positive effect, spurring motivation and awareness, providing the stimulation to cope with challenging. Stress also provides the sense of urgency and alertness needed for survival when confronting threatening situations.
Most of the stress we experience is self generated. How we perceive life weather and event makes us feel threatened or discouraged, happy or sad depends to a large extent on how we perceive ourselves.

**PHYSICAL SYMPTOMS**
- Patience
- Fitness and lifestyle programs
- Self efficiency
- Relaxation and Meditation

**MENTAL SYMPTOMS**
- Store of energy
- Relaxed
- Work at on steady pace
- Contemplates issues

**BEHAVIOURAL SYMPTOMS**
- Supporting motivation
- Awareness
- Stimulated
- Accept Challenges

**EMOTIONAL SYMPTOMS**
- Encouraged
- Happy
- Flight
- Adaptation

**WORK-PERFORMANCE EXPECTATION**
Society is driven by work. Everyone focus on expectation. When someone consciously or unconsciously harbor expectation about work-performance that are much too high it set up a ground for failure. The main reason is that it is the main source of stress in live. When expectation are about to selves, about life about emotional distress, relationship conflicts. Communication breakdowns misunderstanding, distrust etc.
The level of expectation always increases when one is success driven, when changing work patterns a great expectation is there from the organization. It is positive expectation when change in working conditions, with overwork uncertainty, responsibility etc.

**CATEGORIES OF JOB STRESS**

In the organisation, stress can be the result of any number of situations [8,9]. Some of them are following:

<table>
<thead>
<tr>
<th>Categories of Job Stressors</th>
<th>Examples of Sources of Stress</th>
</tr>
</thead>
</table>
| Factors unique to the job   | • workload (overload and under load)  
• pace / variety / meaningfulness of work  
• autonomy (e.g., the ability to make your own decisions about our own job or about specific tasks)  
• shift work / hours of work  
• skills / abilities do not match job demands  
• lack of training and/or preparation (technical and social)  
• lack of appreciation  
• physical environment (noise, air quality, etc)  
• isolation at the workplace (emotional or working alone) |
| Role in the organization    | • role conflict (conflicting job demands, multiple supervisors/managers)  
• role ambiguity (lack of clarity about responsibilities, expectations, etc)  
• level of responsibility |
| Career development         | • under/over-promotion  
• job security (fear of redundancy either from economy, or a lack of tasks or work to do)  
• career development opportunities  
• overall job satisfaction |
| Relationships at work      | • supervisors (conflicts or lack of support) |
### Categories of Job Stressors

<table>
<thead>
<tr>
<th>Categories of Job Stressors</th>
<th>Examples of Sources of Stress</th>
</tr>
</thead>
</table>
| (Interpersonal)                     | • co-workers (conflicts or lack of support)  
• subordinates  
• threat of violence, harassment, etc (threats to personal safety)  
• lack of trust  
• lack of systems in workplace available to report and deal with unacceptable behaviour |
| Organizational structure/climate    | • participation (or non-participation) in decision-making  
• management style  
• communication patterns (poor communication / information flow)  
• lack of systems in workplace available to respond to concerns  
• not engaging employees when undergoing organizational change  
• lack of perceived fairness (who gets what when, and the processes through which decisions are made). Feelings of unfairness magnify the effects of perceived stress on health. |
| Work-Life Balance                   | • role/responsibility conflicts  
• family exposed to work-related hazards |


### STRESS MANAGEMENT

Stress is not an art which is normally a god gift, but it is a combination of science and art with more and more analysis, practice and technique. Stress management is must for both employers and employees. It requires support from employer and the contribution from employee to reduce the workload stresses and enjoy the life. The simple techniques for stress management are:
These techniques can be easily developed and practiced to achieve extra-ordinary results.

CONCLUSION

Stress analysis should be work culture while developing new process, products, expansion or new recruitments workload and family expectation are connected to each other through a complicated network. It is not possible to have simple solution but simple approach can be practice. There should be existence of positive stresses which will contribute in the progress of business unit and the growth can be happily shared by employers and employee families.

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PROFITABILITY ANALYSIS OF MARUTI SUZUKI INDIA LTD.

By

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ABSTRACT

The study examines the profitability position of Maruti Suzuki India Ltd. for the past ten years. It involves in-depth analysis of profitability of the company having regard to important aspects concerning the same. Profitability ratios are calculated for arriving at results and conclusions. Comparative study of annual increase in sales and profitability is made to understand the growth of the company.

Keywords: Net profit, EBIDT, PBT, PAT, Return on Net worth.
INTRODUCTION

Wealth Maximization is considered the ultimate objective of any business organization and same is not possible without earning profits. Higher the profits, higher would be the growth and wealth maximization. Profit earning is considered essential for the survival of the business. A business needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments, workers want higher wages, creditors want higher security for their interest and loan and so on. Profit is the most useful measure of overall efficiency of a business.

Profit to the management is the test of efficiency and a measurement of control; to owners, a measure of worth of their investment; to the creditors, the margin of safety to employees, a source of fringe benefits; to Government, a measure of tax paying capacity & basis of legislative action; to customers, a hint to demand for better quality and price cuts; to an enterprise, existence and growth.

OBJECTIVE OF THE STUDY

- To examine the profitability position of the company for the past ten years
- To ascertain the growth of company in light of important profitability indicators

METHODOLOGY ADOPTED

The study is concerned with the ten year’s data of Maruti Suzuki India Limited i.e. (2002-2011). The data is secondary in nature and is obtained from the published annual reports of Maruti Suzuki India Limited. Data is analyzed through various profitability ratios and statistical techniques to comment upon the profitability position of the company. Company’s growth is calculated by analyzing incremental annual turnover and profitability over ten years under study.
RESULTS & DISCUSSIONS

Profitability Analysis of Maruti Suzuki India Ltd.

Important profitability ratios are calculated to measure company’s performance by analyzing results obtained through ratio analysis. Purpose is to assess the adequacy of profits earned by the company and to discover whether profitability is increasing or declining.

1. **EBIDT Ratio**- It’s a type of measurement assessment used in analyzing the profitability of a company by taking that company's revenue figures and comparing them with the earnings of the company. This ratio helps in determining the percentage of revenue left over after the company pays its operating expenses.

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Sales</th>
<th>EBIDT</th>
<th>EBIDT Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>7067.70</td>
<td>537.9</td>
<td>7.61</td>
</tr>
<tr>
<td>2002-03</td>
<td>7253.50</td>
<td>662.0</td>
<td>9.13</td>
</tr>
<tr>
<td>2003-04</td>
<td>9345.60</td>
<td>1310.4</td>
<td>14.02</td>
</tr>
<tr>
<td>2004-05</td>
<td>10910.80</td>
<td>1814.0</td>
<td>16.63</td>
</tr>
<tr>
<td>2005-06</td>
<td>12003.40</td>
<td>2055.8</td>
<td>17.13</td>
</tr>
<tr>
<td>2006-07</td>
<td>14592.20</td>
<td>2588.8</td>
<td>17.74</td>
</tr>
<tr>
<td>2007-08</td>
<td>17860.30</td>
<td>3130.8</td>
<td>17.53</td>
</tr>
<tr>
<td>2008-09</td>
<td>20358.30</td>
<td>2433.3</td>
<td>11.95</td>
</tr>
<tr>
<td>2009-10</td>
<td>28958.50</td>
<td>4451.0</td>
<td>15.37</td>
</tr>
<tr>
<td>2010-11</td>
<td>36128.20</td>
<td>4146.7</td>
<td>11.48</td>
</tr>
</tbody>
</table>
The ratio assumes great importance to financers of the company as it reveals the cash availability of the firm for payment of interest. Maruti has grown significantly in terms of this ratio and recorded highest EBIDT in FY 2010-11 at Rs. 4146.70/- Crores. However, in percentage terms, company registered its highest EBIDT ratio of 17.74% in 2006-07. Thus, the best year in terms of this ratio is FY 2006-07. However, situation has dwindled after 2006-07 as company’s EBIDT ratio slipped to 11.95 in FY 2008-09. After recovering in FY 2009-10 and registering EBIDT of 15.37%, it had slipped to 11.48 in FY 2010-11. However, company has progressed well to have witnessed an EBIDT of 7.61 % in FY 2001-02 to an average EBIDT of 13.86%.

2. Profit before Tax (PBT) Ratio - This ratio measures the company’s profitability before taxation as percentage of Sales. Ratio is extremely useful as it measures returns from the business pre tax. Ratio is preferred to the PAT ratio as it measures capacity of the firm to generate returns from operating activities and before the tax expense. Higher ratio indicates better returns and vice versa.

<table>
<thead>
<tr>
<th>Table No 1.2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit before tax ratio of Maruti Suzuki India Ltd. (In %)</strong></td>
</tr>
<tr>
<td><strong>Rs. Crores</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Sales</th>
<th>PBT</th>
<th>PBT Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>7067.70</td>
<td>118.60</td>
<td>1.68</td>
</tr>
<tr>
<td>2002-03</td>
<td>7253.50</td>
<td>284.10</td>
<td>3.92</td>
</tr>
<tr>
<td>2003-04</td>
<td>9345.60</td>
<td>769.80</td>
<td>8.24</td>
</tr>
</tbody>
</table>
Company’s PBT ratio is mostly in line with the EBIDT ratio above. Average PBT ratio for the company is 9.93 as against average EBIDT ratio of 13.86. This indicates interest & depreciation expenses to the tune of 3.93% on an average. FY 06-07 has been the best year for the company as it has recorded highest PBT of 15.62%. As observed in EBIDT ratio, PBT ratio has also gone down in FY 2008-09 & 2010-11 after seeing a recovery in FY 2009-10.

3. Net Profit Ratio- Net Profit Ratio shows the relationship between Net Profit of the concern and Its Net Sales. Net profit indicates final amount which is added to the net worth of the firm after provision for taxes.
Table No 1.3

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Sales</th>
<th>PAT</th>
<th>Net Profit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>7067.70</td>
<td>104.50</td>
<td>1.48</td>
</tr>
<tr>
<td>2002-03</td>
<td>7253.50</td>
<td>146.40</td>
<td>2.02</td>
</tr>
<tr>
<td>2003-04</td>
<td>9345.60</td>
<td>542.10</td>
<td>5.80</td>
</tr>
<tr>
<td>2004-05</td>
<td>10910.80</td>
<td>853.60</td>
<td>7.82</td>
</tr>
<tr>
<td>2005-06</td>
<td>12003.40</td>
<td>1189.10</td>
<td>9.91</td>
</tr>
<tr>
<td>2006-07</td>
<td>14592.20</td>
<td>1562.00</td>
<td>10.70</td>
</tr>
<tr>
<td>2007-08</td>
<td>17860.30</td>
<td>1730.80</td>
<td>9.69</td>
</tr>
<tr>
<td>2008-09</td>
<td>20358.30</td>
<td>1218.70</td>
<td>5.99</td>
</tr>
<tr>
<td>2009-10</td>
<td>28958.50</td>
<td>2497.60</td>
<td>8.62</td>
</tr>
<tr>
<td>2010-11</td>
<td>36128.20</td>
<td>2288.60</td>
<td>6.33</td>
</tr>
<tr>
<td>Average</td>
<td>16447.85</td>
<td>1213.34</td>
<td>6.84</td>
</tr>
<tr>
<td>Std Deviation</td>
<td>9649.06</td>
<td>826.19</td>
<td>3.17</td>
</tr>
<tr>
<td>Co-efficient of Variance</td>
<td>58.66</td>
<td>68.09</td>
<td>46.41</td>
</tr>
</tbody>
</table>

(Source: Annual Reports of Maruti Suzuki India Ltd.)

Difference between Net profit ratio and PBT ratio reflects the tax provisions made by the company. It may also reflect provision for extraordinary & non reoccurring items. Rates of Income tax etc have a direct bearing on this ratio. In case of the company, average ratio comes to 6.84%. Lowest Net profit was in 2001-02 at 1.48%. FY 06-07 has been the best year for the company as it has recorded the highest NP of 10.70%. Henceforth, company’s Net profit has slumped due to low
profitability in those years as depicted by low EBIDT & PBT ratio. Fluctuation in the ratio is considerable as depicted by high standard deviation & Co-efficient of Variance of 3.17 and 46.41% respectively.

4. Return on Net worth ratio

It is the ratio of net profit to share holder's investment. It is the relationship between net profit (after interest and tax) and share holder's/proprietor's fund (Net worth).

<p>| Table No 1.4 |
|------------------|------------------|------------------|
| Return on Net Worth ratio of Maruti Suzuki India Ltd. (In %) |</p>
<table>
<thead>
<tr>
<th>Rs. Crores</th>
<th>Years</th>
<th>Net Worth</th>
<th>PAT</th>
<th>Return on Net Worth Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001-02</td>
<td>2707.3</td>
<td>104.50</td>
<td>3.86</td>
</tr>
<tr>
<td></td>
<td>2002-03</td>
<td>3098</td>
<td>146.40</td>
<td>4.73</td>
</tr>
<tr>
<td></td>
<td>2003-04</td>
<td>3591.2</td>
<td>542.10</td>
<td>15.1</td>
</tr>
<tr>
<td></td>
<td>2004-05</td>
<td>4378.8</td>
<td>853.60</td>
<td>19.49</td>
</tr>
<tr>
<td></td>
<td>2005-06</td>
<td>5452.6</td>
<td>1189.10</td>
<td>21.81</td>
</tr>
<tr>
<td></td>
<td>2006-07</td>
<td>6853.9</td>
<td>1562.00</td>
<td>22.79</td>
</tr>
<tr>
<td></td>
<td>2007-08</td>
<td>8415.4</td>
<td>1730.80</td>
<td>20.57</td>
</tr>
<tr>
<td></td>
<td>2008-09</td>
<td>9344.9</td>
<td>1218.70</td>
<td>13.04</td>
</tr>
<tr>
<td></td>
<td>2009-10</td>
<td>11835.1</td>
<td>2497.60</td>
<td>21.1</td>
</tr>
<tr>
<td></td>
<td>2010-11</td>
<td>13867.5</td>
<td>2288.60</td>
<td>16.5</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>6954.47</td>
<td>1213.34</td>
<td>15.90</td>
</tr>
</tbody>
</table>
Stakeholders of the company are most concerned with this ratio as it indicates return on amount invested by them in the firm. Generally, a return of more than 8% or the rate offered by the bank on deposits is considered to be the minimum benchmark return for any investment. This is because one can safely earn this much return without risking his/her money. On study of Return on net worth of Maruti Ltd, an average ratio for the ten years under study comes to 15.90 which is much above the benchmark level. This indicates strong position of the company which has grown considerably from 2001-02 to 2010-11. Return in initial years has been below par at 3.86 and 4.73 for FY 01-02 & 02-03 respectively. Company registered substantial growth in FY 2003-04 at 15.10% and continued to grow henceforth in an impressive manner. It went on to record its highest ever return in FY 06-07 at 22.79%. However, return was on a decline in FY 07-08, FY 08-09 and FY 10-11 with an exception of FY 09-10.

5. Percentage increase in Profits in proportion to percentage increase in Sales

<table>
<thead>
<tr>
<th>Years</th>
<th>Percentage Increase in Sales</th>
<th>Percentage Increase in Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002-03</td>
<td>2.63</td>
<td>40.1</td>
</tr>
<tr>
<td>2003-04</td>
<td>28.84</td>
<td>270.29</td>
</tr>
<tr>
<td>2004-05</td>
<td>16.75</td>
<td>57.46</td>
</tr>
<tr>
<td>2005-06</td>
<td>10.01</td>
<td>39.3</td>
</tr>
<tr>
<td>2006-07</td>
<td>21.57</td>
<td>31.36</td>
</tr>
</tbody>
</table>
Other things remaining same, a firm must register higher profits if its sales go up. Above comparative shows the increase in sales vis a vis increase in profits in comparison to immediately previous financial year. Above study reveals interesting facts as there is no definite pattern in which one can grasp the increase in profits in comparison to increase in sales. Firstly, company registered a sharp increase in its sales in FY 2003-04 when sale grew by 28.84% resulting in an increase of 270.29% in its net profits. Thereafter, company has recorded an increase of at least more than 10% in sales in all the years. However, FY 07-08 and 08-09 have not been much progressive as despite of 22.40% increase in sales, company net profit has increased by only 10.81%. Further, in FY 08-09, company’s net profit has gone down by 29.59% although sales have increased by 13.99% in comparison to FY 07-08. Company recovered well in FY 09-10 & recorded 104.94% increase in profits and registered an increase of 42.24% in sales. However, FY 10-11 was not that remarkable as company net earnings lowered by 8.37% despite of higher sales of 24.76%. Thus, it can be said that company’s recent record has been quite inconsistent.

In past 10 years, average increase in sales is 20.35%. Consequent increase in profits is 57.3%. However, standard deviation in sales & net profit is high at 11.46 & 88.71 respectively. C.V. is also very high at 56.30% for sales and 154.63% for net profit. This indicates impressive growth in last 10 years for the company.
Table No 1.6

Profitability Ratios of MSIL (At a glance)

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Profit Ratio</th>
<th>PBT Ratio</th>
<th>EBIDT Ratio</th>
<th>Return on Net Worth Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>1.48</td>
<td>1.68</td>
<td>7.61</td>
<td>3.86</td>
</tr>
<tr>
<td>2002-03</td>
<td>2.02</td>
<td>3.92</td>
<td>9.13</td>
<td>4.73</td>
</tr>
<tr>
<td>2003-04</td>
<td>5.8</td>
<td>8.24</td>
<td>14.02</td>
<td>15.1</td>
</tr>
<tr>
<td>2004-05</td>
<td>7.82</td>
<td>11.96</td>
<td>16.63</td>
<td>19.49</td>
</tr>
<tr>
<td>2006-07</td>
<td>10.7</td>
<td>15.62</td>
<td>17.74</td>
<td>22.79</td>
</tr>
<tr>
<td>2007-08</td>
<td>9.69</td>
<td>14.01</td>
<td>17.53</td>
<td>20.57</td>
</tr>
<tr>
<td>2008-09</td>
<td>5.99</td>
<td>8.23</td>
<td>11.95</td>
<td>13.04</td>
</tr>
<tr>
<td>2009-10</td>
<td>8.62</td>
<td>12.41</td>
<td>15.37</td>
<td>21.1</td>
</tr>
<tr>
<td>2010-11</td>
<td>6.33</td>
<td>8.6</td>
<td>11.48</td>
<td>1.65</td>
</tr>
<tr>
<td>Average</td>
<td>6.84</td>
<td>9.93</td>
<td>13.86</td>
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<tr>
<td>Std Deviation</td>
<td>3.17</td>
<td>4.63</td>
<td>3.65</td>
<td>8.19</td>
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<tr>
<td>Co-efficient of Variance</td>
<td>46.41</td>
<td>46.61</td>
<td>26.34</td>
<td>56.82</td>
</tr>
</tbody>
</table>

(Source: Published Annual Reports of Maruti Suzuki India Ltd.)
(Source: Published Annual Reports of Maruti Suzuki India Ltd)

Above data indicates considerable growth attained by the company in last ten years. Deviation from the mean figure for PBT and Net Profit ratio is high as indicated by the C.V. of 46.61% & 46.41% respectively. Deviation in case of EBIDT ratio is comparatively less at 26.34%, which proves that operating Margins of the company have been less variable. Deviation in PBT ratio & Net Profit ratio is due to increase in indirect costs, administrative costs and cost of funds etc.

As regards return on net worth, company has done well to record an Average return of 14.41% for a period under study. This has been possible due to high profitability from 2004-05 to 2007-08. However, deviation is high at 56.82% and profitability of the company has witnessed a downward trend in last few years. Company has a tough task ahead of itself to regain the lost margins in coming years.
CONCLUSION

It can be concluded from the study that company has grown significantly from having a turnover of 7000 Crores in 2001-02 to 36000 Crores of Turnover in 2010-11.

Company has created significant wealth for its stakeholders and provided handsome return on investment. Company’s net worth has grown from 2707.30 Crores in 2002 to 138675.50 Crores in 2011. Company’s net profit margins (Profit after Tax) are in line with the Operating margins i.e. (EBIDT Margins). This indicates good profit margins on products sold by the company.

However, company’s net margins have dwindled in second half of the period under study. After 2006-07, company’s net profit margins are in not in line with increase in sales of the company. This may be due to various reasons such as:

1. Lowering of profit margins
2. Operational Inefficiencies
3. High cost of funds
4. High taxation
5. Stiff competition from rival companies

Therefore, company has, despite of having a good track record, a challenging task ahead to maintain the profitability. Profitability of the company is bound to grow manifolds if it manages to control the aforesaid factors successfully.

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EMPLOYEE ENGAGEMENT LEVEL IN MANAGEMENT COLLEGES

By

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ABSTRACT

Employee engagement is the level of commitment and involvement an employee has towards their organization and its values. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organization. It is a positive attitude held by the employees towards the organization and its values. The paper focuses on how employee engagement is an antecedent of job involvement and what should company do to make the employees engaged. The paper also looks at the Gallup 12 point questionnaire, twelve-question survey that identifies strong feelings of employee engagement and the steps which shows how to drive an engaged employee.

Keywords: Engagement, Value chain, Measurement, Drivers, Communication, Effectiveness

INTRODUCTION

Employee engagement, also called worker engagement, is a business management concept. An "engaged employee" is one who is fully involved in, and enthusiastic about their work, and thus will act in a way that furthers their organization's interests. According to Scarlett Surveys, "Employee Engagement is a measurable degree of an employee's positive or negative emotional attachment to their job, colleagues and organization which profoundly influences their willingness to learn and perform at work". Thus engagement is distinctively different from employee satisfaction, motivation and organizational culture.
**DRIVERS OF ENGAGEMENT**

While it is possible to measure engagement itself through employee surveys, this does not assist in identifying areas for improvement within organizations. There are a range of factors, known as drivers that are thought to increase overall engagement. By managing the drivers, an organization can effectively manage engagement levels of its employees. Drivers such as communication, performance clarity and feedback, organizational culture, rewards and recognition, relationships with managers and peers, career development opportunities and knowledge of the organization’s goals and vision are some of the factors that facilitate employee engagement. Some points from the research are presented below:

* Employee perceptions of job importance - According to a 2006 study by Gerard Seijts and Dan Crim, "...an employee’s attitude toward the job's importance and the company had the greatest impact on loyalty and customer service then all other employee factors combined."

* Employee clarity of job expectations - "If expectations are not clear and basic materials and equipment not provided, negative emotions such as boredom or resentment may result, and the employee may then become focused on surviving more than thinking about how he can help the organization succeed."

* Career advancement/improvement opportunities - "Plant supervisors and managers indicated that many plant improvements were being made outside the suggestion system, where employees initiated changes in order to reap the bonuses generated by the subsequent cost savings."

* Regular feedback and dialogue with superiors - "Feedback is the key to giving employees a sense of where they're going, but many organizations are remarkably bad at giving it.""What I really wanted to hear was 'Thanks. You did a good job.' But all my boss did was hand me a check."

* Quality of working relationships with peers, superiors, and subordinates - "...if employees' relationship with their managers is fractured, then no amount of perks will persuade the employees to perform at top levels. Employee engagement is a direct reflection of how employees feel about their relationship with the boss."

* Perceptions of the ethos and values of the organization - "'Inspiration and values' is the most important of the six drivers in our Engaged Performance model. Inspirational leadership is the ultimate perk. In its absence, [it] is unlikely to engage employees."

* Effective Internal Employee Communications - which convey a clear description of "what's going on". "If you accept that employees want to be involved in what they are doing then this trend is clear (from small businesses to large global organizations). The effect of poor internal
communications is seen as its most destructive in global organizations which suffer from employee annexation where the head office in one country is buoyant (since they are closest to the action, know what is going on, and are heavily engaged) but its annexes (who are furthest away from the action and know little about what is happening) are dis-engaged. In the worst case, employee annexation can be very destructive when the head office attributes the annex's low engagement to its poor performance… when its poor performance is really due to its poor communications.

* Reward to engage - Look at employee benefits and acknowledge the role of incentives. "An incentive to reward good work is a tried and test way of boosting staff morale and enhancing engagement." There are a range of tactics you can employ to ensure your incentive scheme hits the mark with your workforce such as: Setting realistic targets, selecting the right rewards for your incentive programme, communicating the scheme effectively and frequently, have lots of winners and reward all achievers, encouraging sustained effort, present awards publicly and evaluate the incentive scheme regularly.

**MEASURING ENGAGEMENT**

Twelve attitude statements representing engagement were tested; all were found to ‘sit together’ reliably, to comprise a single indicator of engagement. Although tested within the NHS, the statements are not NHS-specific; they can be transferred to other organizations and sectors. If attitude survey space is at a premium, and organizations feel unable to include 12 statements, an engagement subset of five statements can be used instead. This subset can be safely used, as it represents the essence of engagement and has been tested for reliability. Positive responses to the engagement statements indicate:

- a positive attitude towards, and pride in, the organization
- belief in the organization’s products/services
- a perception that the organization enables the employee to perform well
- a willingness to behave altruistically and be a good team player
- an understanding of the bigger picture and a willingness to go beyond the requirements of the job.
IES’ DIAGNOSTIC TOOL

The diagnostic tool

Source: IES Survey, 2003

The IES engagement model illustrates the strong link between feeling valued and involved and engagement. In addition to the model, IES offers a diagnostic tool (above), which can be used to derive organization-specific drivers from attitude survey data. Our findings suggest that many of the drivers of engagement will be common to all organizations, regardless of sector; however, some variability is likely, and the relative strength of each driver is also likely to be contingent upon the organization being studied.

VALUE CHAIN ANALYSIS IN EMPLOYEE ENGAGEMENT

According to the study of Watson Wyatt, the service – profit chain establishes relationship between profitability, customer loyalty and employee satisfaction, loyalty and productivity. The links in the chain (which should be regarded as propositions) are as follows: profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer’s satisfaction. Satisfaction is largely influenced by the services provided to customers. Satisfied, loyal and
productive employees create value. Employee’s satisfaction intern results primarily from high quality support services and policies that enable employees to deliver results to customers. While many organizations are beginning to measure relationship between individual links in the service only a few have related the links in the meaningful ways that can lead to comprehensive strategies for achieving lasting competitive advantage of building employee engagement. In a study of its seven telephone customer service centers (MCI found that there is a clear relationship between employee’s perceptions of the quality of services and employee engagement.

Figure 1: The Value-Profit Chain Applied to Engagement. Management practices create an Environment in which employees are satisfied and engaged, which spurs operational excellence and innovation with the end result of growth and profitability. However, employee characteristics, capabilities—employees, technology, and processes—customer outcomes, and financial considerations underlie the model. (Adapted from Carrig & Wright, 2006: 19.)

Extending the application of this expanded model to the concept of employee engagement,

**Research Method**
PARTICIPANTS

Participants included 60 Employees working in a variety of jobs and organizations. The average age was 34; 60 percent were female. Participants had been in their current job for an average of 0-1 years, and in their organization an average of five years. They had on average 2-3 years of work experience. The sample is slightly younger than the median age of population in the area (36.9) and the percent of female participants in the study is somewhat higher than the percent of females in the population (52 percent).

PROCEDURE

The data for this study was collected by teachers teaching in a graduate/post graduate course in research methods at inderpratha university colleges. Each of 60 in the course was asked to fill the questionnaire. The survey included a cover letter/consent form that informed participants about the purpose of the study. Participants were asked to complete the survey as part of a study on employee work experiences and attitudes. Participation was voluntary and participants were informed that their responses would remain anonymous and confidential. Participants returned their survey in a sealed envelope to the students who then handed them over to the lead investigator. A total of 50 surveys were returned representing a response rate of 85 percent.

Data collection method: Primary as well as secondary
Research design: Exploratory
Tools: questionnaire method
Statically analysis is based on mean, standard deviation

ANALYSIS AND INTERPRETATION

The interpretation of the questionnaire and different institute engagement level is Summarized in the table below.

**Employee Engagement Survey-50 employee of Management college**

**Which of the following best describes the department you work in?**

- Customer Service
- Sales/Marketing
- Corporate Marketing
• Human Resources

<table>
<thead>
<tr>
<th>Department</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Service</td>
<td>15</td>
</tr>
<tr>
<td>Sales/Marketing</td>
<td>15</td>
</tr>
<tr>
<td>Corporate Marketing</td>
<td>15</td>
</tr>
<tr>
<td>Human Resources</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

**Total Numbers:** 4

**Mean (Average):** 12.5

**Standard deviation:** 5

**Variance (Standard deviation):** 25

**Population Standard deviation:** 4.33013

**Variance (Population Standard deviation):** 18.75

---

**How long have you worked at (company)?**

- 6 months to 1 year
- 1 to 2 years
- 3 to 5 years
  - More than 5 years

**Total Numbers:** 4

**Mean (Average):** 12.5

**Standard deviation:** 12.15182

**Variance (Standard deviation):** 147.66667

**Population Standard deviation:** 10.52378
Overall how satisfied are you with your position at this company?

- Very dissatisfied
- Somewhat dissatisfied
- Somewhat Satisfied
- Very satisfied

<table>
<thead>
<tr>
<th>Satisfied Level</th>
<th>Count</th>
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<tr>
<td>Very dissatisfied</td>
<td>5</td>
</tr>
<tr>
<td>Somewhat dissatisfied</td>
<td>20</td>
</tr>
<tr>
<td>Somewhat Satisfied</td>
<td>5</td>
</tr>
<tr>
<td>Very satisfied</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

Total Numbers: 5

Mean (Average): 10
Standard deviation: 7
Variance(Standard deviation): 50
Population Standard deviation: 6
Variance(Population Standard deviation): 40

Do you feel that employees are recognized as individuals?

- Always
- Usually
- Rarely
- Never
**Results:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Numbers:</td>
<td>4</td>
</tr>
<tr>
<td>Mean (Average):</td>
<td>12.5</td>
</tr>
<tr>
<td>Standard deviation:</td>
<td>6.40</td>
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<tr>
<td>Variance(Standard deviation):</td>
<td>41</td>
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<tr>
<td>Population Standard deviation:</td>
<td>5.5</td>
</tr>
<tr>
<td>Variance(Population Standard deviation):</td>
<td>30.75</td>
</tr>
</tbody>
</table>

**FINDINGS**

Based on the calculation it is being analyzed that the employee are not fully engaged in the work only 20-30% of the employee are fully engaged rest either they are not satisfied with their work, level or the work profile which has been given to them.

Other findings:

- Out of the 50 workers surveyed, only 31% are Engaged
- In all, more employees indicate there is “no way” they will stay with their employer in 2010 than compared to 2008
- Employees worldwide who know their manger well “as a person: are more likely to be Engaged
- The higher up in the organization you go, the more likely you are to be Engaged
- Engagement levels are higher among older employees
- Engagement increases with organizational tenure
CONCLUSION

Employee Engagement is the buzz word term for employee communication. It is a Positive attitude held by the employees towards the organization and its values. It is rapidly gaining popularity, use and importance in the workplace and impacts Organizations in many ways.

Employee engagement emphasizes the importance of employee communication on the success of a business. An organization should thus recognize employees, more than any other variable, as powerful contributors to a company's competitive position. Therefore employee engagement should be a continuous process of learning, improvement, measurement and action. We would hence conclude that raising and maintaining employee engagement lies in the hands of an organization and requires a perfect blend of time, effort, commitment and investment to craft a successful endeavor.

REFERENCES


HUMAN RESOURCE AS A CRITICAL FACTOR FOR EFFECTIVE KNOWLEDGE MANAGEMENT
(With a special Reference of Xerox ltd.)

By
Fatima Arif Kidwai
Asst. Professor RGMI, Bhopal

ABSTRACT

Knowledge is increasingly claimed to be a key critical resource and source of competitive advantage in the modern global economy. The successful implementation of knowledge management (KM) can provide the capability to understand the market, accurately assess the customers' needs, and turn them into products and services by integrating organizational resources. Since organization's knowledge is personal, building of organizational knowledge is unthinkable without employees. This paper presentation basically concentrates on developing and empirically examining the knowledge supportive human resource (HR) factors affecting the success of KM.

Key words: Knowledge Management (KM), Human Resource (HR), Organizational Knowledge, Knowledge Supportive Human Resource, Competitive Advantage

INTRODUCION

For Bassi (1997), Knowledge Management (KM) is the process of creating, capturing, and using knowledge to enhance organizational performance, such as documenting and codifying knowledge and disseminating it through databases and other communication channels. Knowledge Management (KM) includes the process of discovery, creation, dissemination, and utilization of knowledge. For successful implementation of KM program, executives and managers need to understand the various organizational aspects including organizational structure, culture, human resource, and technology. Especially, human resource became one of the critical factors for
effective KM. Organizational knowledge must be created based on each employee's knowledge. That is, organizational knowledge is personal and building of organizational knowledge is unthinkable without employees (Lesser, et. al., 2001). KM efforts can help individuals and groups to share valuable organizational insights, to reduce redundant work, to avoid reinventing the wheel per se, to reduce training time for new employees, to retain intellectual capital as employees turnover in an organization, and to adapt to changing environments and markets (McAdam & McCreedy 2000)(Thompson & Walsham 2004). As numerous organizational studies have recommended, KM supportive human resource (HR) environment has been a key to success factor for KM program. However, little empirical research has been conducted on this issue. The main objective is to develop and empirically examine the HR factors affecting the success of KM.

RELEVANCE OF TOPIC IN PRESENT SCENARIO

The rapid growth of technology has led to an economy where competitive advantage is increasingly based on the successful application of knowledge. The rise of the knowledge economy has seen a proliferation of information and communication technologies, coupled with greater organizational complexity, the growth of virtual and global organizations and rapid change. This in turn requires drastic change within HRM to respond to changing demands of the Knowledge economy.

In an era where competitive advantage is perceived to be linked to knowledge, considerable interest in knowledge management continues to be the trend. Given the broad scope and interdisciplinary nature of KM, this interest spans traditional functional and professional boundaries ranging from IT professionals, to accountants, marketers, organizational development and change management professionals. A notable common feature of this widely divergent activity is an emphasis upon knowledge work, knowledge workers and the nature of knowledge within organizations. While this debate at times results in professional turf battles, it may also lead to new opportunities for collaboration across traditional professional and functional boundaries. One potentially rich area for collaboration is that between that emerging group of professionals, who Irrespective of training or title, have as their number one priority a focus on management of the knowledge resource in organizations and the more established and functionally embedded group of
HRM professionals. Indeed, interest in the relationship between KM and HRM has increased over recent years as both KM and HRM have grown more sophisticated and complex.

LITERATURE REVIEW

Studies from various disciplines have identified several key HR variables for the success of KM the findings by leading KM researchers are major sources that can be used to identify the critical success factors of KM.

Acton and Golden, 2003; Cohen and Backer, 1999
Training should provide employees and managers the skills and information to fulfill their responsibilities. One of the reasons for the failure in effective work behaviors would be insufficient training to support KM principles. Well-engineered training initiatives help to retain knowledge within the organization

Bartlett, et. al., 2002
Employee involvement describes how all employees can contribute effectively to meeting the organization's objectives. Employee involvement is one of key factors in successful KM implementation because the nature of knowledge creation and sharing is unthinkable without employee involvement.

Greengard, 1998
The transformation to a knowledge-based organization requires peer-to-peer collaboration. That is, teamwork is an essential source of the knowledge generation process. Creating teams allows organizations to apply diverse skills and experiences towards its processes and problem-solving. An organization's members must work together and build on each other's ideas and strengths. Anyone who has knowledge and interest in a problem should be included on the team.

Martinez, 1998
Employee empowerment is also a key factor for KM success because true empowerment can give the employees a sense of ownership in the overall aim of the organizational KM system. Employers can value their employees' expertise through empowerment. Further, employers can tape into employees' knowledge and help them communicate their knowledge by creating ways to capture, organize, and share knowledge.

Dess and Picken, 2000
For successful KM project, the visible leadership and commitment of top management must be
sustained throughout a KM effort because effective knowledge creation is not possible unless leaders empower employees and show a strong commitment to the organization. That is, top management must be willing to communicate with employees to make knowledge realistic and coordinate KM implementation process. To exert their leadership and commitment in implementing a KM project: (1) they must have sufficient knowledge; (2) they must have realistic expectation of KM results; (3) they must communicate with employees; and (4) they must have the ability to coordinate the different interests of functional units involved in the KM implementation process.

**Lengnick-Hall & Lengnick-Hall, 2003**

The rise of the knowledge economy has seen a proliferation of information and communication technologies, coupled with greater organizational complexity, the growth of virtual and global organizations and rapid change. This in turn requires drastic change within HRM to respond to changing demands of the knowledge economy. Traditional HRM functioned under narrow operational boundaries; in the knowledge economy the role of HRM needs to expand, looking both within and outside the organization. The traditional focus on managing people has been broadened to managing organizational capabilities, managing relationships and managing learning and knowledge. Without an effective human resource implementation of knowledge management is not possible.

**THE ORITICAL ASPECT**

Knowledge management (KM) comprises a range of practices used in an organization to identify, create, represent, distribute and enable adoption of insights and experiences. Such insights and experiences comprise knowledge, either embodied in individuals or embedded in organizational processes or practice.

The value of Knowledge Management relates directly to the effectiveness with which the managed knowledge enables the members of the organization to deal with today's situations and effectively envision and create their future. Without on-demand access to managed knowledge, every situation is addressed based on what the individual or group brings to the situation with them. With on-demand access to managed knowledge, every situation is addressed with the sum total of everything anyone in the organization has ever learned about a situation of a similar nature. This all is possible by understanding organizational culture and employees resistant to change as without effective human resource management an effective knowledge system can’t be implemented.
There are several roles that can be played by HR in developing knowledge management system.

- First, HR should help the organization articulate the purpose of the knowledge management system. Investing in a knowledge management initiative without a clear sense of purpose is like investing in an expensive camera that has far more capabilities than you need to take good pictures of family and friends. Too often, organizations embrace technologies to solve problems before they've even identified the problems they are trying to solve. Then, once they realize the error, they find it difficult to abandon the original solution and difficult to gather the resources needed to invest in a solution to the real problem. Effectively framing the knowledge management issue, before deciding on a course of action, is a crucial prerequisite for success.

- Second, as a knowledge facilitator, HRM must ensure alignment among an organization's mission, statement of ethics, and policies: These should all be directed toward creating an environment of sharing and using knowledge with full understanding of the competitive consequences. Furthermore, HRM must nourish a culture that embraces getting the right information to the right people at the right time.

- Third, HRM should also create the "ultimate employee experience." That is, by transforming tacit knowledge into explicit knowledge through education, organizations must build employee skills, competencies, and careers, creating "bench strength." This combines the traditional training and development responsibilities of HRM with the new responsibilities of human capital steward: using all of the organization's resources to create strategic capability. Disney's new staff orientation, which emphasizes the firm's mission, values, and history within a context of the "magic kingdom" experience, is an example of this process of making tacit knowledge more visible.

- Fourth, HRM must integrate effective knowledge sharing and usage into daily life. That is, knowledge sharing must be expected, recognized, and rewarded. For many individuals and organizations, this reverses the conventional relationship between knowledge and power. Often, the common pattern was to hoard knowledge because it made the individual more valuable and more difficult to replace. Effective knowledge management requires this trend to be overturned and requires those with information to become teachers and mentors who ensure that others in the firm know what they know. Teaching must become part of everyone's job. Clearly, for such a cultural shift to take place, HRM must overhaul
selection, appraisal, and compensation practices. Human resource management has the capabilities for creating, measuring, and reinforcing a knowledge-sharing expectation.

- Fifth, HRM must relax controls and allow (even encourage) behaviors that, in the clockwork world of industrial efficiency, never would have been tolerated. For example, conversations at the water cooler were viewed in the past as unproductive uses of employee time—after all, employees were not at their desks completing specified tasks detailed in their job descriptions. In the knowledge economy, conversations inside and outside the company are the chief mechanism for making change and renewal an ongoing part of the company's culture.

- Sixth, HRM must take a strategic approach to helping firms manage email, instant messenger, internet surfing, and similar uses of technology. Clearly, the Internet has a role in generating and disseminating knowledge, and therefore is an integral part of knowledge management. But what are the unintended effects of monitoring email, tracking employees’ web searches, and similar issues related to privacy? Certainly some control is needed, but the larger question for HRM is determining appropriate boundaries. When does control become counterproductive? When does excessive monitoring become an inappropriate invasion of privacy? A related issue is HRM's role in helping firms manage the distancing consequences of electronic communication. As employees increasingly rely on technology to communicate, they lose opportunities to develop the rich, multifaceted relationships that encourage the communication of tacit knowledge. Human resource management can contribute to developing social capital by sensitizing employees to the negative consequences of excessive reliance on electronic media and by creating opportunities for face-to-face contact.

- Seventh, HRM must champion the low-tech solutions to knowledge management. Although it should not ignore the high-tech knowledge management tools, HRM contains the expertise to develop low-tech knowledge management strategies. For example, when the team that developed the Dust buster vacuum tool was created, they were given a "war room" in which they could spread out their materials and leave sketches, models, notes, and so on plastered on walls and throughout the workspace. These visible outputs of their thinking processes helped create a shared context for their efforts and turned the room into a truly collaborative workspace.
Some Asian firms, such as Dai-Ichi, create special rooms (with green tea and comfortable places to sit), where researchers are expected to spend a half-hour daily, telling whomever they meet about their current work. Neither of the two preceding examples requires large financial investments in technology that will rapidly become obsolete. Yet both examples demonstrate how HRM could help a firm orchestrate and facilitate knowledge sharing.

The emphasis on discrete HRM practices is also broadening to a focus on developing themes and creating environments conducive to learning, as well as to the acquisition, sharing and dissemination of knowledge within organizations.

The major four key areas of HRM function to respond to the demands of the knowledge economy.

- **Learning**: A pivotal aspect of life in the knowledge economy is the need for learning. The emphasis on discrete HRM practices is broadening to a focus on developing themes and creating environments conducive to learning, as well as to the acquisition, sharing and dissemination of knowledge within organizations. This includes creating and sustaining learning environments and nurturing communities of practice. The new role for HRM includes managing intellectual capital and developing human capital within the organization. A learning organization gives the platform for building knowledge system in the organization.

- **Roles**: These new HRM roles are those of human capital steward, knowledge facilitator, relationship builder, and rapid deployment specialist. The human capital steward recognizes the value of intellectual capital, must ensure that human capital is available, effective and that it will grow in value; this means brokering the services of knowledge workers. The knowledge facilitator places emphasis on learning and development, the effective management of knowledge, and creating environments conducive to knowledge creation, sharing and dissemination. The relationship builder focuses on creating and sustaining networks and communities of practice, of joining together people in various parts of the supply chain in new ways. The rapid deployment specialist faces the challenge of rapidly changing markets where information, business processes and organizational design can be combined in different ways to meet ever changing dynamic environments characteristic of
life in the knowledge economy. KM has the capacity to significantly broaden the role of the HRM professional, so for this an organization should have the capability in itself to introduce these new roles.

- **Relationships**: HRM in the knowledge economy should reflect a responsibility for developing and sustaining organizational capabilities through activities that overlap with traditional business functions such as strategy formulation and implementation, finance and marketing, as well as new functions such as KM. This requires developing new relationships that reflect a shared responsibility among managers, employees, customers and suppliers for HRM. KM can create a new role for HRM that can provide the means by which to forge new relationships. The structure of the organization should be in a manner that creates more coordination and effective authority and responsibility relationship among employees, managers, customers and suppliers.

- **Strategic focus**: In the knowledge economy a primary focus of HRM should be the development of human capital and the management of knowledge. MacDonald (2003) identifies a need for HR professionals to identify and channel intellectual capital toward the development of a concise set of core competencies, strengths and capabilities. An emphasis on traditional long term strategic development and long range planning in HRM need to be complemented by a more short term strategic approach that can be responsive to unpredictable, dynamic, fluid environments which characterize the contemporary business world. In conjunction with a short-term strategic focus, organizations need to be thinking about long-term sustainability as well as constant renewal and revitalization. The role of the HRM professional will then focus on integrating individual, team and organizational learning for the benefit of both customers and shareholders. HRM can play an important role in creating and developing the organizational capabilities that form part of contemporary KM strategies geared to creating wealth from intellectual capital while maintaining a commitment to sustainability imperatives.

**The case of XEROX**

Xerox has been recognized for its "world-class efforts in managing knowledge" by Teleos, an independent knowledge management research organization. Xerox has ranked among the top 10 Most Admired Knowledge Enterprises (MAKE) since the award was created in 1998. In
addition, the American Productivity & Quality Center (APQC) selected Xerox’s corporate
ing engineering center as one of five benchmark organizations for "building and sustaining
communities of practice" last December.

“Xerox realized that in today’s business climate, capturing staff knowledge and managing that data
is more critical than ever as IT leaders grapple with downsizing, hiring freezes, and manpower
fluctuations. All these changes allow expertise to take flight as staffers leave for more stable ground
or get pink-slipped. The trick to stemming such a knowledge drain is instilling a knowledge
management (KM) system before the drain drip becomes a gushing data loss.”

So, Xerox made a panel of existing employees and recruited new employees as knowledge workers
who initially worked on the idea of knowledge management. With the help of this panel a new
knowledge base was created EUREKA. Initially the staff was reluctant to use the KM system was
that participation would be an added duty to an already tightly controlled workday—essentially,
staff would need to “share” in the little downtime available to them. The employees were educated
about the difference in knowledge management and the way they used to work. Support from the
top management was also very vital in a change initiative as knowledge management is all about
change. To go for collective thinking top management supported their employees with knowledge
newsletters and a better website.

Xerox tried a number of incentives to book employee interest and learned that professional credit
was the key. Eureka in addition of creating intellectual capital contributes to the social capital
because employees came to know each other beyond their immediate work group. With a quick app
revamp, Eureka provided engineers an ability to "author” their solutions. Once we enabled them to
attach their name, it became a professional peer process. They’re proud of their solutions and are
recognized for it,” Holts house the director of Xerox explained. With Eureka, an on-site solution is
captured and available for use by everyone, thus avoiding another engineer, in a different location,
from having to reinvent the same solution. Xerox estimates that Eureka has prevented at least
300,000 redundant solutions. In addition to making their employees more efficient, the system is
clearly saving Xerox money. This whole achievement was impossible without the support and
collaboration of human resource. It is very important to nourish a culture that embraces getting the
right information to the right people at the right time. The "ultimate employee experience” is also
created as Eureka provided engineers an ability to "author” their solutions. The solutions given by
employees were also recognized as for such a cultural shift to take place, HRM must overhaul selection, appraisal, and compensation practices.

SUGGESTIONS

- HR may play a major enabling role in helping identify the potential of knowledge migrants through assessment and selection; by helping facilitate knowledge migration through appropriate communication, reward and recognition schemes; and by enhancing knowledge migrations’ likelihood of success and retention through training and development, as well as by developing organizational processes that facilitate knowledge migration, knowledge appreciation, and knowledgeable action.

- Effective knowledge creation is not possible unless leaders empower employees and show a strong commitment to the organization. Therefore, leadership and commitment of top management must be sustained throughout structuring and implementing knowledge management system.

- The creative decision is based on the essence of knowledge management. Human resource department should enhance ways so as employees can show and develop their creativity. Creativity of the employees are shown by their ability to manage such knowledge.

- Most important, becoming an effective knowledge organization requires conceptualizing HRM as a vehicle for creating capabilities and capitalizing on the human factor to create a community of knowledge workers.

- It is necessary for an organization to clarify the roles and characterize new set of roles that can assist in generating and sustaining organizational capabilities so as there will be no opposing to the new work system i.e. knowledge system thus transforming employees into knowledge workers.

- Enhance learning and developing relationship with all levels of the organization, with a strategic view so as to sustain in this competitive world through knowledge management.

- Issues like how organizations should be structured to promote knowledge creation and mobilization, and how to develop a culture and set of HRM policies and practices that harness knowledge and leverage it to meet strategic objectives. If these issues are catered by HRM then this will escort to effective knowledge management.
CONCLUSIONS

This paper has argued that the increasing importance of knowledge, and knowledge management, (KM), to organizations challenges the nature, role and boundaries of HRM in significant ways. The paper was mainly focused on the considerable the human resource aspect in knowledge management. The main point to focus In the context of knowledge-based enterprise, neither information and communications technologies nor new organizational forms are likely to be major determinants of success in knowledge management but the main factor is human resource as they are who build and use knowledge system with their knowledge. Effective HRM and KM will only come about through a sound understanding of the environment, organizational, team and individual contexts underpinning any organization.

Last, but not least, with KM becoming an essential and inherent ingredient in any organized work activity in the first decades of the 21st century, HR will have to recreate itself as a KM enterprise in its own right. Would that be a curse or a blessing? Surely, that depends on one’s weltanschauung, doesn’t it?

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CHALLENGES OF MANAGING CASH FLOWS EFFICIENTLY IN GROWING DEVELOPMENT FINANCIAL INSTITUTIONS OF INDIA

By

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ABSTRACT

The efficiency of cash management practice can be studied by overall movements of cash flows in the organizations. Many a times, net profit before taxes is very impressive in the business but even then the organization faces problems pertaining to cash flows. In the present research paper challenges of cash flow management has been studied in detail and cash flow from operating activity, financing activity as well as investing activity have been studied in detail for the most important development financial institutions of India which have witnessed impressive growth potential and have a good growth trajectory. The selected Development Banks in this research paper are, IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank or erstwhile UTI Bank. These Development Banks have been chosen by judgment sampling because they have been responsible for all round growth of Indian economy and are involved in providing variety of financial services within one roof.

Key Words: Economy, Financial Institutions, Development Banks, Capital
INTRODUCTION

After second world war economy of many countries was totally devastated because of excessive expenses in the war and immense destruction was caused in major areas due to war. Need of Development Financial Institutions was felt by the econometric scientists to restructure war shattered economies. Need of Development Banks or Development Financial Institutions was also felt in major under developed countries to cope up with the industrial developments, agricultural development, housing and urban development and also for development in service sector’s economy.

Industrial economy of any nation is the basic indices of growth of any country and major contribution in growth of gross domestic product, gross national product, employment, investments, income, control of inflation which are macro economic variables are directly linked with the overall growth of Development Banks in the global scenario. In the international perspectives, world bank (International Bank for Reconstruction and Development) and International Monetary Fund are the Development Banks which promote technology and are responsible for capital transfer from developed to developing nation and they have come up after world war so as to strengthen world economy. The Development Banks which have been providing medium term and long term finance for overall growth and development of the economy should be sound enough to cater to the needs of agricultural economy, infrastructural development, macro and micro projects and for providing working capital finance to the industrial giants besides micro as well as small medium enterprise. The balance sheet and income expenditure statement are the most traditional methods of accounting finance to show the financial soundness of any concern. But as per the Accounting Standard III, cash flow management is also shown to provide overall scenario of cash flow operations and they highlight cash flow from operating activity, financing activity and investing activity. Many a times, people who have given loan to the concerns are interested to know overall financial soundness of the concern so that they can assess whether they can get their principal amount back. So is the case with employees, suppliers, dividend seekers as they are also interested to know position of cash in the organization. Therefore, cash flow statement is prepared as per Accounting Standard III in accordance with Generally Accepted Accounting Principles. The cash flow statement is the statement which shows the overall position of cash inflows and cash outflows on a particular date or a time. Therefore, cash flow statement indicates whether there is sufficient cash in hand at a particular time and it indicates whether asset- liability management has been done prudently in the business operations or not.
In India, need of Development Financial Institutions was felt immediately after independence and many number of development financial institutions were set up in all India level, regional level as well as state level. Development Banks had to play an important role in industrial development of Indian sub continent for the following main reasons:

The entrepreneurs do not have adequate technological know-how and till end to start an enterprise. Therefore, Development Banks provide technical know-how to the upcoming entrepreneurs, Most of the people are reluctant to invest in the initial public offers of newly established enterprise because of lack in confidence in them, therefore, Development Banks provide capital to the new initial public offers.

Low capital circulation and inadequate capital generation of the enterprise, Inadequate growth of the capital markets and absence of organized capital market to cater to the need of the investors as well as entrepreneurs. People’s interest to invest only in traditional areas and not showing interests in the venture capital schemes, Inadequate financial facilities which can provide long term funds and capital for growth and development of industrial sector and boost economic growth in the manufacturing sector. Besides this, immense need of socio-economic development of the country as they directly influence capital formation, employment, production and investment in the social sub-system.

In the Indian perspective there are many Development Banks all across the nation, some of them are Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), Industrial Credit Investment Corporation of India (ICICI), Industrial Reconstruction Corporation of India which is now called as Industrial Investment Bank of India (IIBIL). In addition to the above, there are nineteen state financial corporations and twenty four industrial development corporation to cater to the developments of different states. Besides them, some other financial institutions such as Unit Trust of India (UTI), Commercial Banks, Small Industries Development Corporation (SIDC), Life Insurance Corporation (LIC), National Industrial Development Corporation (NIDC) also provide short term, medium term and long term finance to the entrepreneurs.
OBJECTIVES OF THE PRESENT RESEARCH PAPER

The present research paper throws light on following major strategic objectives:

01. The overall financial viability of selected Development Banks viz. IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank are now satisfactory in the present times as Net Profit before Interest and Taxes for growing development banks has improved in the past.

02. Position of cash flows in the selected Development Banks has improved in the past but it still needs improvements.

03. The creditors, suppliers, dividend seekers and employees of the selected Development Banks have got sound goodwill with them as they are judiciously and timely paid because of improved cash flow position of selected Development Banks in different time horizons.

RESEARCH METHODOLOGY

In the present research paper, for analyzing cash flow of important banks, secondary data has been collected and analyzed for a period from 2001-02 to 2011-12 through annual reports of selected Development Banks which have been obtained from corporate offices of the selected Development Banks like IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank or erstwhile UTI Bank and these annual reports have also been displayed in web portals of the banks.

HYPOTHESIS TESTING

In the present research papers following major hypothesis is studied and analyzed thoroughly and carefully for the selected Development Banks.

01. The closing balance of cash is satisfactory with the selected Development Banks of India.

02. The net cash flow generated by selected Development Banks through operating activity is by and large satisfactory in the present regime.
03. The net cash flow generated by selected Development Banks through investing activity can be improved to get desired results presently.

04. The net cash flow generated by financing activity is satisfactory in the present era.

05. The position of net change of cash and cash equivalents can be improved through prudent management cash flow through investing activity, financing activity and operating activity.

06. The closing balance of cash in selected Development Banks has been good in the yesteryears.

MAJOR COMPONENTS OF CASH FLOW CAN BE ENUNCIATED AS BELOW

➢ Cash Flow from Operating Activity

The prime revenue generating activity of the banks may be Retail banking business, wholesale banking business, treasury management, fund and fee based activities, custodial services. Therefore, such revenues which come from above said activities are called cash inflow from operating activity. The cash inflow from operating activity can be increased by sale of fixed assets, as well as sale of services to the clients as also by transactional charges of the banking services. The cash receipts of royalties, incomes, commission based activities fee and fund based activities, merchant banking business, derivative marketing are considered as inflows while outflows indicate payment to the employees, suppliers, insurance services, income taxes and other operational items.

➢ Cash Flow from Investing Activity:

Cash Flow from Investing Activity takes under consideration the cash outflow from investing activity by acquiring of fixed assets, cash payments in acquisition of shares, warrants, debentures etc. while cash receipts on disposal of shares, warrants, debentures indicate cash inflow.
Cash Flow from Financing Activity:

Cash Flow from Financing Activity indicate cash flow from issue of equity shares, preference shares, long term financing by bonds and other instruments such as debentures, long term and short term borrowings and cash outflow indicate cash payment of debts or redemption of debt funds etc..

SAMPLING METHODOLOGY

There are more than seventy Development Banks in Indian economy and important Development Banks are Industrial Finance Corporation of India (IFCI), Industrial Credit Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI), Housing Development Finance Corporation (HDFC), Axis Bank or erstwhile UTI Bank. Some other Development Banks that have witnessed a sound growth of the business in India are National Housing Bank, State Financial Corporation, Small Industries Development Bank of India (SIDBI), Small Industries Development Corporation (SIDC), Export Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD) etc. Out of a herculean list, the five most important Development Banks have been chosen viz. IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank which is erstwhile UTI Bank and they have been chosen by judgment sampling as these are the banks with impressive growth trajectory.

TABLE NUMBER 1
CASH FLOW ANALYSIS OF IFCI LIMITED:

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Profit before Taxes &amp; extraordinary items</th>
<th>Net Cash flow from operating activity</th>
<th>Net Cash used and raised from investing activity</th>
<th>Net Cash flow from financing activity</th>
<th>Net change in cash and cash equivalents</th>
<th>Closing balance of cash and cash equivalents</th>
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<td>2001-02</td>
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<td>341.96</td>
</tr>
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<td>Net Profit before Taxes &amp; Extra Ordinary Items</td>
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<td>Net Cash Used and Raised from Investing Activity</td>
<td>Net Cash Flow from Financing Activity</td>
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<td>2011-12</td>
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<td>898.61</td>
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</table>

Source: Compiled from Annual Reports of IFCI Limited for different years

- Net Profit before Taxes & extra ordinary items was initially negative till 2005-06 but became positive after 2006-07.
- Net Cash flow from operating activity was negative during 2001-02 as well as 2002-03 this shows operational efficiency was poor during this span.
- Net Cash used and raised from investing activity has been negative for maximum number of years which should be a matter of concern for IFCI Limited.
- Net Cash flow from financing activity was impressive during 2010-11 but again deteriorated in the present regime of 2011-12.
**TABLE NUMBER 2**
**CASH FLOW ANALYSIS OF ICICI BANK**

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Profit before Taxes &amp; extra ordinary items</th>
<th>Net Cash flow from operating activity</th>
<th>Net Cash used and raised from investing activity</th>
<th>Net Cash flow from financing activity</th>
<th>Net change in cash and cash equivalents</th>
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<td>289.79</td>
<td>2241.20</td>
<td>—23.68</td>
<td>131.40</td>
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<td>36229.31</td>
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</table>

Source: Compiled from Annual Reports of ICICI Bank for different years.

- Net Profit before Taxes & extra ordinary items has increased in past years continuously this shows improved financial viability of ICICI Bank.
- Net Cash flow from operating activity has been negative and has been a matter of concern during fiscal years 2007-08 and 2008-09.
- Net Cash used and raised from investing activity has been negative for maximum number of years under study which should be a matter of concern for ICICI Bank.
Net Cash flow from financing activity has been positive after 2005-06. This shows that the bank has been generating cash inflows by equity and debt modes.

**TABLE NUMBER 3**

**CASH FLOW ANALYSIS OF IDBI BANK**

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Profit before Taxes &amp; extra ordinary items</th>
<th>Net Cash flow from operating activity</th>
<th>Net Cash used and raised from investing activity</th>
<th>Net Cash flow from financing activity</th>
<th>Net change in cash and cash equivalents</th>
<th>Closing balance of cash and cash equivalents</th>
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<td>2001-02</td>
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<td>560.34</td>
<td>—2708.42</td>
<td>18057.65</td>
</tr>
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</table>

Source: Compiled from Annual Reports of IDBI Bank for different years.

Net Profit before Taxes & extra ordinary items has been increasing and was positive for all the years, this is a sign of good financial viability.
Net Cash flow from operating activity has been negative for 2011-12 thus operational efficiency needs improvement this will generate positive cash flows.

Net Cash used and raised from investing activity has been negative after 2007-08 thus investing should be done after judicious security analysis and investment portfolio should be selected carefully.

Net Cash flow from financing activity has been impressive in 2010-11 but slightly deteriorated in 2011-12.

**TABLE NUMBER 4**

**CASH FLOW ANALYSIS HDFC BANK**  
 ₹ Rupees

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Profit before Taxes &amp; extraordinary items</th>
<th>Net Cash flow from operating activity</th>
<th>Net Cash used and raised from investing activity</th>
<th>Net Cash flow from financing activity</th>
<th>Net change in cash and cash equivalents</th>
<th>Closing balance of cash and cash equivalent</th>
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<td>2001-02</td>
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<td>3741.00</td>
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<tr>
<td>2005-06</td>
<td>1253.51</td>
<td>1724.26</td>
<td>—381.97</td>
<td>1104.87</td>
<td>2447.66</td>
<td>6188.66</td>
</tr>
<tr>
<td>2006-07</td>
<td>1638.75</td>
<td>666.63</td>
<td>—311.40</td>
<td>1637.88</td>
<td>1993.11</td>
<td>8181.77</td>
</tr>
<tr>
<td>2007-08</td>
<td>2280.63</td>
<td>3583.43</td>
<td>—619.78</td>
<td>3628.34</td>
<td>6591.95</td>
<td>14666.49</td>
</tr>
<tr>
<td>2008-09</td>
<td>3299.25</td>
<td>—1736.14</td>
<td>—663.77</td>
<td>2964.66</td>
<td>2728.27</td>
<td>17506.61</td>
</tr>
</tbody>
</table>
Net Profit before Taxes & extra ordinary items has been very good and has increased in the past.
Net Cash flow from operating activity is a matter of concern during present regime as it was negative during 2011-12.
Net Cash used and raised from investing activity needs improvement as it was negative for all the years of study.
Net Cash flow from financing activity has been positive after 2003-04.

**TABLE NUMBER 5**

**CASH FLOW ANALYSIS OF AXIS BANK**

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Profit before Taxes &amp; extra ordinary items</th>
<th>Net Cash flow from operating activity</th>
<th>Net Cash used from investing activity</th>
<th>Net Cash flow from financing activity</th>
<th>Net change in cash and cash equivalents</th>
<th>Closing balance of cash and cash equivalents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>213.36</td>
<td>296.82</td>
<td>—86.33</td>
<td>329.17</td>
<td>539.66</td>
<td>1751.44</td>
</tr>
<tr>
<td>2002-03</td>
<td>301.29</td>
<td>1751.17</td>
<td>—1208.03</td>
<td>323.25</td>
<td>866.39</td>
<td>3569.71</td>
</tr>
<tr>
<td>2003-04</td>
<td>429.61</td>
<td>2177.37</td>
<td>—190.93</td>
<td>107.06</td>
<td>2093.50</td>
<td>5663.21</td>
</tr>
<tr>
<td>2004-05</td>
<td>503.80</td>
<td>4334.18</td>
<td>—5829.61</td>
<td>1108.22</td>
<td>—387.20</td>
<td>5276.09</td>
</tr>
<tr>
<td>2005-06</td>
<td>731.30</td>
<td>240.16</td>
<td>—2097.46</td>
<td>996.20</td>
<td>—861.09</td>
<td>3641.84</td>
</tr>
</tbody>
</table>
Net Profit before Taxes & extra ordinary items has been impressive for all the years.

Net Cash flow from operating activity has been positive for all the years except 2011-12. Thus, presently it needs consideration.

Net Cash used from investing activity has been negative for all the years i.e. from 2001-02 to 2011-12. Investing should be done efficiently after careful security analysis a diversified portfolio of investment has to be created to reduce risks and improve returns thus risk analysis and mitigation needs immediate attention in case of investing.

Net Cash flow from financing activity has improved and has been positive for all the years. This shows that the bank has been floating equity and debt issues for cash-flow management.

**SUGGESTIONS FOR IMPROVEMENT OF CASH FLOW POSITION:**

The cash inflows can be categorized as receipts of royalties, incomes, commission based activities, merchant banking services, derivative marketing etc. while outflows can be segregated as payment to the employees, suppliers, insurance services, income taxes and other operational expenses. Cash inflows can be increased and outflow can be decreased so that overall operational efficiency can be increased as better cash flow position is an indicator of improved financial viability of the banking entity.

It has been seen that major banks suffer from increased expenditures on employees, operational expenses, establishment and interest expenses etc. therefore it is the need of the
hour to curtail exorbitant expenditures so that profitability can be boosted and position of cash flow can also be improved along with liquidity.

- Major Development Banks have cash outflow from investing activity. The cash outflow from such activity indicates acquiring of fixed assets, cash payments in acquisition of shares, warrants, debentures etc. while cash receipts from investing include on disposal of shares, warrants, debentures indicate cash inflow. Inflows have to be increased and outflows should be controlled.

- Cash flow from financing activity include, cash flow from issue of shares, bonds and other instruments such as debentures, long term and short term borrowings and cash outflow indicate cash payment of borrowings or redemption of borrowed funds Inflows can be increased by acquisition of debt and equity.

- It should be remembered that during volatile market conditions share acquisition should be done judiciously so that positive cash flows can be attained in the business.

- Sick entities that have perpetual problem of cash flows can merge with stronger business groups and entities.

- Nonperforming assets can be minimized to improve cash flow position.

- Asset Reconstruction Companies and Debt recovery Tribunals can be entrusted the task of recovery of substandard loans so as to reduce NPAs.

REFERENCES


Books:


FDI IN RETAIL BANKING IN INDIA- CHALLENGES AND ISSUES

By

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ABSTRACT

Indian banking sector has witnessed a number of changes. Most of the banks in India have begun to take an innovative idea towards banking with the objectives of creating more value for customers and to attract more and more customers in the banking network. Retail banking is also one of the innovative idea came after globalization to attract the more and more numbers of customers to fulfill their specific requirement. FDI in retail banking sector is a new phenomenon, which provides a lot of structural and innovative technology in the area of retail sector. FDI in banking sector can solve various problems of the overall banking sectors such as, innovative financial products, technical developments in the foreign markets, efficient management, controlling of non-performing assets, redaction in financial instability, proper capitalization to face the changing financial market conditions. This research article highlights the concept of retail banking, why India needs FDI in retail banking, innovations in retail banking, issues and challenges etc.

Key Words: FDI, Retail Banking, Innovations, Mass banking, Class banking.
I. INTRODUCTION

Foreign Direct Investment (FDI) as seen as an important source of non-debt inflows, and is increasing being sought as a vehicle for technology flows and as a means of attaining competitive efficiency by creating a meaningful network of global interconnections. India has sought to increase inflows of FDI with a much liberal policy since 1991 after decade's cautious attitude. The 1990's have witnessed a sustained rise in annual inflows to India. Basically, opening of the economy after 1991 does not live much choice but to attract the foreign investment, as an engine of dynamic growth especially in view of fast paced movement of the world forward Liberalization, Privatization and globalization.

The Foreign Direct Investment means “cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy. FDI is also described as “investment into the business of a country by a company in another country”. Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country”. Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country.

Indian banking sector has witnessed a number of changes. Most of the banks in India have begun to take an innovative idea towards banking with the objective of creating more value for customers and to attract more and more customers in the banking network. Retail banking is also one of the innovative idea came after globalization to attract the more and more numbers of customers to fulfill their specific requirement. Almost all the banks, Commercial banks, PSC banks, private banks and foreign banks are offering different types of product in the area of retail banking.

II. NEEDS OF FDI IN RETAIL BANKING

Now the question arises why we need FDI in retail banking sector. Exhibit I indicates one of the important reason that transition of Indian economy from manufacturing economy to service and knowledge economy, especially after 1991 onwards. And service economy is mainly depends upon the strong banking sector. There are various problems faced by the Indian banking sector such as; inefficiency in management, instability in financial matters, innovativeness in financial products or scheme, non-performing areas or properties, poor marketing strategies, changing financial market conditions etc.
FDI in banking sector can solve various problems of the overall banking sector. Such as, innovative financial products, technical developments in the foreign markets, problem of inefficient management, controlling of non-performing assets, redaction in financial instability, overcoming with poor capitalization and face the changing financial market conditions. Exhibit II indicates the flow of foreign direct investment from the various countries, such as Mauritius, Singapore and USA are the leaders with the first, second and third placed respectively in the last five years.

**Exhibit II: FDI flows to India: country-wise (US $ million)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FDI</td>
<td>22,697</td>
<td>22,461</td>
<td>14,939</td>
<td>23,473</td>
<td>18,286</td>
</tr>
<tr>
<td>Mauritius</td>
<td>10,165</td>
<td>9,801</td>
<td>5,616</td>
<td>8,142</td>
<td>8,059</td>
</tr>
<tr>
<td>Singapore</td>
<td>3,360</td>
<td>2,218</td>
<td>1,540</td>
<td>3,306</td>
<td>1,605</td>
</tr>
<tr>
<td>U.S.A</td>
<td>1,236</td>
<td>2,212</td>
<td>1,071</td>
<td>994</td>
<td>478</td>
</tr>
<tr>
<td>Cyprus</td>
<td>1,211</td>
<td>1,623</td>
<td>571</td>
<td>1588</td>
<td>415</td>
</tr>
<tr>
<td>Japan</td>
<td>266</td>
<td>971</td>
<td>1,256</td>
<td>2,089</td>
<td>1,340</td>
</tr>
<tr>
<td>Netherlands</td>
<td>682</td>
<td>804</td>
<td>1,417</td>
<td>1,289</td>
<td>1,700</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>690</td>
<td>643</td>
<td>538</td>
<td>2,760</td>
<td>1,022</td>
</tr>
<tr>
<td>Germany</td>
<td>611</td>
<td>602</td>
<td>163</td>
<td>368</td>
<td>467</td>
</tr>
<tr>
<td>UAE</td>
<td>234</td>
<td>373</td>
<td>188</td>
<td>346</td>
<td>173</td>
</tr>
<tr>
<td>France</td>
<td>437</td>
<td>283</td>
<td>486</td>
<td>589</td>
<td>547</td>
</tr>
<tr>
<td>Switzerland</td>
<td>135</td>
<td>96</td>
<td>133</td>
<td>211</td>
<td>268</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>156</td>
<td>137</td>
<td>209</td>
<td>282</td>
<td>66</td>
</tr>
<tr>
<td>Spain</td>
<td>363</td>
<td>125</td>
<td>183</td>
<td>251</td>
<td>348</td>
</tr>
<tr>
<td>South Korea</td>
<td>95</td>
<td>159</td>
<td>136</td>
<td>226</td>
<td>224</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>23</td>
<td>40</td>
<td>248</td>
<td>89</td>
<td>34</td>
</tr>
<tr>
<td>Others</td>
<td>3,034</td>
<td>2,374</td>
<td>1,184</td>
<td>983</td>
<td>1,540</td>
</tr>
</tbody>
</table>

Source: RBI annual report 2012-13p 199.
In the era reforms, banking has transformed in the ways such as; advent of retail banking, growing presence of foreign banks, emergence of a universal banking model, banks and non-banks competing to serve similar customer needs, technology driven innovation in products and access to services, focus shifting to inclusive banking.

Foreign Direct Investment is a non-debt inflow, which will directly solve the problem of capital base of the Indian Banks. It is observed that technology has been playing a crucial role in the tremendous improvement of banking services and operations. Important events in the evolution of new age payment systems in India which includes arrival of card-based payments, debit card, credit card - late 1980’s and early 1990’s; introduction of Electronic Clearing Service (ECS) in late 1990’s; Electronic Funds Transfer/ Special EFT (EFT/SEFT) in the early 2000’s; Real Time Gross Settlement (RTGS) in March 2004; NEFT (National Electronic Funds Transfer) as a replacement for EFT/SEFT in 2005/06; Plan for implementation of cheque transactions system as a pilot programme in New Delhi in 2007 and further implementation in 2013; migration from cash and cheque based payment system; it has become a necessity to electronic fund transfer system and many more. Exhibit III indicates how middle class family is growing not only in numbers, but their income level too. They need better professionalize banking services and this group is one of the huge opportunities for the retail banking sector in coming years.

Exhibit III

Source: K V Kamath, Challenges for Indian banks during the next decade November 26, 2012 CAFRAL, Advanced leadership programme.

III. RETAIL BANKING: THE CONCEPT

Retail Banking refers to provision of banking products and services offered to individual customers, typically for non-entrepreneurial purposes. Retail banking involves offering of products both sides of the balance sheet eg. Fixed, current/savings accounts on the liability side; and

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mortgages, loans (e.g., personal, housing, auto, and educational) on the asset side. Additionally, retail banking also involves offering of credit cards, depository services and other para-banking products and services viz. insurance products, capital market products etc. to individuals\(^2\).

Retail banking is typical mass-market banking where individual customers use local branches of larger commercial banks. The term Retail Banking encompasses various financial products viz., different types of deposit accounts, housing, consumer, auto and other types of loan accounts, demat facilities, insurance, mutual funds, credit and debit cards, ATMs and other technology-based services, stock-broking, payment of utility bills, reservation of railway tickets, etc. According to Shyamala Gopinath\(^3\) today’s retail banking sector is characterized by three basic characteristics:

- Multiple products (deposits, credit cards, insurance, investments and securities);
- Multiple channels of distribution (call centre, branch, Internet and kiosk); and
- Multiple customer groups (consumer, small business, and corporate).

The objective of retail banking is to provide customers a full range of financial products and banking services, give the customers a one-stop window for all their banking requirements. Retail banking segment is continuously undergoing innovations, product re-engineering, adjustments and alignments.

Exhibit IV indicates structure of retail banking in India. Retail banking technically divided in two parts, the mass retail banking and the class retail banking. The ‘mass retail banking’ is the stage in which the bank provides standardized banking products and services to its customers. In this phase the banks attempt to build a sufficiently broad customer base which can serve as a stable source of funding. The ‘class retail banking’ on the other hand, is the stage in which the bank offers customized products and services targeted at a niche customer segment, the high net worth individuals. Retail banking focused solely at a niche customer segment may also be termed as private banking.

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IV. RETAIL BANKING IN INDIA- WHY?

Now the big question arises why we need retail banking rather than traditional banking product. There are many reasons behind that, some important reasons are as follows:

- Economic prosperity and increase in purchasing power (specially in the last two decade)
- Changing consumer demographics (larger younger population as compare to other countries)
- Technological development (credit card, internet banking, phone banking, ATM)
- Treasury income of the banks (capturing of uncovered bottom line of the society)
- Decline in interest rates (specially personal loan and housing loan)
- Larger NPA in mega sector (NPA related to industries and larger dues)
- Increasing literacy levels (each segment of the society)
- Higher adaptability to technology (technology friendly attitude)
- Growing consumerism (more spending for present needs)
- Changing mindsets-willingness to borrow/lend( risk bearing capacity)
- Desire to improve lifestyles (impact of media and social channels)

To provide facilities of retail banking many modification are made by the banks including changes in traditional branch banking in the last one decade. A number of banks have adopted a new model of branch banking, where one would find that only a small space is reserved for self service area and the rest is used for activates related to sales. Some of the banks have opened
special retail outlets call retail banking boutiques which cater to the needs of consumer under one roof.

Exhibit V indicates changes in the profile of middle classes. As per data till 2011 Indian middle class as a percentage of total population is 13.1% which will enhance up to 20.30% in 2015-16 and 37.2% till the year 2025-26. So we need a strong retail banking network to serve this class which is an opportunity for the Indian banking system.

![Exhibit V: Structure of middle class](image)

Source: Indian Banking – The engine for sustaining India’s growth agenda KPMG report based on NCAER

V. INNOVATION IN RETAIL BANKING

Retail banking is fully dependent upon customize innovations that means innovations related to a group of customers whose requirements are same. Bessant and Tidd identified 4Ps of innovation: Product Innovation, Process Innovation, Position Innovation and Paradigm Innovation.

- **Product Innovation** is new designs of products or features seen in tangible products such as house appliances, etc.
- **Process innovation** consists of fundamental changes in fabrication procedures or modifications in manufacturing methods, sequence, or equipment used to create products.
- **Position innovation** refers to contextual shifts with regard to the way products/services are introduced.
- **Paradigm innovation** refers to changes in mental models which frame the actions or behaviors of a social entity and motivates their interest in performing new routines or engaging in practices that may have previously been devalued. Thus, a paradigm innovation

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may lead to shifts in perceptions, values, and belief systems that generate new actions and behaviors as well as motivate new practices or routines.

Indian Banks have made several innovations for sustain by using the CRM system such as; the expansion of ATM networks including biometric ATMs, introduction of single window service, extension of internet banking services suitable for rural & semi-urban customers, introduction of plastic money i.e. credit card, debit card, smart card, mobile and e-mail alerts, introduction of more than one service in one account, introduction of new loan schemes as per the customer’s needs viz. renovation loans and tourism loans etc. therefore we can say retail banking is full of innovations, specially product innovations and technology innovations.

VI. CHALLENGES IN RETAIL BANKING

Retail banking created a lot of challenges to the banks. Therefore, banks need to restructure themselves. The following practices need to be adopted on urgent basis

- Requirement of greater professionalism and greater emphasis on diversification and sources non interest income.
- Consultancy services and cost management.
- Equipping them to operate in the deregulated environment and necessary changes in the legal stipulations.
- Benchmarking of service standards to improve productivity and proficiency.
- A self- regulatory organization to monitor the activities of banking
- Retention of present customers is going to be a major challenge.
- Rising indebtedness and controlling of NPA.
- Adoption of advanced information technology.
- KYC issues and money laundering risks in retail banking.
- Talent management and productivity issues in bank
- CRM and coordination with various branches.

VII. FDI AND INDIAN RETAIL BANKING SECTOR

FDI can solve many structural, technological and capital related problems for Indian banking system. Recently government has taken a decision to allow 49% FDI in banking sector. Some important focus areas are as follows.

- Improvement for capital base for banks
- Easy excess able operation and cost competitiveness
- Helpful in international orientation of Indian banking business.
• Commencement of new branches/banks in India

Exhibit IV indicates industry wise flow of FDI in India. In the last five years financial service consistently gaining third position among the various sectors. First and second position secured by manufacturing and construction sector respectively. It indicates growing needs of financial and banking services to fulfil the requirement of local needs. With the help of FDI in retail, banking can also be improve in a systematic manner.

Exhibit IV: F D I flows to India: Industry-wise (US $ million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture</td>
<td>4,777</td>
<td>5,143</td>
<td>4,793</td>
<td>9,337</td>
<td>6528</td>
</tr>
<tr>
<td>Construction</td>
<td>2,237</td>
<td>3,516</td>
<td>1,599</td>
<td>2,634</td>
<td>1319</td>
</tr>
<tr>
<td>Financial Services</td>
<td>4,430</td>
<td>2,206</td>
<td>1,353</td>
<td>2,603</td>
<td>2760</td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td>1,886</td>
<td>2,191</td>
<td>444</td>
<td>340</td>
<td>197</td>
</tr>
<tr>
<td>Electricity and other Energy Generation, Distribution &amp; Transmission</td>
<td>669</td>
<td>1,877</td>
<td>1,338</td>
<td>1,395</td>
<td>1653</td>
</tr>
<tr>
<td>Communication Services</td>
<td>2,067</td>
<td>1,852</td>
<td>1,228</td>
<td>1,458</td>
<td>92</td>
</tr>
<tr>
<td>Business Services</td>
<td>643</td>
<td>1,554</td>
<td>569</td>
<td>1,590</td>
<td>643</td>
</tr>
<tr>
<td>Miscellaneous Services</td>
<td>1,458</td>
<td>888</td>
<td>509</td>
<td>801</td>
<td>552</td>
</tr>
<tr>
<td>Computer Services</td>
<td>1,647</td>
<td>866</td>
<td>843</td>
<td>736</td>
<td>247</td>
</tr>
<tr>
<td>Restaurants &amp; Hotels</td>
<td>343</td>
<td>671</td>
<td>218</td>
<td>870</td>
<td>3129</td>
</tr>
<tr>
<td>Retail &amp; Wholesale Trade</td>
<td>294</td>
<td>536</td>
<td>391</td>
<td>567</td>
<td>551</td>
</tr>
<tr>
<td>Mining</td>
<td>105</td>
<td>268</td>
<td>592</td>
<td>204</td>
<td>69</td>
</tr>
<tr>
<td>Transport</td>
<td>401</td>
<td>220</td>
<td>344</td>
<td>410</td>
<td>213</td>
</tr>
<tr>
<td>Trading</td>
<td>400</td>
<td>198</td>
<td>156</td>
<td>6</td>
<td>140</td>
</tr>
<tr>
<td>Education, Research &amp; Development</td>
<td>243</td>
<td>91</td>
<td>56</td>
<td>103</td>
<td>150</td>
</tr>
<tr>
<td>Others</td>
<td>1,097</td>
<td>384</td>
<td>506</td>
<td>419</td>
<td>43</td>
</tr>
<tr>
<td>Total FDI</td>
<td>22,697</td>
<td>22,461</td>
<td>14,099</td>
<td>23,473</td>
<td>18,286</td>
</tr>
</tbody>
</table>

Source: RBI annual report 2012-13p 199.

VIII. SUCCESSFUL RETAIL BANKING – important measures

In future retail banking is one of the major business segment, new expectation from retail banking can be fulfils with the following effective measures.

• Satisfied customer is the best guarantee for stability of the organization in the long run. Banks can satisfy their customers only by providing customized, cost effective and timely services.

• The banks should be able to deliver the products and services to the customers in safe, secure, prompt and cost effective manner by leveraging technology.

• Appropriateness of product and services for the customers

• The next set of essential pre-requisites relate to pricing. Our experience in India demonstrates that the pricing of the products and services –both on the liability as well as on the asset side are heavily weighed against the retail customers as a group.
XI. CONCLUSION:

Indian retail banking sector is witnessing higher growth in the last one decade. Various innovations such as ATM, internet banking, all time banking, ECS etc made Indian customers at par with the international standard. The foundation of Indian retail banking depends upon innovations, cost competitiveness and easy access of product and facilities. FDI can provide technical innovations and capital base required by Indian banks. In this regards we need a long term strategy, planning and support form RBI and government. Frequent changes in the policies and rates will create confusion for the customers as well as foreign investors.

REFERENCES