

Trends and scope of commercial lending in India

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ABSTRACT

As a part of strategic financial planning a systematic analytical approach has been to funding thru ECB (External Commercial Borrowing) and FCCB (Foreign currency convertible bonds).

Using the data from Reserve Bank of India between 2014 to 2016, the paper investigates the correlation between administrative support & policy easing and the reasons for enterprises in India to avail funds via the ECB and FCCB route. The papers deals with the various numerical data points from the Handbook of Indian Economy 2015-16 and study the lending patterns of the financial sector and its contributions and performance over the said period.

The analysis of the paper suggests that the prime focus areas for the financial sector in the coming years, the improvements in their current business practices, the scope and the viability of the projects for which they lend and the improvements for the financial sector from an operational model perspective.

The focus of the paper is on the reasons and modes of raising funds via debt, RBI's intervention for raising ECB and FCCB, the borrowing trends from May 2014 to 2016, comparative analysis of trend of investments in various sectors of Indian Economy, The risks associated with lending from the lenders perspective.

Keywords: Commercial Lending, ECB (External Commercial Borrowing) and FCCB (Foreign currency convertible bonds).

INTRODUCTION

Kishore (2011) in Strategic Financial Planning defines strategic planning as a systematic analytical approach which reviews the business as a whole in relation to its environment with the object of the following:

- I. Developing an integrated, coordinated and consistent view of the route the company wishes to follow
- II. Facilitating the adaptation of the organization to environmental change.

He goes on to say that within Strategic Financial Management; strategic planning is long-range in scope and has its focus on the organization as a whole. The concept is based on an objective and comprehensive assessment of the present situation of the organization and the setting up of targets to be achieved in the context of an intelligent and knowledge anticipation of changes in the environment.

The strategic financial planning involves financial planning, financial forecasting, provision of finance and formulation of finance policies which should lead the firm's survival and success. The strategic financial planning show enable the firm to judiciously allocate funds,

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capitalization of relative strengths, mitigation of weaknesses, early identification of shifts in environment, counter possible actions of competitor, reduction in financing costs, effective use of funds deployed, timely estimation of funds requirement, identification of business and financial risks etc.

To add to this, Kishore also elaborates that financial sector reforms aim at promoting a diversified, efficient and competitive financial sector with ultimate objective of improving the allocative efficiency of available resources, increasing the return on investments and promoting an accelerated growth of real sectors of economy.

Brealey and Myers (2012) in Principles of Corporate Finance give an answer to a very pertinent question – Do Firms Rely Too Much on Internal Funds? According to Brealey et al., internal funds (retained earnings plus depreciation) cover most of the cash needed for investment. It seems that internal financing is more convenient than external financing by stock and debt issues.

Singh and Saha (2011) in their research paper Centralization of Microfinance stated that according to Consultative Group to Assist the Poor (CGAP) (2006), microfinance means the supply of loans, savings, and other basic services to the poor people.

It is based on the principle of helping people so that they are able to help themselves. In the development of entire region, the increased income earned by micro-entrepreneurs is the most important precondition. Thus, microfinance enables poor but economically active people to increase their income, and thus helps in generating some additional savings which may be used for further development.

Majumdar and Sen (2010) in their research paper Debt in the Indian Corporate Sector: Its effects on firm strategy and performance stated that the relationship between a firm's capital structure and its strategic behavior has been a question that has dominated much of the literature on corporate governance and corporate finance.

The role of different types of debt has been completely downplayed. This is a particular omission in the emerging economy context, given that most firms in such economies tend to be highly leveraged. Also, there are several varieties of debt to be raised in emerging economies.

The theoretical literature suggests that, similar to its application in the case of equity ownership, some types of debt holders such as banks may be able to exert a stronger monitoring role on managers of firms than other types of debt holders such as arm's-length lenders.

LITERATURE REVIEW

Rastogi, Jain and Yadav (2006) in their research paper 'Debt Financing in India in Public, Private and Foreign Companies' studied the debt financing decisions and practices of the public sector, private sector and foreign controlled companies in India.

The study also indicated that the profile of debt financing has significantly changed during the period covered by the study. Ownership control was observed to be a significant factor in influencing the debt financing decisions in terms of its composition and maturity structure. Long-term debt was found more prevalent among public sector firms vis-à-vis private sector business group firms. Interestingly, foreign controlled firms made the least use of long-term debt among the three types of ownership groups.

The paper also suggested that sound financial management practices expect corporate firms to have unused debt capacity for future needs in order to preserve operating flexibility, particularly in circumstances when fund requirements are sudden and unpredictable.

Hence, it is imperative to study the objectives with which Indian firms – private, public or otherwise raise funds via the credit route since the operational model of businesses in India evolved with the macro-economic environment.

Majumdar and Sen (2010) in their research paper 'Debt in the Indian Corporate Sector: Its Effects on Firm Strategy and Performance' examined the effects of debt structure on firms' strategic behavior and performance for the Indian economy, which is one of the largest and most important economies of the world today.

We would also understand a variety of ownership structures, for example state versus private ownership, foreign versus domestic ownership and firms which are members of business groups and those which are independent.

We would also try to understand that the most aggressive and dynamic businesses such as those who have diversified their investments or engaged in higher intensity of advertising are more likely to see funds from private arm's-length creditors, even though these types of funds tend to be more expensive than loans from banks and term-lending institutions. On the other hand, more conservative firms which have chosen not to diversify as much or engage in high levels of advertising expenditures have relied on bank and term-lending institution debt.

This leads to study the risks associated with the lending businesses of banks; the philosophy by which investments were made into businesses by the financial sector firms in India and the scope & performance of banks in their lending businesses with the given risks.

Singh and Saha (2011) in their research paper 'Centralization of Microfinance' found out that microfinance is one of the most effective techniques for poverty alleviation in developing and underdeveloped countries.

Our understanding would be that if microfinance is managed, organized and planned well, then it should be supported by non-governmental organizations and socially-oriented investors with low default rates, encouraging greater commercial involvement because of attractive returns. Through microfinance it will be easy to include this section of society into the economic mainstream to achieve balanced growth, which is critical for social development and economic prosperity.

While discussing the factors and the theoretical position associated with innovation in microfinance, this paper also brought out the missing link between the lender and borrower in the Indian context. As per the authors, filling of this gap is a precondition for poverty reduction on account of the influence of new paradigm of institutional viability under commercial microfinance. This led us to study the performance of the mainstream financial sector into investing in the rural areas of India which is mainly based on agriculture and associated activities. Also, another factor linked to the agriculture is the micro, small and medium-sized enterprise (MSME) industries which is fast spreading as a sustainable alternative model for banks to invest in.

Mallik (2015) in her paper Being Credit Rationed: Delay and Transaction Cost explains the problem of avoidance of formal credit. The paper developed alternative models explaining why households with credit need to finance their projects (enterprises) avoid formal credit. In this paper, we also understand that delay cost in conjunction with personal loan transaction cost may also cause highly productive projects or larger projects shying away from formal credit in spite of low interest rates. Nevertheless, these structural features of bank loans do have an effect on the household's cost of borrowing in the formal credit market. Moreover, the degree of impact is unique to each household depending upon the level of education.

Thomas (2013) in his paper Explaining the 'jobless' growth in Indian manufacturing explained the 'jobless' growth in Indian manufacturing. The manufacturing sector in India has seen growth and is even currently growing strong to support a massive economy such as India. To enable this, we have government and RBI who are focused on easing of policies and rules to enable businesses to get access to more funds for business operations. The ECB and FCCB data primarily will help us understand the manufacturing sector and the probable road ahead.

Caputo, Askari and Wides (2016) in their paper Commercial Lending in Indian Country: Potential Opportunities in a Growing Market explored the report reviews the factors that make lending in Indian Country attractive for banks, including regulatory considerations such as those related to community reinvestment. The report also examines the unique

challenges for banks interested in commercial lending on Indian reservations. In reviewing ways to overcome these challenges, the report discusses successful marketing and risk mitigation strategies that banks can adopt.

Pandya (2015) in his paper *Impact of Priority Sector Advances on Bank Profitability: Evidence from Scheduled Commercial Banks of India*, aimed at analyzing the impact of priority sector advances of scheduled commercial banks operating in India on their profitability. The findings of this paper suggested that Return on Assets (ROA), Return on Investments (ROI), Ratio of Operating Profit to Total Assets (OPTA) and Ratio of Interest Income to Total Assets (INTTA) have a statistically significant relationship with priority sector advances whereas Return on Equity (ROE) has been found to be statistically insignificant. The results of the study thus imply that priority sector advances have a bearing on bank profitability.

Ahmed (2009) in his paper *Priority Sector Lending by Commercial Banks in India: A Case of Barak Valley* intended to ensure that the assistance from the banking system to those sectors of the economy which has not received adequate support of institutional finance. His study concluded that the banks are not able to reach the prescribed target of lending to priority sector. The small entrepreneurs and farmers continued to be both credit and demand constraints. Thus, it was being observed that the demand for funds for priority sector viz., small entrepreneurs and agricultural sector is enormous.

Santomero (1997) in his paper *Commercial Bank Risk Management: An Analysis of the Process* risk management practices of commercial banks of North American super-regionals and quasi-money center institutions as well as several firms outside the U.S studied the various risks faced by banks such as credit risk, interest rate risk, foreign exchange risk, liquidity risk and other risks.

Kishore (2011) in *Strategic Financial Management* discusses in detail the various financial planning strategies adopted by companies for raising funds. It provides comprehensive details of the various inorganic and organic methods of growth for businesses and the role financial institutions in providing the required capital. This book helps us to understand the various reasons and modes of fund-raising done by businesses.

Brealey and Myers (2012) in *Principles of Corporate Finance* describe the theory and practice of corporate finance. It spells out why the management needs to bother with theory while focusing on the practical aspects. It provides a theory of taking an inclusive decision which takes into consideration the changing factors in the economy and its impact on the businesses. This helps us to understand the changes brought in by RBI while letting businesses raise funds via ECB and FCCB route.

The Reserve Bank of India issued a circular on the External Commercial Borrowings (ECB) Policy – Revised Framework (A.P. DIR Series – Circular No. 32) provided a more detailed note on the changes in the fund-raising method along with the industry guidelines and specific orientations. With the help of this circular, we try to understand the trends and reasons of the ECB and FCCB funds raised by Indian business

Hoda and Terway (2015) in their working paper Credit Policy for Agriculture in India – An Evaluation stated that the steps taken to enhance institutional credit such as the opening of a large number of rural branches of commercial banks, priority sector lending with 18 per cent target for agriculture, Kisan Credit Cards and the financial inclusion initiative were instrumental in the impressive rise in agricultural credit and not credit subsidies.

Goyal (2012) in her paper Banks, policy, and risks: how emerging markets differ stated with an Indian case, the emerging markets remain thin and the interest rates spread remained high, EM banks are vulnerable to large fluctuations in policy rates. Cyclical risks can be contained as long as policy makers moderate the rates. Global regulatory reform can also reduce risks.

Pandya (2015) in his paper Impact of Priority Sector Advances on Bank Profitability: Evidence from Scheduled Commercial Banks of India revealed the statistically significant relationship between priority sector advances and banks profitability.

Kumaraswamy et. al (2014) in their paper Retail Credit Risk Management in Indian Public Sector Banks found that the profit in PSBs was declining trend due to competition, lack of diversity of banking services and stringent rules of RBI before economic reforms. The profit declined due to operation not being linked with profit and lack of diversity in the banking services.

Malik (2015) in her paper Being Credit Rationed: Delay and Transaction Cost explained why households with credit need to finance their projects (enterprises) avoid formal credit. More importantly it argued that the problem of avoidance of formal credit and ensuring credit access is not necessarily restricted to the small borrower or borrowers with inefficient projects. Delay cost and personal loan transaction cost could also cause highly productive projects or larger projects shying away from formal credit in spite of low interest rates.

Sahay, Bhutaini and Raju (2003) in their paper Corporate Debt Market in India: Key Issues and Policy Recommendations stated the significance of debt market in general and its role in accelerating the development of economic growth in particular. It reviewed various regulatory and non-regulatory developments, instruments available, investors, issuers and intermediaries in the Indian context.

The paper also identified several weaknesses in the present system along with areas hindering the growth of debt market. Recommendations of the paper included development of corporate debt repo market, institution of debt manager, sound safe and robust infrastructure, regulatory framework, investor profile and comprehensive database.

Caputo and Askari (2016) in their paper Commercial Lending in Indian Country: Potential Opportunities in a Growing Market stated that commercial lending in India required navigating complex legal and business issues, but the market had evolved and bankers and tribes responded positively to these issues. Many banks and tribes now use business and legal mechanisms tailored to addressing some of the long-standing challenges to lending in India.

Government guarantee programs accommodated the legal nuances and provided assistance when banks decided to enter the market. Market opportunities existed, illustrated by relatively high growth rates in India in the past two decades. As the report described, some banks aggressively pursued these opportunities by implementing a variety of business strategies to meet the needs of the expanding market.

Arora (2013) in his paper, “Credit Risk Analysis in Indian Commercial Banks - An Empirical Investigation” revealed that credit worthiness analysis and collateral requirements are the two important factors for analyzing credit risk. The paper concluded that Indian banks efficiently manage credit risk. The paper also indicated that there is significant difference between the Indian public and private sector banks in analyzing credit risk.

Kanchu and Kumar (2013) in their paper, “Risk Management In Banking Sector – An Empirical Study” attempted to identify the risks faced by the banking industry and the process of risk management. This paper also examined the different techniques adopted by banking industry for risk management. Further, they concluded by observing that banks should take risk more consciously, anticipate adverse changes and hedge accordingly.

Mills and McCarthy (2014) in their paper *The State of Small Business Lending: Credit Access during the Recovery and How Technology May Change the Game* have compiled and analyzed the state of access to bank capital for small business from the best available sources. They explored both the cyclical impact of the recession on small business and access to credit, and several structural issues which impede the full recovery of bank credit markets for smaller loans.

Günther (2017) in her paper *The Progress of Financial Inclusion in India: Insights from Multiple Waves of Survey Data* tried to understand the reach and impact of various government schemes in India and the benefits of the same to the society in general.

OBJECTIVES

- To understand the various reasons and modes of raising funds via debt by businesses.
- The changes incorporated by RBI in raising funds via ECB (External Commercial Borrowing) and FCCB (Foreign Currency Convertible Bond) route by businesses.
- The borrowing trends in ECBs and FCCBs from May 2014 onwards.
- The current and comparative trend of investments made by the domestic financial sector into various other sectors for gaining a view on Indian economy.
- The risks associated with lending from a lender’s perspective.

METHODOLOGY

For this research paper, the data collection was done via two ways:

1. RBI External Commercial Borrowings Monthly Data – May 2014 to July 2016.
2. RBI – Handbook of Statistics on Indian Economy 2015-16.

For the first point of RBI External Commercial Borrowings Monthly Data – May 2014 to July 2016; please note the following:

There is no specific methodology applicable. Hence, we have done the following:

- A consolidated table of the monthly numbers of ECB/FCCB from the RBI website from May 2014 to July 2016. (Source Link: <https://rbi.org.in/Scripts/ECBView.aspx>)
- A sum of the amounts sourced through automatic and approval route.
- A pivot table with the unique reasons for the requirement of funds.
- A corresponding pie diagram using the Pivot functionality within Microsoft Excel.
- For the data from the RBI – Handbook of Statistics on Indian Economy 2015-16; below are the tables which were analyzed for this paper:
- Table 64: Consolidated Balance Sheet of Scheduled Commercial Banks (Excluding Regional Rural Banks).
- Table 39: Sector-wise Cost Overrun of Delayed Central Sector projects (End-March).
- Table 61: Scheduled Commercial Banks' Direct Finance to Farmers according to size of land holdings (outstanding) - Short-term and long-term loans.
- Table 60: Scheduled Commercial Banks' Direct Finance to Farmers according to size of land holdings (disbursements) - Short-term and long-term loans.
- Table 65: Gross and Net NPAs of scheduled commercial banks - Bank group-wise.
- Table 178: Industry-wise Deployment of Bank Credit.
- Table 177: Deployment of Bank Credit by Major Sectors.
- Table 63: Scheduled Commercial Banks' advances to Agriculture – Outstanding.
- Table 62: Scheduled Commercial Banks' advances to Small-Scale Industries and Allied Services – Outstanding.
- Table 181: Commercial Bank Survey.

The Median and Mean were calculated in an Excel file and hence, we have applied the Microsoft Excel formulae – MEDIAN (for calculating Median) and AVERAGE (for calculating Mean).

ANALYSIS

Mm/YY	Automatic (in USD)	Approval (in USD)	Total (in USD)
May-14	53,63,24,108	92,38,79,289	1,46,02,03,397
Jun-14	1,30,29,89,111	58,37,07,263	1,88,66,96,374
Jul-14	2,55,99,87,078	1,16,16,34,750	3,72,16,21,828
Aug-14	45,32,87,594	5,41,07,434	50,73,95,028
Sep-14	2,84,40,99,718	33,24,56,995	3,17,65,56,713
Oct-14	2,71,01,78,780	6,94,31,124	2,77,96,09,904
Nov-14	1,96,80,00,768	1,52,49,53,326	3,49,29,54,094
Dec-14	49,16,72,245	14,56,18,338	63,72,90,584
Jan-15	1,49,58,74,971	1,09,46,42,396	2,59,05,17,368
Feb-15	1,23,36,90,881	1,02,95,00,000	2,26,31,90,881
Mar-15	1,94,24,49,088	72,22,58,927	2,66,47,08,016
Apr-15	66,90,89,131	5,82,45,183	72,73,34,315
May-15	2,30,46,42,518	9,00,00,000	2,39,46,42,518
Jun-15	80,64,76,919	2,35,30,77,460	3,15,95,54,380
Jul-15	69,32,89,471	1,45,03,08,134	2,14,35,97,605
Aug-15	44,12,72,135	30,94,93,207	75,07,65,342
Sep-15	1,13,45,56,703	1,48,01,13,397	2,61,46,70,100
Oct-15	66,91,73,300	1,44,52,53,707	2,11,44,27,007
Nov-15	1,05,18,63,061	2,11,23,00,000	3,16,41,63,061
Dec-15	1,90,60,37,997	1,12,82,55,075	3,03,42,93,072
Jan-16	1,39,15,79,793	38,30,089	1,39,54,09,882
Feb-16	1,02,32,81,560	33,00,00,000	1,35,32,81,560
Mar-16	1,31,94,06,888	20,10,48,988	1,52,04,55,876
Apr-16	30,29,67,866	15,88,291	30,45,56,157
May-16	47,26,93,783	84,57,16,000	1,31,84,09,783
Jun-16	90,87,08,832	16,36,96,245	1,07,24,05,078
Jul-16	1,01,96,25,452	18,37,01,042	1,20,33,26,494
Totals	33,65,32,19,756	19,79,88,16,662	53,45,20,36,417

Table 1.1 - Below is the tabulated data of the ECB and FCCB funds availed by businesses in India:

Reasons for ECB/FCCB

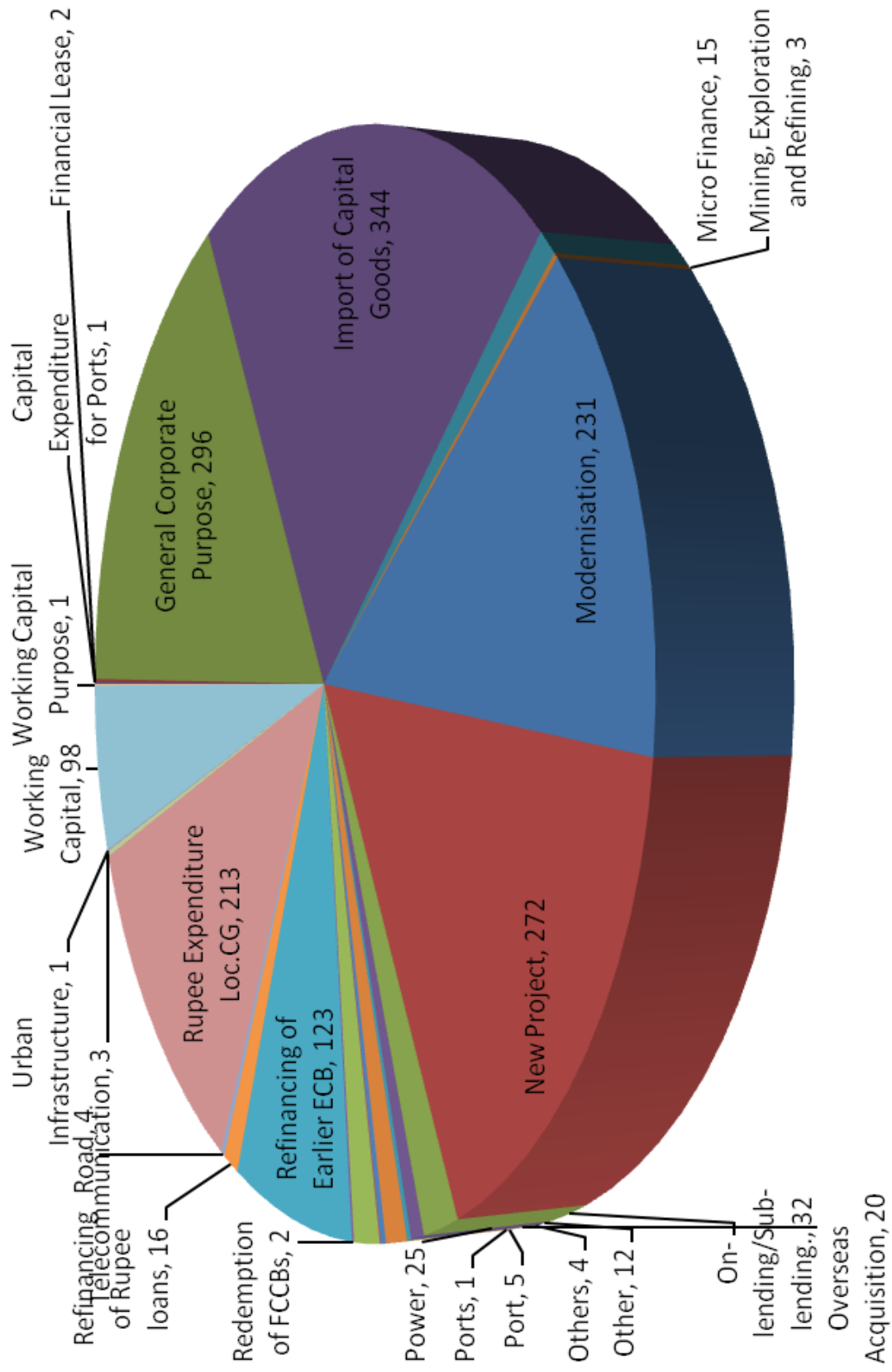
<i>Reasons</i>	<i>Counts</i>
Capital Expenditure for Ports	1
Financial Lease	2
General Corporate Purpose	296
Import of Capital Goods	344
Micro Finance	15
Mining, Exploration & Refining	3
Modernization	231
New Project	272
On-lending/Sub-lending.	32
Other	12
Others	4
Overseas Acquisition	20

Port	5
Ports	1
Power	25
Redemption of FCCBs	2
Refinancing of Earlier ECB	123
Refinancing of Rupee loans	16
Road	4
Rupee Expenditure Loc.CG	213
Telecommunication	3
Urban Infrastructure	1
Working Capital	98
Working Capital Purpose	1
Grand Total	1724

Table 1.2 – Below tabulated are the reasons for which funds were sourced

Figure 1

Figure 1.1 - The pie chart is a representation of the various reasons listed above



From the ECB and FCCB numbers, we can clearly observe that businesses were sourcing more money from external resources in dollar amounts for new business projects, modernization of existing projects, importing of capital goods and general corporate purposes indicating that businesses were raising funds for expansion.

This is important from the perspective that probably India is not just sustaining on its service sector, but also rapidly expanding its manufacturing sector. While India already has its manufacturing sector well footed, the economies of scale are currently missing to make India a world-class manufacturing destination.

The concern from the ECB/FCCB numbers would be the funds sourced for general corporate purposes, working capital and rupee expenditure LOC which suggest that the short-term financing of companies is not optimum. At the same time, it also reflects the inaccurate expense and credit management. However, it can also reflect the benefit some companies are availing from the rupee-dollar exchange rate by sourcing funds in dollars as they would get more rupees as against the same dollar amounts. Hence, this can also be viewed subjectively based on company-to-company.

These investments under consolidated balance sheets of the commercial banks reflect the strength the economy has displayed in the midst of global economic turmoil registering an annual GDP growth of more than 9% from 2004 onwards. The loans and advances have a Median of Rs. 17,490.23 billion and a Mean of Rs. 26,060.51 billion which reflects that not just the investments were good enough, banks have also doled out equal amounts of loans and advances for commercial purposes which also reflects the economic growth as mentioned earlier. In a nutshell, the consolidated assets and liabilities reflect a strong performance by the commercial banks supported by the authorities and a growing economy.

Cost overruns in projects are a recurring scenario in the Indian economy. It is surely not something which would be a proud moment, but sometimes they also happen due to many reasons which could be unforeseen or compulsorily required, such as inflation, force majeure, local administrative issues, change in objectives, etc. More so, focus needs to be put in individual sectors wherein the overruns are significant. The highest cost overruns have happened in sectors which are particularly important from an infrastructure standpoint - surface transport, railways, power, coal, petroleum etc. These sectors are the focal points for the government for their investment purposes, a factor which supports their policies.

From the scheduled commercial banks' advances to agriculture – outstanding we can see that the indirect finance stopped for inputs - both fertilizers and power from 2007-08 onwards while it has stopped for Loan through various intermediaries and other institutions from 2012-13 onwards. This clearly reflects two things.

1) Commercial banks started to reach out to the farmers directly probably via various business models.

2) The government/RBI supported the removal of intermediaries in the lending process. This could be to make the process of credit lending easy from the farmer's perspective.

While there is no concrete evidence provided in this project, we can assume that the reach of the buyer (farmer) and the seller (bank) was made quite simple in the last few years due to technological and infrastructural advancements.

The scheduled commercial banks' advances to small-scale industries and allied services – outstanding reflect the lack of initiative from entrepreneurs, government and banks to facilitate the expansion of businesses and industries. The Median for Small Enterprises was Rs. 342.46 billion and the Mean was Rs. 1,373.26 billion which shows that there has been initiative, support and facilitation for the growth of small scale industries in India. Even the numbers from the table suggest so where the growth was exponential from 2004 onwards. What needs to be seen is how the trend continues from 2015 onwards.

The results clearly reflected that while banks continue to face risks both from NPA perspective, credit worthiness of borrowers and repayment discipline; they (the banks) have upped their lending businesses with a bullish view on Indian economy. The credit businesses have grown manifold to support multiple industries – both in priority and non-priority sectors.

The banks have their work cut out in terms of focusing lending businesses towards, Agro, MSME and SSI sector which requires financial support since many of them work on sound business fundamentals and a sustainable business model.

It needs to be seen how the banking sector accommodates the growing expectations of businesses and government while RBI works on easing of rules/procedures to aim at an increased financial inclusion and supporting the growth of industries at a micro/rural level.

Banks in India face many inherent risks in their operations such as political risk, country risk, economic risk, social risk, resource risk, completion risk, market risk, operational risk, force majeure, technological risk, environmental risk. Banks do operate based on guidelines prescribed by the RB; however, they do not take additional measures by itself. It would be important to understand how the banks incorporate these risks while aiming to grow and expand since growth and risks share a direct relationship.

To conclude, in a global economy which is facing a slowdown, India has emerged as a favorable destination for investors to come and invest in. While the mainstream focus remains on that, the Indian financial sector faces challenges in terms of reformative practices, technology and inclusion.

The government of the day introduced radical financial reforms from November 8 onwards, the results of which should soon be visible, the focus for the banks should be on expanding reach, connecting people & businesses to the mainstream & regulated banking and providing funds for expansion of worthy businesses in India.

RECOMMENDATIONS

Although the numbers suggest that since the sourcing of funds via ECBs and FCCBs has been increasing over time, it may or may not mean that businesses are growing. While the numbers suggest the possible reasons of sourcing funds for new business projects, modernization of existing projects and importing of capital goods indicating a growing and expanding manufacturing base; banks need to delve deeper into companies, before lending more, who take this route for general corporate purposes, working capital and rupee expenditure LOC which suggest that the short-term financing of companies is not optimum. At the same time, it also reflects inaccurate expense and credit management.

From the RBI Handbook of Statistics on Indian Economy 2015-16, following would be the recommendations;

- Before lending hook, line and sinker into upcoming infrastructure projects, there has always been a trend of cost overruns in core infrastructural sector, due to many issues, mainly operational and legal reasons.
- A keen eye needs to be maintained for mapping future growth of the company and the projects which they have initiated on this aspect.
- The numbers for outstanding amounts in farm credit deployment are worrisome with its own reasons such as – natural limitations and limited progress made in the last few decades.
- Although the credit deployment is being supported by the RBI and the government, the banks need to up their lending business into the farm and farm-related business sectors.
- To tackle the NPA problem plaguing the Indian banking sector, RBI wrote off bad debts worth more than Rs. 1 lakh crore. Currently, there are even talks of setting up of a bad bank. However, these cannot solve the larger issue which is detailed due diligence and credit worthiness checks of borrowers which should be the prime focus of banks.
- In this regard, Indian banks could emulate other international banks such as JP Morgan Chase or alike. Banks should also be prompt in taking strict action towards delinquent accounts.
- The industry-wide deployment of credit shows that commercial banks are deploying credit in areas which are on the focus of the government since the last three years, viz., infrastructure, oil, metals, power, etc. With the economy in its revival phase as

suggested by many, this sector would surely be on the watch-out list of banks, investors, administrators, et al.

- To add to these, the renewable energy is fast gaining momentum in India with a recent study suggesting that India is the fourth largest producer of renewable energy in the world. This sector should be on the top priority of banks and financial institutions from a lending perspective.
- The sectoral deployment of credit reflects the export sector needing reforms in its process of revival. The current numbers are not really encouraging; however, any investment made currently could not provide the expected returns without the impetus from the RBI and/or the government.
- The manufacturing businesses are expected to grow more in the next few years by way of various projects and that would be a factor to consider from a lending perspective in the coming times which would ultimately benefit the export sector.
- Credit societies and scores of middlemen had their roles reduced with the rapid expansion mainstream and regulated banking reaching the rural and interior regions of India. The challenge for banks would be to compete against the likes of microfinance institutions such as Bandhan Microfinance which enjoy a premium position and stronghold in these markets.
- To compete against these institutions, banks need to develop a separate model altogether on the lines of a microfinance institution to first set up their businesses and then reaching the market with a wide array of offerings.
- Banks, (even if they have a predefined model) need to set up a risk management framework which can be at par with multinational banks. The specific focus would be on technological risk since that is the norm of the day and gaining more popularity with the passage of time. India does not have enough cyber security measures and it needs more of these. The RBI and the banks could play a pivotal role by themselves in this area and become torch-bearers for other countries.

CONCLUSION

Brealey et al. in their book *Principles of Corporate Finance* talk in depth of decision making under risk and uncertainty. The risks could be broadly classified into business risk and financial risk. A company's business risk is determined by how it finances its investments. Financial risk is primarily influenced by the level of financial gearing, interest cover, operating leverage and cash flow adequacy. According to Brealey et al., uncertainty arises from a lack of previous experience and knowledge. Uncertainty could be attached to following factors:

- Level of capital outlay required
- Level of selling prices
- Level of sales volume
- Level of revenue
- Level of operating costs
- Taxation rules

Based on these two broad parameters; we can say that businesses in India and elsewhere inherently have to face these while aiming to grow, both organically and inorganically. One of the approaches would be through the ECB/FCCB route depending on respective company's reasons, domestic options available, costs associated with raising funds, etc.

Consequentially, we saw that the performance of the commercial banks on various parameters via two simple methods – median and mean. These parameters have been set on the various numbers tabulated by the Reserve Bank of India in their annual publication, the *Handbook of Statistics on Indian Economy 2015-16*.

While the numbers say a particular story – that of the growth of the economy on all major fronts, there would be a few factors which might require a deep-delving for making a real change.

Finally to conclude, while we have a long way to go, our story has just begun where some of the world's most formidable businesses are taking a serious note of. Investors are making a beeline for investments and with GST almost on track, India is set to project itself as a country to invest in, make in and serve in. While the focus remains on making India at top-notch investment destination, the financial sector needs to also focus on the MSME, SSI, Agriculture and related industries' sectors which is aptly supported by a robust financial structure, a focused RBI and a huge market of supportive banks which are usually correct in their business practices, the economy just doesn't seem to be a bubble but a force to reckon with.

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