B.A. Part II (Economics Honours)
Paper - IIIrd
Ravi Shanker Singh
Assistant Professor (Economics)
Vaishali Mahila College, Hajipur

INDUSTRIAL FINANACE

Industrial Finance may be required for short period or for long period. It may be raised by investment of proprietors as ownership funds or by borrowings. The various sources of finance may be broadly classified as under:

A. Ownership Funds

It includes owner's investment as sole proprietor or partners of a firm. In companies it is raised by issue of shares, ploughing back of profits, depreciation policy, dividend policy, reorganization and price mechanism.

B. Borrowed Funds

There are external sources of business. It includes borrowings from relatives and other sources by sole owners and partners of business. In companies borrowed funds include debentures public deposits, banks, insurance companies and special financial institutions.

A. Ownership Funds

1. Shares

The share capital of a company is dividend into small units called shares. A person who buys a share is called the shareholder or member of the company.
The share capital forms a part of proprietary or ownership funds and used for financing the long-term requirements, the fixed capital and the fixed part of the regular working capital. It need not be repaid during the time of the company.

2. Ploughing Back of Profits

Like all individuals, companies also save a portion of their profits to be used to meet future needs. When the profits earned by a company, instead of being fully distributed to shareholders in the form of dividends, a portion is retained in the business as additional capital, it is known as ploughing back of profits.

3. Depreciation Policy

Depreciation is permanent decrease in the value of an asset through wear and tear in use or passage of time. It represents permanent fall in the market value of the asset. A good management policy provides for adequate depreciation on its assets. Adequate depreciation charge is made with a view to recover through current earnings the original investment in the assets.

Financial Institution

These organisations could be broadly divided into: Developmental Financial Institutions, Banks, and Other Financial Institutions. The Figure-1 presented below gives a broad structure of the major financial institutions in India. All the financial Institutions can be broadly divided into Developmental financial Institutions (DFIs), Banks, and Other Financial institutions (FIs). Under DFIs we included IDBI, IFCI, ICICI, IIBI, EXIM Bank, SIDBI, SFCs and SIDCs. All these institutions provide primarily developmental finance or project Finance or long-term finance. The mandate of these institutions is to promote industrial development in the country. Banks are primarily established for mobilizing savings from the general public. A major part of the funds so mobilized are invested in the industries by way of short-term loans.

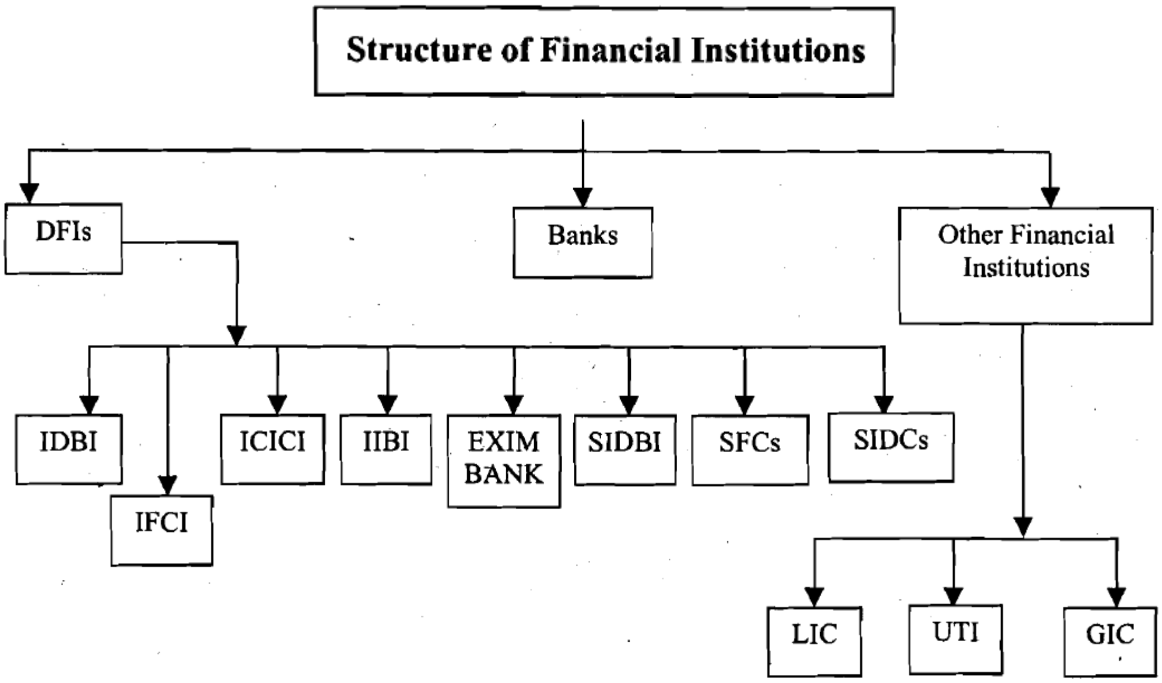

Fig.1

LIC and GIC are also established to provide social security to the people. In this process they also generate huge funds and these organisations also invest these funds in industries in various forms. UTI was established on the pattern of mutual funds and it also raises huge funds and invests them in Industries. Some of the institutions, which are presented in Figure-1, provide primarily shortterm finance and some provide primarily long-term finance. Most of these organisations are national level organisations and some are at the State level. Further many of these organisations provide financial assistance to large and medium organisations and some are providing assistance to small-scale enterprises.