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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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REPORT AND RECOMMENDATIONS

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION

OF INDIA LIMITED

February 20, 1962

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATIONS OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A  
PROPOSED LOAN TO THE INDUSTRIAL CREDIT  
AND INVESTMENT CORPORATION OF INDIA LIMITED

1. I submit herewith the following report and recommendations on a proposed loan in an amount in various currencies equivalent to U.S. \$20 million to the Industrial Credit and Investment Corporation of India Limited (ICICI).

PART I - HISTORICAL

2. ICICI was incorporated seven years ago, on January 5, 1955. It was established to assist private industry in India by providing risk and loan capital, by promoting widespread distribution of industrial securities and by providing technical and administrative assistance for new enterprises. Its capital of Rs. 50 million (\$10.5 million) is widely held by investors in India, the United Kingdom, the Federal Republic of Germany and the United States. The Bank assisted in ICICI's establishment and has already made three loans to it, the first in March 1955 of \$10 million, the second in July 1959 of \$10 million and the third in October 1960 of \$20 million. When the corporation was founded, the Government of India granted ICICI an interest-free, 30-year advance of Rs. 75 million (\$15.8 million) and in 1959, in conjunction with the Bank's second loan, extended an interest-bearing, 20-year line of credit of Rs. 100 million (\$21 million). In March 1961 the U.S. Development Loan Fund made a loan of \$5 million to ICICI. The formalities are now being completed for a line of credit of DM 5 million (\$1.25 million) from the Kreditanstalt für Wiederaufbau, a public credit institution of the Federal Republic of Germany.

3. As ICICI foresaw full commitment of its foreign exchange resources towards the end of 1961, it asked the Bank to consider a new loan. An appraisal mission visited India in the fall of 1961 and negotiations with ICICI's General Manager and with representatives of the Government of India were completed on February 13.

4. The proposed loan would be the Bank's thirtieth to India and would increase the total of Bank loans to India to \$817.5 million, net of cancellations. The status of previous loans as of January 31, 1962 is as follows:

	(\$ million)
Total loans, net of cancellations	797.5 <u>1/</u>
of which has been repaid	<u>83.7</u>
Total now outstanding	713.8
Amount sold	64.7
of which has been repaid	<u>40.8</u>
Net amount held by the Bank	689.9

1/ Including \$19.5 million not yet effective and \$190.1 million not yet disbursed.

The International Development Association has now made six credits to India, as follows:

<u>Credit No.</u>	<u>Purpose</u>	<u>Amount</u> <u>(\$ million)</u>
3 IN	Development of National Highways	60.0
8 IN	Tubewell Irrigation	6.0
13 IN	Shetrunji Irrigation	4.5
14 IN	Salandi Irrigation	8.0
15 IN	Punjab Drainage and Flood Protection	10.0
19 IN	Damodar Valley Corporation	18.5
		<u>107.0</u>

PART II - DESCRIPTION OF THE PROPOSED LOAN

5. The main features of the proposed loan are:

Borrower:	ICICI
Guarantor:	India
Amount:	\$20 million equivalent in various currencies.
Interest Rate:	When a part of the Loan is credited to the Loan Account, the rate of interest charged on that part will be the Bank's rate current at the time the credit is made.
Commitment Charge:	3/4 of 1% accruing from the time the Loan Account is credited, on the amount so credited.
Amortization:	At the time each part of the Loan is credited to the Loan Account, the Bank and ICICI will agree on an amortization schedule for repayment of that part. These amortization schedules will provide for semi-annual repayments on April 15 and October 15 and for final repayment not later than April 15, 1977.

6. The variable rate of interest and the adjusting of amortization schedules to the needs of each investment is the preferred pattern of Bank lending for development institutions.

PART III - LEGAL INSTRUMENTS AND LEGAL AUTHORITY

7. Attached are a draft Loan Agreement between the Bank and ICICI (No. 1), a draft Guarantee Agreement between India and the Bank (No. 2), and the report of the Committee provided in Article III, Section 4(iii) of the Articles of Agreement (No. 3).

8. Attention is directed to the following provisions in the Loan Agreement:
- (a) The interest rate and repayment provisions referred to in paragraph 5 above are covered in Sections 2.05 and 2.08.
  - (b) A default (other than a default in payment, which is covered by the Loan Regulations) under any of the Bank loans to ICICI will constitute a default under all the loans, (Section 6.02).

PART IV - APPRAISAL OF THE PROPOSED LOAN

The Project

9. A detailed appraisal of ICICI and its operations is attached (No. 4).
10. The expansion of private industry is essential to the success of the Third Five-Year Plan (1961-1966). ICICI's financial contribution must necessarily represent only a small part of the total private sector investment. It is, nevertheless, an important source of foreign exchange for the private sector and is playing a key role in introducing new forms of term financing, in underwriting and in arranging consortia of Indian and foreign financial institutions for financing larger projects. Over half of the 133 companies which have received assistance from ICICI are new enterprises.
11. During its seven years of operations to December 31, 1961, ICICI has approved financial operations, both in rupees and foreign currencies, totalling Rs. 427 million (\$90 million) of which one-half has been sanctioned during the last two years. Of this amount loans accounted for two-thirds, or Rs. 296 million (\$62 million). As in earlier years, over 60% of the loans approved in 1961 were in foreign exchange. Direct subscription to ordinary and preferred shares, in rupees, has amounted to Rs. 28.6 million (\$6.0 million) of which about one-fourth was disbursed in 1961. There have been no direct share subscriptions using foreign exchange. Underwritings sanctioned during the life of the corporation have amounted to Rs. 102 million (\$21 million); operations were completed for Rs. 93.0 million (\$19.5 million) against which ICICI was called upon to take up Rs. 40.1 million (\$8.4 million). Although ICICI is still the most important single underwriting institution in India and has accounted for more than one-fifth of all underwritings, this business has declined during 1960 and 1961. Only five operations were completed in 1961 for a total of Rs. 7.8 million (\$1.6 million) of which Rs. 4.1 million was taken up by the Corporation.
12. ICICI's foreign exchange operations are continuing to increase. By the end of 1961 ICICI's Board had sanctioned projects which will use the full amount of the \$40 million obtained from the Bank under the earlier three loans. A total of \$25.9 million for 46 projects has been credited to the Loan Accounts and 31 other projects are under the Bank's consideration or await completion of the various formalities in India before the Loan Account can be credited. Disbursements under the three loans total \$14.1 million as of January 31, 1962.

The first two semi-annual repayments to the Bank have taken place and amounted to just under \$1 million. Repayment of the Second Loan will commence in October 1962 and of the Third Loan a year later.

13. ICICI's foreign exchange lending has now increased to an annual rate of about \$20 million and the proposed loan is expected to provide the additional foreign exchange ICICI will need for approximately the next year. Both the 1959 and 1960 Bank loans have been committed much more rapidly than had been expected, reflecting both the activity of investment by the private sector and ICICI's growing capacity to process applications, as well as the continued shortage of foreign exchange in India. In contrast to foreign exchange lending, local currency operations are not expected to increase significantly during the next two years. Nevertheless, ICICI expects to commit the full amount of the rupee credits received from the Indian Government during the next two years.

14. ICICI's reserves now amount to the equivalent of one fourth of the original share capital. Profits after taxes have increased from Rs. 2.31 million (\$485,000) in 1957 to Rs. 4.65 million (\$977,000) in 1961, or from Rs. 4.61 to Rs. 9.30 per share. Of increasing importance, and not included in the above profit figures, are the gains realized from sales of investments. In 1961 these amounted to Rs. 2.43 million (\$510,000) after taxes. The dividend has increased from Rs. 5 per Rs. 100 share on 1959 earnings to Rs. 5.75 on 1960 earnings and Rs. 6.50 on 1961 earnings. The net worth per share has increased steadily from Rs. 103 in 1957 to Rs. 125 in 1961. On the other hand, the market value of the shares has been well below par, Rs. 82 on December 31, 1961. Earnings after taxes are expected to increase sufficiently during 1962 and 1963 to allow somewhat higher dividend rates, especially now that a recent ruling allows ICICI's gains from sale of investments to be taxed at the lower rate for capital gains rather than as current income.

15. ICICI's management and staff are competent. The staff has been rapidly but carefully expanded to meet the growing work of processing applications, of following the projects already financed and of providing technical assistance where advisable. Reflecting its growing confidence in ICICI's capabilities, the Bank has given a greater scope to ICICI to commit loan funds for projects without the Bank's prior approval. Under the 1959 loan, ICICI could make loans of up to \$100,000 without the Bank's prior approval up to a total of \$1 million. Under the 1960 loan, similar limits were agreed commencing with \$300,000 for any one project up to a total of \$3 million of the loan and later increased to \$500,000 and \$5 million, respectively. Under a similar arrangement for the proposed loan, the limits are to be agreed from time to time, commencing with \$500,000 and \$5 million, respectively.

16. ICICI's financial condition is sound and its prospects indicate that it should have no difficulty in meeting debt service payments on the proposed loan as well as in increasing both its dividend and its allocations to reserves. Its portfolio of investments appears sound. It has obtained adequate security on all its loans which use Bank funds. The proposed loan falls well within the 3:1 debt-equity ratio which has been considered appropriate by the Bank.

The Economy

17. The Indian economic situation has not changed significantly since my last report to you. An economic mission is assembling in India and is expected to make its report in due course.

18. As previously indicated, I expect to propose \$200 million in loans from the Bank during the first two years of the Third Plan. To date, the Bank has made four loans for projects in the Plan, \$35 million for the Private Coal Industry, \$21 million for the Port of Calcutta, \$50 million for the Railways and \$19.5 million for the Indian Iron and Steel Company. Including the proposed loan, Bank loans for projects in the Third Plan would amount to \$145.5 million.

PART V - COMPLIANCE WITH ARTICLES OF AGREEMENT

19. I am satisfied that the proposed loan complies with the requirements of the Articles of Agreement of the Bank.

PART VI - RECOMMENDATIONS

20. I recommend that the Bank make a loan to The Industrial Credit and Investment Corporation of India Limited, to be guaranteed by India, in an amount in various currencies equivalent to \$20 million for a term of not more than 15 years on such terms and conditions as are specified in the attached draft Loan Agreement and draft Guarantee Agreement and that the Executive Directors adopt a resolution to that effect in the form attached (No. 5).

Washington, D.C.  
February 20, 1962

Eugene R. Black  
President