



BBA Semester VI

Course: Indian Financial System

MM: 50 Marks

Course Code: BBA 062

Time: 3 Hours

Attempt any three questions from Section A which carry 10 marks each. Section B is compulsory.

Section A

- Q1.** State the major components and key elements of the Indian Financial System. Discuss the nature and role of Financial Intermediaries.
- Q2.** What do you understand by Primary and Secondary Market and Capital and Money Market as classifications of financial markets? Discuss in brief, the features of each of the markets.
- Q3.** What do you mean by financial regulation? Elaborate on the role of RBI and SEBI in financial regulation in India.
- Q4.** What is a Bank? Discuss the types of Bank and their role in the economic development of the country.
- Q5.** Explain the following w.r.t. stock markets (any two):
- (a) Stock Market Index
 - (b) Green Shoe Option
 - (c) Financial Instruments
 - (d) Book Building process
 - (e) Electronic Trading
 - (f) Reforms in Financial System

Section B

Q6. Read the following Case and answer the questions:

DEVELOPMENT FINANCIAL INSTITUTIONS IN INDIA

While banks have traditionally met short-term working capital requirements of industry, development finance institutions (DFIs) have mainly catered to the medium to long-term financing requirements. Industrial Finance Corporation of India (IFCI) was the first DFI which was established to extend long-term finance to industry. This was followed by the establishment of several DFIs, both in public and private sector. DFIs can be classified as i) term lending institutions such as Industrial Investment Bank of India (IIBI) Ltd, Export-Import Bank of India (EXIM) and Tourism Finance Corporation of India (TFCI) Ltd which provide long-term finance to various sectors; and ii) refinance institutions such as National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB) which provide finance to banking as well as non-banking financial intermediaries.

Since almost all the DFIs were government-owned, their operations were marked by near absence of competition up to 1990. Moreover, DFIs were extended funds at concessional rates in the form of Long-Term Operations Fund of the RBI and government guaranteed bonds on a long-term basis, with their maturity ranging from 10-15 years. Despite this, the operations of DFIs became less profitable over the years. Thus, in order to impart market orientation to operations of DFIs, various reform measures such as gradual phase out of the market borrowing allocations of government guaranteed bonds and discontinuing the access to low cost funds of RBI were announced in 1990s. Apart from this, prudential norms pertaining to capital adequacy, income recognition, asset classification and provisioning were recommended in 1994.



Between the period 1993 to 1998, DFIs took several measures such as offering innovative products and diversification of activities into new areas of business viz. investment banking, stock broking and custodial services to cope with the increased competition. However, softening of interest rates and slowdown in industrial activity in the second half of 1990s had adverse impact on the asset quality of DFIs. With declining interest rates, high cost of funds raised by DFIs in the past became a cause of concern. Despite increase in cost of funds, DFIs had to lend at a very competitive rate due to increased competition from banks which ventured into project financing, in turn, resulting in decline in spread and profitability of DFIs. Further, in January 2001, the RBI permitted reverse merger of ICICI with its commercial bank subsidiary. This was followed by conversion of IDBI into a banking company on October 1, 2004. The conversion of these two large DFIs into banking companies led to the decline in share of DFIs in infrastructure project finance. The earlier mentioned developments led to substantial decline in financial assistance sanctioned and disbursed by DFIs during initial years of the current decade. On an average the financial assistance sanctioned and disbursed by DFIs declined to ₹ 389.1 bn during FY02-FY07 as compared with ₹ 836.8 bn during FY96-FY01. The financial assistance sanctioned by DFIs, however, witnessed an upturn during FY08-FY09 owing to increased sanction by investment institutions (especially LIC). During FY09, the financial assistance sanctioned by DFIs witnessed an increase of 70.2% (y-o-y) while disbursements witnessed an increase of almost 93.3%.

The intensification of global financial crisis and consequent liquidity crunch in the domestic financial system led the RBI to take a slew of measures in order to provide liquidity support to DFIs. For instance, the RBI provided refinance facility of ₹ 160 bn (includes ₹ 70 bn for SIDBI, ₹ 50 bn for EXIM Bank and ₹ 40 bn for NHB) to DFIs to facilitate on-lending to Housing Finance Companies (HFCs), NBFCs, mutual funds and exporters. Under the refinance facility, ₹ 213.98 bn were drawn up to June 26, 2009, while total disbursements amounted to ₹ 153.12 bn (up to June 26, 2009). The refinance facility had as many as 5,283 beneficiaries including 33 State Finance Corporation & Banks, 22 NBFCs and 14 HFCs. In addition to this, the ceiling on aggregate resources mobilised by SIDBI, NHB and EXIM Bank was raised to 12 times of net owned funds (NOF) for SIDBI & NHB and 13 times of NOF for EXIM Bank. This led to a 9.1% increase in resource mobilisation by DFIs during FY09. Further, the 'umbrella limit' was raised for EXIM Bank & NHB and select DFIs were allowed to offer market related yield to maturity.

- (a) Summarize the case in your own words. Discuss the role of DFIs in the development of the country.
- (b) Elaborate on the working of following: (i) IFCI, (ii) SIDBI, and (iii) SFCs & SIDCs.

It is the supreme art of the teacher to awaken joy in creative expression and knowledge -

Albert Einstein

BEST OF LUCK