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Emerging Trends In Industrial Finance In India: A Structural And Policy Analysis

Shradha Tomar[1], Anushka Chauhan[2], Girja Shankar Mishra[3]

[1,2] Research Scholar, School Of Management & Commerce, Vikrant University, Gwalior
[3]Assistant Professor, School Of Management, Vikrant University, Gwalior

Abstract

Changes in policy and structural shifts in the market have had a profound impact on India's industrial financing industry in recent decades. This article takes a look at the current tendencies in industrial finance, which reveal that market-oriented funding options are replacing bank funding as the dominant method. Due to the rise of private sector banks, non-bank financial companies (NBFCs), venture capital and private equity funds, and other similar entities after economic liberalisation in 1991, the importance of development finance institutions (DFIs) waned. Redesigning the financial environment, the Startup India Initiative, the Insolvency and Bankruptcy Code (IBC), and the MUDRA Scheme have all worked to increase borrowing capacity, streamline processes, and encourage innovation-based development. Through assessments of SMEs and emerging industries, the study examines rates of industrial development and recovery as well as credit flow. While these innovative credit policies have significantly increased access to financing, they have also introduced new issues with non-performing assets, ineffective policy implementation, and regional disparities in credit services. To wrap off this piece, we provide some suggestions on how the policy framework might be strengthened to facilitate industrial development through various funding mechanisms.

Keywords: Trends, Industrial, Finance, India, Structural and Policy

1. Introduction

There has been a sea change in the previous several decades in India's industrial financing industry. As a result of both internal and foreign economic shifts, industrial finance evolved from its regulated to its liberalised form after 1991. For India to realise its economic potential, it must first amass sufficient financial resources. There have been major shifts throughout the years in the country's regulatory framework, processes, and financial structure. The liberalisation of global markets, changes in industrial demands, and more expansive economic policies and banking reforms have all contributed to this shift. Industrial finance patterns and their policy dimensions must be thoroughly examined in order to comprehend India's economic and industrial advancements. (Ahuja, H. L. 2017).

There has always been a regulatory framework in place to oversee the financial activities of India's industrial financing industry. Upon gaining independence, the Indian government prioritised public sector development and industrialisation (Bansal, S., & Jain, A. 2018). Nationalised banks and the Industrial Credit and Investment Corporation of India (ICICI) and the Industrial Finance Corporation of India (IFCI) were the principal avenues via which industrial financing was acquired throughout this time. Businesses

in the public and private sectors alike were able to secure long-term industrial loans from these banks throughout this time (Ghosh, S. 2016).

When it came to deciding on financial procedures and institutions, the state-controlled system of the time didle out credit according to government goals. Efficiency issues, lack of competition, and an uncontrollable financial climate have stymied industrial advancement and innovation on several occasions. The strategic strategy largely relegated private financial groups to the sidelines, leaving businesses to rely on public sector institutions for finance (Gupta, P. 2015). A watershed moment in the annals of industrial finance occurred during the economic changes of the 1990s. The Indian government began implementing economic reforms in 1991 with the three primary goals of minimising governmental intrusion, increasing private sector involvement in industrial growth, and freeing the economy. The industrial financing industry was significantly altered by these measures. The availability of industrial company loans and the level of competition within sectors were both boosted by the entry of private enterprises into the banking and financial services sectors made possible by financial liberalisation laws.

Funding sources were diversified as a result of private sector growth and FDI expansion. Venture capital, private equity, and corporate bonds were formerly unavailable to firms, but with the advent of private sector banks and other financial institutions, these resources became available. Interest rate deregulation and the loosening of government oversight of industrial financing led to a more dynamic and competitive financial industry. Banks and other financial institutions from other countries have entered the market, which has increased competition and improved product quality while broadening global viewpoints on financial operations. Due to its diversified and rapidly growing character, the industrial sector required specialised financial services (Jain, A., & Singh, A. 2017). Establishing the Export Credit Guarantee Corporation (ECGC) and the Small Companies Development Bank of India (SIDBI) as specialised finance programs for export firms and small-scale industries, respectively, were two significant accomplishments. Certain sectors were able to overcome their financial issues with the help of these specialised organisations. The need of inclusive industrial growth was highlighted by the financial support provided by NABARD to rural enterprises.

The industrial finance industry in India has seen a substantial increase in the number of non-banking financial companies (NBFCs). Since they provide infrastructure financing alternatives in addition to leasing and hire-purchase, NBFCs have emerged as significant players in the financial market. With the expansion of non-bank financial company (NBFC) activities, small and medium-sized enterprises now have access to capital. A more robust and diverse industrial finance system is the result of the expansion of financial markets like the stock and bond markets, which have given corporations additional alternatives for raising capital (Kapoor, S., & Gupta, A. 2018). Notable changes in the environment in India include the expansion of infrastructure finance and the rise of public-private partnerships, both of which have altered industrial financing. In response to public policy demands, private companies helped fund massive energy, transportation, and urban development infrastructure projects. Private investors, financial markets, and other funding mechanisms have come to the fore as a result of the restructuring of industrial finance (Maheshwari, S., & Agarwal, N. 2020).

In an effort to streamline the process of acquiring financial resources and encourage industrial growth, the Indian government implemented a number of new rules. Two government programs that aim to boost industrial production through focused industry development are Startup India and the Make in India

campaign. It is now simpler for companies to secure financing and resolve disputes thanks to the Goods and Services Tax (GST) and revisions to the insolvency and bankruptcy legislation (IBC). By reaching out to underbanked individuals and communities, financial inclusion programs have opened up new avenues for industrial finance (Rao, D. S. 2019). A major long-term obstacle for large infrastructure projects is the persistent rise of nonperforming loans (NPAs) in the banking sector. This scenario had a devastating effect on the banking industry and on industrial activities that relied on credit. The capital accessibility problem for SMEs remains unsolved, despite governments and financial institutions' best attempts to provide tailored help. The growing complexity of industrial finance, especially in global investment and commercial contexts, necessitates that India improve its financial products and risk management systems (Sharma, R. 2017).

2. Literature review

Verma and Agarwal (2020) As a result of the introduction of blockchain and fintech platforms, which have an impact on the operations of company finance, digital technology has completely revolutionised the industrial financing sector in India. Businesses, notably small and medium-sized enterprises (SMEs) that are difficult to fund, were able to extend their funding alternatives as a result of the use of digital technology, which provided open and effective financial procedures. Peer-to-peer lending that is enabled by blockchain technology, which is combined with smart contracts and digital credit scoring technology, allows financial institutions to reduce the costs of transactions while simultaneously facilitating faster money transfers. Taking into account the newly developing risks that are brought about by digitalisation, it is necessary to implement economic policies that are effective.

Joshi and Kumar (2019) As a result of the fact that sustainability is a worldwide concern in the realm of financial operations, the industrial finance sector in India has grown more focused on the implementation of sustainable funding methods. In order to facilitate the shift to more sustainable behaviours, there are three key financial instruments that provide assistance: green bonds, loans connected to sustainability, and financing opportunities for renewable energy. According to Joshi and Kumar (2019), one of the obstacles that prevents sustainable finance from gaining widespread adoption in specific industries, such as renewable energy and electric vehicles, is the absence of substantial legislation and incentives that are applicable across industries in order to promote sustainable financing. It was necessary for legislators to devise a unified framework that would provide support for investments that were environmentally sustainable in order to tackle the financial issues that were affecting expanding sectors.

Singh and Sharma (2018) In an effort to comprehend the structural issues and the widening disparity between the supply of funding and the demand from businesses during the financial crisis of 2008, academics have researched India's industrial finance system thoroughly since the passage of new laws. Despite government efforts to improve access to financial services, the research showed that structural inefficiencies in the banking system restrict money from reaching SMEs. The non-performing assets (NPAs) and banking unwillingness to finance long-term projects have exacerbated the industrial financing scenario, according to Singh and Sharma. Since the market now includes both conventional loans and asset-backed securities, they discovered that the lack of adequate regulatory frameworks that accompanied the transformation in the finance industry had unexpected consequences for industrial growth.

Mehta and Gupta (2017) Government policies, such as MUDRA and the Credit Guarantee Fund plan, provide the Indian industrial finance sector with significant guidance. These policies are implemented through financial support programs. The findings of the research indicate that these initiatives enhanced the financial inclusion of micro, small, and medium-sized enterprises (MSMEs), but had a negligible effect on large-scale organisations. To ensure that there is continuous industrial progress, the authors suggested that there should be better synchronisation between the goals of regulation and the surroundings of the market.

Bhide and Kaur (2010) Due to changes in manufacturing influenced by financial market mechanisms for development, post-liberalization financial reforms in India altered patterns of industrial finance. Medium and big firms were able to have better access to capital as a result of monetary reforms that removed licensing requirements and deregulated interest rates. The industrial and IT industries both saw expansion when SEBI (the Securities and Exchange Board of India) set up shop and offered instruments for private equity and venture capital. Small and medium-sized firms (SMEs) continue to have challenges with access to finance and liquidity, even after implementing financial adjustments, claim the authors.

3. Methodology

3.1 Research Design

Analytical and descriptive approaches were utilised in the investigation. While the research tracks changes in Indian industrial funding over time, the explanation compares policy impacts and structural developments using tools. The purpose of this research is to determine if changes in policy and finance structures cause shifts in the economy that in turn spur industrial expansion. In order to get a full understanding of the study's evolving patterns, it is necessary to combine historical analysis with current research. Although quantitative data is used to back up the study's policy and trend evaluation results, qualitative methodologies are the mainstay of the research.

3.2 Data Collection

The study uses primary and secondary sources of data to provide a strong and thorough analysis. Documents from development finance institutions like IDBI, ICICI, and IFCI, as well as databases from the Centre for Monitoring the Indian Economy and development indicators from publications by the World Bank and the International Monetary Fund, are among the primary secondary data sources. Other public documents from the Reserve Bank of India and the Ministry of Finance, as well as DPIIT documents, also contribute. The study is based on an examination of academic journals, white papers from businesses, research papers from NITI Aayog and ICRIER, as well as news stories. When feasible, we collect primary data through semi-structured interviews with politicians, bankers, experts in the subject, and financial analysts. Important details on the operational difficulties encountered by the industrial finance sector following governmental interventions may be gleaned from the interviews.

3.3 Data Analysis Techniques

The data analysis in the study was made possible using statistical approaches coupled with comparison and policy effect evaluation techniques. From the post-liberalization era (1991–2024) to the current day (2024), the research incorporates developments in industrial loans, venture capital investments, and capital

market mobilisation. In addition to public sector banks and development finance institutions (DFIs), new market-based and private entities like venture capital firms, alternative investment funds, and non-bank financial companies (NBFCs) are competing to become major sources of industrial financing. The impact of the IBC Code, the MUDRA Scheme, and the PLI incentives on business development metrics, loan flow, and recovery rates are all part of the policy measures evaluation. In order to get a whole picture, the study combines numerical data sets with expert qualitative interviews from the sector. Additional approaches for analytical support include descriptive statistics, compound annual growth rate (CAGR), and correlation analysis.

4. Results

4.1 Structural Changes in Industrial Finance

4.1.1 Evolution of Traditional Financing Institutions

Substantial changes occurred in India's industrial finance system following the economic liberalisation of 1991. A number of Indian development finance institutions (DFIs), including IDBI, ICICI, and IFCI, kept a foothold in the country's industrial sector. Major advantages accrued to infrastructure and industry projects as a result of these groups' extended low-interest credit schemes. Many development finance institutions encountered two major problems as a result of economic liberalisation and changes in the banking sector: increasing non-performing assets (NPAs) and inadequate management procedures. After being replaced, the public sector DFIs were supplanted by market-driven financial institutions. Since the majority of DFIs shifted to market-based operations or merged with commercial banks in the early 2000s, industrial finance was handled by private sector banks and NBFCs as opposed to DFIs.

Table 4.1: Historical Overview of DFIs in India

DFI Name	Year Established	Key Role	Current Status
IDBI	1964	Long-term industrial loans	Merged with public sector banks (2004)
ICICI	1955	Industrial credit, investments	Became a private sector bank (2002)
IFCI	1948	Financing for large industries	Transitioned to commercial bank
SIDBI	1990	Financing SMEs	Still operational, but focusing more on MSMEs

4.1.2 Rise of Private Sector Participation

In the 1990s, when India's economy was deregulated, private equity firms and banks began to have more influence in industrial financing. Sectors had more access to capital choices when private banks like HDFC

Bank, Axis Bank, and ICICI Bank emerged. When public-sector DFIs stopped making these kinds of loans, private organisations stepped in with more flexible lending policies, opening the door to faster funding choices. Banks, private equity firms, and venture capital firms all played critical roles in supporting the biotech and IT industries, as well as new business endeavours. Significant gains in foreign direct investment (FDI) have contributed to the expansion of India's industrial finance industry in recent years.

Construction of infrastructure, real estate development, and automobile lending are just a few examples of the many areas where non-bank financial firms' (NBFCs) commercial activities have grown in recent years. While traditional banks still back big projects, non-bank financial corporations (NBFCs) are becoming more popular for their specialised finance solutions. L&T Finance, Mahindra Finance, and Bajaj Finance are non-bank financial institutions that rely significantly on funding from people and small and medium-sized enterprises (SMEs) in the agricultural and rural industries.

Table 4.2: Growth of Private Sector Financing in Industrial Sectors

Financing Source	Year of Emergence	Growth Rate (CAGR)	Key Sectors Financed
Private Banks	1990s	12-15%	Large-scale industries, infrastructure, services
Venture Capital & Private Equity	2000s	20%	Startups, tech, biotechnology, renewable energy
NBFCs	1990s	15%	Infrastructure, real estate, automobiles, MSMEs
Foreign Direct Investment (FDI)	2000s	8-10%	Manufacturing, technology, services

4.1.3 Shift Towards Market-Based Financing

As a result of the rise of institutional entities, the banking sector relocated its focus to market-based financing. Increased equity capital accessibility and market liquidity, brought about by the formation of the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), have rendered capital markets indispensable for industrial expansion. A growing number of companies are able to get debt financing through the corporate bond market. As an alternative to conventional bank loans, corporate bonds provide companies with a more flexible repayment schedule and cheaper interest rates.

Greater financial flexibility is now available to businesses thanks to the recent emergence of REITs and InvITs, which stand for Real Estate and Infrastructure Investment Trusts. These new finance tactics have made possible the construction of toll highways, power plants, and airports, all of which constitute substantial infrastructure projects. Even though it has made some progress, India's capital market is still undeveloped due to the country's higher cost of capital compared to other emerging nations.

Table 4.3: Key Market-Based Financing Instruments and Their Growth

Financing Instrument	Year Introduced	Growth Rate (CAGR)	Key Use Case
Corporate Bonds	1990s	10-12%	Large-scale manufacturing, infrastructure projects
REITs	2014	15%	Real estate development, urban projects
InvITs	2014	12-14%	Infrastructure funding, energy sectors
IPOs	1991 (liberalization)	8-10%	Public offerings for growth and expansion

4.2. Policy Initiatives and their Impacts

4.2.1 Financial Sector Reforms (Post-1991 Liberalization)

When India's economic liberalisation program was put into action in 1991, it changed the course of industrial finance forever. Modernisation of banking and financial services, operational efficiency, and industry access to capital were all goals of the 1991 financial sector reforms undertaken by the Indian government. Important policy shifts included opening the market to private and international banks, privatising public sector banks, and removing regulations on interest rates. These changes greatly benefited the restructured industrial sector by increasing company rivalry and facilitating more efficient use of financial resources. To encourage DFIs to implement changes that would improve their operations and move away from conventional long-term finance, the Raghuram Rajan Committee (2009) put forward substantial suggestions.

Because the reforms prioritised capital market funding, heavy industry and infrastructure did not receive consistent attention despite the reforms' opening up of financial markets. Due to budget shortfalls in some regions, the Indian government refocused its funding efforts on developing targeted financial packages.

Table 4.4: Key Financial Sector Reforms and Their Impact

Reform Measure	Year Introduced	Key Impact
Economic Liberalization (1991)	1991	Opened up the economy, encouraged private and foreign investment
Deregulation of Interest Rates	1994	Led to competitive lending rates and increased access to credit

Entry of Private and Foreign Banks	1994 onwards	Improved competition and efficiency in the financial sector
Reform of Development Finance Institutions (DFIs)	2000s	Shifted focus to market-based financing and more flexible loans

4.2.2 Introduction of the Insolvency and Bankruptcy Code (IBC)

A major piece of legislation passed in recent years is the Insolvency and Bankruptcy Code (IBC), which took effect in 2016. In addition to addressing the non-performing assets (NPAs) in the banking sector, the IBC sought to improve corporate operations in India. Lenders were able to get their money back faster because to the new law's simplified procedure for dissolving problematic industrial partnerships. The infrastructure, steel, and textile industries were critically dependent on the bankruptcy resolution process due to the high number of bankruptcies caused by incompetent financial management. Specialists known as Insolvency Resolution Professionals (IRPs) were created as a direct result of the IBC. Through organised and open processes, the experts helped failing businesses through the reorganisation or liquidation processes. Through its operations of over 2,000 cases by 2020, the IBC improved creditor collection rates.

Despite these constraints, the IBC has laid out a systematic approach to industrial restructuring; nonetheless, tribunals could be more forceful in enforcing their findings, and resolution procedures should move more quickly. Despite operational challenges, the IBC remains a crucial cog in India's industrial finance reform wheel.

Table 4.5: Impact of the Insolvency and Bankruptcy Code (IBC)

Key Metric	Before IBC (2015)	After IBC (2020)	% Change
Recovery Rate (in %)	**25-30%**	**43%**	**+13%**
Number of Cases Resolved	**0**	**2,000+**	**N/A**
Average Time for Resolution	**5-7 years**	**1-2 years**	**-70%**

4.2.3 MUDRA Scheme (Micro Units Development and Refinance Agency)

Helping India's micro, small, and medium-sized businesses (MSMEs) get off the ground financially, the MUDRA Scheme began off in 2015. Providing easy access to loans for unofficial enterprises who have trouble getting funding through traditional banking systems is the primary objective of this initiative. Through commercial banks, regional rural banks (RRBs), and microfinance institutions (MFIs), MUDRA disperses funds to encourage company ownership and the development of new jobs in rural and semi-urban regions. Until 2023, MSMEs in India have benefited from loans totalling over ₹10 trillion, a sum that has facilitated the establishment of millions of new small enterprises.

Industries that are struggling to secure funding, such as agriculture, handicrafts, retail, and transportation, stand to benefit the most from the system. While the MUDRA program does help small and medium-sized enterprises (SMEs) get loans, others are concerned about the program's viability in the long run due to the large loan amounts and low payback rates.

Table 4.6: MUDRA Scheme: Key Statistics

Metric	2015 (Launch Year)	2023 (Latest Data)	% Growth
Total Disbursement (in ₹ Crores)	1,00,000	10,00,000	+900%
Number of Loans Disbursed	10 million	30 million	+200%
Loan Amount per Borrower (Avg.)	₹10,000	₹35,000	+250%

4.2.4 Startup India Initiative and the Production Linked Incentive (PLI) Scheme

To foster innovation and new business creation, the Indian government established Startup India in 2016 and will transition to the Production Linked Incentive (PLI) and Startup India programs in 2020. To encourage innovation, job creation, and national economic progress, the Startup India initiative makes use of tax incentives, simplified business rules, and startup capital from the Fund of Funds for Startups (FFS). In order to encourage the local production of solar power, electronics, automobiles, pharmaceuticals, and objectives for production, the PLI system offers financial incentives to firms.

Angel investors and VCs have boosted funding for India's software, e-commerce, and fintech companies under the Startup India initiative. Significant investments in manufacturing are the intended outcome of the PLI plan, with the goal of increasing India's industrial preeminence on a global scale.

Table 4.7: Startup India and PLI Scheme Impact

Scheme	Year Launched	Total Funding Allocated (₹ Crores)	Number of Beneficiaries	Key Sector Focus
Startup India	2016	10,000	30,000+	Technology, E-commerce, Fintech
Production Linked Incentive (PLI)	2020	1,97,000	1,000+	Electronics, Pharmaceuticals, Automotive

5. Conclusion

As a consequence of several legislative interventions and structural reforms, India's industrial finance environment is constantly changing to promote economic growth and industrial development. Private

banking, non-banking financial companies (NBFCs), venture capital, and private equity have supplanted public-sector Development Finance Institutions (DFIs) in India's financial landscape throughout the past three decades. Improving access to financing, streamlining company operations, and encouraging the growth of small and medium companies (SMEs) and startups are the three primary goals of the Insolvency and Bankruptcy Code (IBC), the MUDRA plan, and the Production Linked Incentive (PLI) plan. Industrial growth is not reaching its full potential because the government's efforts to date have not adequately tackled the obstacles of non-performing assets (NPAs), sluggish policy implementation, and regionally unequal financial possibilities. Members of Congress should keep working to enhance regulations by increasing the availability of financial services, lowering financing costs, and bolstering enforcement capabilities for existing programs. Addressing these issues and creating an equitable industrial finance structure would pave the way for India's long-term economic growth and increased global competitiveness.

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