

ISBN:978-93-92568-99-2



# A Study on Public Deposits as A Source of Working Capital for Manufacturing Sector in India



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***A STUDY ON PUBLIC DEPOSITS AS A  
SOURCE OF WORKING CAPITAL  
FOR MANUFACTURING SECTOR IN  
INDIA***

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Publisher :

**Aditi Publication, Raipur, Chhattisgarh, INDIA**

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Year: 2024  
Edition - 01

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ISBN : 978-93-92568-99-2

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Price : Rs. 2099/-

Publisher & Printed by:

**Aditi Publication,**  
Opp. New Panchajanya Vidya Mandir, Near Tiranga Chowk,  
Kushalpur, Raipur, Chhattisgarh, INDIA  
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## ***PREFACE***

Public Deposits (PDs) constitute an important source of working capital finance to the Indian manufacturing sector. 'Public Deposit' or a 'Corporate Fixed Deposit' is a loan or a deposit invited from the public by a corporate and does not include the money received in the form of share capital or debentures. Deposits from public are mobilized only by the commercial banks and non-banking financial companies across the world. In India, a unique feature is observed, i.e., the corporates also issue deposits to mobilize finances. There are a number of factors which influence the companies to issue public deposits to meet their working capital needs. The present study identifies the factors that influence companies to issue public deposits to meet their working capital requirements and analyzes the impact of the factors.

The manufacturing sector is the backbone of a country's economy and helps in the growth of other sectors like agriculture, science & technology, employment and the services sector. Besides, it also contributes to the global economy in terms of trading between the nations. The contribution of Indian industry to the global manufacturing output is 2.2% which is on par with the developed economies. The manufacturing sector occupies prominent place in the national economic space. According to the latest data of CII, the manufacturing sector contributes 16% to the GDP of India (2015) and provides employment to 12% of the entire work force in the country. In contrast, the agriculture sector which employs 60% of the work force contributes to 22% of the country's GDP.

Working capital finance is one of the problems facing the manufacturing sector of India. The manufacturing sector relies on a host of financial instruments to meet the working capital requirements in the form of working capital term loans, trade credit, factoring, letters of credit, commercial paper and public deposits. Public Deposits are one of the sources of working capital to the Indian manufacturing sector. So far, there has been a limited research done on this very important

source of working capital finance. The present research therefore, focuses on the public deposits with respect to the guidelines governing the issuance and acceptance of public deposits, comparison with other instruments of working capital finance and the determinants of sources of finance for a corporate. The study discusses in detail the factors that influence the companies to issue public deposits to meet their working capital requirements and how it could become an important source of finance to meet the working capital requirements of the corporate sector of India. The summary of findings and conclusions are mentioned.

In the present study, the data is collected from the data base of CMIE (Centre for Monitoring Indian Economy) for the period from 1991 to 2020. The data is collected only from 764 listed companies on the stock exchange. The scope of the study is limited to the manufacturing sector in India. The study period is limited to thirty year period with time-series data captured from 1991-92 to 2019-20. Data of listed companies on the on stock exchanges was taken. Unlisted companies cannot be a part of sample for the study.

The study used public deposits as a percentage of current assets as dependent variable. The variables that affect the issue of public deposits by firms are Age of the company, Size of the company (Total Assets), Leverage (debt-equity ratio), Current Ratio, Quick Ratio, Growth of the firm (sales), Profitability, Cost of capital and Sundry Creditors. Hypotheses have been be formulated for each factor to be tested for various forms of the sample. To test the hypothesis, data was compiled from CMIE Prowess and CMIE Industry Analysis Service databases. To estimate the impact of the independent variables on the dependent variables, Tobit model of regression was used. From the Tobit regression analysis, the independent variables which have a significant impact on the each dependent variable separately were identified for analysis. Hypotheses were formulated for each factor to be tested for various forms of the sample. To estimate the impact of

the independent variables on the dependent variables, multiple regressions were used. From the regression analysis, the independent variables which have a significant impact on the each dependent variable separately were identified for analysis. The common independent variables which have a significant impact on dependent variable were further analyzed.

The dissertation is presented in eight chapters each dealing with a specific topic related to the research study. Chapter one introduces the public deposits giving a broad perspective of Indian manufacturing sector and explains the need and importance of the study. It defines the research methodology and hypothesis definitions. Chapter two concentrates on the research already conducted in the area of Working Capital Management and also on public deposits as an important source of working capital to the manufacturing sector of India. Chapter three deliberates on the various Acts promulgated by the Government of India to regulate public deposits and protect interests of investing public. It also discusses the procedures followed by the companies, deposit insurance and credit rating with respect to public deposits. Chapter four highlights the various instruments available to the manufacturing sector to meet its working capital requirements. Chapter five describes the growth in public deposits in the last five decades, RBI regulated deposits, trends and innovations in public deposits. Chapter six elucidates various factors which influence a company or its management to choose a particular source of debt. Chapter seven discusses the factors affecting the issue of public deposits, description of factors, Tobit regression used for analysis, findings and interpretation of results. Chapter eight presents the summary and conclusions of the study in detail.

The study draws the following conclusions. Age of the company, has a significant impact on the issue of public deposits, but negatively. If the Size of the firm is very big there is a greater tendency for the firm to approach capital market instead of using short term sources of

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## **List of Abbreviations/Symbols**

01	<b>PDs</b>	Public Deposits
02	<b>GoI</b>	Government of India GoI
03	<b>CA1956</b>	Companies Act, 1956
04	<b>PSEs</b>	Public Sector Enterprises
05	<b>FIs</b>	Financial Institutions
06	<b>FEMA</b>	Foreign Exchange Management Act FEMA
07	<b>RoC</b>	Registrar of Companies
08	<b>UoI</b>	Union of India
09	<b>NBFCs</b>	Non-banking Financial Companies
10	<b>TOI</b>	Times of India
11	<b>ET</b>	Economic Times
12	<b>AEM</b>	Adaptive Expectation Model
13	<b>CRISIL</b>	Credit Rating Information Services of India
14	<b>ICRA</b>	Investment Information and Credit Rating Agency of India
15	<b>CARE</b>	Credit Analysis & Research
16	<b>Bps</b>	Basis Points
17	<b>NCDs</b>	Non-Convertible Debentures
18	<b>CLB</b>	Company Law Board
19	<b>NPV</b>	Net Present Value
20	<b>SIP</b>	Systematic Investment Plan
21	<b>CoR</b>	Certificate of Registration

22	<b>WCTL</b>	Working Capital Term Loan
23	<b>SSI</b>	Small Scale Industry
24	<b>LC</b>	Letter of Credit
25	<b>CP</b>	Commercial Paper
26	<b>IPA</b>	Issuing & Paying Agent
27	<b>OTC</b>	Over the Counter
28	<b>SMP</b>	Standard Market Practices
29	<b>TDS</b>	Tax Deduction at Source
30	<b>EMIs</b>	Equated Monthly Installments
31	<b>IRDA</b>	Insurance Regulatory & Development Authority
32	<b>PFRDA</b>	Pension Fund Regulatory & Development Authority
33	<b>CIS</b>	Collective Investment Scheme
34	<b>CII</b>	Confederation of Indian Industry

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## **Fixed Deposit Glossary**

### **Corporate Fixed Deposits**

Corporate fixed deposits are normal fixed deposits, like bank FD, offered by Companies. The interest rates offered are generally higher than Bank interest rates and can be in the range from 9% - 16%. Higher the interest rates offered, higher are the risks involved.

### **Annual Yield**

Is the effective annual rate of return taking into account the effect of compounding interest. Its utility lies in its ability to standardize varying interest-rate arrangements into an annualized percentage number for comparison.

### **Effective Yield**

Yield assuming that there is no reinvestment of interest payments. Reinvesting the interest will produce a higher yield because interest is earned on the interest payments.

### **Compound Interest**

Compound interest arises when interest is added to the principal, so that, from that moment on, the interest that has been added also earns interest. This addition of interest to the principal is called "Compounding".

### **Simple Interest**

Simple interest ignores the effects of compounding. The interest is always based on the original principal.

### **Future Value**

The Present Value plus the compound interest thereon, together called Future Value, i.e. The amount to which a specific sum or series of sums will grow on a given date in the future. For example, INR 1,

000 has a future value of INR 1, 120 in one year, assuming an annual return of 12% p.a.

### **Present Value**

The current value of one or more future cash payments, discounted at some appropriate interest rate.

### **Principal**

The original amount of investment is called the principal amount.

### **Know Your Customer (KYC)**

KYC norms were introduced by the RBI to ensure customer identification and help control financial frauds, identify money laundering & suspicious activities. To comply with this requirement, NBFCs require the following documents for new depositors – photos, PAN card copy, identification proof and address proof.

### **Maturity Date**

The date on which the principal amount of fixed deposit becomes due and is repaid to investors

### **Nomination**

Companies ask their FD Holders to make nominations which mean that they should nominate persons to whom the Fixed Deposit amount should go in the event of their death. Nomination can be made in Fixed Deposit Application form itself or on a separate form indicating the name and address of the nominee.

### **Tax Deducted at Source (TDS)**

As per the tax rules, any person/institution making payments on Salaries, Rent, Interest, Commission etc. is required to pay tax. This deduction is called Tax Deducted at Source (TDS). In the case of banks, TDS is deducted only if the interest earned (both paid and accrued) is more than Rs. 5000 in a single branch. The bank also has to file the appropriate form (Form 16A) annually showing the various



details of the deductions made and Deposit of Tax thereon. This form is needed for filing the annual tax return for the individual.

### **Source**

[https://www.rfinance.com/Fixed\\_Income/FDglossary.aspx](https://www.rfinance.com/Fixed_Income/FDglossary.aspx)  
November 3, 2016

### **Roll Over**

If the FD matures and the person does not take the money then he can renew deposit for the same or different tenure depending on the interest rates.

### **Either or Survivor?**

In this facility any one of the account holder (if it is in a joint name) can stake a claim to the money deposited and operate the account without the signature of the other account holders. Otherwise also it does not present a problem if one of the account holder has expired without any nomination.

### **Joint or Survivor?**

In this both account holders have to be present at the time of withdrawal of deposits and their signatures have to be present on the cheque and on the death of an account holder it becomes very cumbersome process to withdraw the money as you are supposed to furnish the death certificate of the expired account holder.

### **Company Law Board (CLB)**

It is the authority the investors have to approach for any issues or problems with respect to public deposits. The simplest manner is to file a complaint before the Company Law Board (CLB). Some people are aware of the CLB, but make the mistake of filing the complaint at that office of the CLB which is closest to their place of residence. This is not correct, because the jurisdiction of the CLB is based on where the registered office of the company is situated

### **Consumer Protection Act (the CP Act)**

The other alternative is to file a consumer complaint before the consumer forum under the Consumer Protection Act, 1986. This can be done in view of the judgment of the National Consumer Disputes Redressal Commission, in the case of Neela Vasant Raje v/s Amogh Industries & Anr [X-1993 (3) CPR 343] wherein it has been held that a fixed deposit holder is a consumer entitled to file a complaint under the CP Act.

### **Department of Company Affairs (DCA)**

It is a government body which regulates the public deposits. It reduced the ceiling on interest rate on public deposits in companies by 150 basis points to 12.5 per cent from the existing 14 per cent. The department has issued a notification amending the Companies (Acceptance of Deposits) Rules, 1975, to this effect.

### **Deposit Repayment Reserve Account**

Account in which a company issuing a public deposit shall deposit 15% of the amount of 'deposit on maturity' in a scheduled commercial bank in a separate account, which shall be free of any charge or lien.

### **Indexation**

A process of adjusting the monetary returns to monetary index.





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### **Aditi Publication**

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ISBN:978-93-92568-99-2



₹ 2099