

Teacher - Ravi Shankar Ray, sub-Economics
Date - 08-9-2020, Class - BA-II

Source of industrial finance

(B) Equity, Debentures and bonds:

A large part of finance for fixed investment (Building, Machines etc) comes from different types of equity or shares, such as ordinary, commulative and non-commulative preference shares. These shares bear risks of different degrees and are tailored to suit the temperament of different investors.

The latest trend is to issue shares in small denominations of ten rupees so as enable the largest

number of people to participate in providing long-term finance. The credit worthiness of promoters of industries and profitability of industry, determine the extent to which savers invest their money in shares.

In this way industries are not burdened with interest and therefore do not get involved in complications on this account during recession or depression.

Often industrial companies also get long-term finance through the issue of debentures and bonds are the creditors of companies. They get a fixed rate of interest on the money invested in these securities.

For this reason debentures are safer investments. Till recently

These debt-instruments were not very popular. At present many industries are tapping this source, public sector undertakings too have started depending upon them. Since recently they have raised funds through the sale of bonds bearing fixed interest.

(c) public deposits:—

Another source is public deposits. It is also a debt-instrument, mostly for short term finance. Under these system, people keep their money as deposits with these companies

of managing authorities for a period of six months, a year, two years, three years or so. Depositors receive a fixed interest.

They can ask for the refund of money at any time. This money is used by companies to meet their needs of working capital. However, this source of finance is unreliable because depositors can seek refund at any time.

And if the refund happens to coincide with the time when a company needs funds most, then it complicates matters. With growth of banking habits and ~~increasing~~ increased in dealing with other financial institutions, the importance of public deposits as a source of finance, will decline.