

## **COMMERCIAL BANKS AND INDUSTRIAL FINANCE** **Term-Lending and Underwriting**

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### **I**

#### **Introduction**

Among the institutional sources of industrial finance in India, commercial banks are by far the oldest and quantitatively vitally important. In terms of the orthodox view of the theory of deposit banking, bank credit should be restricted to the financing of seasonal and other temporary financial requirements of a self-liquidating nature i.e., for working capital requirements, the permanent needs being met from long-term sources. The orthodox financial theory has been exploded and banks have moved into new forms of financing. Of the significant developments in bank credit to industry since the mid-fifties, two are particularly significant, namely, term-lending and underwriting of and direct subscription to corporate securities. The object of this paper is to discuss the part played by the commercial banks in India in industrial financing via term-loans and underwriting of issues of capital by corporate enterprises. While part II of the paper is devoted to an analysis of term-lending by the Indian commercial banks, the underwriting aspect is covered in part III. The investment holdings of corporate securities by them is the concern of part IV. Finally, some concluding observations are contained in the last part, V, of this paper.

### **II**

#### **Commercial Banks and Term-Lending**

The introduction of term-lending by commercial banks in India since the mid-fifties largely at the initiative of the Government reflects an almost universal tendency on the part of the banking systems to re-orient their lending practices to cope with the pressing financial needs of industry in the post-War II period. In fact, the entry of commercial banks into the term-lending business is said to be "the biggest single change in the nature of commercial bank lending"<sup>1</sup>. The model towards which commercial banking systems in different countries have moved is neither the orthodox British model which restricts itself, at least in

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1. Robinson, R.I., *Management of Bank Funds*, 1964, p. 104.