REVIEW OF RESEARCH
ISSN: 2249-894X
IMPACT FACTOR : 5.7631(UIF)
UGC APPROVED JOURNAL NO. 48514
VOLUME - 8 | ISSUE - 9 | JUNE - 2019

FINANCIAL INSTITUTIONS AND INDUSTRIAL DEVELOPMENT IN KARNATAKA: A STUDY

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ABSTRACT:

The industry, now-a-days, operates under most dynamic environment of acute competition, advanced technological developments, shortage of skilled workers etc. In order to cope up with these conditions, an industry is required to make alternative suitable arrangements especially in provision of adequate finance for sustainable-balanced growth. Industrial development in India could not have a significant position and shape due to inadequate finance. Industries require financial assistance for meeting their requirements for long term and short term capital needs.

Hence, financial institutions and banks participates a prominent role in the industrial development of India. The financial institutions are financing agencies to provide medium and long term funds to industries and their operation which includes conducting of marketing survey, preparation of project report, provision for technical assistance and for managerial services. The financial institutions are working as instruments to balance the economic development of the country by concentrating on underdeveloped industries operating backward region of the country by mobilizing the resources of the country into the profitable channels in the light of country. Therefore, the present research paper throws a beam of light on the role and accessibility of Industrial finance in Karnataka.

KEYWORDS: *Economic Development, Financial Assistance, Financial Institutions, Industrial Development.*

INTRODUCTION :

Financing is described as the life blood of the industry which is a pre- requisite for the mobilization of the resources into production and distribution. It would be imprudent to plan industrial development without provisioning of adequate and timely finance. Hence, it is needed at the time of establishment of new unit, expansion, modernization of existing units and diversification of the industrial units and more, required to run the unit frequently.

In India, it has accounted slow industrial growth and predominant causes were failure of demeaning and widening the channels of industrial finance. A distinguished step towards the establishment of special financial institutions at the national level and state level by the Governments includes the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India (ICICI), the National Industrial Development Corporation of India (NIDCI), the Industrial Development Bank of India (IDBI) and the Industrial

Reconstruction Corporation of India (IRCI), State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs).

The role and responsibilities of the financial institutions are financing agencies to provide and ensure medium and long-term capital, especially for private sector and also for public sector. They are also involve in conducting the market surveys, preparation of project reports, providing technical supports and management services and management of industrial undertakings. They assist for the development of capital market through direct finance to industrial enterprises and backing them to get long-term loans from the money market through underwriting for their new issues (IPOs) of industrial securities and also subscribe to them.

They are working and identified as a weapon for balanced economic development by concentrating on less developed industries and backward areas of the country through mobilizing the resources into the profitable modes with a view of balanced regional development. They also provide assurance for deferred payments against imports of capital inputs and thereby bring local and foreign entrepreneurs together. In general, they are working as versatile institutions in financing projects in the various sectors of the economy.

STATEMENT OF THE PROBLEM:

There is prologue that 'finance is the life blood for every economic activity'. The country like India has enacted and enforced the rapid industrialization process with its plan and non-plan or policy and scheme measures. **Tripathi and Prasad (2009)** have recorded that the more than 60 percentage of the total working population of the country engaged in agriculture (backbone to economy) and 60 percent of industrial inputs depends upon agriculture directly and indirectly and similarly, 18 percentage of national income is contributed by agriculture sector. Recently, some organizations have also reported that there is a constant migration of human resource from agriculture to industrial and service sector. However, the contribution of industrial sector is lower than other sectors. The major bulletin in this regard is lack of entrepreneurial qualities and financial assistance in industrial sector.

Therefore, the financial institutions including banks are playing a noteworthy role in the industrialization of the nation by dismantling of concentric economic resources/system and have struggle to strengthen the socio-economic conditions of the country. They have extended financial assistance to small, medium and large scale industries for installation, expansion and modernization, with a priority for small, cottage and rural based industries. The constant changes in the environment allowed commercial banks to participate and extend their lending services to these industries. They have followed categorized lending schemes to the industries based on role, dependency, economic contribution, segments etc. In addition to commercial banks and financial institutions, the Life Insurance Corporation of India (LIC) and General Insurance Corporation (GIC) are in frontline to provide term loans and financial assistance by underwriting or direct subscription to shares and debentures of corporate sector. Hence, the financial institutions, bank and insurance corporations are playing a crucial role in the all-round development of the economy in general and individuals and industries in particular. Hence the present study focused on the Industrial finance in Karnataka by selecting commercial banks and financial institutions operating in Karnataka.

OBJECTIVES OF THE STUDY:

The following are the objectives of the study:

1. To know the role of financial institutions in the industrial development.
2. To Analyse the Industrial Finance in Karnataka.
3. To Analyse the Growth and development of industries in Karnataka.

RESEARCH METHODOLOGY:

For the present study, data is collected from the secondary sources which are gathered from the annual reports of financial institutions and banks.

ROLE OF FINANCING INSTITUTION IN INDUSTRIAL DEVELOPMENT:

With the technological progress and increased mechanization of production an increasing amount of capital per unit of output is required for industrial development, which an individual or group of individual by themselves are unable to meet independently. Therefore, it becomes inevitable for them to seek assistance from other agencies. There are many external sources which can provide finance to the unit. Of these an important agency for the supply of finance is the institutional sector. This comprises of the commercial banks and non -banking financing institutions. The former have got a long history of commercial banking in the past but have not always been popular with the entrepreneurs' owing to reasons shown herein under. Essentially because of their soft lending terms, the letters i.e. non-banking financial institution seem to be playing a more significant role in the financing of Indian industries.

To begin with inspite of the nationalization of commercial banks their lending policy continues to be conservative and is guided by commercial considerations. They are willing to extend financial support to only such industrial units from which the return of the principal and interest stands fully guaranteed. They are not inclined to undertake or bear the risks involved in promoting and otherwise weak unit. The special financial institutions, on the other hand, are fully committed institutions committed to promote the right type of industrial development. Their lending policy guided not by the commercial considerations but by the objective of the national policy. Secondly, while the commercial banks cater to several economic activities like trade, agriculture, industry etc., the special industrial financial institutions concentrate exclusively on the industrial sector. Thirdly, the rate of interest charged by the special financial institutions is lower than that charged by commercial banks this is probably, because the commercial banks are required to pay high rate of interest of their depositors to attack a large volume of deposits, while the special financial institutions are able to obtain their funds at a lower rate through government budgetary transfers.

Another drawback with commercial banks is that they are basically the suppliers of short-term capital to the industries. A study of banking statistics reveals that out of the total assistance extended to the industrial sector by the Indian commercial banks, about 90% is in the shape of working capital. Special financial institutions convene the fixed and working capital requirements of the industries, and it is the supply of the long term capital which involves a greater element of risk. The special financial institutions have an edge over the commercial banks in one more respect. While the latter extend only financial help to industries the former supply in addition to financial assistance, certain very essential non-financial ingredients of industrialization as well. They provide technical and non-technical consultancy services to entrepreneurs help them obtain scarce the materials, and provide managerial guidance etc. sometimes they also recommend the case of the entrepreneurs to commercial banks for the supply of short term capital. Through the supply of such package of non-financial assistance the special financial institutions providing Yeoman's service to a developing economy. They, thus, raise the schedule of the marginal efficiency of capital and thereby succeed in ensuring the profitability of new projects. This ultimately, tends to delink the demand for funds from the cost of capital.

In short, the role of institutional finance in a country's industrial development is of crucial importance, but, there are certain factors which circumscribe and limit the performance of this role.

DATA ANALYSIS AND INTERPRETATION:

Table-1: Financial Assistance of Public Sector Banks to Industries in Karnataka

(Amount in Lakhs)

Financial Year	SBI and Associates	Syndicate Bank	Canara Bank	IDBI Bank	Total Amount Sanctioned
2013-14	184,580	133,145	163,192	NA	**480,917**
	38	**28**	**34**	**-**	**100**
2014-15	169,530	203,684	196,996	NA	**570,210**
	30	**36**	**35**	**-**	**100**
2015-16	228,906	649,865	267,935	270,596	**1,417,302**
	16	**46**	**19**	**19**	**100**
2016-17	806,803	695,717	187,584	65,224	**1,755,328**
	46	**40**	**11**	**4**	**100**
2017-18	1,630,525	1,018,232	206,852	189,405	**3,045,014**
	54	**33**	**7**	**6**	**100**
2018-19	484,914	365,766	385,686	45,393	**1,281,759**
	38	**29**	**30**	**4**	**100**
Total	**3,505,258**	**3,066,409**	**1,408,245**	**570,618**	**8,550,530**

(Source: Reports of SLBC)

The table has portrayed that the SBI and its associate banks provide major share of financial assistance for promoting industrial activities in the financial years 2013-14, 2016-17, 2017-18 and 2018-19 i.e. 38 percent, 46 percent, 54 percent and 38 percent respectively to meet the financial requirements of the industries. At the same time, Syndicate Bank stood second in providing assistance as 36 percent, 46 percent, 40 percent and 33 percent in 2014-15 to 2017-18 respectively and followed by the Canara Bank and IDBI Bank.

Table-2: Financial Assistance of Private Sector Banks to Industries in Karnataka

(Amount in Lakhs)

Financial Year	ICICI BANK	AXIS BANK	KARNATAKA BANK	KOTAK MAHINDRA BANK	Total Amount Sanctioned
2013-14	1,36,131	36,620	73,001	24,487	**2,70,239**
	50	**14**	**27**	**9**	**100**
2014-15	2,68,519	2,05,594	84,963	62,500	**6,21,576**
	43	**33**	**14**	**10**	**100**
2015-16	2,58,007	54,394	1,25,987	2,76,090	**7,14,478**
	36	**8**	**18**	**39**	**100**
2016-17	1,52,868	95,155	1,33,655	1,79,556	**5,61,234**
	27	**17**	**24**	**32**	**100**
2017-18	4,99,549	1,38,084	1,32,873	1,73,022	**9,43,528**
	53	**15**	**14**	**18**	**100**
2018-19	2,71,036	37,187	1,19,136	79,163	**5,06,522**
	54	**7**	**24**	**16**	**100**
Total	**15,86,110**	**5,67,034**	**6,69,615**	**7,94,818**	**36,17,577**

(Source: Reports of SLBC)

Table-2 showed that the ICICI is the dominating private sector bank which has financed larger amount to the industrial sector keeping the average 44 percent to total among the private sector banks from financial years 2013-14 to 2018-19 followed by the Kotak Mahindra Bank (the data of ING Vysaya bank was subsumed in 2013-14 and 2014-15) keeping average 21 percent, Karnatak Bank 20 percent and Axis Bank 16 percent.

Table-3: Financial Assistance of Regional Rural Banks to Industries in Karnataka

(Amount in Lakhs)

Financial Year	Kaveri Grameena Bank	Karnataka Vikas Grameena Bank	Pragathi Krishna Grameena Bank	Total Amount Sanctioned
2013-14	22,984	3,095	42,931	**69,010**
	33	**4**	**62**	**100**
2014-15	78,852	58,988	40,073	**1,77,913**
	44	**33**	**23**	**100**
2015-16	1,00,793	75,424	46,771	**2,22,988**
	45	**34**	**21**	**100**
2016-17	35,938	75,883	62,606	**1,74,427**
	21	**44**	**36**	**100**
2017-18	60,907	88,297	83,922	**2,33,126**
	26	**38**	**36**	**100**
2018-19	41,827	75,617	1,13,911	**2,31,355**
	18	**33**	**49**	**100**
Total	**3,41,301**	**3,77,304**	**3,90,214**	**11,08,819**

(Source: Reports of SLBC)

Table-3 showed that the financial assistance lent by the RRBs in Karnataka. Among the RRBs, the PKGB is stood first by lending average 38 percent and followed by KGB and KVGB.

Table-4: Growth and development of MSMEs in Karnataka

YEAR	2013-14	2014-15	2015-16	2016-17	2017-18
MICRO	**23229** (89.46)	**26005** (90.48)	**21769** (84.84)	**30511** (77.89)	**39509** (81.49)
SMALL	**2661** (10.25)	**2661** (09.25)	**3740** (14.58)	**8216** (20.97)	**8568** (17.67)
MEDIUM	**76** (0.29)	**77** (0.27)	**147** (0.57)	**443** (1.13)	**405** (0.84)
TOTAL	**25966** (100)	**28742** (100)	**25656** (100)	**39170** (100)	**48482** (100)

Source: Directorate of Micro, Small and Medium industries.

Table-4 showed that the Growth and development of MSMEs in Karnataka. Among the MSMEs the Micro industries are high in number and followed by Small and Medium.

MAJOR FINDINGS:

1. The financial support provided by the banks to industrial sector has showed increasing tendency.
2. Financial support provided by the SBI & its associate banks amounts greater percent among the PSBs.

3. Financial assistance provided by the ICICI Bank has lent greater amount among the Private sector banks. Surprising, it has lent more than 50 percent in 2013-14, 2017-18 and 2018-19 financial years.
4. Financial assistance provided by the PKGB has accounts good amount in 2013-14 by 62 percent but in the subsequent years it has not showed the same result. However, it keeps average 38 percent in all the six financial years.
5. The financial assistances granted by the PSBs and RRBs are in disturbed manner and do not kept or hold consistency in lending over a period of time as compared to private sector banks.
6. The performance of industrial lends in case of SBI and its associates are not remarkable. As they have showed good amount of lending pattern jointly.
7. The growth and development of MSMEs are fluctuating from year to year.

SUGGESTIONS:

1. Industries have provisioned a greater source for employment and the magnitude of growth of employment depends on growth of industries. Hence, the Government has to focus on industrial growth as such.
2. The commercial banks have to provide hassle free financial assistance to industries as far as practicable and to encourage new entrepreneurs.
3. Commercial banks and the Government have to set magnitude of financial assistance for the industries because industrial growth certainly contributes to primary and territory sectors which in turn represent national economy.

CONCLUSION:

Karnataka is placed top five industrialized states in the country. The State continued to play revolutionary role in Industrial growth by providing ample investment opportunities, hailed as the "Silicon Valley of India". Karnataka maintained its recognizable position in the country in export of IT and IT related products. Bangalore, the capital city of Karnataka, was rated as one of the Top Ten Hi-Tech Cities of the World. Commercial banks and financial institutions in Karnataka should respond positively to the financial requirements of the industrial, service and other sectors of Karnataka. Because Industrial sector has been considered as the engine of economic growth as well as backbone of the economy, and generate larger employment opportunities. Purchasing power and standard of living and poverty of the people directly depend on their employment and source of incomes. And which re-contributes the prosperity of industries and the economy. In this context, there is need of strong financial mechanism with financial institutions to promote industries for the economic growth of the country.

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