

Bank v s nbfc essay

[Finance](#), [Banks](#)



“ Project Financing – Banks Vs NBFCs” A Functional report submitted in partial fulfillment of the requirements for the award of the Degree of Bachelor Of Finance And Investment Analysis BY SARTHAK KAUSHAL (A3110108010) Under the guidance of Ms. SHRADDHA SHARMA [pic] AMITY COLLEGE OF COMMERCE AND FINANCE AMITY UNIVERSTIY NOIDA UTTAR PRADESH DECLARATION I, SARTHAK KAUSHAL , hereby declare that the following project report titled “ Project Financing – Banking Vs NBFCs”. The information and findings presented in this report are genuine, comprehensive and reliable based on the data collected by me.

The project was undertaken as a part of the course curriculum of BFIA fulltime program of Amity College of Commerce and Finance , Amity University, for the fulfilment of the degree. The matter presented in this report will not be used for any other purpose and will be strictly confidential.

Date : Sarthak Kaushal (A3110108010) Amity University

Noida DECLARATION CERTIFICATE This is to certify that the work presented in the project report titled “ Project Financing – Banking Vs NBFCs” in the partial fulfillment of the requirement for the award degree of “ Bachelor’s Of Finance And Investment Analysis” , Amity University, Uttar Pradesh, is an authentic work carried out under my supervision and guidance. Date : Ms.

Shraddha Sharma Faculty Guide (Amity College Of Commerce And Finance)
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CERTIFICATE OF APPROVAL The foregoing thesis titled “ Project Financing – Banking Vs NBFCs” is hereby approved as a creditable study of the research topic and has been presented in satisfactory manner to warrant its

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acceptance as prerequisite to the degree for which it has been submitted. It is understood that by this approval, the undersigned do not necessarily endorse any conclusion drawn or opinion expressed therein, but approve the project for the purpose for which it has been submitted. Dr. Ms.

Shipra Maitra Ms. Shraddha Sharma ACCF DIRECTOR Faculty Guide Director Amity University Noida Uttar Pradesh ACKNOWLEDGEMENT This project on ‘ Project Financing – Banking Vs NBFCs’ has been a great learning experience. It helped me delve into the intricacies of the workings of an organization and also the Knowledge about Project Financing Industry.

I hope to present a good and enriching read. I have prepared this project report ‘ Project Financing – Banking Vs NBFCs ‘ and while doing the study and compiling the report, I have been helped by many to whom I would like to extend my heartiest thanks. I am greatly indebted to all the correspondents who gave their valuable time for filling up the Questionnaire & for providing me with this excellent learning opportunity. The hands-on working experience with Feedback was extremely enlightening. I would like to thank my mentor Ms.

Shraddha Sharma, who provided me with guidance, continuous support and most importantly encouragement, throughout the completion of the project. I would also like thank Mr. Kumar Saurabh, as part of gaining my knowledge about Project Financing in India. SARTHAK KAUSHAL (A3110108010) 1.

0Executive Summary Considering the growing use of project finance, I undertook this project with an objective of understanding the salient features of project finance. It is a method of financing very large capital intensive

projects, with long estimation period, where the lenders rely on the assets created for the project as security and the cash flow generated by the project as source of funds for repaying their dues. As project financing is adopted by a majority of companies at least once in their lifetime, we decided to study this concept in detail. Banks as well as non-banking financial companies provide project financing. Banks enjoy a major market share among the borrowers and the NBFC firms are lagging far behind and will slowly lose their market share if adequate steps are not taken.

Banks are usually preferred over NBFC firms due to the security aspect and brand name. Also the documentation process is one such aspect which the borrowers find lengthy and tiresome in both the banks and NBFC. Awareness regarding the nationalized banks providing project finance is more than the NBFC firms providing the same. Also a borrower chooses a project finance provider mainly due to reference and time frame within which the loan would be approved. The NBFC firms need to take adequate steps to improve their position in the minds of the borrowers so as to stay in the market.

The NBFC firms should try to inculcate in the minds of the borrowers that NBFC is as safe as any bank and should try and develop a feeling of security among borrowers with regard to NBFC.

1. 1 Introduction Definition of Project Finance: Project finance is typically defined as limited or non-recourse financing of a new project through separate incorporation of vehicle or Project Company. Project financing involves non-recourse financing of the development and construction of a particular project in which the lender looks principally to the revenues expected to be generated by the project for

the repayment of its loan and to the assets of the project as collateral for its loan rather than to the general credit of the project sponsor. In other words the lenders finance the project looking at the creditworthiness of the project, not the creditworthiness of the borrowing party. Project Financing discipline includes understanding the rationale for project financing, how to prepare the financial plan, assess the risk, design the financing mix, and raise the funds.

A knowledge base is required regarding the design of contractual arrangements to support project financing; issues for the host government legislative provisions, public/private infrastructure partnerships, public/private financing structures; credit requirements of lenders, and how to determine the projects borrowing capacity; how to prepare cash flow projections and use them to measure expected rates of return; tax and accounting considerations; and analytical techniques to validate the projects feasibility. Comparison between Corporate finance and Project finance

Traditional finance is corporate finance, where the primary source of repayment for investor and creditors is the sponsoring company, backed by its entire balance sheet, not the project alone. Although creditors will usually still seek to assure themselves of economic viability of the project being financed so that it is not a drain on the corporate sponsors existing pool of assets, an important influence on their credit decision is the overall strength of the sponsors balance sheet, as well as their business reputation.

If the project fails, lenders do not necessarily suffer, as long as the company owning the project remains financially viable. Corporate finance is often used

for shorter, less capital-intensive projects that do not warrant outside financing. The company borrows funds to construct a new facility and guarantees to repay the lenders from its available operating income and its base of assets. However private companies avoid this option, as it strains their balance sheets and capacity, and limits their potential participation in future projects.

Project financing is different from traditional forms of finance because the financier principally looks to the assets and revenue of the project in order to secure and service the loan. In project finance, a team or consortium of private firms establishes a new project company to build, own and operate a separate infrastructure project. The new project company to build own and operate a separate infrastructure project. The new project company is capitalized with equity contributions from each of the sponsors.

In contrast to an ordinary borrowing situation, in a project financing the financier usually has little or no recourse to the non-project assets of the borrower or the sponsors of the project. The project is not reflected in the sponsors' balance sheets. Extent of recourse Recourse refers to the right to claim a refund from another party, which has handled a bill at an earlier stage. The extent of recourse refers to the range of reliance on sponsors and other project participants for enhancement to protect against certain projects risks. In project financing there is limited or no recourse.

Non-recourse project finance is an arrangement under which investors and credit financing the project do not have any direct recourse to the sponsors. In other words, the lender is not permitted to request repayment from the

parent company if borrower fails to meet its payment obligation. Although creditors security will include the assets being financed, lenders rely on the operating cash flow generated from those assets for repayment. When the project has assured cash flows in the form of a reliable off taker and well-allocated construction and operating risks, the lenders are comfortable with non-recourse financing.

Lenders prefer limited recourse when the project has significantly higher risks. Limited recourse project finance permits creditors and investors some recourse to the sponsors. This frequently takes the form of a precompletion guarantee during a projects construction period, or other assurance of some form of support for the project. In most developing market projects and in other projects with significant construction risk, project finance is generally of the limited recourse type.

Scope and Importance of Project Finance: Whether expanding manufacturing facilities, implementing new processing capabilities, or leveraging existing assets in new markets, innovative financing is often at the core of long-term projects to transform a company's operations. Akin to the underlying corporate transformation, the challenge with innovative financial structures such as project finance is that the investment is made upfront while the anticipated benefits of the initiative are realized years later.

There has been a rise in number of companies that need innovative financing to satisfy their capital needs, in a significant number of instances they have viable goals but find that traditional lenders are unable to understand their initiatives. And so the need emerged for project finance.

Project financing is a specialized form of financing that may offer some cost advantages when very large amounts of capital are involved. It can be tricky to structure, and is usually limited to projects where a good cash flow is anticipated.

Project finance can be defined as: financing of an industrial (or infrastructure) project with myriad capital needs, usually based on non-recourse or limited recourse structures, where project debt and equity (and potentially leases) used to finance the project are paid back from the cash flow generated by the project, with the project's assets, rights and interests held as collateral. In other words, it's an incredibly flexible and comprehensive financing solution that demands a long-term lending approach not typical in today's market place.

Whether expanding manufacturing facilities, implementing new processing capabilities, or leveraging existing assets in new markets, innovative financing is often at the core of long-term projects to transform a company's operations. Akin to the underlying corporate transformation, the challenge with innovative financial structures such as project finance is that the investment is made upfront while the anticipated benefits of the initiative are realized years later. Infrastructure is the backbone of any economy and the key to achieving rapid sustainable rate of economic development and competitive advantage.

Realizing its importance governments commit substantial portions of their resources for development of the infrastructure sector. As more projects emerge getting them financed will continue to require a balance between

equity and debt. With infrastructure stocks and bonds being traded in the markets around the world, the traditionalist face change. A country on the crest of change is India. Unlike many developing countries India has developed judicial framework of trust laws, company laws and contract laws necessary for project finance to flourish.

Origin of Project Finance: Project financing is generally sought for infrastructure related projects. Its linkages to the economy are multiple and complex, because it affects production and consumption directly, creates negative and positive externalities, and involves large flow of expenditure. Prior to World War I, private entrepreneurs built major infrastructure projects all over the world. During the 19th century ambitious projects such as the Suez Canal and the Trans-Siberian Railway were constructed, financed and owned by private companies.

However the private sector entrepreneur disappeared after World War I and as colonial powers lost control, new governments financed infrastructure projects through public sector borrowing. The state and the public utility organizations became the main clients in the commissioning of public works, which were then paid for out of general taxation. After World War II, most infrastructure projects in industrialized countries were built under the supervision of the state and were funded from the respective budgetary resources of sovereign borrowings. This traditional approach of government in identifying needs, setting policy and procuring infrastructure was by and large followed by developing countries, with the public finance being supported by bond instruments or direct sovereign loans by such

organizations as the world Bank, the Asian Development Bank and the International Monetary Fund. Development In the early 1980s ? The convergence of a number of factors by the early 1980s led to the search for alternative ways to develop and finance infrastructure projects around the world. These factors include: ? Continued population and economic growth meant that the need for additional infrastructure- roads, power plants, and water-treatment plants-continued to grow. The debt crisis meant that many countries had less borrowing capacity and fewer budgetary resources to finance badly needed projects; compelling them to look to the private sector for investors for projects which in the past would have been constructed and operated in the public sector ? Major international contracting firms, which in the mid-1970s had been kept busy, particularly in the oil rich Middle East, were, by the early 1980s, facing a significant downturn in business and looking for creative ways to promote additional projects. Competition for global markets among major equipment suppliers and operators led them to become promoters of projects to enable them to sell their products or services. ? Outright privatization was not acceptable in some countries or appropriate in some sectors for political or strategic reasons and governments were reluctant to relinquish total control of what maybe regarded as state assets. During the 1980s, as a number of governments, as well as international ending institutions, became increasingly interested in promoting the development for the private sector, and the discipline imposed by its profit motive, to enhance the efficiency and productivity of what had previously been considered public sector services. It is now increasingly recognized that private sector can play a dynamic role in

accelerating growth and development. Many countries are encouraging direct private sector involvement and making strong efforts to attract new money through new project financing techniques.

Such encouragement is not borne solely out of the need for additional financing, but it has been recognized that the private sector involvement can bring with it the ability to implement projects in a shorter time, the expectation of more efficient operation, better management and higher technical capability and, in some cases, the introduction of an element of competition into monopolistic structures. However, the private sector, driven by commercial objectives, would not want to take up any project whose returns are not commensurate with the risks.

Infrastructure projects typically have a long gestation period and returns are uncertain. What then are the incentives of private capital providers to participate in infrastructure projects, which are fraught with huge risks? Project finance provides satisfactory answers to these questions. Merits and Demerits of Project Financing: Project financing is continuously used as a financing method in capital-intensive industries for projects requiring large investments of funds, such as the construction of power plants, pipelines, transportation systems, mining facilities, industrial facilities and heavy manufacturing plants.

The sponsors of such projects frequently are not sufficiently creditworthy to obtain traditional financing or unwilling to take the risk and assume the debt obligation associated with traditional financing. Project financing permits the risk associated with such projects to be allocated among number

of parties at levels acceptable to each party. The advantages of project financing are as follows: 1. Non-recourse: The typical project financing involves a loan to enable the sponsor to construct a project where the loan is completely “ Non-recourse” to the s[ponsor i. . the sponsor has no obligation to make payments on the project loan if revenues generated by the project are insufficient to cover the principle and interest payable on the loan. This safeguards the assets of sponsors. The risks of new projects remain separate from the existing business. 2. Maximizes leverage: In project financing. The sponsors typically seek to finance the cost of development and construction of project on highly leverage basis. Frequently such costs are financed using 80 to 100 percent debt.

High leverage in an non recourse financing permits a sponsor to put less in funds at risk, permits a sponsor to finance a project without diluting its equity investment in the project and in certain circumstances, also may permit reduction in cost of capital by substituting lower cost, tax deductible interest for higher cost, taxable return on equity. 3. Off balance sheet treatment: Depending upon the structure of project financing the project sponsors may not be required to report any of the project debt on its balance sheet because such debt is non recourse or of limited recourse to the sponsor.

Off balance sheet treatment can have the added practical benefit of helping the sponsor comply with convenient and restrictions related to the board. Borrowings funds contain in other indentures and credit agreements to which the sponsor is a party. 4. Maximizes tax benefits: Project finance is generally

structured to maximize tax benefit and to assure that all available tax benefit are used by the sponsors or transferred to the extent possible to another party through a partnership, lease or vehicle. 5.

Diversifies risk: By allocating the risk and financing need of the projects among a group of interested parties or sponsors, project financing makes it possible to undertake project that would be too large or would pose too great a risk for one party on its own. Demerits: 1. Complexity of risk allocation: Project financing is complex transaction involving many participants with diverse interest. If a project is to be successful risk must be allocated among the participants in an economically efficient way.

However, there is necessary tension between the participants. For e. g between the lender and the sponsor regarding the degree of recourse, between the sponsor and contractor regarding the nature of guarantees. , etc which may slow down the realization of the project. 2. Increase transaction cost: It involves higher transaction costs compared to other types of transactions, because it requires an expensive and time-consuming due diligence conducted by the lenders lawyer, the independent engineers etc. since the documentation is usually complex and lengthy. 3. Higher interest rates and fees: The interest rates and fees charged in project financing are higher than on direct loan made to the project sponsor since the lender takes on more risk. 4. Lender supervision: In accordance with a higher risk taken in project financing the lender imposes a greater supervision on the management and operation of the project to make sure that the project success is not impaired.

The degree of lender supervision will usually result into higher costs which will typically have to be borne by the sponsor.

2. 0 Research Methodology

The objective of my project is to identify the customers behavior & perception towards the banks and non-banking financial corporations. During the course of the project, I got the in-depth knowledge of all customers aspects and their needs from these financial corporations.

a) To know the attitude of customers towards the financing from banks and NBFCs..) To know the customers preference towards banks and NBFCs.

RESEARCH DESIGN:

Research was initiated by examining the secondary data to gain insight into the problem by analyzing the secondary data, the study aim is to explore the short comings of the present system and primary data will help to validate the analysis of secondary data besides on unrevealing the areas which calls for improvement.

SAMPLE SIZE

For the study, judgment sampling was used and a sample of 50 customers was selected. My sample size for this project was 50 respondents.

Since it was not possible to cover the whole universe in the available time period, it was necessary for me to take a sample size of 50 respondents.

SOURCE OF DATA

For the purpose of research two types of data was required i. e. primary & secondary data. Primary data: All the people from different business were personally visited and interviewed. They were the main source of Primary data. The method of collection of primary data was direct personal interview through a structured questionnaire. Secondary data: Books Magazines Websites

DATA ANALYTICAL TOOL

Percentage method

3. 0 BANKS

3. State Bank Of India [pic] Project Finance Strategic Business Unit A one-stop-shop of financial services for new projects as well

as expansion, diversification and modernization of existing projects in infrastructure and non -infrastructure sectors Since its inception in 1995 the Project Finance SBU has built-up a strong reputation for it's in-depth understanding of the infrastructure sector as well as non-infrastructure sector in India and they have the ability to provide tailor made financial solutions to meet the growing & diversified requirement for different levels of the project.

The recent transactions undertaken by PF-SBU include a wide range of projects undertaken by the Indian Corporates. Wide branch network ensuring ease of disbursement. Expertise • Being India's largest bank and with the rich experience gained over generation, SBI brings considerable expertise in engineering financial packages that address complex financial requirements.

- Project Finance SBU is well equipped to provide a bouquet of structured financial solutions with the support of the largest Treasury in India (i. e. SBI's), International Division of SBI and SBI Capital Markets Limited. The global presence as also the well spread domestic branch network of SBI ensures that the delivery of your project specific financial needs are totally taken care of.
- Lead role in many projects
- Allied roles such as security agent, monitoring/TRA agent etc.
- Synergy with SBI caps (exchange of leads, joint attempt in bidding for projects, joint syndication etc.). In a way, the two institutions are complimentary to each other.
- We have in house expertise (in appraising projects) in infrastructure sector as well as non-infrastructure sector.

Some of the areas are as follows: Infrastructure sector: Infrastructure sector: ? Road & urban infrastructure ? Power and utilities ? Oil & gas, other natural resources ? Ports and airports ? Telecommunications Non-infrastructure sector: ? Manufacturing: Cement, steel, mining, engineering, auto components, textiles, Pulp & papers, chemical & pharmaceuticals ... ? Services: Tourism & hospitality, educational Institutions, health industry ...

Expertise • Rupee term loan • Foreign currency term loan/convertible bonds/GDR/ADR • Debt advisory service • Loan syndication Loan underwriting • Deferred payment guarantee • Other customized products i. e. receivables securitization, etc. Services offered Single window solution ? Appetite for large value loans. ? Proven ability to arrange/syndicate loans. ? Competitive pricing. Professional team ? Dedicated group with sector expertise ? Panel of legal and technical experts. Procedural ease ? Standardized information requirements ? Credit appraisal/ delivery time period is minimized. Eligibility The infrastructure wing of PF SBU deals with projects wherein the project cost is more than Rs 100 Crores.

The proposed share of SBI in the term loan is more than Rs. 50 crores. In case of projects in Road sector alone, the cut off will be project cost of Rs. 50 crores and SBI Term Loan Rs. 25 Crores, respectively. The commercial wing of PF SBU deals with projects wherein the minimum project cost is Rs. 200 crores (Rs. 100 crores in respect of Services sector). The minimum proposed term commitment is of Rs. 50 crores from SBI. 3. 2ICICI BANK [pic] ICICI Bank is India's second-largest bank with total assets of Rs. 3, 767. 00 billion (US\$ 96 billion) at December 31, 2007 and profit after tax of Rs. 0. 08 billion for the nine months ended December 31, 2007. ICICI Bank is second amongst all

the companies listed on the Indian stock exchanges in terms of free float market capitalization. The Bank has a network of about 955 branches and 3,687 ATMs in India and presence in 17 countries. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital and asset management.

The Bank currently has subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Our UK subsidiary has established a branch in Belgium. ICICI Bank's equity shares are listed in India on Bombay Stock Exchange and the National Stock Exchange of India Limited and its American Depositary Receipts (ADRs) are listed on the New York Stock Exchange (NYSE).

At ICICI Bank, they offer corporates a wide range of products and services, the technologies to leverage them anytime, anywhere and the expertise to customize them to client-specific requirements. From cash management to corporate finance, from forex to acquisition financing, we provide you with end-to-end services for all your banking needs. The result is an overall financial solution for your company that helps you accomplish your objectives. Corporate Services • ICICI Bank can guide one through the universe of strategic alternatives – from identifying potential merger or

acquisition targets to realigning your business' capital structure. ICICI Bank has been the foremost arrangers of acquisition finance for cross border transactions and is the preferred financier for acquisitions by Indian companies in overseas markets. • The Bank has also developed Forex risk hedging products for clients after comprehensive research of the risks a corporate body is exposed to, e. g. , Interest Rate, Forex, Commodity, Credit Risk, etc. • They offer you global services through our correspondent banking relationship with 950 foreign banks and maintain a NOSTRO account in 19 currencies to service you better and have strong ties with our neighboring countries ICICI Bank is the leading collecting bankers to Public & Private Placement/ Mutual Funds/ Capital Gains Bonds issues. Besides, we have products specially designed for the They support international business by meeting working capital requirements of export and import financing. They also have a host of non-funded services for our clients • whatever the industry, size or financial requirements, ICICI Bank has the expertise and the solutions to partner all the way. Transaction Banking The Bank delivers world class banking services to financial sector clients.

Their current roaming accounts empower you with ' Anytime, Anywhere Banking'. They are designed for customers convenience. Our comprehensive collection and payment services span India's largest CMS network of over 4, 500 branches. They provide correspondent banking tie-ups with foreign banks to assist them in their India-related businesses. Loan Syndication The FISG is responsible for syndication of loans to corporate clients. They ensure the participation of banks and financial institution for the syndication of loans. Some of the products syndicated are Project Finance • Corporate Term

Loans • Working Capital Loans • Acquisition Finance, etc. Sell Down ICICI Bank is a market leader in the securitization and asset sell-down market. From its portfolio, the FISG offers different products to its clients in this segment. The products are: • Asset-Backed Securities (ABS). • Mortgage-Backed Securities (MBS). • Corporate Loan Sell-down. • Direct Loan Assignment. Buyouts As a part of a risk-diversification and portfolio-churning strategy, ICICI Bank offers buyouts of the assets of its financial sector clients.

Resources The Bank also raises resources, from clients, for internal use by issuing a gamut of products, which run from Certificates of Deposit (CDs) to Term deposits to Term Loans. 3. IDBI BANK [pic] IDBI was set up under an Act of Parliament as a wholly-owned subsidiary of Reserve Bank of India in July 1964. In February 1976, the ownership of IDBI was transferred to Government of India. In January 1992, IDBI accessed domestic retail debt market for the first time with innovative Deep Discount Bonds and registered path-breaking success.

In December 1993, IDBI set up IDBI Capital Market Services Ltd. as a wholly-owned subsidiary to offer a broad range of financial services, including Bond Trading, Equity Broking, Client Asset Management and Depository Services. In September 1994, in response to RBI's policy of opening up domestic banking sector to private participation, IDBI in association with SIDBI set up IDBI Bank Ltd. Today, IDBI Bank has a network of 161 branches, 369 ATMs, and 8 Extension Counters spread over 95 cities. It provides an array of services like: Personal banking ? Deposits ? Loans ? Payments Insurance ? Cards ? 24 hours banking ? Institutional banking ? Other products ? Preferred

banking ? NRI Services Corporate banking ? Project Finance ? Infrastructure finance ? Advisory ? Carbon credits Business ? Working Capital ? Cash Management Service ? Trade Finance ? Tax Payments ? Derivates SME Finance IDBI has been actively engaged in providing a major thrust to financing of SMEs. With a view to improving the credit delivery mechanism and shorten the Turn Around Time (TAT), IDBI has set up Centralized Loan Processing Cells (CLPCs) at major centers across the country.

To strengthen the credit delivery process, the CART (Credit Appraisal & Rating Tool) Module developed by Small Industries Development Bank of India (SIDBI), which combines both rating and appraisal mechanism for loan proposals, was adopted by IDBI for faster processing of loan proposals. Recently, a number of products have been rolled out for the SME sector, which considerably expanded IDBI's offerings to its customers. Also, the German Technical Co-operation and IDBI entered into an understanding for strengthening the growth and competitiveness of SMEs by providing better access to demand-oriented business development and financial services.

Agri Business Agriculture continues to be the largest and the most dominant sector in India, contributing 22 % to the country's GDP. It provides a source of employment and livelihood to over 60 % of the population. Its linkages with industry are growing with increasing stress on food and agri processing industry on account of changing demand patterns for processed food by consumers. With this background Corporate India has started finding new opportunities in Agriculture. The emergence of modern economic system has institutionalized agriculture sector on business models.

Agribusiness is a broad term that encompasses a number of businesses in agriculture including food production, farming, agrochemicals, farm machinery, warehousing, wholesale and distribution, and processing, marketing and sale of food products. The bank has launched several products catering to the rural and agri community. Project Finance Scheme Under the Project Finance scheme IDBI provides finance to the corporates for projects. The Bank provides project finance in both rupee and foreign currencies for Greenfield projects as also for expansion, diversification and modernization.

IDBI follows the Global Best Practices in project appraisal and monitoring and has a well-diversified industry portfolio. IDBI has signed a Memorandum of Understanding (MoU) with LIC in December 2006 for undertaking joint and take-out financing of long-gestation projects, including infrastructure projects

3. 4BANK OF BARODA [pic] It has been a long and eventful journey of almost a century across 24 countries. Starting in 1908 from a small building in Baroda to its new hi-rise and hi-tech Baroda Corporate Centre in Mumbai is a saga of vision, enterprise, financial prudence and corporate governance.

It is a story scripted in corporate wisdom and social pride. It is a story crafted in private capital, princely patronage and state ownership. It is a story of ordinary bankers and their extraordinary contribution in the ascent of Bank of Baroda to the formidable heights of corporate glory. It is a story that needs to be shared with all those millions of people – customers, stakeholders, employees & the public at large – who in ample measure, have contributed to the making of an institution. Personal Banking Services Bank

of Baroda believes in the strength and integrity of relationships built with its customers like you.

With over 90 years of experience in the banking industry and a wide network of over 2700 branches all over the country, we have always been active in extending financial support and adapting to your changing needs. Their Deposit Products, Retail Loans, Credit Cards and Debit Cards help you with your growing financial needs. With facilities like Lockers we ensure that your valuables are safe with us. Their countrywide branches offer you convenience and ease in operating your account wherever you are. Their 24-hour ATMs enable you to withdraw cash, check your account balance and request for a new chequebook even after banking hours.

Baroda Internet Banking / Baroda Mobile Banking, their latest Internet and Mobile banking initiatives enable you to operate your account just as you would in any of our branches. You can through the Internet check your balance, request for chequebooks and print account details. Choose from other various products and services, that they sincerely feel will put a smile on your face; an investment we would like to bank on forever. Business Operations The small and medium business enterprise is one of the fastest growing sectors in the country.

Bank of Baroda offers various products and services that meet the specific requirements of such enterprises and help them grow. In addition to tailor-made products, you can depend on the strength of other nation-wide network and facilities that will enable you to conduct your business smoothly, without geographical constraints. Be it Deposits, Loans &

Advances, Collection Services, Working Capital Finance, Term Finance, Non-Fund based Facilities, Trade Finance, Merchant Banking or other such aspects of banking, they have a solution to help your business run smoothly and efficiently.

Corporate Banking Services As corporations grow they feel the need to expand and invest in new infrastructure. External finance is one of the most important sources for funding expansion plans. With services ranging from Working Capital Finance, Short Term Corporate Loans, Project Finance to Cash Management and Merchant Banking, Bank of Baroda Corporate Banking offers various options that help fund and enable corporations in their investment and expansion plans. These products also offer merchant banking and cash management solutions.

Their global presence, large-scale operability, highly networked systems and local market penetration allow our customers to reap financial benefits to the maximum. Loans & Advances For immediate financial need in times, Bank of Baroda has a host of loan options for a corporate to choose from. These enable smooth functioning without monetary hassles. Project Finance Bank of Baroda provides its customers with the option of a loan to take care of the needs of an ongoing project, whether it is in Indian or foreign currency. This facility is available for project finance and also for project exports.

International Operations Bank of Baroda started its overseas journey by opening its first branch way back in 1953 in Mombassa, Kenya. Since then the Bank has come a long way in expanding its international network to serve NRIs/PIOs and locals. Today it has transformed into India's

International Bank. It has significant international presence with a network of 70 offices in 24 countries including 45 branches of the Bank, 21 branches of its eight Subsidiaries and four Representative Offices in Malaysia, China, Thailand, & Australia. The Bank also has one Joint Venture in Zambia with 9 branches.

The Bank has presence in world's major financial centers i. e. New York, London, Dubai, Hong Kong, Brussels and Singapore. The “ round the clock around the globe”, Bank of Baroda is further in the process of identifying/opening more overseas centers for increasing its global presence to serve its 29 million global customers in still better way. The Bank has recently upgraded its operations in Hong Kong on 2nd April 2007 and now offers full banking service through its two branches at Central and Tsim Sha Tsui. It would also be upgrading its operations to full banking service in China and through JV in Malaysia shortly.

It is also in process of establishing offices in Canada, New Zealand, Qatar, Bahrain, Saudi Arabia, Mozambique, Russia etc. Besides this, it has plans to extend its reach in existing countries of operations in US and UAE. Treasury operations In the changing economic environment of the country in particular and the globe in general, Bank of Baroda was the premier public sector bank in India to set up a Specialized Integrated Treasury Branch (SITB) in Mumbai and the integrated approach initiated by the Bank in its treasury operations is now being emulated by other peer banks.

Bank of Baroda has consciously adopted a focused approach towards improving efficiency and profitability by successfully integrating the

operations of different financial markets, viz. Domestic Money, Investments, Foreign Exchange and Derivatives and has made its mark as an important player in the market-place. The SITB at Mumbai, equipped with the State-of-the-art technology, with modern communication facilities, handles all types of financial transactions, both for managing its resources and deployments and effective compliance of regulatory requirements. Rural Operations

Rural India contributes a major chunk to the economy every year. To give this sector a stronghold on finance and to enable economic independence, Bank of Baroda has special offerings that extend credit facilities to small and marginal farmers, agricultural labourers and cottage industry entrepreneurs. With the objective of developing rural economy through promotion of agriculture, trade, commerce, industry and extending credit facilities particularly to small and marginal farmers, agricultural labourers and small entrepreneurs, Bank of Baroda, over the years, has reached out to larger part of rural India.

They extend loans for agricultural activities and a host of services for farmers well tuned to the rural market, and aim to make a Self Reliant Rural India. 3. 5 AXIS BANK [pic] Axis Bank was the first of the new private banks to have begun operations in 1994, after the Government of India allowed new private banks to be established. The Bank was promoted jointly by the Administrator of the specified undertaking of the Unit Trust of India (UTI – I), Life Insurance Corporation of India (LIC) and General Insurance Corporation Ltd. and other four PSU companies, i. e. National Insurance Company Ltd. The New India Assurance Company, The Oriental Insurance Corporation and

United Insurance Company Ltd. The Bank today is capitalized to the extent of Rs. 357. 48 crore with the public holding (other than promoters) at 57. 03%. The Bank's Registered Office is at Ahmedabad and its Central Office is located at Mumbai. Presently, the Bank has a very wide network of more than 608 branch offices and Extension Counters. The Bank has a network of over 2595 ATMs providing 24 hrs a day banking convenience to its customers. This is one of the largest ATM networks in the country.

The Bank has strengths in both retail and corporate banking and is committed to adopting the best industry practices internationally in order to achieve excellence. It provides an array of services like Personal Banking, Corporate Services, NRI services and Priority Banking. In personal Banking it offers different accounts like EasyAccess Account Senior Citizen's Account Prime Savings Account Women's Account Salary Power etc. . It also offers deposits services like Fixed Deposit, Recurring Deposit, and Tax Saving Fixed Deposits. It provides an array of loan services like Home Loan, Car Loan, Personal Loan, Study Loan, Mortgage etc.

In Corporate Services it offers the option of different accounts like Normal Current Account Business Advantage Account Current Account for Govt. Organizations Business Classic Account Current Account for Banks Business Privilege Account Trust/NGO Savings Account, further it also offers Credit Facility like Structured Finance, Microfinance Commodity Power, Microfinance project Finance. It also offers Capital Market Services in the form of Debt Solutions Advisory Services Private Equity, Mergers & Acquisitions Capital Market Funding Trusteeship Services eDepository Services

It also provides Cash Management Services as in today's competitive market place, effectively managing cash flow can make the difference between success and failure. Axis Bank offers a wide range of collection and payment services to meet your complex cash management needs. Payments received from your buyers and made to your suppliers are efficiently processed to optimize your cash flow position and to ensure the effective management of your business' operating funds. 3. 6 BANK OF INDIA [pic] Bank of India was founded on 7th September, 1906 by a group of eminent businessmen from Mumbai.

The Bank was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. Beginning with one office in Mumbai, with a paid-up capital of Rs. 50 lakhs and 50 employees, the Bank has made a rapid growth over the years and blossomed into a mighty institution with a strong national presence and sizable international operations. In business volume, the Bank occupies a premier position among the nationalized banks. The Bank has 2644 branches in India spread over all states/ union territories including 93 specialized branches.

These branches are controlled through 48 Zonal Offices . There are 24 branches/ offices (including three representative offices) abroad. The Bank came out with its maiden public issue in 1997. Total number of shareholders as on 30/09/2006 is 2, 25, 704. While firmly adhering to a policy of prudence and caution, the Bank has been in the forefront of introducing various innovative services and systems. Business has been conducted with the

successful blend of traditional values and ethics and the most modern infrastructure.

The Bank has been the first among the nationalized banks to establish a fully computerized branch and ATM facility at the Mahalaxmi Branch at Mumbai way back in 1989. The Bank is also a Founder Member of SWIFT in India. It pioneered the introduction of the Health Code System in 1982, for evaluating/ rating its credit portfolio. The Bank's association with the capital market goes back to 1921 when it entered into an agreement with the Bombay Stock Exchange (BSE) to manage the BSE Clearing House. It is an association that has blossomed into a joint venture with BSE, called the BOI Shareholding Ltd. to extend depository services to the stock broking community. Bank of India was the first Indian Bank to open a branch outside the country, at London, in 1946, and also the first to open a branch in Europe, Paris in 1974. The Bank has sizable presence abroad, with a network of 23 branches (including three representative office) at key banking and financial centres viz. London, Newyork, Paris, Tokyo, Hong-Kong, and Singapore. The international business accounts for around 20. 10% of Bank's total business. Apart from personal banking services it offers different products like Insurance Products: ?

Tie-up for Life Insurance: ICICI Prudential Life Insurance Co Ltd. ? Tie-up for General Insurance (Non-life) National Insurance Co Ltd. (NICL) ? Mutual Funds Products: It also offers credit facility like Personal Loan, Bullion Banking, Kisan Credit Card, Agriculture Loan, Bill Finance, Bank Guarantee, export Finance, Interest Rates, Channel Credit etc. It also offers deposit

services like Safe Deposit Vaults, fixed Deposits, Term Deposits, Tax Saving Deposits etc. It also offers corporate services like Bonds, Loans, and Project Finance Etc. 4. NON-BANKING FINANCIAL CORPORATIONS(NBFC's) The Future OVER the last decade or so, the Reserve Bank of India has been blowing hot and cold about non-banking finance companies (NBFCs). The RBI reacted to a series of defaults and misdemeanors by a few NBFCs, restricting their ability to take public deposits. This unfortunately led to a collapse of many NBFCs which depended on a continuous inflow of deposits to meet redemption obligations. Subsequently, there seems to have been a better realization of the role of NBFCs in financing the small-scale industry, particularly the transport sector.

The RBI in its latest monetary policy statement has cautioned that NBFCs should be encouraged to exit from public deposits, in essence saying NBFCs should not take public deposits. This is, indeed, extraordinary. The reasons given are that nowhere in the world are private financial institutions allowed to accept public deposits. The fact is that non-bank finance institutions are active in other economies. They accept deposits in developed countries as well as in some developing countries, like Malaysia. The existence of thrift societies in the US and housing societies in the UK is well-known.

Thrift and savings associations are almost omnipresent in the US. Credit unions of employees are, in effect, self-help groups, present in every organization. So are housing societies in the UK. They perform a useful role in garnering public savings and extending credit to those in need. The same is the situation with non-bank finance companies in Malaysia. The position in

the US is that as against deposits of \$4, 391 billion held by commercial banks, thrift institutions and finance companies hold \$1, 247 billion. These non-banks as a whole hold 28. 4 per cent of the deposits of banks.

In India, however, public deposits of NBFCs are only 0. 003 per cent of banks in India. Non-bank finance institutions in the US are even covered by deposit insurance even as they are subject to supervision by a special office of thrift supervision. These institutions handle a substantial channel of local savings and transfer them as loans to deserving borrowers, besides small and medium-scale industries, as well as housing needs. These institutions are also liberally allowed to access the capital market, where banks subscribe to bonds issued by them. The situation in UK is broadly similar.

Building Societies in the UK have a big share of business compared to their analogues in India, which hold deposits amounting to 18 per cent of total retail deposit balances. They also are entitled to receive compensation from the Financial Services Compensation Scheme in the event of failure in the business of deposit-taking, among others. In Malaysia, non-bank finance companies' deposits as a percentage of bank deposits amount to 21 per cent. It is, therefore, wrong to argue that non-bank finance companies cannot access public deposits in other countries.

Again, the new-fangled notion of Grameen banks and self-help groups is nothing but thrift societies in another form. Traditionally in India, chit funds have performed the role of collecting deposits from savers and lending money to those who are in need. Constrained as they are by numerous restrictions, they still perform a signal service in funding small and medium

business, trade and transport. The fact is that NBFCs in India have played a useful role in financing various sectors of the economy, particularly those that have been underserved by the banks.

No business flourishes unless there is a need for it and it fulfils the need efficiently. The success of NBFCs bears testimony to its role. Anywhere in India, the small entrepreneur goes first to an NBFC for funds even before he approaches banks in view of the former's easy access, freedom from red-tape and quick response. The large expansion of the consumer durable business in India in the last few years would not have taken place if NBFCs had not entered the trade. Similarly, housing activity has also been encouraged by NBFCs.

The role of NBFCs in funding transport activities is well-known. Latterly, some NBFCs have been active in funding infrastructure quite successfully using the securitization of obligations. NBFCs in India have played a useful role in financing various sectors of the economy, particularly those that have been underserved by the banks. The tendency of regulators to deny access to these institutions to public deposit is a confession of inability to see the economic reality, which calls for a flexible and customer-friendly financial intermediary, which is what NBFCs and chit funds are.

The tendency of regulators to deny access to these institutions to public deposit is a confession of inability to see the economic reality, which calls for a flexible and customer-friendly financial intermediary, which is what NBFCs and chit funds are. In fact, many banks are forming NBFCs to take advantage of their greater flexibility in dealing with customers. The fact that some

NBFCs were found abusing their position in the 1990s seems to have scared the regulator out of its wits. The answer lay in better regulation, supervision and prudential norms.

The RBI has now strengthened its machinery of registration and supervision and extended prudential norms to NBFCs. Denying access to deposits would seem a case of throwing the baby out with the bathwater. On the contrary, the RBI should apply its mind to strengthening the functioning of NBFCs, if necessary, facilitating better access to the capital market. It is, however, interesting to note that the RBI is thinking of using in some form an instrumentality like the NBFC to extend its credit reach. Observations in recent RBI reports show that the central bank would prefer to use microfinance credit agencies dedicated to serving SME clusters.

The RBI's Report on Trend and Progress of Banking in India 2004 mentions that " banks should extend wholesale financial assistance to non-governmental organizations/microfinance intermediaries and work as innovative models for securitisation of MFIs' receivable portfolios. Such micro-credit institutions can take the form of NBFCs funded by individuals or a group of banks, but not permitted to take public deposits". A strange requirement, indeed, of exclusion from public deposits! The recommendation of setting up an institution in the form of NBFC is significant, although excluding such institutions from deposit-taking is not correct.

NBFCs have, indeed, served a useful purpose as instruments for extending outreach of credit in the Indian countryside. To ignore them but recreate them in the form of microfinance institutions or NGOs of the same kind is

being ritualistic. After all, let us recognise that NBFCs have a set of characteristics that have made them an effective form of financial intermediation. It is these characteristics that the RBI wants to incorporate in its version of microfinance groups. The path of wisdom is to incorporate NBFCs as such into India's financial structure rather than reinventing them in another form.

There are, of course, some persistent problems for NBFCs, apart from deposit-taking. These relate to flexible handling of their capital issues. Both SEBI and the RBI need to revisit their case for relaxations with sympathy, especially since they are rated and supervised. These specific relaxations are more a matter of confidence-building. The requests made by NBFCs deserve sympathetic treatment by both the securities market regulator and the central bank. In short, NBFCs are vitally needed to give the Indian economy a much-needed boost by enabling easier access to credit.

As it is, public and private sector banks are finding it difficult to extend their reach for various reasons. It behooves the RBI and the Government to look at the problems faced by NBFCs with sympathy rather than with a recollection of the past follies of a few institutions. The time has come for the RBI to “make” peace with NBFCs as a class. They are proven instruments of efficient and customer-friendly outreach in the credit space — not only for consumer durables, but also housing and transport, besides infrastructure. These are also critical areas in which the Government is vitally interested as part of boosting economic growth.

I hope the regulators will not forget that their role is not only to regulate but to spur the growth of the economy. The NBFCs' request to be allowed to continue to accept public deposits deserves to be nurtured, not restricted. Over the years, in its developmental role, the RBI has been attempting to expand credit by exhortation. But public sector banks have proved that even with their best efforts they are able to reach only a limited extent of credit expansion. The experiment of Regional Rural Banks, Urban Cooperative Banks and Kisan Credit Cards has also been a mixture of success and failure.

It is in this background that the proven successful record of credit growth, exemplified by the NBFCs, deserves to be replicated at least in respect of their better features by the banking system. Commercial banks by their very nature cannot take on all the features of NBFCs, but they can collaborate with NBFCs by extending credit and participation in the securitisation. While the flow of bank finance will help, it will be more important to remember that NBFCs started by accessing public deposits. These can be an additional window for savings.

All this would of course require a change of mindset on the part of both our regulators and policy-makers. The government is planning to treat mortgage guarantee Companies as non-banking finance Companies (NBFCs). This would enable foreign firms to set up wholly owned subsidiaries in India as there is no foreign direct investment (FDI) cap for NBFCs. The rules governing this are expected to be unveiled soon, according to sources. The finance ministry favoured the inclusion of mortgage guarantee Companies in

the relatively relaxed NBFC norms rather than the stricter insurance sector guidelines.

The move would help overseas Companies like Genworth Financial, PMI Group, Mortgage Guaranty Insurance Corporation and Radian set up wholly owned mortgage guarantee subsidiaries in India. It will also allow joint ventures such as India Mortgage Guarantee Company Ltd and ICICI Lombard General Insurance start local operations. Though mortgage guarantee Companies usually fall under the non-life insurance sector overseas, in India they want to be governed by rules similar to NBFCs, an industry insider said requesting anonymity. This is because only 26% FDI is allowed in the insurance sector.

Commercial Banks and non-banking finance companies are not subject to uniform regulation although for both the principal regulator is the Reserve Bank of India. The dichotomy has many practical implications. While the two undertake many common functions, there are also certain spheres in which they do not compete. For instance, certain typical NBFC activities such as hire purchase and leasing, IPO funding, small ticket loans and venture capital are financial services that mainline banks in India have traditionally kept away from or placed much less emphasis.

On their part, banks alone provide working capital by way of cash credits and mobilize demand deposits (savings bank and current accounts). As a category, NBFCs are heterogeneous in their ownership patterns (such as foreign or domestic) and in the nature of activities undertaken. Hence regulation impacts unevenly even within this broad category. Hence there is

no level playing field not only between banks and NBFCs but among NBFCs themselves. Banks, by definition, are the most regulated, being subject to prudential norms, capital adequacy stipulations, CRR/SLR requirements, priority sector lending limits and so on.

While deposit taking NBFCs have been brought under regulation, non-deposit taking companies (NBFC-NDs) are, for all practical purposes, still out of it. “ Even in the former case, regulation is less rigorous than for banks. This gives NBFCs as a category and the minimally regulated non-deposit taking ones among them in particular an opportunity to exploit the “ regulatory arbitrage. ” An outstanding example is the enormous capacity of NBFC-NDs to leverage their balance sheets to raise funds. There is practically no regulation to constrain them.

As pointed out, only deposit taking NBFCs have been brought under regulation and even they have fewer norms than banks. Banks and NBFCs complement as well as compete with one another. This should on the whole lead to a widening of the financial sector and benefit the customer. For instance, ownership of an NBFC by a bank gives the former a status and an assurance that its well-regulated owner will ensure its solvency. At the same time the relatively easy regulatory norms have made it easier to set up NBFCs. (Many foreign banks have used the NBFC route to expand or even enter India).

Naturally the cost of conducting similar businesses should be lower with NBFCs. In 2006 the RBI laid down a number of guidelines to fine-tune the existing financial linkages between banks and NBFCs, the objective being to

protect the interests of bank depositors. In the normal course, NBFCs are more advantageously placed than banks. Likewise there are norms covering the structural linkages between the two. However, there are still several grey areas. The RBI identified the following key principles that should guide a revised framework for NBFCs. 1) While as a rule any financial service provider should be regulated, as a first step all “ systemically relevant entities” should be covered. What is systemically relevant will be covered from time to time. (2) To avoid regulatory arbitrage, regulation and supervision should be centered on activities and not be institution centric, as it is now. (3) New norms should be made applicable to NBFCs that are less regulated now, the objective being to enhance their governance. (4) Ownership of an NBFC should not be the criterion for deciding on the products it offers. 5) Foreign entities now gain a foothold in the Indian financial sector by investing in an NBFC through the automatic route available for FDI. Certain checks and balances must be prescribed to monitor their movements into other fields without undergoing an authorisation process. (6) Banks should not use an NBFC as a vehicle for creating arbitrage opportunities. Under no circumstances should the NBFC route be used for undermining existing regulations. Some of these have been put into practice already. For now, all NBFC-NDs with an asset size of Rs. 00 crore and more will be considered systemically important. They cannot raise borrowings more than ten times their net owned funds. These will have to follow new capital adequacy norms. Other restrictions such as those laid down under group exposure limits will have to be complied with. Among the other new guidelines, the one that has received wide publicity relates to ownership and

governance of NBFCs. The RBI has laid down that banks including foreign banks operating in India shall not hold more than 10 per cent of the paid up capital of a deposit taking NBFC.

Housing finance companies have been excluded from this stipulation. Some of these new regulatory norms have had a far-reaching impact on the NBFCs.

Procedural aspects of project financing in banks as well as NBFCs :

Development operations financed by follow a procedure cycle, which is almost identical for all kinds of projects whose technical, economic, and financial feasibility has been established. These projects must have a reasonable economic rate of return and should be intended to promote development in the beneficiary country. The procedure consists of the following) Identification of the project: The project's idea is introduced to providers by various sources: a request from the government concerned or financials identification missions may identify a proposal from other financiers, or it. Applications for financing are then sorted out and classified: projects to be financed are selected from amongst projects which have top priority in the development plans of the beneficiary countries and which meet the requirements established by the rules for financing set out by the providers and agreed upon by the government concerned.

In all cases, an official request from the government should be submitted to financials before it decides to participate in the financing. 2) Desk review and determination of the project's scope: Experts, each in his field of specialization, study all the documents available on the project and examine its components, its estimated local and foreign costs, the preliminary

financing plan, the position of the other sources of financing, the current economic situation and the development policy of the beneficiary country and, generally, review all elements which may help in making the project a success.) Preliminary approval: The findings of the project's review are set out in a report prepared by financials experts and submitted to Board of Directors for preliminary approval for undertaking further studies on the said project with the intention of considering the possibility of organization's participation in its financing. 4) Project appraisal and submission to the Board: After the project has been granted preliminary approval, organizations usually dispatches an appraisal mission to the project's site.

The appraisal stage is