Chapter IV

Financial Institutions

Financial institutions assume a critical role in the provision of long term credit, especially in the absence of a well-developed long-term debt market. The income of major financial institutions recorded an increase during 1999-2000 but the increase in expenditure was more pronounced, with the result the net profits declined by about 2 per cent.

4.2 The financial institutions could be categorised into three broad heads, *viz.*, all-India financial institutions (AIFIs), state-level institutions and other institutions (Box IV.1). Of the three categories, AIFIs are the most dominant in terms of assets and range of operations.

4.3 During the year 1999-2000, financial assistance sanctioned and disbursed by AIFIs registered notable increases. Sanctions increased by 26.5 per cent, while the increase in disbursements was of the order of 19.6 per cent. In the preceding year, sanctions and disbursements showed the same order of increase of 8.4 per cent.

4.4 Resource mobilisation by mutual funds witnessed a sharp rise during 1999-2000. Net resources mobilised by all mutual funds at Rs.21,971 crore posted a growth of over 500 per cent over the amount mobilised during 1998-99. Growth in resource mobilisation during 1999-2000 was driven by private sector funds, which witnessed an inflow of Rs.17,171 crore, as compared with around Rs.2,519 crore during the previous year. Improved resource

Box IV.1: Organisational Classification of Financial Institutions

The all-India financial institutions comprise of all-India Development Banks, specialised financial institutions and investment institutions. The major AIFIs are the Industrial Development Bank of India (IDBI), IFCI Ltd., ICICI Ltd., Industrial Investment Bank of India Ltd. (IIBI), Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), National Bank for Agriculture and Rural Development (NABARD), Export Import Bank of India (EXIM Bank), Tourism Finance Corporation of India Ltd. (TFCI), Unit Trust of India (UTI), Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and its subsidiaries and Infrastructure Development Finance Company of India Ltd. (IDFC). All these institutions operate on all-India basis. Other institutions comprise Export Credit and Guarantee Corporation (ECGC) and Deposit Insurance and Credit Guarantee Corporation (DICGC). The state level institutions consist of state financial corporations (SFCs) and state industrial development corporations (SIDCs). The SFC, established under the SFCs Act, 1951, with the exception of Tamil Nadu Industrial and Investment Corporation Ltd., established in 1949 under the Companies Act as Madras Industrial Investment Corporation also functions as SFC, are playing an important role in the development of small and medium enterprises in their respective states in tandem with national priorities. There are at present 18 SFCs in the country. Likewise, the SIDCs were established under the Companies Act as wholly-owned undertakings of state governments for promotion and development of medium and large scale industries in respective states. There are 28 SIDCs in the country. Of the 28 SIDCs, those in Andaman and Nicobar, Arunachal Pradesh, Daman and Diu, Dadra and Nagar Haveli, Goa, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Pondicherry and Sikkim also function as SFCs and provide assistance to small and medium enterprises and act as promotional agencies. The organisational structure of the FIs is provided in Chart IV.1.

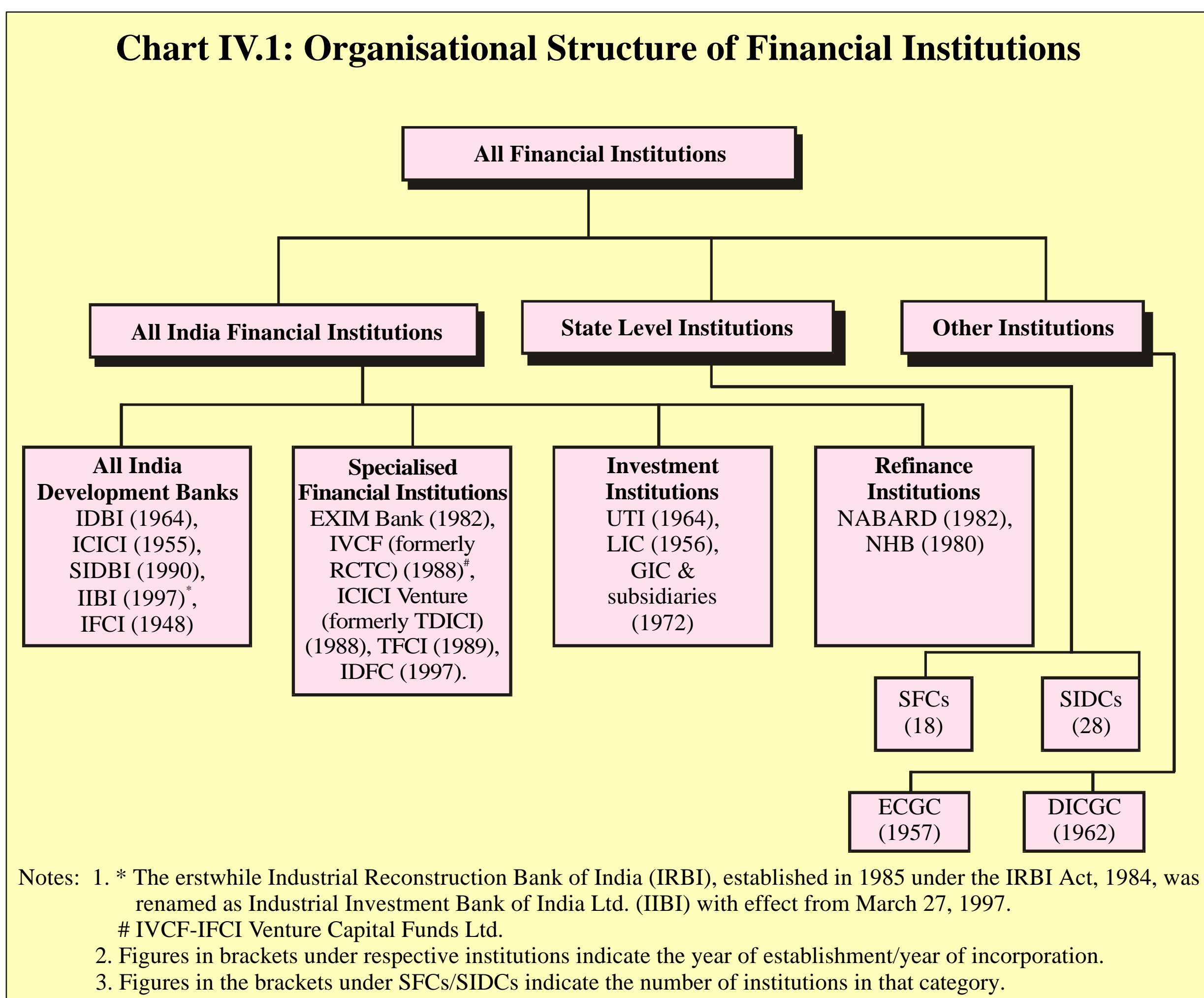
mobilisation by mutual funds could be attributed mainly to the tax benefits announced in the Union Budget 1999-2000, such as, exemption from income tax for all income received by the investors from the Unit Trust of India (UTI) and other mutual funds, exemption from dividend tax for three years for the US-64 Scheme and all open-ended equity oriented schemes.

1. Policy Developments Relating to Select Financial Institutions

Evolution of Supervision of FIs by Reserve Bank of India

4.5 In November 1994, the Board for Financial Supervision (BFS) was constituted under the aegis of Reserve Bank for comprehensive and integrated regulation and supervision over the commercial banks and FIs under one umbrella and the Reserve Bank of India (Board for Financial Supervision) Regulations, 1994, were framed. The Regulations specifically provide that the Board shall perform all functions and exercise the powers of supervision and inspection under Reserve Bank of India Act, 1934 and also the Banking Regulation Act, 1949, in relation to different sectors of the financial system, such as, banking companies, FIs and NBFCs. In pursuance of the above, select FIs, *viz*., IDBI, ICICI Ltd., IIBI Ltd., IFCI Ltd., SCICI Ltd.

Chart IV.1: Organisational Structure of Financial Institutions



Notes: 1. * The erstwhile Industrial Reconstruction Bank of India (IRBI), established in 1985 under the IRBI Act, 1984, was renamed as Industrial Investment Bank of India Ltd. (IIBI) with effect from March 27, 1997.
IVCF-IFCI Venture Capital Funds Ltd.
2. Figures in brackets under respective institutions indicate the year of establishment/year of incorporation.
3. Figures in the brackets under SFCs/SIDCs indicate the number of institutions in that category.

(since merged with ICICI Ltd.), NABARD, NHB, EXIM Bank, TFCI Ltd., IDFC Ltd. and SIDBI were brought under the supervisory jurisdiction of the Reserve Bank. On-site inspection of FIs commenced for the first time during 1995. To begin with, the inspections were conducted every alternate year with reference to the balance sheet date of the FIs, but with a view to securing closer monitoring of the major FIs, *viz.*, IDBI, ICICI and IFCI as also IIBI were placed on an annual inspection cycle with effect from the year 1998.

4.6 Besides, the on-site inspections conducted at annual/biennial intervals, and in a rapidly changing economic scenario, the financial health of the FIs are supervised through a system of off-site surveillance (OSS). The OSS envisages periodical submission to the Reserve Bank of seven pre-structured returns by the FIs, capturing all prudential supervisory indicators. The OSS thus bridges the information gap between the two on-site inspections of the FIs and serves to provide early warning signals for emerging supervisory concerns, if any, which may arise in the system.

Prudential Norms relating to Capital Adequacy and Risk weighted Assets

4.7 FIs hitherto were required to assign 100 per cent risk weight on the investments in all the securities issued by the State Government in case the concerned State Government guarantee was invoked and remained in default beyond the specified period. FIs are presently advised to assign a risk weight of 100 per cent only on those State Government guaranteed securities which are issued by the defaulting entities and not on all the securities issued or guaranteed by that particular State Government. Further, due regard should be paid to the record of particular State Government in honouring its guarantees while processing any further requests for loans to PSUs on the strength of that State Government guarantee.

Income Recognition, Asset Classification and Provisioning

Prudential Norms relating to Asset Classification and Provisioning

4.8 The guidelines relating to prudential norms relating to asset classification and provisioning include:

(i) The provision for standard assets need not be netted out from gross advances and should be shown separately as contingent provisions against standard assets.

(ii) The above provisions will not be eligible for inclusion in Tier II capital.

(iii) The provisions for standard assets should not be reckoned for arriving at net NPAs.

Recognition of Income in case of Non-performing Leased Assets

4.9 The net lease rentals (finance charge) on the leased asset accrued and credited to income account before the asset became non-performing, and remaining unrealised, should be reversed or provided for in the financial year ended March 2000 onwards.

Provisioning Norms for Non-performing Leased Assets

4.10 The Reserve Bank issued guidelines on accounting/provisioning norms for equipment leasing activity in September 1999. The provisioning norms for non-performing leased assets include those for (a) sub-standard assets, (c) doubtful assets, and (c) loss assets. While the provisioning for sub-standard assets is 10 per cent of net book value, that for doubtful asset is 100 per cent of the extent to which finance is not secured by the realisable value

of leased assets. In addition, provisioning requirements on the net book value of the secured portion of doubtful assets have been linked to the period for which asset had been doubtful. On the other hand, provisioning for loss assets has been set at 100 per cent.

Reduction in the Exposure Ceiling for Individual Borrowers

4.11 The exposure ceiling in respect of all-India term lending institutions for individual borrowers has been reduced from 25 per cent to 20 per cent of their capital funds, effective April 1, 2000. In cases where the existing level of exposure of any institution as on October 31, 1999 was in excess of the prescribed ceiling of 20 per cent of their capital funds, such excess exposure should be reduced to 20 per cent over a two-year period.

Special Reserves created under Section 36 (1)(viii) of the Income Tax Act, 1961

4.12 In January 2000, the Reserve Bank had revised the guidelines regarding the treatment to be given to Special Reserves created by Financial Institutions, in terms of Section 36(1)(viii) of the Income Tax Act, 1961. Financial institutions were directed that the Special Reserves created by FIs should not be utilised for the purpose of making provisions for NPAs or general provisions for standard assets both for the current year and for any shortfall of provisions for the earlier years. Accordingly, the provisions should not be debited directly to the Special Reserves. The provisions / write off should be provided for in the Profit and Loss Account of the year ‘above the line’ and the current profit for the year be determined. The transfer, if any, from the Special Reserves, should be shown ‘below the line’.

Flexibility in Resource Mobilisation

4.13 Considering various developments, *viz.*, progressive deregulation, introduction of Forward rate Agreements (FRA)/Interest Rate Swaps (IRS), introduction of Asset-Liability Management (ALM) system, apparent shift in investors preferences towards short-term instruments, etc, the existing guidelines relating to raising of resources by FIs have been reviewed. Accordingly, FIs are not required to seek Reserve Bank’s approval for raising of resources by way of bonds/ debentures (by public issue/private placement) subject to the following conditions:

(i) The minimum maturity of the bond should be 3 years;

(ii) In respect of bonds having call/put or both options, the same should not be exercisable before the expiry of one year from the date of issue of bonds;

(iii) The YTM offered, at the time of issue of bonds, should not exceed 200 basis points above YTM on Government of India securities of equal residual maturities. The effective YTM on instruments having call/put options should also satisfy this requirement;

(iv) No ‘exit’ option on the bonds will be offered before the end of one year from the date of issue.

4.14 Furthermore, the outstanding total resources mobilised at any point of time by an individual FI including funds mobilised under the ‘umbrella limit’ should not exceed 10 times its net owned funds (NOF) as per the latest audited balance sheet.

4.15 The limit fixed for raising resources is only an enabling provision, FIs are advised to arrive at their requirement of resources along with the maturity structure and the interest rate offered thereon on a realistic basis, derived *inter alia*, from a sound system

of ALM/risk management. In case of floating rate bonds, FIs should seek prior approval from Reserve Bank, in respect of 'reference rate' selected and the methods of floating rate determination. The same is not required for the subsequent individual issues so long as the underlying reference rate and the method of floating rate determination remain unchanged.

4.16 The Monetary and Credit Policy of April 2000 provided greater flexibility to all-India financial institutions in raising resources through bond issues and money market instruments, subject to overall limits fixed in terms of net owned funds. Accordingly, the restrictions on the ceiling of interest rates on term-deposits of (i) not exceeding 14.0 per cent per annum and (ii) not exceeding the rates offered by the State Bank of India for comparable maturities, were withdrawn in April 2000. AIFIs would henceforth are free to offer interest rates on term deposits mobilised by them under the umbrella limit.

Standing Co-ordination Committee of Banks and FIs

4.17 In order to have a co-ordinated approach in the recovery of large NPA accounts as also for institutionalising an arrangement for a systematic exchange of information in respect of large borrowers (including defaulters and NPAs) common to Banks and FIs, a Standing (Co-ordination) Committee of Banks and FIs was constituted in August 1999 under the aegis of IDBI.

Filing of Suits to Recover Dues

4.18 In cases where the loss assets are more than two years old on the books of the FIs without legal action being initiated, FIs were advised during 1999-2000 to submit a half yearly review note (as at the end of March and September of each year), to the Executive/ Management Committee/ Board, giving specific reasons as to why suits have not been filed.

Valuation of Investments in Mutual Funds

4.19 FIs' investments in mutual fund units should be valued based on the latest NAV declared by the mutual fund in respect of each particular scheme. However, where market rates are available as per Stock Exchange Quotations they, rather than the latest NAV, should be adopted.

Prudential Off-site Surveillance System

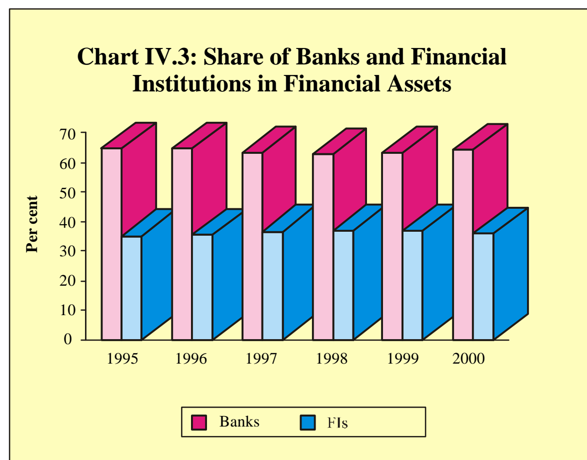
4.20 The reporting system for prudential off-site surveillance of financial institutions has been introduced effective March 1999. The principal objective of this reporting system is to obtain essential data pertaining to prudential concerns of Reserve Bank with particular reference to compliance of prudential regulation /supervision norms by FIs. Draft guidelines on ALM were issued to financial institutions and in the light of the comments/suggestions received, final guidelines on ALM were issued to FIs in December 1999.

Advances against Shares and Debentures

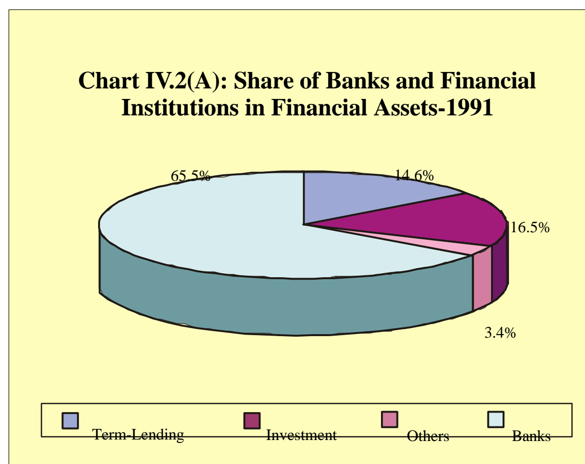
4.21 Whenever the limits of advances granted to a borrower against the security of shares/ debentures exceed Rs.10 lakh, it should be ensured that the said shares/debentures are transferred in the FI's name. Secondly, securities which are held in dematerialised form under the depository system, the requirement that shares/debentures should be transferred in FI's name need not be insisted upon, provided the securities have been blocked in favour of FI. FIs are, therefore, free to take their own decision in regard to transfer of securities in their name.

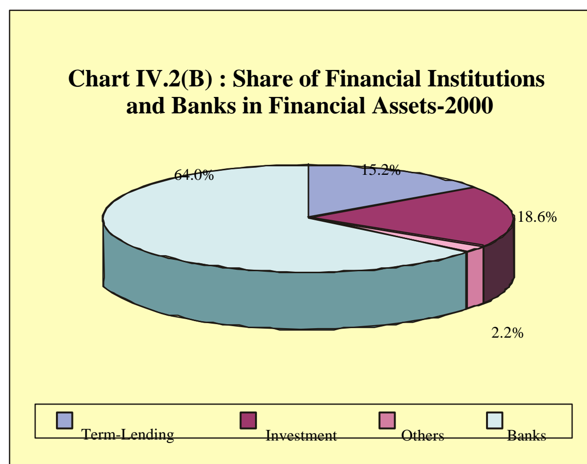
2. Financial Assets of Financial Institutions

4.22 During the year 1999-2000, the aggregate financial assets of banks and financial institutions grew by 14.6 per cent compared with 15.8 per cent recorded in the previous year [Appendix Table IV.1(A)]. While the financial assets of banks registered a growth of 16.4 per cent in 1999-2000 vis-à-vis 16.3 per cent in 1998-99 and 15.9 per cent in 1997-98, the financial assets of financial institutions grew at 11.4 per cent in 1999-2000 as compared with 15.0 per cent in 1998-99 and 18.3 per cent in 1997-98 [Chart IV.2(A) and IV.2(B)]. Consequent upon the higher growth in the financial assets of banks vis-à-vis financial institutions in 1999-2000, the share of banks in the aggregate financial assets of banks and financial institutions taken together moved up to 64.0 per cent in 1999-2000 from 63.0 per cent in 1998-99 and correspondingly, that of financial institutions declined from 37.0 per cent to 36.0 per cent during the same period (Chart IV.3)



4.23 At the disaggregate level, the financial assets of all-India term lending institutions recorded a growth of 9.4 per cent in 1999-2000 as against 18.1 per cent in 1998-99 and 22.5 per cent in 1997-98 [Appendix Table IV.1(B)]. Among these institutions, the financial assets of EXIM Bank, however, recorded an impressive growth of 21.7 per cent in 1999-2000 against 8.8 per cent in 1998-99 and 6.2 per cent in 1997-98. This was followed by NHB, whose financial assets grew by 21.5 per cent in 1999-2000 as compared with 11.4 per cent in 1998-99 and a mere 2.0 per cent in 1997-98. The financial assets of IDBI and ICICI registered lower orders of increase of 6.7 per cent and 11.4 per cent, respectively, in 1999-2000 as compared with 12.8 per cent and 24.6 per cent in 1998-99. Among the investment institutions, financial assets of LIC maintained a growth rate of around 21 per





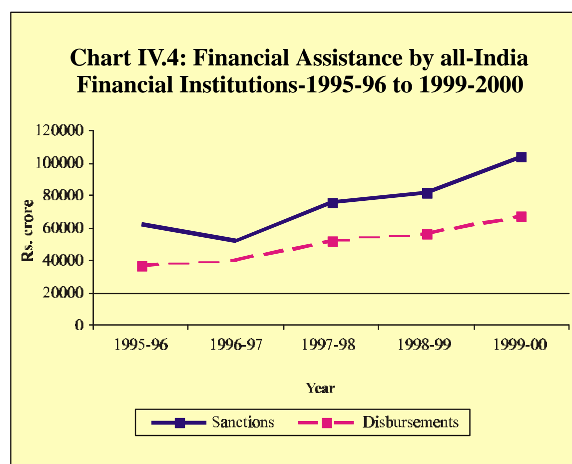
cent during 1998-99 and 1999-2000. The growth rates of financial assets of GIC (and its subsidiaries) decelerated to 7.2 per cent in 1999-2000 as compared with 14.1 per cent in the previous year. The financial assets of UTI increased by 5.0 per cent in 1999-2000 as compared with 2.1 per cent in the previous year.

3. Term-Lending and Investment Institutions

Financial Assistance

4.24 Financial assistance sanctioned and disbursed by AIFIs during the year 1999-2000 (April-March) at Rs.1,03,567 crore and Rs.67,335 crore, respectively, registered higher orders of increase of 26.5 per cent and 19.6 per cent, respectively, reflecting improvement in industrial activity (Appendix Table IV.2). The increase was higher than that of 8.4 per cent in both sanctions and disbursements recorded during 1998-99 (Chart IV.4). It may be mentioned here that, during 1997-98, while sanctions increased sharply by 44.3 per cent, disbursements too showed a marked rise of 28.7 per cent. Financial assistance sanctioned by all-India Development Banks (AIDBs), which accounted for the bulk of sanctions (nearly 85 per cent of total sanctions by AIFIs) grew by 22.4 per cent, while their disbursements increased by 17.1 per cent. During 1997-98, while sanctions by AIDBs recorded a sharp rise of 49.1 per cent, their disbursements showed an impressive rise of 30.6 per cent. During 1999-2000, specialised financial institutions (IFCI Venture Capital Fund, ICICI Venture and TFCI) witnessed a high growth in disbursements at 61.6 per cent as venture capital business picked up due to the phenomenal growth of information technology sector. Sanctions and disbursements by investment institutions at Rs.15,689.4 crore and Rs.12,648.9 crore, respectively, moved up by 56.2 per cent and 31.1 per cent, respectively. These were markedly higher than the growth in sanctions and disbursements recorded during the previous two years.

4.25 While the increase in disbursements by AIFIs in 1999-2000 over the previous year was about Rs.11,000 crore (19.6 per cent), the increase in financial assets of financial institutions, although high in absolute term (approximately Rs.50,000 crore) registered a lower order of increase of 11.4 per cent. This outcome needs to be seen in the light of the following facts. First, the data on disbursements are reported on a gross basis; adjusted for repayments, the increase would be smaller. Secondly, data in respect of state-level institutions are not up-to-date. Finally, the growth in financial assets of financial institutions is calculated on a higher base, while that for disbursements is on a much lower base, with the result that the growth in disbursements is far higher than that in financial assets.



4.26 Disbursements by AIDBs in general lagged behind sanctions. ICICI continued to be the leader in terms of the amounts sanctioned and disbursed among financial institutions, with its disbursements increasing by 34.4 per cent in 1999-2000 on top of an

Table IV.1: Disbursements of Select Financial Institutions : 1997-98 to 1999-2000

(Rs. crore)

Year / Institution	1997-98		1998-99		1999-2000 P		Percentage variation	
	Amount	Percent Share	Amount	Percent Share	Amount	Percent Share	Col (4) over (2)	Col (6) over (4)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
i) IDBI	15,170	41.4	14,470.1	37.6	17,059.3	37.0	-4.6	17.9
ii) ICICI	15,806.9	43.2	19,225.1	49.9	25,835.7	56.0	21.6	34.4
iii) IFCI	5,650.4	15.4	4,819.3	12.5	3,262.2	7.0	-14.7	-32.3
A. Total (i+ii+iii)	36,627.3	100	38,514.5	100	46,157.2	100	5.2	19.8
B. AIFIs	51,918.9		56,296.0		67,335.4		8.4	19.6
C. A as per cent of B	70.5		68.4		68.5			

Notes: 1. P: Provisional.
2. Figures for 1998-99 are revised.
3. AIFIs as provided in Appendix Table IV.2.

increase of 21.6 per cent in the previous year. Disbursements by IDBI showed a significant increase of 17.9 per cent as against a decline of 4.6 per cent in 1998-99. Disbursements by IFCI, on the other hand, declined by 32.3 per cent on top of a decline of 14.7 per cent in the previous year. Together ICICI, IDBI and IFCI accounted for 68.5 per cent of the total disbursements of AIFIs during 1999-2000 (Table IV.1).

Trend in Assets and Liabilities of Financial Institutions

4.27 The financial institutions covered in this section include IDBI, ICICI, IFCI, IIBI, NABARD, SIDBI, IDFC and EXIM Bank. The position of assets and liabilities of financial institutions during 1998-99 and 1999-2000 is presented in Appendix Table IV.3. As at the end of March 2000, the total assets/ liabilities of AIFIs showed a growth rate of 8.5 per cent.

4.28 The variation in composition of liabilities displayed a movement away from borrowings and towards deposits and reserves. Both reserves and deposits posted increases during the year ended March 2000, growth of deposits being a high of over 36.0 per cent. Borrowings, on the other hand, declined by nearly 12.0 per cent during the year

Chart IV.5(A): Liabilities of Financial Institutions

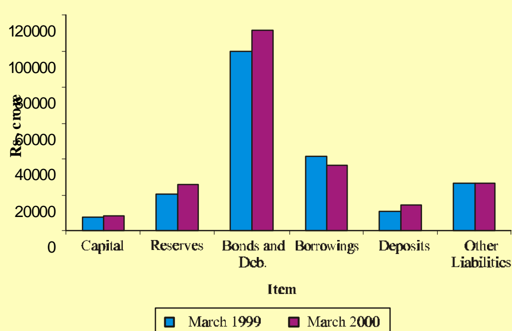
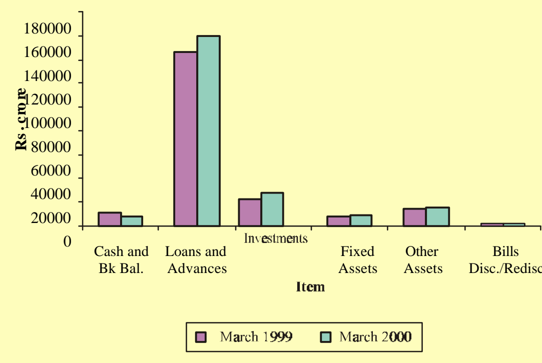


Chart IV.5 (B): Assets of Financial Institutions



ended March 2000 [Chart IV.5 (A)].

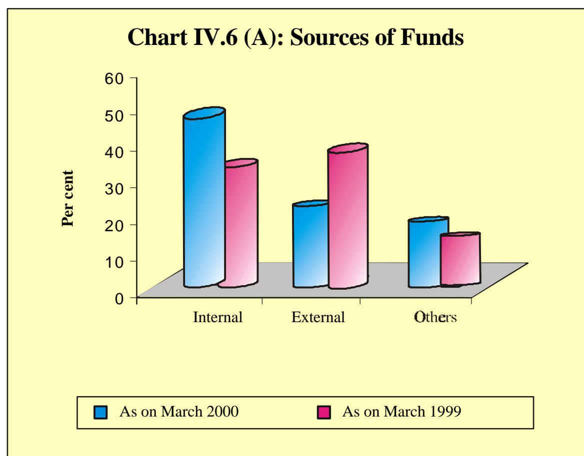
4.29 Loans and advances constituted a major item on the asset side of the balance sheet of FIs. Reflecting the pick-up in industrial activity, loans and advances showed a growth of 9.5 per cent. While cash and bank balances declined by over 28 per cent, investments posted a sizeable increase of 22.2 per cent as at the end of March 2000. Among other components of assets, fixed assets increased substantially over the same period [Chart IV.5(B)].

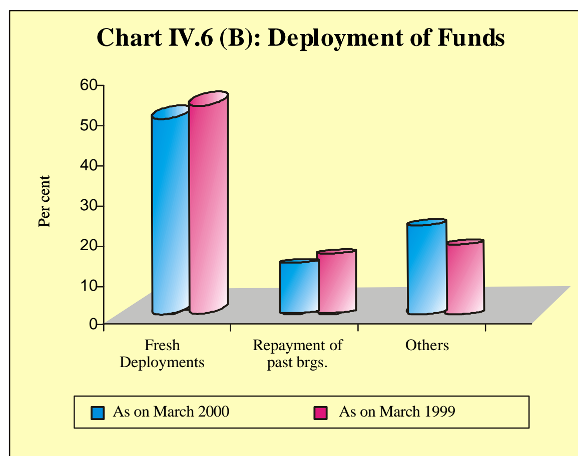
Sources and Uses of Funds of Financial Institutions

4.30 The sources of funds of FIs are broadly grouped under internal and external. Internal sources of funds of financial institutions consist of capital, reserves and surplus, sale/redemption of investment, repayments of loans and advances, dividends and interest on investment. External sources includes, inter alia, fresh borrowings by way of bonds/debentures, fresh Rupee and foreign currency borrowings, etc[1].

4.31 During 1999-2000 (April-March), resources from internal sources as a proportion of total sources constituted 50.2 per cent (38.5 per cent in 1998-99 and 37.4 per cent in 1997-98) of total funds, while the share of external sources amounted to 27.1 per cent (41.7 per cent in 1998-99 and 41.9 per cent in 1997-98). During the same period, the share of 'other sources' of funds increased marginally from 19.8 per cent to 22.7 per cent (Appendix Table IV.4) [Chart IV.6(A)].

4.32 The uses of funds of FIs consist of fresh deployments, repayments of borrowings and other deployments. On the uses side, fresh deployments as a proportion of total uses comprised 55.6 per cent (57.5 per cent in 1998-99 and 55.9 per cent in 1997-98) of total deployment during 1999-2000, while the share of repayments of past borrowings amounted to 17.9 per cent (19.9 per cent in 1998-99 and 22.1 per cent in 1997-98). The share of 'other deployments', increased from 22.6 per cent to 26.5 per cent, of which the interest payments component increased marginally from 13.3 per cent in 1998-99 to 13.6 per cent in 1999-2000 as evidenced from Appendix Table IV.4 and Chart IV.6 (B).





[1] Others comprise of interest income on loans and advances, income from money market assets, etc.

Financial Performance of select all-India Financial Institutions

4.33 An analysis of the financial performance of select all-India financial institutions is carried out using a set of financial ratios computed from the income and expenditure and the balance sheets statements of the institutions (Table IV.2).

4.34 The analysis indicates that the net

Table IV.2 : Financial Performance of all-India Financial Institutions: 1998-99 and 1999-2000

(Amount in Rs. crore)

Item	1998-99	1999-2000	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income	**21,613.93**	**23,756.76**	**2,142.83**	**9.91**
(i+ii)	**(100.00)**	**(100.00)**		
i) Interest Income	20,296.57	21,667.74	1,371.17	6.76
	(93.91)	(91.21)		
ii) Other Income	1,317.36	2,089.02	771.66	58.58
	(6.09)	(8.79)		
B. Expenditure	**18,380.95**	**20,593.41**	**2,212.46**	**12.04**
(i+ii+iii)	**(100.00)**	**(100.00)**		
i) Interest Expended	15,675.12	17,663.11	1,987.99	12.68
	(85.28)	(85.77)		
ii) Tax Provisions	307.50	301.25	-6.25	-2.03
	(1.67)	(1.46)		
iii) Other Expenses	2,398.33	2,629.05	230.72	9.62
	(13.05)	(12.77)		
of which : Wage Bill	293.94	308.25	14.31	4.87
	(1.60)	(1.50)		
C. Profit				
i) Net Profit	**3,232.98**	**3,163.35**	**-69.63**	**-2.15**
D. Total Assets	**2,05,502.00**	**2,22,893.00**	**17,391.00**	**8.46**
E. Financial Ratios (per cent) $				
i) Net Profit	1.57	1.42	-0.15	-
ii) Income	10.52	10.66	0.14	-
iii) Interest Income	9.88	9.72	-0.16	-
iv) Other Income	0.64	0.94	0.30	-
v) Expenditure	8.94	9.24	0.30	-
vi) Interest Expended	7.63	7.92	0.29	-
vii) Other Expenses	1.17	1.18	0.01	-
viii) Wages	0.14	0.14	0.00	-
ix) Tax Provisions	0.15	0.14	-0.01	-
x) Spread (Net Interest Income)	2.25	1.80	-0.45	-

Notes: 1. # Comprise of IDBI, ICICI, IFCI, EXIM Bank, NABARD, IIBI, SIDBI and IDFC.
$ Ratios to Total Assets.
2. Figures in brackets indicate percentage shares to the respective total.

profits of these institutions showed a decline during the year 1999-2000. While income witnessed an increase of nearly 10.0 per cent, due largely to a rise in other income, the rise in expenditure was more pronounced, with the result that the net profits of FIs declined by 2.2 per cent from Rs.3,232.9 crore in 1998-99 to Rs.3,163.4 crore in 1999-2000. Accordingly, the ratio of net profits to total assets decreased to 1.42 in 1999-2000 from 1.57 in 1998-99. It is interesting to note that the spreads of FIs have witnessed a noticeable decline, from 2.25 per cent in 1998-99 to 1.80 per cent in 1999-2000. The spreads were found to be much lower than those of public sector banks, which stood at 2.80 per cent and 2.70 per cent for the comparable period.

Prime Lending Rates of FIs

4.35 One of the important aspects of the functioning of FIs pertains to the revenues from lending. In this context, the Prime Lending Rate (PLR) of FIs is a critical information variable since it throws light on the rates of return on lending and on the evolving structure of lending rates. In the process of the introduction of interest rate flexibility, FIs have been provided with freedom to determine own their lending rates.

4.36 In general, it is observed that there has been a gradual decline in lending rates over the period from January 1999 to January 2000. The lending rate structure of the three major FIs reveals that while IDBI and ICICI have three types of primary lending rates, *viz.*, Long Term Prime Lending Rate (LTPLR), Medium Term Prime Lending Rate (MTPLR) and Short Term Prime Lending Rate (STPLR), IFCI has only two types of PLRs *viz.*, long-term and short-term. The LTPLR in the case of IDBI is a floating interest rate re-set every six months. It can be seen from the Table IV.3 that between January 1999 and January 2000, the primary lending rates of all the three institutions have witnessed a decline. These lending rates are lower than those prevalent during the earlier periods, e.g., January 1998. Over the period April to September 2000, while the STPLR of the three institutions have either increased (as in case of ICICI) or have remained unaltered (as in case of IDBI and IFCI) *vis-à-vis* rates in January 2000, the LTPLR in case of IDBI has remained unaltered, while that for ICICI has increased from 12.5 per cent in January 2000 to 13.0 per cent in September 2000, whereas that of IFCI has, over the same period, declined from 13.5-17.0 per cent to 13.0-16.5 per cent.

Resource Raising by Select Financial Institutions

4.37 FIs have been given the flexibility in raising of resources by way of bonds/debentures, subject to the overall limit linked to 10 times their net owned funds. During the financial year 1999-2000, total resources raised by way of bonds/debentures by three major FIs (i.e., IDBI, ICICI and IFCI) together amounted to Rs.16,311.5 crore as against an amount of Rs.29,036.6 crore raised during 1998-99 and Rs.19,404.5 crore raised during 1997-98. Of the total resources raised during 1999-2000, Rs. 4,648.4 crore (28.5 per cent) were raised through public issue and the remaining portion, which constituted the major chunk of the total resource mobilised aggregating Rs. 11,663.1 crore (71.5 per cent) was raised though the private placement route. Institution-wise, ICICI raised Rs. 6,848.9 crore, IDBI raised Rs. 7,676.1 crore, whereas IFCI raised Rs.1,786.5 crore during 1999-2000 (Table IV.4).

Table IV.3: Lending Rate Structure of Select Financial Institutions

(per cent per annum)

Institution	IDBI	ICICI #	IFCI
1	2	3	4
January 1998			
LTPLR	14.5-18.0	14.0	14.5-18.0
MTPLR	—	14.25	—
STPLR	13.5-17.0	14.5	13.5-17.0
January 1999			
LTPLR	14.7-18.2	13.5	14.0-17.5
MTPLR	14.0-17.5	13.5	—
STPLR	13.0-16.5	14.0	13.0-16.5
March 1999			
LTPLR	14.7-18.2	13.5	13.5-17.0
MTPLR	13.5-17.0	13.0	—
STPLR	12.5-16.0	13.0	12.5-16.0
July 1999			
LTPLR	14.1-17.6	13.5	13.5-17.0
MTPLR	13.5-17.0	13.0	—
STPLR	12.5-16.0	13.0	12.5-16.0
January 2000			
LTPLR	13.6-17.1	12.5	13.5-17.0
MTPLR	13.5-17.0	12.5	—
STPLR	12.5-16.0	12.5	12.5-16.0
April 2000			
LTPLR	13.6-17.1	12.5	12.5-16.0
MTPLR	12.5-16.0	12.5	—
STPLR	12.5-16.0	12.5	12.5-16.0
September 2000			
LTPLR	13.6-17.1	13.0	13.0-16.5
MTPLR	13.0-16.5	13.0	—
STPLR	12.5-16.0	13.0	12.5-16.0

Notes:
1. # No band is specified, however, they are also subject to a maximum margin of 3 per cent set by RBI.
2. All interest rates are exclusive of interest tax unless stated otherwise.
3. Interest rates indicated are the range/band which includes Prime Lending Rates also.
4. LTPLR: Long-term Prime Lending Rate (for term-loans exceeding 3 years). STPLR: Short-term Prime Lending Rate (for term-loans below 3 years). In case of ICICI, the STPLR is of variable maturity with interest rates reset annually. MTPLR: Medium-term Prime Lending Rate (applicable for ICICI for loans with maturity exceeding 1 year).

Table IV.4: Funds Raised by Major Financial Institutions: 1997-98 to 1999-2000

(Amount in Rs. crore)

	ICICI			IDBI			IFCI			Total		
	1997-98	1998-99	1999-00	1997-98	1998-99	1999-00	1997-98	1998-99	1999-00	1997-98	1998-99	1999-00
1	2	3	4	6	7	8	10	11	12	13	14	15
Public Issue of Bonds/ Debentures	1,734.0	3,064.4	2,574.9	984.9	4,342.0	2,073.5	0	0	0	2,718.9	7,406.4	4,648.4
	(22.0)	(23.9)	(37.6)	(12.1)	(34.2)	(27.0)				(14.0)	(25.5)	(28.5)
Private Placement of Bonds/Debentures	6,132.0	9,745.4	4,274.0	7,186.5	8,341.0	5,602.6	3,367.1	3,543.8	1,786.5	16,685.6	21,630.2	11,663.1
	(78.0)	(76.1)	(62.4)	(87.9)	(65.8)	(73.0)	(100.0)	(100.0)	(100.0)	(86.0)	(74.5)	(71.5)
Total	**7,866.0**	**12,809.8**	**6,848.9**	**8,171.4**	**12,683.0**	**7,676.1**	**3,367.1**	**3,543.8**	**1,786.5**	**19,404.5**	**29,036.6**	**16,311.5**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Notes: 1. Figures in brackets indicate percentage to total.

2. Data for 1997-98 and 1998-99 have been revised on the basis of revised information obtained from respective institutions.

Approach towards Universal Banking

4.38 The Monetary and Credit Policy of April 2000 made an explicit statement on Universal Banking. The details of the approach detailed in the Monetary and Credit Policy statement are delineated here. The Narasimham Committee II suggested that Development Financial Institutions (DFIs) should convert ultimately into either commercial banks or non-bank finance companies. The Khan Working Group held the view that DFIs should be allowed to become banks at the earliest. The RBI released a 'Discussion Paper' (DP) in January 1999 for wider public debate. The feedback on the discussion paper indicated that while universal banking is desirable from the point of view of efficiency of resource use, there is need for caution in moving towards such a system by banks and DFIs. Major areas requiring attention are the status of financial sector reforms, the state of preparedness of concerned institutions, the evolution of regulatory-regime and above all a viable path for institutions which are desirous of moving in the direction of universal banking. It is proposed to adopt the following broad approach for considering proposals in this area.

4.39 The principle of "Universal Banking" is a desirable goal and some progress has already been made by permitting banks to diversify into investments and long-term financing and the DFIs to lend for working capital, etc. However, banks have certain special characteristics and as such any dilution of RBI's prudential and supervisory norms for conduct of banking business would be inadvisable. Further, any conglomerate, in which a bank is present, should be subject to a consolidated approach to supervision and regulation.

4.40 Though the DFIs would continue to have a special role in the Indian financial system, until the debt market demonstrates substantial improvements in terms of liquidity and depth, any DFI, which wishes to do so, should have the option to transform into bank (which it can exercise), provided the prudential norms as applicable to banks are fully satisfied. To this end, a DFI would need to prepare a transition path in order to fully comply with the regulatory requirement of a bank. The DFI concerned may consult RBI for such transition arrangements. Reserve Bank will consider such requests on a case by case basis.

4.41 The regulatory framework of RBI in respect of DFIs would need to be strengthened if they are given greater access to short-term resources for meeting their financing requirements, which is necessary.

4.42 In due course, and in the light of evolution of the financial system, Narasimham Committee's recommendation that, ultimately there should be only banks and restructured NBFCs can be operationalised.

FIs' Money Market Operations

4.43 The FIs are permitted lend in call /notice money market, but they can borrow only in term money market (which ranges from three to six months) within the institution specific umbrella limit equivalent to one time net owned funds. Investment institutions, *viz*., UTI, LIC and GIC are allowed to participate in the call /notice money market as lenders only. The operations of select AIFIs in the money market (both as lender and borrower) during the period under review provide some interesting observations as described below (Appendix Table IV.5).

Borrowings from Term Money Market

4.44 During the period from quarter ended March 1999 to quarter ended March 2000,

ICICI, IFCI and NABARD borrowed funds from the term money market. ICICI and IFCI borrowed in all the five quarters, whereas NABARD borrowed in three consecutive quarters. The net outstanding borrowings of ICICI and IFCI as at the end of March 2000 quarter was Rs.258 crore and Rs.225 crore, respectively and the net outstanding borrowings of NABARD as at the end of December 1999 amounted to Rs.178 crore.

Lending in the Call/Notice Money Market

4.45 All term lending and investment institutions were participating in the call/notice money market in all the quarters during the year under review. Considering the average daily lending of a quarter, it was observed that the share of the term lending institutions during the period March 1999 to March 2000 varied between 60.8 per cent to 71.3 per cent, while the share of investment institutions ranged between 28.7 per cent to 39.2 per cent (Appendix Table IV.5).

4.46 Institution-wise data indicated that the maximum lending in the call/notice money market was by LIC, followed by IDBI and ICICI. In respect of term-lending institutions, during the period under review, lending by IDBI varied in the range of Rs.602 crore to Rs.941 crore; whereas in respect of ICICI, the amount lent varied between Rs.368 crore to Rs.836 crore; and in the case of IFCI, the amount lent varied between Rs.170 crore to Rs.227 crore. IIBI was the lowest lender with lending between Rs.88 crore to Rs.125 crore. In respect of investment institutions, the average daily lending of LIC varied between Rs.377 crore to Rs.1,103 crore and that of UTI ranged from Rs.98 crore to Rs.724 crore. Lending by GIC was the lowest among the investment institutions, ranging from Rs.93 crore to Rs.147 crore (Appendix Table IV .5).

Soundness and Capital Adequacy of Financial Institutions

4.47 The quality of assets is a key ingredient for maintaining the profitability levels. Accordingly, financial institutions have been making efforts towards tackling non-performing loans including focused recovery efforts. Most institutions have their NPA within reasonable levels, as evidenced from Table IV.5.

4.48 The Mid-Term Review of Monetary and Credit Policy for 1998-99 announced that financial institutions should achieve a minimum capital adequacy ratio of 9 per cent as on March 31, 2000. Accordingly, in December 1998, in line with international best practices, FIs were advised that the minimum CRAR was enhanced from the existing 8 per cent to 9 per cent, with effect from the year ending March 31, 2000. Judged thus, all financial institutions (except IFCI) are well above the 9 per cent benchmark figure as evidenced from Table IV.6. While in the case of ICICI, the increase in CRAR was due to a rise in its (i) equity capital from Rs.480 crore as at the end of March 1999 to Rs.783 crore as at the end of March 2000, and, (ii) higher reserves enabled by share premium collection. In case of IDBI, the increase in CRAR was consequent upon a rise in its tier-II capital by Rs.1,500 crore during the year.

Take-out Finance

4.49 In order to meet long-term financing requirements of infrastructure projects, FIs are taking recourse to new products. Take out finance is one such: it is a product emerging in the context of the funding of long-term infrastructure projects (Box IV.2).

Table IV.5: Asset Classification of Select Financial Institutions: 1999 and 2000 (end-March)

(Amount in Rs. crore)

Institution	Standard		Sub-standard		Doubtful		Loss		Net Loans Outstanding #		Net NPA/Net Loans (per cent)	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
1	2	3	4	5	6	7	8	9	10	11	12	13
IDBI	47,375	49,424	4,185	4,055	2,305	3,620	—	—	53,865	57,099	12.0	13.4
ICICI	42,695	48,382	2,174	1,793	1,449	2,166	—	—	46,318	52,341	7.8	7.6
IFCI	16,122	15,738	2,644	2,177	1,587	1,926	—	—	20,353	19,841	20.8	20.7
SIDBI	13,901	14,613	138	115	55	82	—	—	14,094	14,810	1.4	1.3
NABARD	25,053	29,031	1,072	833	22	218	—	—	26,147	30,082	4.2	3.5
NHB	3,093	3,668	—	—	—	—	—	—	3,093	3,668	Nil	Nil
IIBI	2,942	3,286	2,68	380	212	278	—	—	3,422	3,944	14.0	16.9
EXIM Bank		4231		200		174		—		4605		8.4
TFCI	737	746	86	101	20	28	—	—	843	875	12.6	14.8
IDFC	240	895	—	—	—	—	—	—	240	895	Nil	Nil

Notes: 1. # Net of provisioning and write-offs.
2. NPA in any year is the aggregate of the amounts under sub-standard, doubtful and loss category in that year.
3. The figures presented in the statement are subject to verification by the RBI.
4. While figures for 1999 are revised, that for 2000 are provisional.

Source: Data furnished by respective institutions.

Table IV.6: Capital Adequacy Ratio$ of Select Financial Institutions: 1997 to 2000

Institution	As at end-March			
	1997	1998	1999	2000
1	2	3	4	5
1. IDBI	14.7	13.7	12.7	14.5
2. ICICI	13.3	13.0	12.5	17.2
3. IFCI	10.0	11.6	8.4	8.8
4. SIDBI	25.7	30.3	26.9	27.8
5. IIBI	10.6 *	12.8	11.7	9.7
6. EXIM Bank	31.5	30.5	23.6	24.4
7. NABARD	40.4	52.5	53.3	44.4
8. IDFC	-	-	235.5	119.7
9. NHB**		16.7	17.3	N.A.
10. TFCI	N.A.	16.4	15.4	16.2

Note : 1. $ As per cent of risk weighted assets.
* As on March 26, 1997.
** Relate to General Fund.
N.A. Not Available

Box IV.2 : Take out Finance

Take-out finance is an arrangement where the institution/bank financing the infrastructure projects will have an arrangement with any financial institution for transferring to the latter outstandings in respect of such financing in their books on a pre-determined basis. Securitisation, in contrast, involves the process of pooling and re-packaging of homogeneous illiquid loans into marketable securities and distributed among a broad range of investors through capital markets. Another related concept is one of forfaiting, where the exporter gives up his right to receive payments in future under an export bill for immediate cash payments by the forfaiter. Forfaiting therefore involves non-recourse discounting of export receivables since the risk arising from default by the importer is borne by the importer in its entirety.

The take-out finance also helps the banks in asset-liability management since the financing of infrastructure is long-term in nature against their short-term resources. Take-out finance products involve three parties, *viz*., the project company, taking over institution and the lending bank/FI. In view of the increasing significance of take-out finance, it has become increasingly necessary to prescribe the prudential norms in respect of these products.

Take out finance takes the form of unconditional and conditional take-out finance. Under the former, the institution agreeing to take over the finance from the original lender who would assume partial/full credit risk and reflect the obligation in its books as a contingent liability till it actually takes over with partial or full credit risk as agreed upon. In case of conditional take over, the taking over institution would have stipulated certain conditions to be satisfied by the borrower before it is taken over from the lending institution. There is, therefore, an element of uncertainty over the ultimate transfer to the assets of the taking over institution.

References

Gordon, E and K.Natarajan (1999), 'Financial Markets and Services', Mumbai: Himalaya Publishing House.

4.50 The norms relating to the assignment of risk weight asset classification and provisioning is presented in Table IV.7.

4. Reserve Bank Assistance to Financial Institutions

4.51 During 1999-2000 (July-June), no long-term assistance to any financial institution was sanctioned by the Reserve Bank. However, owing to some repayments, the outstanding long-term borrowings by IDBI, SIDBI, EXIM Bank and IIBI under NIC (LTO) Fund facility at Rs.4,612 crore as at end-June 2000 was lower by 6.4 per cent as compared with the position at end-June 1999. The outstanding long-term borrowing by NHB from the NHC (LTO) Fund as at end-June 2000 at Rs. 875 crore was the same as that at end-June 1999.

4.52 Under Section 17(4A) (4BB) of the Reserve Bank of India Act, 1934, the Reserve Bank sanctioned *ad-hoc* borrowing limits amounting to Rs.153 crore to 13 State Financial Corporations (SFCs) during the year 1999-2000 at the Bank Rate against ad-hoc bonds guaranteed by the respective State Government/Union Territories. The outstanding borrowings by SFCs as at end-June 2000, stood at Rs. 4 crore as compared with Rs.7 crore as at end-June 1999 (Appendix Table IV.6).

5. Mutual Funds

4.53 In order to bring mutual fund practices in India on par with those in developed economies, the mutual fund regulations were rationalised during the year by amending the Securities and Exchange Board of India (Mutual Fund) Regulations, 1996. The provisions have been designed to safeguard investor interests, check speculative activities and ensure financial discipline through enhanced transparency practices. Mutual funds have emerged as an important investment conduit for investors at large, especially

during 1999-2000. Data reveal that investment in shares and debentures[2] and units of UTI taken together, as percentage of financial assets of household sector, increased from 3.7 per cent in 1980-81 to 14.3 per cent in 1990-91, but dipped subsequently to 7.4 per cent in 1995-96 and further to 3.4 per cent in 1998-99. It however, needs to be recognised that there has been significant volatility in the performance of the mutual funds, especially in the 'nineties, as evidenced from Table IV.8.

Policy Developments Relating to Mutual Funds

4.54 A number of policy measures were undertaken during 1999-2000 essentially to provide greater flexibility to the operations of the mutual funds sector in the context of the generally favourable environment in which stock markets operated during the year. Prudential investment norms were prescribed to ensure that investment portfolios of mutual funds are diversified to reduce the inherent risk associated with such investments. Investments in equity related instruments of a single company have been restricted to 10 per cent of the Net Asset Value (NAV) of a scheme with exceptions for index funds and sector/ industry specific schemes. Investment in investment grade rated debt instruments issued by a single issuer should not exceed 15 per cent of NAV of the scheme. This limit could be extended to 20 per cent of the NAV of the scheme with the prior approval of the Board of Asset Management Committees (AMCs) and trustees.

4.55 In consultation with the Government, mutual funds have been permitted to invest in overseas securities with a view to expanding

Table IV.7: Norms relating to Take-out Finance

A. Unconditional Takeover	**Credit Conversion Factor**	**Risk Weight**
(i) Lending institution		
(a) Where the full credit risk is assumed by the taking over institution	Not applicable since it is not an off balance sheet item	20 per cent @
(b) Where only partial credit risk is assumed by taking over institution.	-do-	20 per cent on the amount to be taken over. @ 100 per cent on the amount not
	to be taken over.	
(ii) Taking over Institution	100 per cent taken over	100 per cent on the amount to be
B. Conditional Takeover	**Credit Conversion Factor**	**Risk Weight**
(i) Lending institution not be off balance sheet item.	Not applicable since it will	100 per cent
(ii) Taking over institution	50 per cent	100 per cent

Notes: 1. @ Applicable only in respect of certain specified institutions, otherwise, it would be 100 per cent risk weight.
2. In the above cases, where the counter party risk is guaranteed by the Government, the risk weight will be zero.

[2] Includes investment in shares and debentures of banks, private corporate business, public sector bonds and investments in mutual funds, other than UTI.

Table IV.8: Trends in Bank Deposits and Units of Mutual Funds (net)

Period/Item	Bank Deposits	Units of Mutual Funds (net)	Total Capital Market
Average Annual Growth Rate			
1990-91 to 1994-95	18.3	12.6	28.4
1995-96 to 1999-2000	16.0	-20.3	9.1
Coefficient of Variation			
1990-91 to 1999-2000	44.6	96.0	48.4

Source: Report of the Informal Group to Study the Role of Bank Deposits in Savings Mobilisation, RBI, September 2000.

the spectrum of investment opportunities available to mutual funds. Initially this facility has been extended to ADRs/GDRs issued by Indian companies with an overall cap of US$ 500 million with a sub ceiling of 10 per cent of the net assets managed by individual mutual funds and a maximum limit of US$ 50 million for each mutual fund.

4.56 The present requirement of consent of 75 per cent of unit-holders for any change in the controlling interest of AMC or in the fundamental attributes of a scheme has been done away with. Instead, in order to impart greater flexibility to the mutual funds for the operation of their schemes and to streamline the procedures, the unit-holders would be informed by way of individual communication as well as through advertisements in the newspapers of the proposed modifications. Further, the unit-holders would be given option to exit at the prevailing NAV without payment of exit fee.

4.57 For easy assessment of the transactions of the mutual funds with the associates of the sponsor, it was made mandatory for the mutual funds to disclose at the time of declaring half-yearly and yearly result (i) any underwriting obligations undertaken by the schemes of the mutual funds with respect to issue of associate companies, (ii) devolvements, if any, (iii) subscription by the schemes in the issues lead managed by associate companies, and, (iv) subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger/ manager.

4.58 As detailed in last year's Report, in view of the problems encountered by UTI's flagship scheme, US-64, a High Level Committee (Chairman: Shri Deepak Parekh) was constituted by the Government in 1998 to review the objectives and working of the scheme. Of the 19 recommendations of the High Level Committee, 10 have already been implemented and 6 are under implementation (Box IV.3). Among the remaining three, the recommendation to make US-64 NAV-driven within the stipulated time frame, the recommendation of setting up an Asset Management Company for US-64 and the one for increasing the number of trustees by 5 will require amendments to the UTI Act.

Resource Mobilisation by Mutual Funds

4.59 After two consecutive years of subdued performance, resource mobilisation by mutual funds witnessed a turnaround during 1999-2000. Net resource mobilisation by all mutual funds at Rs.21,971.4 crore registered a more than five-fold increase as against Rs.3,610.7 crore mobilised during 1998-99 (Table IV.9). Growth in resource mobilisation during 1999-2000 was led mainly by the private sector

Box IV.3: Status of Implementation of High Level Committee Recommendations on US-64

	Implemented
Recommendation 1	Initial contributors to infuse permanent funds of Rs.500 crore.
Recommendation 2	Create a Special Unit Scheme 99 (SUS 99).
Recommendation 4	Remove tax on income distributed by US-64 and schemes investing more than 50 per cent in equity.
Recommendation 5	Launch of a new UTI scheme for investing in the equity of growth stocks in Information Technology, Pharma and Fast Moving Consumer Goods (FMCG) sectors.
Recommendation 7(a)	Trustees to assume higher degree of responsibility and exercise greater authority.
Recommendation 9	Chinese walls to be created by appointing separate and independent fund managers for each scheme. Inter-scheme transfers to be effected based on independent decisions and requirements of concerned fund managers and at market determined prices.
Recommendation 10	Independent fund manager for US-64 with full responsibility and accountability. Fund manager should be helped by strong research team and research capability be strengthened.
Recommendation 11	Investment/disinvestment decisions to be based on research analysts' recommendations-analysts to have authority and responsibility. Fund manager to have final authority and responsibility in decision making based on his perception of the market and research inputs.
Recommendation 15	Dividend distribution policy to be thoroughly revamped to ensure that the Scheme is responsive to changing market conditions. Needs to follow a more conservative approach to build up sufficient reserves during periods of good performance. As a rule, dividend needs to be curtailed when there is inadequate income.
Recommendation 16	The rate of return offered to investors to be reviewed on a periodic basis.
	Under Implementation
Recommendation 3	Strategic sale of significant equity holdings by negotiation to the highest bidder, wherever feasible.
Recommendation 7(b)	Increase in remuneration of Trustees and publication of attendance record of Trustees in Annual Report.
Recommendation 12	Focus on small investors to be strengthened and tilt towards corporate investors reduced.
Recommendation 14	Spread between sale and repurchase prices be gradually increased to deter short term investors.
Recommendation 17	Portfolio composition to be changed to provide more weightage to debt in US-64 portfolio consistent with Scheme objectives. Needs to happen without US-64 to resort to selling large parts of equity portfolio in the market.
Recommendation 18	Operations of US-64 be brought under SEBI preview at the earliest. This would ensure transparency to unit holders and would significantly enhance investor confidence.
Recommendation 19	To commission an independent professional firm for detailed review of asset management processes including back office, inter scheme transfer and investor servicing.
	No immediate action
Recommendation 6	Increase size of UTI Board with additional 5 members.
Recommendation 8	Separate Asset Management Company for US-64 with an independent Board of Directors.
Recommendation 13	Make US-64 NAV-driven in three years.

Source: Unit Trust of India.

funds, which witnessed an inflow of the order of Rs.17,170.8 crore as compared with Rs.2,518.7 crore during the previous year (Appendix Table IV.7 and Chart IV.7). Several fiscal incentives have had favourable impact on the resource mobilisation by the mutual funds industry. For instance, the Union Budget 1999-2000 exempted all income received by the investors from UTI and other mutual funds from income tax. Further, the US-64 Scheme and all open-ended equity oriented schemes were exempted from dividend tax for three years. Generally buoyant stock markets during the larger part of the year was another contributory factor.

Chart IV.7: Resource Mobilisation by Mutual Funds

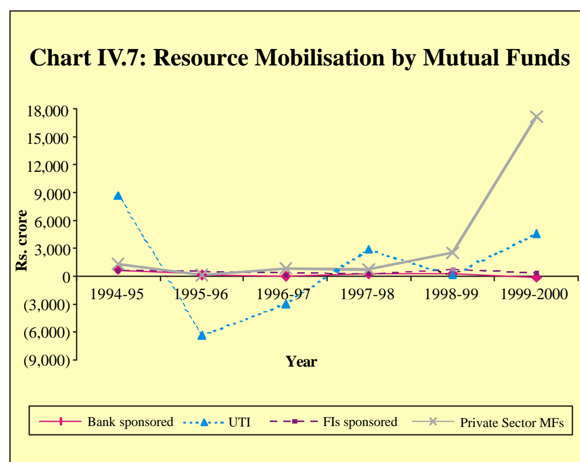


Table IV.9: Resources Mobilised by Mutual Funds: 1994-95 to 1999-2000 (April-March)

(Rs. crore)

MUTUAL FUNDS	1994-95	1995-96	1996-97	1997-98 P	1998-99 P	1999-2000P
I. Bank-sponsored (1 to 6)	**765.49**	**113.30**	**5.90**	**236.89**	**231.49**	**-141.00**
1. SBI MF	218.26	76.00	2.61	190.11	248.04	187.01
2. Canbank MF	205.55	2.71	1.69	46.78	-16.55	-361.03
3. Indian Bank MF	94.40	..	..	..	..	..
4. BOI MF	53.49	..	..	..	..	..
5. PNB MF	155.95	10.32	..	..	..	33.02
6. BOB MF	37.84	24.27	1.60	..	..	..
II. FIs-sponsored (7 to 9)	**576.29**	**234.81**	**136.85**	**203.39**	**690.53**	**393.58**
7. GIC MF	319.68	64.88	-32.40	-19.20	16.36	-206.28
8. LIC MF	68.97	116.51	169.25	99.75	463.75	320.69
9. IDBI MF	187.64	53.42	—	122.84	210.42	279.17
III. Unit Trust of India	**8,611.00**	**-6,314.00**	**-3,043.00 a**	**2,875.00**	**170.00**	**4,548.00**
	(6,800.00)	**(-2,877.00)**	**(-855.00) a**	**(2,592.00)**	**(1,300.00)**	**(5,762.00)**
IV. Private Sector MFs	**1,321.79**	**133.03**	**863.58**	**748.62**	**2,518.65**	**17,170.80**
Total (I+II+III+IV)	**11,274.57**	**-5,832.86**	**-2,036.67**	**4,063.90**	**3,610.67**	**21,971.38**

Notes: 1. P Provisional
— Not available
.. Nil or negligible
a Excludes re-investment sales.
2. For UTI, the figures are gross value (with premium) of net sales under all domestic schemes and for other mutual funds, figures represent net sales under all on-going schemes.
3. Figures in brackets in case of UTI pertain to net sales at face value.
4. Data exclude amounts mobilised by off-shore funds and through roll-over schemes.

Source: UTI and respective Mutual Funds.