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Evolving Trends in Industrial Finance in India: A Structural and Policy Perspective

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Abstract

The industrial finance sector of India has undergone significant transformations during the past decades through both governmental legislation and systemic market changes. This paper examines modern industrial finance trends which show banks relinquishing their funding dominance in favor of market-oriented funding solutions. The role of Development Finance Institutions (DFIs) declined post-1991 economic liberalization because private sector banks together with NBFCs and VC and PE funds became more prominent. The Startup India Initiative and Insolvency and Bankruptcy Code (IBC) together with MUDRA Scheme have reshaped the financial landscape through their efforts to boost borrowing capacity while simplifying operations and stimulating development by innovation. The research analyzes industrial growth and recovery rates and credit flow through evaluations of small and medium-sized businesses (SMEs) and developing industries. These transformative credit policies have greatly expanded availability to finance however they produce new problems in non-performing assets along with poor policy execution and uneven credit services by location. We conclude this article by presenting improvements to strengthen the policy framework which will enable industrial expansion through multiple funding sources.

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

1. Introduction

The Indian industrial financing sector experienced a major transformation during the last few decades. The nature of industrial finance underwent a transformation during the regulated period until the post-1991 liberalised era because of internal and external economic changes. Financial resources stand as a fundamental requirement for India to achieve its industrial growth. The financial structure together with regulatory framework and procedures of the country have undergone substantial transformations throughout the years. This transformation has emerged from expanded economic policies and financial reforms and global market liberalization and changing industry requirements. The complete comprehension of India's economic and industrial advancement demands detailed examination of industrial financing patterns together with their policy dimensions (Ahuja, H. L. 2017).

The industrial finance sector of India has existed under a regulatory system that controlled financial operations throughout its historical development. Indian authorities made industrialization and public sector development their top priorities during the first years of independence (Bansal, S., & Jain, A. 2018). Industrial Credit and Investment Corporation of India (ICICI) together with the Industrial Finance Corporation of India (IFCI) along with other nationalised banks served as the primary channels for industrial funding during this period. During this period companies from both public and private sectors obtained long-term industrial loans from these financial institutions (Ghosh, S. 2016).

The state-controlled system of the period distributed credit based on government objectives while determining both financial processes and institutions. Industrial progress and innovation suffered repeatedly because of problems with efficiency and limited competition and control of the financing environment. The strategic approach led industries to depend on public sector institutions for funding while private financial groups received minimal involvement (Gupta, P. 2015). The economic reforms of the 1990s introduced a major transformation to the history of industrial financing. Economic reforms started in India during 1991 with three main objectives to liberate the economy while reducing state intervention while boosting private sector participation in industrial development. These reforms introduced substantial modifications to the industrial financing sector. Financial liberalisation policies allowed private companies to enter banking and financial services markets and thus increased both sector competition and industrial business loan availability.

The diversification of funding sources occurred because private sector growth and FDI expansion took place. The introduction of private sector banks together with other financial institutions brought venture capital and private equity and corporate bonds to businesses which they had not previously accessed. The financial sector became more active and competitive because of reduced government control of industrial finance and interest rate deregulation. The entry of foreign banks and financial institutions into the market enhanced competition and product quality while expanding global perspectives about financial operations. The diverse industrial sector demanded specialized financial services because of its expanding nature (Jain, A., & Singh, A. 2017). Two important achievements included the creation of specialized financial programs through the Export Credit Guarantee Corporation (ECGC) for export businesses and the Small companies Development Bank of India (SIDBI) for small-scale enterprises. These specialized institutions provided financial assistance to certain industries which allowed them to overcome their financial challenges. The funding support delivered by NABARD to rural companies demonstrated the necessity of industrial growth that includes all sectors.

India has witnessed a significant growth in non-banking financial corporations (NBFCs) within its industrial financing sector. The financial industry now includes NBFCs as important participants because they provide leasing and hire-purchase services alongside infrastructure finance options. Small and medium-sized businesses now access funding through the growth of non-bank financial company (NBFC) operations. The rapid growth of financial markets including bond and stock markets has produced a stronger and more varied industrial finance system through increased options for corporate funding (Kapoor, S., & Gupta, A. 2018). India has witnessed two major changes in industrial financing through public-private partnerships and infrastructure financing growth which have become the notable developments in the landscape. Private sector entities answered government initiatives by supporting the financing of enormous infrastructure projects during the energy, transportation and urban development periods. The transformation in industrial finance organization has directed focus toward private investors and financial markets and alternative funding methods (Maheshwari, S., & Agarwal, N. 2020).

The Indian government introduced various policies to support industrial development while simplifying financial acquisition procedures. The Startup India plan together with the Make in India campaign represent government initiatives that work to enhance industrial output through targeted industry development. The Goods and Services Tax (GST) together with the insolvency and bankruptcy law (IBC) changes has made it easier for businesses to get funding as well as resolve conflicts. Financial inclusion programs have created new industrial financing opportunities by attempting to bring underbanked persons and areas into the formal financial system (Rao, D. S. 2019). Big infrastructure projects face a significant long-term challenge because banking industry NPAs continue to increase. The banking sector along with credit-based industrial operations experienced major negative impacts from this situation. The targeted assistance efforts from governments and financial institutions have failed to eliminate the capital accessibility problem for SMEs. India needs to develop better financial products and risk management systems to match the increasing complexity of industrial finance particularly in international business and investment environments (Sharma, R. 2017).

2. Literature review

Verma and Agarwal (2020) Digital technology has transformed the Indian industrial financing sector by introducing blockchain and fintech platforms that affect business funding operations. Digital technology implementation created open effective financial processes that expanded funding opportunities for businesses including small hard-to-fund SMEs. Financial institutions cut down transaction costs while using blockchain-enabled peer-to-peer lending which pairs with smart contracts and digital credit scoring technology for quicker money transfers. The adoption of effective economic policies needs to address newly emerging dangers which digitalization creates.

Joshi and Kumar (2019) The rise of sustainable funding practices has become prominent in India's industrial finance sector because sustainability stands as a global priority in financial operations. The transition to more sustainable practices receives help from three primary financial instruments - green bonds, sustainability-linked loans as well as renewable energy finance. Joshi and Kumar (2019) described the lack of extensive laws and incentives that apply across industries to advance sustainable financing as one of the barriers blocking its widespread acceptance in certain sectors including renewables and EVs. Lawmakers needed to develop a single framework which would support environmentally friendly investments to resolve funding problems for developing industries.

Singh and Sharma (2018) Academic scholars have extensively studied India's industrial financing system since recent legislative changes because they want to understand the systemic problems and the growing gap between funding availability and business demand during the 2008 financial crisis. The research demonstrated that banking system structural inefficiencies prevent funds from reaching businesses even though the government has attempted to enhance financial service access. The industrial financing situation has worsened because of non-performing assets (NPAs) and banking reluctance to support long-term projects according to Singh and Sharma. They found that insufficient regulatory structures accompanying the financing industry transition have created unpredictable results for industrial expansion because the market now contains both traditional loans and asset-backed securities.

Mehta and Gupta (2017) The Indian industrial financing sector receives substantial direction from government policies through financial assistance programs such as MUDRA and the Credit Guarantee Fund plan. The research shows that these programs made MSMEs more financially inclusive but exhibited minimal impact on large-scale businesses. To maintain ongoing industrial development the authors proposed better coordination between regulation aims and market environments.

Bhide and Kaur (2010) Post-liberalisation financial changes in India transformed industrial financing patterns as they affected manufacturing through financial market mechanisms for expansion. The implementation of financial changes which included interest rate deregulation and licensing requirement elimination led to enhanced monetary access for medium and large businesses. After the Securities and Exchange Board of India (SEBI) established its operations and introduced venture capital and private equity tools manufacturing and information technology sectors experienced growth. According to the authors the implementation of financial changes did not solve ongoing capital access issues and liquidity problems for small and medium-sized businesses (SMEs).

3. Methodology

3.1 Research Design

The research adopted both analytical and descriptive research strategies. The analysis uses tools to compare structural shifts and policy effects while the description follows shifts in Indian industrial financing throughout the years. This study examines whether policy actions and financial structures create trends and changes which lead to industrial growth results. A combination of historical analysis and contemporary research ensures complete knowledge about developing patterns in the study. The study relies mainly on qualitative methods yet incorporates quantitative information that supports its policy and trend evaluation findings.

3.2 Data Collection

Both primary and secondary data sources are utilized in the study to establish a solid and comprehensive analysis. The major secondary data sources include public documents from the Reserve Bank of India Annual Report and Ministry of Finance Economic Surveys and DPIIT documents alongside databases from the Centre for Monitoring the Indian Economy and development indicators from World Bank and International Monetary Fund publications along with documents from development finance institutions such as IDBI ICICI and IFCI. The analysis incorporates a review of scholarly publications together with business white papers and organization research papers from NITI Aayog and ICRIER and news articles. We conduct semi-structured interviews with a random selection of politicians, bankers and field specialists and financial analysts to gather primary data whenever possible. The interviews provide essential information regarding the operational challenges faced by the industrial financing sector post-policy interventions.

3.3 Data Analysis Techniques

Statistics combined with comparison and policy effect evaluation methods enabled the study to examine its data. The analysis of industrial loan trends combines with venture capital investments and capital market mobilization from the post-liberalization era (1991–2024) up to present-day (2024). Industrial financing originates from emerging market-based and private entities such as non-bank financial companies (NBFCs) and venture capital firms and alternative investment funds that compete with traditional financing sources including public sector banks and development finance institutions (DFIs).

The assessment of policy measures examines the effects that IBC Code, MUDRA Scheme and PLI incentives have on credit flow and recovery rates and enterprise development metrics. The research study joins expert qualitative interviews with industry experts to numerical data sets for obtaining an all-encompassing analysis. The analysis uses descriptive statistics together with Compound Annual Growth Rate (CAGR) and correlation analysis as supplementary methods for additional analysis support.

4. Results

4.1 Structural Changes in Industrial Finance

4.1.1 Evolution of Traditional Financing Institutions

The industrial financing structure of India underwent substantial changes after the 1991 economic liberalization. Indian Development Finance Institutions (DFIs) IDBI, ICICI and IFCI maintained their presence throughout the manufacturing sector of the country. Industrial projects particularly infrastructure and manufacturing received major benefits through the extended low-interest loan programs provided by these organizations. The financial sector reforms and economic liberalization led many development finance institutions to face two main challenges: rising non-performing assets (NPAs) and poor management practices. The market-driven financial institutions took over the role of public sector DFIs after their replacement. During the early 2000s industrial financing took place through private sector banks and NBFCs (Non-Banking Financial Companies) because most DFIs moved to market-based operations or combined with commercial banks.

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

The deregulation of India's economy during the 1990s led to private equity companies together with banks increasing their influence in industrial finance. Private banks including HDFC Bank and Axis Bank and ICICI Bank expanded the capital options available to sectors through their emergence. These private organizations adopted new flexible lending practices which resulted in speedier funding options because public-sector DFIs did not provide this access before. The funding of biotechnology and technology sectors and startup ventures received essential support from both venture capital and private equity funds and banking institutions. Recent years have witnessed the growth of India's industrial finance sector because of substantial foreign direct investment (FDI) increases.

The business operations of non-bank financial companies (NBFCs) have expanded significantly across industries that provide both long-term and short-term loan services including real estate development and infrastructure construction and automotive financing. Non-bank financial companies (NBFCs) have gained increasing popularity because they supply specialized financial solutions while traditional banks continue to support large projects. The funding of small and medium-sized businesses (SMEs) together with individuals from agricultural and rural industries relies heavily on non-bank financial companies like L&T Finance and Mahindra Finance as well as Bajaj Finance.

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

The financial industry shifted towards market-based finance through the development of institutional actors. The establishment of National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) has led to increased equity capital accessibility and market liquidity thus making capital markets essential for industrial growth. The expansion of the corporate bond market enables industries to obtain debt capital for their operations. Companies now have corporate bonds as an alternative financing source because these bonds offer lower interest rates and adjustable repayment terms compared to traditional bank loans.

REITs and InvITs along with Real Estate and Infrastructure Investment Trusts offer industries greater financing flexibility as a result of their recent development. Through these new financial strategies toll roads and power plants together with airports represent large infrastructure developments that have become feasible. The Indian capital market remains underdeveloped despite its recent advancements since its cost of capital stands higher than other developing economies.

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)

The history of industrial financing underwent a fundamental change when India implemented its economic liberalisation program in 1991. The Indian government launched financial sector reforms in 1991 to achieve business modernization in banking and financial services and operational efficiency and capital accessibility for industries. The most important policy changes included interest rate deregulation as well as public sector bank privatization and the market entry of private and foreign banking institutions. The modified industrial sector obtained major advantages from these reforms leading to improved business competition and better allocation of financial resources. The Raghuram Rajan Committee (2009) presented significant recommendations to persuade DFIs to shift away from traditional long-term funding toward alternative financial models through reforms that would boost their operations.

Despite financial market openness from reforms infrastructure and heavy industry did not receive sustained attention because the reforms favored capital market financing. The Indian government redirected its financing efforts to create specific financial packages because these areas faced funding deficits.

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)

The Insolvency and Bankruptcy Code (IBC) became law in 2016 as one of the most significant legislative developments during the last few years. The IBC aimed to enhance business operations in India while resolving banking industry non-performing assets (NPAs). The process of resolving troubled industrial ventures became simpler under the new law leading to faster money recovery for lenders. The resolution of insolvency proved vital for infrastructure and steel and textile industries because poor financial management led to numerous bankruptcies. The IBC directly led to the establishment of Insolvency Resolution Professionals (IRPs) as specialised professionals. The professionals provided assistance to struggling companies during reorganization or liquidation processes through structured and transparent procedures. The IBC achieved enhanced creditor recovery rates through its operations of more than 2,000 cases by 2020.

The IBC has created a structured path for industrial restructuring but tribunals must enforce their decisions more strongly and resolution processes need faster times to ensure its success regardless of the current limitations. Conditions that hinder operation might not undermine the essential position of the IBC as an essential part in India's industrial financing transformation.

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)

The MUDRA Scheme started in 2015 to offer financial support for micro, small, and medium companies (MSMEs) across India. The main goal of this scheme is to provide accessible loans to informal businesses that struggle to obtain financing through regular banking systems. MUDRA distributes financial support for business ownership and new job creation in rural and semi-urban areas through commercial banks and regional rural banks (RRBs) and microfinance institutions (MFIs). MUDRA loans have provided more than ₹10 trillion to MSMEs up to 2023 which helped create millions of new small businesses across India.

The system provides the most advantages to financing-starved industries including agriculture and handicrafts together with retail and transportation. The MUDRA program gives MSMEs better access to financing through its loans but critics argue both sizes of loan amounts and reduced repayment rates cast doubt on long-term sustainability of these programs.

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

The Indian government launched Startup India in 2016 before shifting to the Production Linked Incentive (PLI) and Startup India programs in 2020 to prioritize startup development and innovation sectors. The Startup India program uses tax benefits and streamlined company policies and startup funding from the Fund of Funds for Startups (FFS) to stimulate innovation and employment growth and national economic expansion. Under the PLI system businesses receive financial rewards based on their production targets to promote local production of electronics and vehicles as well as medicines and solar power.

Under the Startup India program angels and venture capitalists have poured increased capital into software development e-commerce and fintech sectors of India. The PLI plan aims to produce major manufacturing investments that will elevate India's international industrial dominance.

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

The evolving industrial financing environment in India resulted from multiple legislative interventions and structural changes that aim to advance economic growth and industrial development. The financial landscape of India has evolved through the last 30 years as private banks and non-banking financial corporations (NBFCs) and venture capital and private equity have emerged to replace public-sector Development Finance Institutions (DFIs). The Insolvency and Bankruptcy Code (IBC) together with MUDRA Scheme and Production Linked Incentive (PLI) scheme work toward three essential objectives: enhancing capital availability, business simplification and promoting the development of small and medium enterprises (SMEs) and startups. The progress made by the government does not fully address the constraints of non-performing assets (NPAs) and slow policy execution and imbalanced financial opportunities across regions thus preventing industrial development from achieving its maximum potential. Legislative members should maintain their focus on regulatory improvement through financial service availability expansion and improved financing costs along with strengthened enforcement tools for current programs. Long-term economic growth and global competitiveness will emerge in India through the solution of these problems and the development of an inclusive industrial financing system.

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