

A STUDY OF FINANCING OF INDIAN POWER GENERATION AND SUPPLY FIRMS

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ABSTRACT

This paper analyses the financing pattern of Indian power generation and supply firms (PGSFs) to explore financial constraints faced by them. The findings reveal that Indian power generation and supply firms procured funds from internal finance at average rate of 50 to 55 percent of the total finance during the period 1993-2004. Further, the mean value of funds mopped up by equity capital is 17.95 percent, share of bank and financial institutions finance observed on average 7.63 percent and 3.9 percent respectively into the external finance for the period under study. However, after year 2000, share of bank finance reached to 14 percent and share of financial institutes declined to -4 to -5 percent. These findings call for immediate attention of policy makers to divert funds from equity market, banks and financial institutions for promoting private sectors participation in the Indian power sector so that ambitious goals power to all by 2024 and free play of power market in India can be achieved.

KEYWORDS: *India, Power Generation And Supply Firms, Financing, Financial Constraints, Capital Structure, Banks And Financial Institutions.*

1. INTRODUCTION

The mere availability of infrastructure-services does not create a favorable climate for promoting private sector investment in the various avenues of investment. Among the various kinds of infrastructure, Electricity is an important infrastructure, not only that it is used as vital input for initiating the development process of economy. Recognizing this, Government of India introduced infrastructural reforms in 1992 to speed up the process of development along with already initiated New Economic Reforms 1991 in India. As a part of broad policy on infrastructure reforms, power sector reforms were initiated in 1992 with a policy package for attracting the overseas and domestic private sector investment into power generation and distribution ventures. However, before the introduction of economic and power sector reforms in India, few private sector firms were working as licensees in the power generation and distribution business in the few cities of India.

As part of responsibility of the government, the various state electricity boards (SEBs) have been performing a task of power generation and distribution at the state level since 1955. Meanwhile, in the decade of seventies, some public sector companies were promoted to supplement a task of power generation along with state electricity boards. Taking into account requirement of heavy investment, high gestation period of a power plant, peculiarities of the power projects such as inter-state water sharing issues, environmental issues, public pressure, and rehabilitation of project

affected people, Government of India established national level thermal, hydro, and nuclear power corporations. SEBs were deliberately kept away from the building Mega thermal and hydro power projects. A responsibility of constructing and maintaining nuclear power generation plants were kept under the control of central government owing to national security and interest of the general public.

Accordingly, the government of India (GOI) set up the thermal power corporation to exploit the local coal resources and supplement the task of power generation performed by SEBs. Subsequently, Power Grid Corporation of India was set up to distribute the electricity throughout the country through the well planned transmission network. In addition to this, it was also felt that government owned power generation firms were necessary from the energy security point of view. After the inception of government owned power generation corporations at national level, few private sector power generation firms were allowed to enter into the power generation and distribution business in India.

This paper analyses financing and investment pattern of Indian power generation and supply firms (PGSFs). Further, the main objective of this paper is to identify the financial constraints if any, faced by the PGSFs. This paper is organized as follows. Section 1 gives introduction. Section 2 presents background information about the financing of firms. Section 3 deals with data, methodology and literature. Section 4 shows descriptive statistics of the variables used for observing financing and investment pattern of the firms included in the panel. Section 5 discusses the trends in financing and investment patterns of power generation and supply firms covered in panel. In Section 6, comparison is made between the trends observed in the sources of funds for private and public sector power generation firms using paired T test. Section 7 concludes the paper.

2. NEED FOR STUDYING FINANCING PATTERN OF PGSFS

It is necessary to take the stock of financial and investment patterns of power generation and supply firms after the introduction of economic reforms of 1991, and power sector reforms of 1992. We observe that despite the promotional policies of investment that were implemented by the central and state governments, an aggregate power generation capacity of the firms and their absolute numbers have not increased. Other observation about the Indian power sector is that the volume of private sector investment into power generation business has not been increasing at required rate. Despite giving free hand to banking and financial institutions in the areas of interest rates determination, size of loan, and a kind of project to be financed. Sizeable funds did not go into power private sector projects. Therefore, it is necessary to observe the financing and investment patterns of the private as well as public sector power generation firms after the introduction of reforms.

This endeavor enables us in exploring sources of finance preferred by these firms. This study also attempts to study the constraint faced by PGSFs while raising the funds. It also looks into preference accorded to a particular source or mixed sources of finance. At the end, this paper studies a shift in the financing patterns of the power generation and supply (PGSFs) firms if any. This study finds to what extent, stock market, banks, and financial institutions offer finance. To answer above questions, it is important to take an overview of the financing trends and patterns of power generation firms since 1993. While exploring the trends in financing, a relevance of financing theories to the financing mode and trends as stated in the corporate finance discipline has also been verified.

The financing patterns of fully or partly owned government firms were not studied or perhaps overlooked in the earlier studies. Recently conducted studies on financing trends and pattern of

firms in India by Sagar (2005) [1] and Kumar et al., (2002) [2] have covered several firms under the different categories of the industries. Both the studies have included electrical appliances industry as one of the category in the database used by them. Hence, an extensive and detailed study of power generation and supply industry was not conducted in the earlier studies known to us. The reasons for not covering the power generation industry can be concluded as there were only a few power generation firms in the database as well as non-availability of complete and continuous data. The most pertinent fact about these firms (PGSFs) is that their importance was not realized in India till the year 1992. Hence, this paper tries to fill up this gap and attempts to explore the constraints faced by the power generation and supply firms in India from the sources of funds and its development point of view.

The government or public sector firms are often regulated and hence they are not exposed to market forces. A complete case of their financing pattern has not been studied as their financing decisions are being controlled by government. However, public sector firms included in the panel of the present study are partly privatized by government of India as a part of privatization programme. Therefore, this study includes them in the panel along with private sector power generation and supply firms to check their financing trends and patterns in the context of new economic reforms 1991 and power sector reforms 1992.

3. DATA, METHODOLOGY AND LITERATURE

The period of study starts from 1993 and it ends by 2004, this period is selected to verify the impact of economic and power sector reforms on the power generation and supply firms in India from the finance point of view. This study has extracted data from the sources and uses of funds statement of each firm hence present study is a firm level. Data source to be used for analyzing financing pattern of the firms is a matter of debate. Whether balance sheet or sources and uses of funds statement data should be preferred is an issue in the discipline of corporate finance. Several studies have given the pros and cons of each type of data source. The studies conducted by Singh and Hamid (1992) [3] and Singh (1995) [4] used the balance sheet data for studying the pattern of financing of firms of the developing and developed countries. Muthenhari and Green (2002) concluded that balance sheet data includes several items such as intangibles, which do not come in the standard sources and uses statement. Balance sheet data covers all historical facts hence it is difficult to conclude the changes that might have taken place earlier while financing the firms. In comparison of the balance sheet data, sources and uses statement data gives better, direct and factual picture about the trends and pattern of financing firms.

The study conducted by Corbett and Jenkinson (1997) [5] used data of national flow of funds, in which they used net sources and uses funds methodology. They used data of firms and sectors of respective countries for observing the financing trends and pattern. They also made international comparison of financing trends. In fact, they used sector wise aggregate level data. Hence study made by them does not reveal firms level financing pattern. Cobham and Subramaniam (1998) [6] followed the approach of Corbett and Jenkinson (1997) [5] without a treatment of deducting depreciation from the gross sources. Guha-Kasnobis and Kar (2000) [7] used Indian firm level CMIE's data extracted from flow of funds statement of the firms. A choice of dataset is influenced by purpose of the study and its content. The sources and uses (funds flow) statement gives update picture about finance raised and its use made by the firms. With this background, present study uses funds flow statement as data, this exercise enables us to monitor the trends and pattern of financing of power generation and supply firms in Indian case. Further, we verify whether there is any similarity or difference in financing patterns of private vs. public sector PGSFs. For this, we use T test for comparing financing pattern of firms for the period 1993-2004. To understand the difference if any, a null hypothesis is assumed as there is no difference in the mean value of respective source of finance for the private as well as public sector firms.

4. DESCRIPTIVE STATISTICS OF FINANCING TRENDS AND INVESTMENT PATTERNS OF PGSFS

Table 1 shows the descriptive statistics of financing trends of power generation and supply firms included in the unbalanced panel. Mean, Std. Deviation, Minimum and Maximum values for each source of finance are shown. It can be seen from table that average mean value of the internal sources and external sources appeared as almost the same. It means that both sources are found equally important for these firms. Mean value of funds mopped up by way of equity capital appeared as 17.95 percent, which is quite high over the funds raised from the bank and financial institutions 7.63 and 3.9 percent respectively.

From aforesaid analysis, it can be concluded that these firms were poorly financed by the banks and financial institutions for the period under study. High volatility is seen all the sources of finance. Finance from banks and financial institution remain uncertain for the power generation firms during the study period. It appears from the use of funds that average 57.99 percent funds utilized for creating the gross fixed assets and 26.68 percent funds used for discharging the current liabilities. A minor portion of funds (13.33 percent) were used for making financial investment into securities of other firms and institutions. All these figures support the common trends emerge from the funds utilization pattern, major portion of funds were used for building of fixed assets and secondly for current assets, and lastly, financial investment is made from the remaining funds. Being capital intensive firms, large portion of collected funds should go in building of fixed assets. Hence same kind of trends is being observed in utilizing the collected funds by these firms.

TABLE 1 DESCRIPTIVE STATISTICS OF FINANCING TRENDS AND INVESTMENT PATTERNS OF PGSFS

	Mean	Std. Deviation	Minimum	Maximum
Sources of funds				
INTS	49.75	10.67	35.21	66.64
EXTS	50.24	10.67	33.36	64.79
CAPM	17.95	14.78	-11.25	39.63
FCAP	15.3	7.52	4.3	33.91
TBOR	32.28	13.91	12.15	60.5
BBOR	7.63	19.69	-12.17	58.71
FINB	3.9	9.77	-19.47	18.53
Uses of funds				
GFAS	57.99	18.73	17.42	84.44
FINV	13.33	22.51	-3.3	80.85
CAAT	28.68	27.74	-26.4	85.88

Abbreviations Used: INTS - internal sources, EXTS - external sources, CAPM - capital market, FCAP. - fresh capital, TBOR - total borrowings, BBOR - bank borrowings, FINB - financial institutions borrowings, GFAS - Gross fixed assets, FINV - financial investments, CAAT - current assets and others.

Notes: Internal sources= (retained profits + depreciation); External sources= (capital market + total borrowing); Capital market= (fresh capital including share premium + fixed deposits + debenture and bonds); Borrowing= (bank borrowing + borrowing from finan. inst. + current liabilities and provisions + Other Borrowings + Borrowings from corporate bodies).

5. TRENDS IN FINANCING AND INVESTMENT PATTERNS OF PGSFS (UNBALANCED PANEL)

In this panel, trends and patterns of the private and public sector firms financing are observed for the period 1993-2004. This panel starts with 16 firms in the year 1993. The number of firms increased further and reached maximum to a figure of 52 firms over the period 1993-2003. However, our data set ends with 38 firms in the year 2004 due to the non-availability of data for all the firms. Considering demand supply gap in power and continuous increasing demand for electricity, many new firms entered into the power generation business. Meanwhile, the government of India has declared several policy measures for increasing the participation of private sector into power generation business. In response to the new policy, many new firms have entered into the power generation business during the reforms period.

TABLE 2 TRENDS IN FINANCING AND INVESTMENT PATTERNS OF PGSFS (UNBALANCED PANEL)

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Sources of funds												
<i>INTS</i>	35.6	35.2	35.7	56.2	50.8	47.8	51.3	53.9	65.8	66.6	45.1	53.2
<i>REPR</i>	23.0	19.7	18.5	30.3	24.1	23.6	26.6	27.4	36.3	36.9	22.9	33.8
<i>DEPR</i>	12.6	15.5	17.2	25.9	26.6	24.2	24.6	26.4	29.5	29.7	22.2	19.4
<i>EXTS</i>	64.5	64.8	64.3	43.8	49.3	52.2	48.7	46.1	34.2	33.4	54.9	46.8
<i>CAPM</i>	20.8	39.6	35.9	7.5	-11.3	31.7	1.4	7.1	16.3	21.2	20.8	24.4
<i>FRCA</i>	20.5	20.7	33.9	4.3	8.1	15.8	13.1	13.4	11.8	14.6	10.5	16.9
<i>FIDE</i>	0.1	1.6	1.7	0.2	-0.5	2.1	-0.4	0.6	-0.8	2.6	0.8	0.1
<i>DEBO</i>	0.3	17.3	0.3	3.0	-18.8	13.7	-11.3	-7.0	5.3	4.0	9.5	7.4
<i>TOBO</i>	43.6	25.2	28.4	36.3	60.5	20.6	47.3	39.1	17.9	12.2	34.1	22.4
<i>BBOR</i>	-1.6	-10.2	4.9	1.1	1.1	3.9	4.9	34.0	-12.2	58.7	6.5	0.3
<i>FINB</i>	5.7	12.0	4.9	1.1	0.2	14.9	5.5	18.5	-3.1	-19.5	6.8	-0.3
<i>CLAP</i>	16.7	4.0	-2.6	20.5	17.7	20.4	29.7	21.2	3.6	-0.6	27.3	12.8
<i>OTBO</i>	22.5	19.0	22.4	13.9	41.8	-19.1	6.3	-36.9	30.8	-26.9	-7.1	9.2
<i>BOCB</i>	0.3	0.4	-1.3	-0.3	-0.3	0.5	0.8	2.3	-1.2	0.4	0.6	0.4
	100	100	100	100	100	100	100	100	100	100	100	100
Use of funds												
<i>GFAS</i>	17.4	79.5	84.4	81.4	54.3	55.7	52.3	60.6	61.0	62.0	41.8	45.5
<i>FINV</i>	-3.3	3.6	7.9	1.7	1.4	10.8	3.6	10.3	23.7	16.6	3.0	80.9
<i>CAAT</i>	85.9	16.8	7.7	16.9	44.4	33.6	44.2	29.1	15.4	21.4	55.2	-26.4
	100	100	100	100	100	100	100	100	100	100	100	100
FIRMS	16	17	23	24	26	31	37	42	46	47	52	38

Source: Firm level data extracted from Prowess database of Center for Monitoring Indian Economy, (CMIE) Mumbai, The aggregates and percentage thereof reported here are researchers' calculation. [8]

Abbreviations Used: INTS - internal sources, REPR- retained profits, DEPR- depreciation, EXTS - external sources, CAPM - capital market, FCAP - fresh capital, FIDE- fixed deposit, DEBO- debenture and bonds, TBOR- total borrowings, BBOR - bank borrowings, FINB - financial institutions borrowings, CLAP-current liabilities and provisions, OTBO-other borrowing, BOCB- borrowing from corporate bodies. GFAS - Gross fixed assets, FINV- financial investments, CAAT-current assets and others.

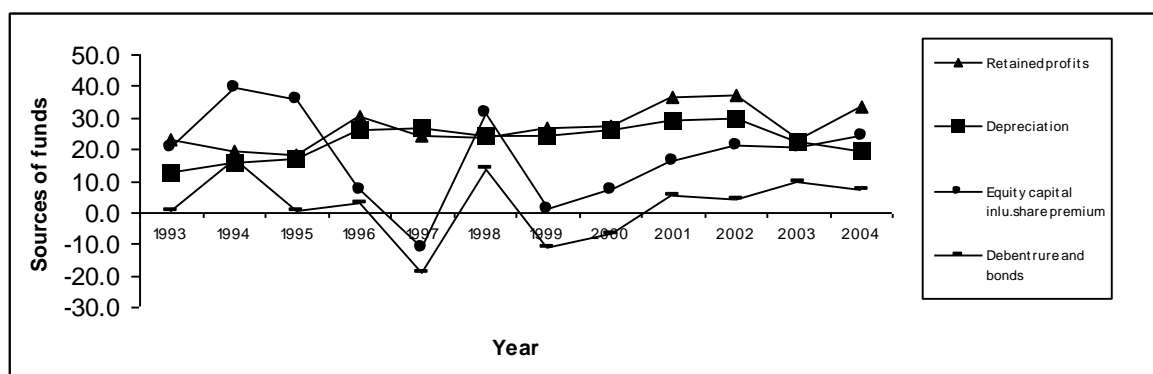
Notes: Internal sources= (retained profits + depreciation); External sources= (capital market + total borrowing); Capital market= (fresh capital including share premium + fixed deposits + debenture and bonds); Borrowing= (bank borrowing + borrowing from finan. inst. + current liabilities and provisions + Other Borrowings + Borrowings from corporate bodies.

It can be seen from the Table 2 that the funds collected from internal sources increased from 35.6 to 66.6 percent during the period 1993 to 2002 and afterward it declined in 2003 and again increased in 2004. In the internal sources, the share of retained profits is observed as in the range 19 to 37 percent and share of depreciation is observed to be in the range 12 to 30 percent. The share of the external funds remain constant around 64 percent for the first three years (1993-1995) and thereafter it declined and improved marginally for the period 1998-2001. Ultimately, it is settled at 34 percent for the next two years. In the last two years i.e. (2003 and 2004) it scaled up by an average 50 percent.

The contribution of capital market finance was recorded at an average rate of 32 percent for the first three years and thereafter went down below unity in the year 1999. Again the contribution of capital market sources improved from the year 2000 onwards. The borrowing from fixed deposits and debenture were found as insignificant. From the year 2001, these firms have raised the funds from debenture and bonds marginally. This show, these firms were poorly financed from the funds raised by fixed deposits and debentures. Other two prime sources of financing, which are considered to be suitable and popular in Indian condition as proved in the earlier studies are finance from bank and financial institutions. However, funds raised from these two sources by PGSFs were observed as minor except for the period 1998-2000 and 2004.

The reason for insignificant share of bank and financial institutions finance into the total external finance can be interpreted as reluctance of the banks and financial institutions for offering debt to PGSFs. Bank and financial institutions assume that power generation and supply firms' cash flow (revenue) is uncertain due to its dependency on SEBs. In the external sources of finance, commercial liabilities, assets provisions and other borrowing are used as vital sources of finance in a large proportion over the other sources. This is perhaps its' easy availability, no need to offer mortgage and collateral. Other reason for preferring these sources can be concluded as more liquid cash, amount of subsidy claimed, development rebate and tax rebates received must be remained idle with these firms. Figure 1 reveals that the curves of retained profits and depreciation move in tandem. It proves that the shares of these two sources are found to be same except for a few years. Another note worthy feature about these two sources is that their share observed higher than the remaining sources of finance.

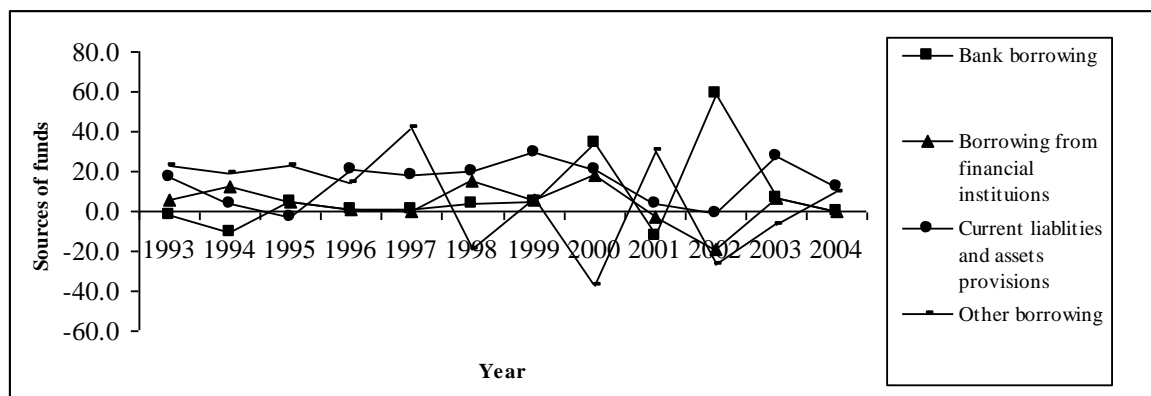
FIGURE 1 TREND IN SOURCES OF FUNDS TO THE TOTAL SOURCES OF FUNDS OF POWER GENERATION AND SUPPLY FIRMS (IN PERCENTAGE)



Source: Firm level data extracted from Prowess database of Center for Monitoring Indian

Economy, (CMIE) Mumbai, The aggregates and percentage thereof reported here are researchers' calculation. [8]

FIGURE 2 TRENDS IN SOURCES OF FUNDS TO THE TOTAL SOURCES OF FUNDS OF POWER GENERATION AND SUPPLY FIRMS (IN PERCENTAGE)



Source: Firm level data extracted from Prowess database of Center for Monitoring Indian Economy, (CMIE) Mumbai, The aggregates and percentage thereof reported here are researchers' calculation. [8]

Funds tapped by way of equity capital and debentures do not show any definite pattern till 1997. However, from the year 1999 curves of equity capital and debenture have been showing increasing trend. This proves that from the year 1999, these firms have started preferring equity capital and debenture funds because of the continuous efforts of the government for promoting them in belief that these sources would give substantial funds to them for expanding the power generation business. Other reason can be concluded as income tax rebate given to inventors for investing in the bonds and debentures of the infrastructure creating firms. The figure 2 shows that percentage of finance rose from the bank and financial institutions do not exhibit any clear pattern of financing. This kind of trend proves that these firms do not find finance easily from both the sources. Funds collected from the current assets and liabilities and other sources remain quite substantial except for a few years. The inference from the figure can be drawn as none of the above source of finance was used in large proportion and in a definite manner while raising finance by (PGSF) firms.

6. COMPARISON OF FINANCING PATTERNS OF PRIVATE AND PUBLIC SECTOR PGSFS FOR 1993-2004

Table 3 shows that whether there is any similarity or difference in financing patterns of private vs. public sector firms. For this, we use T test for comparing financing pattern of firms for the period 1993-2004. In order to understand the difference if any, a null hypothesis is assumed as there is no difference in the mean value of respective source of finance for the private as well as public sector firms. With this hypothesis, calculated values and table values of the prime sources of finance are compared. Thereafter, the decisions about the hypotheses are made. The following hypotheses are tested by paired sample T test. The reason for using this test is that firms included in both the samples are in the same business however there is a difference of ownership and decision making process. The following hypotheses are tested using paired sample t test.

$H_0: \mu_1 = \mu_2$ There is no significant difference in the mean value of source of finance for private and public sector power generation firms.

$H_1: \mu_1 > \mu_2$ There is a significant difference in the mean value of source of finance for private and public sector power generation firms. $\alpha = 0.5$ Level of significance.

It can be observed from Table 3 that null hypothesis have been rejected in the context of finance from internal sources, retained profits, and external sources. It means that financing process of private sector firms is significantly different from the public sector power generation firms.

TABLE 3 RESULTS OF PAIRED T TEST

Variables	PRSF	PBSF	t value	P>t = 0
INTS	53.17	57.80	-2.54**	0.02
REPR	29.54	32.84	-4.52*	0.01
EXTS	46.82	42.19	2.54**	0.03
CAPM	16.25	13.67	1.55	0.15
BBOR	7.26	6.49	0.62	0.55
FINB	2.55	2.29	0.26	0.80

Source: Researchers' calculation.

Note: *,** 1 percent, 5 percent respectively,

Abbreviations: INTS - internal sources, REPR- retained profits, EXTS - external sources, CAPM - capital market, BBOR - bank borrowings, FINB - financial institutions borrowings, PRSF- private sector firms and PBSF- public sector firms.

However, in the case of finance raised from the capital market, bank borrowing, and borrowing from financial institution, the null hypothesis is accepted. This establishes that financing pattern of both the types of firms is found similar in respect of last three types of institutional sources of finance (CAPM, BBOR, FINB). Other meaning of finding appeared about the banks and institutional sources of finance can be concluded as both the categories of firms (private sector and public sector power generation and supply firms) face the constraints while raising the finance from the institutional sources in India.

7. CONCLUSIONS

Decision about financing of the firms is manager centric or some times shareholders can make the decision. The selection of a particular source of finance depends upon the state of financial system and growth stage of the firms. Generally, a matured firm or firm having constant flow of income does not rely upon external funds but uncertainty prevailed in the policies pertinent to a particular type of industry such as power sector industry which increases its dependency on finance from the internal sources. Firms operates in the power industry (PGSFs) rely more on cash flow from the SEBs in India. This reality increases the degree of risks for the financiers while funding PGSFs, particularly, for the bank and financial institutions. Hence, these financiers refrain themselves from funding to these firms in large volume. In such a state, PGSFs firms have to rely on internal funds.

The overall evidences point out that Indian power generation and supply firms use more finance from the internal sources over the external sources. Evidences appeared in the present paper supports the Pecking Order Hypothesis forwarded by Myers and Majluff (1984) [9]. As these two researchers have shown that internal funds prefer first; then debt and at last equity capital. Power generation and supply firms choose internal funds first and then it prefers equity capital, thereafter bank borrowing and at the end these firms go for borrowing from the financial institutions. Finding pattern of PGSFs is inconsistent with the studies conducted earlier by Samuel (1996) [10], Singh and Hamid (1992) [3], Singh (1995) [4] Coham and Subramaniam (1998) [6], and Sagar (2005) [1], all these studies concluded that Indian corporate firms use more external funds in the composition of total borrowing.

Coham and Subramaniam (1998) [6], confirmed that Indian firms raised the total 32.3 percent funds from banks and capital market in which 20.2 percent finance were procured from the banks. Earlier studies established that Indian corporate financing pattern was bank dominated and partly

stock market oriented during the period 1987-88 to 1992-93. Singh (1995) [4] concluded that Indian firms raised finance from long term sources to the extent of 39.0 percent and from equity sources 19.6 percent funds of the total borrowing.

Recent studies on Indian corporate finance by Saggar (2005) [1], Kumar et al., (2002) [2], and Muthenhari and Green (2002) [11] find that finance rose from the internal sources observed in the range of 36 to 38 percent of the total finance procured. The shares of external sources find in between ranges of 62 to 64 percent for the study period 1993 to 2000. They also observed that share of bank finance started declining since the year 1993. This is an interesting finding about bank financing, although there has been declining trend in interest rate. It means bank finance has been losing its importance from the one side and on the other, increasing trend is observed of availing more funds from stock market for the corporate firms during the era of new economic reforms.

The finding emerged from the present study about the financing pattern of PGSFs and into that the trends seen in internal finance are comparable with studies made by Myers (1977) [12] and Corbett and Jenkinson (1994) [5], as they find that, firms in U.S., UK, and Germany were financed by internal sources in the proportion of 60.4 to 62 percent and firms from Canada, France, Finland, Italy and Japan obtained internal finance in the range of 38.5 to 54.2 percent. The Indian power generation and supply firms procured the funds from internal finance an average rate of 50 to 55 percent of the total finance during the period of 1993-2004. Finding drawn by us about the trends in financing of the Indian power generation and supply firms is comparable with earlier studies to the large extent. Earlier studies have used aggregate data except the recent studies conducted by (Saggar, 2005 [1]; Kumar et al., 2001 [13]; Muthenhari and Green, 2002 [11]). These studies have not covered Indian power generation firms in their sample. We therefore, can't make authentic comparison of our findings with the findings of recent studies conducted on Indian firms.

In addition to these factors, exclusive and empirical study has not been conducted on the issues in financing of power generation and supply firms as our knowledge. Studies conducted on the infrastructure financing have covered this industry for examining the policy bottlenecks being faced by the various infrastructure industries across the globe but all those studies have missed out the finance linked constraints (demand and supply side) faced by the power generation and supply firms in various countries.

The micro findings about trends and pattern of power generation firms reveal that in the total external finance, share of bank and financial institutions finance were observed on an average 7.63 percent and 3.9 percent respectively for the period under study. However, from the year 2000 onwards the average share of bank finance reached from 13 to 14 percent and the contribution of financial institute turned into -4 to -5 percent. This is due to low cost of bank finance and easy access to capital market. An eroding trends has been observed in finance raised from the financial institutions is explained by the state of project financing in India. Project financing is one of the major activities of the developmental banks in India. The CAGR of (project finance) assistance given for the existing projects and new projects by Indian financial institutions found as -16.58 and -9.74 percent respectively for the period 2000 to 2004 (RBI Bulletin, June, 2005) [14]. These findings call for attention of policy makers to divert the funds from equity market, banks and financial institutions for promoting private sectors participation in the Indian power sector in the coming years, so that goals of power to all by 2024 and free play of power market in India can be achieved.

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