CHAPTER – IV

PROFILE OF KARNATAKA STATE FINANCIAL CORPORATION

4.1. Introduction:

Karnataka State Financial Corporation is a State level financial institution established by the State Government in the year 1959 under the State Financial Corporations Act 1951, mainly to meet the long term financial needs of Micro, Small and Medium Enterprises (MSMEs) in the State of Karnataka. Today, while the State economy is making rapid strides in the global market, KSFC is moving in tandem. As a pioneering and responsive financial institution, KSFC is fine-tuned to fulfill the plans and aspirations of entrepreneurs by extending all possible assistance. In the 52 years of its existence, KSFC has contributed most significantly for the growth of SMEs, backward area development and promotion of first generation entrepreneurs. Its achievements in these areas are unparalleled. Since inception, KSFC has assisted more than 1.60 lakhs units with cumulative sanction of more than Rs. 10,464 crore out of which about 50% is towards SMEs. Amendments to SFCs Act provide wide-ranging scope in financial assistance and operational flexibility. Keeping this in view, KSFC has re-engineered itself to ensure utmost customer satisfaction with new energy, thrust and speed. In line with this, the Corporation has put in place comprehensive, client-friendly, need-based policies in the areas of credits and recoveries. Apart from setting standards of performance, these policies would also achieve the objective of transparent governance. KSFC an ISO 9001:2000 certified organization is proud to have played a major role in the industrial development of the State. It is also the proud privilege of KSFC to have assisted many industries that are internationally recognized like INFOSYS and BIOCON.¹
4.2: History of KSFC:

In the year 1950, the Government of India circulated a draft bill for eliciting the views of the State Government and of the RBI. The SFCs bill was introduced in parliament in December 1950 and passed in 1951; it came into force on AUG 1, 1951. The KSFC, which prior to November 1, 1973 was known as the Mysore State Financial Corporation, was established on March 30, 1959, that is to say, the last but one day of the financial year 1959-60. Although State Financial Corporations Act came into effect as far back as August 1, 1952, the then Government of Mysore established the Corporation several years later. In the Reserve Bank Report on Currency and Finance for the year 1955-56, it was stated that the Mysore Government have also decided to set up a financial corporation. However, this event happened four years later. It has not been possible to find out the reasons for the delay in the establishment of the corporation. On 1-11-1973, it was renamed as Karnataka State Financial Corporation. The Authorized Share Capital was fixed by the Mysore Government at Rs. 2.00 crore out of which Rs.1.00 crore was fully paid up. The stake of the Government of Mysore in the Corporation was Rs.40.465 lakhs and that of the RBI was Rs.15.00 lakhs. The Authorized Share Capital of the Corporation now stands at Rs. 750 Crore. Sri. G. Mathias, I.A.S., was the first Chairman of the Board and Sri. M. Vasudeva Rao, I.A.S., was the first Managing Director. In the first year of its operation, namely 1959-60, the Corporation sanctioned 11 loans for a total sum of Rs. 28.00 lakhs. A
sum of Rs.13.01 lakhs (to be precise Rs.13,01,238) was disbursed during the year. Such was the humble beginning of the operations of the Corporation. The financial results too were also miniscule. In its first year, the Corporations earnings aggregated to Rs. 3.33 lakhs of which only Rs. 4,037 was income from loans and advances to industrial units. The expenses of the Corporation for the year amounted to Rs. 88,275. Thus, the Corporation made a net profit of Rs. 2,44,775 in the first year of its operation. Such was the story of the Corporation’s modest beginning. Today, the Corporation has grown in leaps and bounds and has touched the operations of almost all the MSMEs in the State in some way or the other. Since inception, the Corporation has sanctioned over Rs. 10,464 crore to as many as 1,60,000 MSMEs in the State of Karnataka. Its operations grew many folds in the 80s and the 90s and for nearly two decades, the Corporation enjoyed complete dominance over all other SFCs and other industrial investment and development corporations in the country. In the late 90s, the Corporation went through a correction mode. This coincided with the impact of globalization and liberalization on the MSMEs. Being the prima-Dona for the MSMEs in the State, the Corporation had to take severe economic beating due to the fall of MSMEs in the State in the post liberalization era. However, with committed support of the major stakeholders, namely, the Government of Karnataka and SIDBI, the Corporation bounced back to good health from the year 2003-04.
The Corporation, has so far, assisted small scale units, SC/ST beneficiaries, minority and backward class women entrepreneurs and industries in backward areas. The contribution of KSFC for the overall industrial development in the state of Karnataka is quite significant not only in terms of amount of assistance, but also in the development of backward areas and weaker sections of the society. In the year 2009, KSFC completed its 50th year of its formation and celebrated Golden Jubilee of the Corporation. The journey of 50 years of the Corporation was a memorable and successful one characterized by ups and downs.²

4.3: Mission, Vision, and Quality Policy of KSFC:

a) **Mission**

“KSFC is committed to nurture, develop and service the SME sector through need based product and service”.

b) **Vision:**

“To be a premier financial institution in the country, by providing effective and efficient services to all sectors of people under one roof. Its vision is all for one & one for all”.

c) **Quality Policy:**

“Customer satisfaction and Continual Improvement through professional management and team work”.
4.4: Quality Objectives of KSFC:

The Quality Objectives of Karnataka state financial corporation is,

a) To effectively identify and assist the entrepreneurs in establishing successful business enterprises.

b) To provide quality financial and related services on a continuous basis.

c) To continually upgrade our products and services.

d) To motivate and involve employees to achieve the set organisational growth targets.

e) To encourage the employees to upgrade and enhance the knowledge and skills through effective Training and Development.

f) To transform the organisation to a customer centric Institution.³

Fig: 4.1: Organizational Structure of KSFC

Source: http://ksfc.in/KSFCWebPortal/PDFs/org-cht_1332713264.pdf
KSFC has extensive network, offices encompassing entire Karnataka. KSFC services are presented in every nook and corner of Karnataka with its network of 7 Zone Offices, 3 super ‘A’ Grade Branch Offices, 12 ‘A’ Grade Branch Offices and 14 ‘B’ Grade Branch Offices with an empowered and decentralized administrative system. It is the only term lending financial institution in the Karnataka with such a widespread network. Chairman, Board of Directors and the Managing Director, appointed by the State Government, make policy decision and prepare road map to KSFC. The day to day administration is monitored by Managing Director. The head office has various departments to render services to the customers. KSFC has two Executive Directors (Finance and Operation) and 6 General Managers-Corporate Planning, Credits, Internal Audit, Zonal, Administration and Asset Reconstruction. At the senior management level, DGMs, AGMs, with a legal advisor and two additional legal advisors are functioning. Managers and Deputy Managers execute the policies at the middle level. Zonal, Offices and Super ‘A’ Grade Branches are headed by DGMs. All ‘A’ Grade branches are headed by AGMs. Managers head all ‘B’ Grade Branches.4

4.5: Eligible Activities for Financial Services:

KSFC is a financial super market. It extends all types of financial assistance in the form of long-term loans, short-term loans (in the form of working capital term loans and corporate loans) and other financial services. KSFC’s assistance covers almost all types of industrial and service sectors. The SFCs’ Act prescribes broadly the types of activities,
which are eligible for financial assistance from the Corporation. The Act also provides for SIDBI to include newer areas of activities for financial assistance from time to time. This apart, the Corporation has also evolved its own schemes under broad guidelines of SFCs' Act depending upon market potential. The activities which are eligible for financial assistance from the Corporation are grouped into following three broad categories:

1) Activities as listed out in the SFCs’ Act;
2) Activities specifically permitted by SIDBI;
3) Activities formulated by the Corporation.

4.5.1: Activities as Listed out in the SFCs' Act

The State Financial Corporation's (Amendment) Act, 2000, provides the list of activities which can be covered under the list of industrial concerns engaged or to be engaged in:

a) Manufacture, preservation or processing of goods.
b) Mining or development of mines.
c) Hotel industry.
d) Transport of passenger or goods by road or by water or by air (or by rope-way or by lift).
e) Generation or distribution of electricity or any other form of power.
f) Maintenance, repair, testing or servicing of machinery of any description or vehicles or motor boats or trailers or tractors or vessels.
g) Assembling, repairing or packing any article with the aid of machinery or power.
h) Setting up or development of an industrial area or industrial estate.

i) Fishing or providing shore facilities for fishing or maintenance thereof.

j) Providing weigh bridge facilities.

k) Providing engineering, technical, financial management, marketing of other services or facilities for industry.

l) Providing medical, health care or other allied services.

m) Providing software or hardware services relating to information technology, telecommunications or electronics including satellite linkage and audio or visual able communication.

n) Setting up or development of tourism related facilities including amusement parks, convention centres, restaurants, travel and transport (including those at airports), tourist service agencies and guidance and counselling services to the tourists.

o) Construction.

p) Development, construction and maintenance of roads.

q) Providing commercial complex facilities and community centres in Building conference halls.

r) Floriculture.

s) Tissue culture, fish culture, poultry farming, breeding and hatcheries.

t) Service industry, such as altering, ornamenting, polishing, finishing, oiling, washing, cleaning or otherwise treating or adapting any article or substance with a view to its use sale transport, delivery or disposal.
u) Research and development of any concept technology, design, process or product whether in relation to any of the matter aforesaid, including any activities approved by the Small Industries Bank.

v) Such other activity as may be approved by the SIDBI.

4.5.2: Activities Permitted by SIDBI:

a) Construction/buying of ready-built showrooms and sales out-lets (only fixed assets are eligible for financing, items kept for sale are not eligible for financing).

b) Construction/buying of ready-built area for establishing departmental stores and shopping malls (only fixed assets are eligible for financing, items kept for sale are not eligible for financing).

c) Setting up of Medical Stores (only fixed assets are eligible for financing, items kept for sales are not eligible for financing).

d) Setting up of vocational training centres for imparting technical knowledge to entrepreneurs for setting up and running units efficiently and to produce quality goods.

e) Setting up entertainment industry including production of films.

The area of operation covers the entire State of Karnataka. KSFC has Branches in all the district head quarters. The industrial units/service sectors established or to be established within the State are only eligible for assistance. The Branch Offices of the Corporation are adequately delegated with powers of sanction and disbursement. Generally, requirements of financial assistance upto Rs.100.00 lakhs
are handled by the concerned Branch Office itself. If the requirement of loan is more than Rs.100.00 lakhs, the entrepreneurs will have to approach Head Office. Based on the activities permitted under the SFCs’ Act, the Corporation has formulated various schemes for extending financial assistance. Brief particulars of various schemes are given under the schemes of the Corporation.5

4.5.3: Activities Formulated by the Corporation.

There are some activities specially formulated by the individual corporation which are eligible for financial support.

4.6: Purpose and Limit of Assistance by KSFC:

Being a term lending agency, Corporation extends financial assistance normally for creation of fixed assets in the form of land, building, plant & machinery and miscellaneous assets required for the project. However, the Corporation also extends short or medium term loans in the form of working capital term loan and corporate loan to meet the urgent working capital requirements of the new and existing units. The Corporation extends financial assistance for creation of fixed assets as also working capital for current assets under single window type of assistance in deserving cases. KSFC extends financial assistance for establishing new units as well as for expansion / diversification / modernization of the existing units.
Table: 4.1: Maximum Limit of Loan that Could be Availed by the Entrepreneurs:

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Category</th>
<th>Maximum Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Proprietary / Partnership</td>
<td>Rs.200.00 lakhs</td>
</tr>
<tr>
<td>2</td>
<td>Corporate bodies (both private / public Ltd), and registered co-operative</td>
<td>Rs.500.00 lakhs</td>
</tr>
<tr>
<td></td>
<td>societies</td>
<td></td>
</tr>
</tbody>
</table>


a) In respect of new units / existing units operating successfully, maximum limit can be extended upto Rs.800.00 lakhs for category – (i) and Rs.200.00 lakhs for category – (ii).

b) In respect of category (ii) the financial assistance can be granted provided paid up capital and free reserves do not exceed Rs.30.00 crore.

c) If the requirement of funds for the project is substantial and cannot be extended by the Corporation alone, then the requirement of loan for such projects can be met in consortium with other Financial Institutions.6

4.7: Lending Policy - Norms and Parameters:

a) Lending Policy of the Corporation: The Corporation formulates lending policy at the beginning of each financial year. The loans are given based on the lending policy of the Corporation. The lending policy covers various aspects like the group exposure, thrust sectors, sectors in the negative list, promoters’ contribution, security margin, collateral security norms etc. The industrial
policies of the State and Central Government are also taken into account while formulating the lending policy of the Corporation.

b) Policy on Minimum Loan Size: The policy on the minimum loan size of Rs.5.00 lakhs is applicable for all activities except medical and veterinary doctors where minimum limit is Rs.2.00 lakhs.

   The minimum size of the loan for others is reduced to Rs.2.00 lakhs in case of existing units going in for expansion / modernization.

c) Promoters' Contribution: The minimum promoter's contribution as the percentage of the total project cost prescribed in various schemes varies between 22.5% and 33.3% depending on the location of the project, various schemes of SIDBI operated by the Corporation, class of entrepreneur etc.,

   **Table 4.2: Promoter's Contribution**

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Particulars</th>
<th>Minimum Percentage on Project Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Backward district / regions</td>
<td>20%</td>
</tr>
<tr>
<td>02</td>
<td>Non-backward district / regions</td>
<td>22.5%</td>
</tr>
<tr>
<td>03</td>
<td>NEF / MUN Scheme</td>
<td>10%</td>
</tr>
<tr>
<td>04</td>
<td>RSR</td>
<td>Flexible</td>
</tr>
<tr>
<td>05</td>
<td>DG Set loan</td>
<td>10%</td>
</tr>
</tbody>
</table>

   *Source: KSFC Brochure "product & Services* Year of Publication 2009, pp.8-10*

d) Debt Equity Ratio (DER): The Corporation adopts the norms for Debt Equity Ratio as per the guidelines issued by the Small Industries Development Bank of India from time to time.
Table 4.3: Present Norms of Debt Equity Ratio Adopted by KSFC

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Scheme</th>
<th>Debt Equity Ratio (DER)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>RSR Scheme</td>
<td>Flexible</td>
</tr>
<tr>
<td>2</td>
<td>Modernization Scheme</td>
<td>Projects: 4:1, Overall: 2:1</td>
</tr>
</tbody>
</table>
| 3      | Others:
| a) Upto Rs.10.00 lakhs              | a) 3:1                 |
| b) Above Rs.10.00 lakhs             | b) 2:1                 |
| 4      | Additional Loans (within overall limit) | Projects: 2:1, Overall: 2:1 |
| 5      | Residential Apartment Projects       | 1:01                   |


Central / State subsidy if any available for the implementation of the project will be treated as equity for the purpose of DER calculation.

e) Debt Service Coverage Ratio (DSCR): The repayment period of loan is fixed by the Corporation with due regard to the cash generation & profitability of the project. For this purpose, average DSCR ranging between 1.5:1 and 2:1 has been accepted as reasonable. In projects involving mainly land / building such as commercial complexes, software technology parks, industrial estates, hotels etc., with assured income, the DSCR can be relaxed up to 1.25: 1.00. The DSCR indicates the ability of the project to service the debts during the currency of the loan.

f) Repayment Period: The repayment period of the term loan varies between 3 to 8 years including moratorium period of maximum 2 years depending on the period of implementation. In respect of
corporate loan, the maximum repayment period is 36 months including six months moratorium.

g) **Security:** In addition to the primary security i.e., assets financed by the Corporation, collateral security as per the lending policy of the Corporation is insisted. The collateral security requirement depends upon the type of project, location, sector, quality of primary assets etc.\(^7\)


Government of Karnataka has formulated industrial policy for the period 2009-14. For details, the entrepreneurs are advised to refer the booklet on New Industrial Policy brought out by the Department of Industries and Commerce, Government of Karnataka.

For the purpose of administering graded scale of incentives and concessions the taluks are classified into 4 zones depending on the backwardness of taluks and broad guidelines of Dr.D.M.Nanjundappa committee report.

**Table 4.4: Taluks were classified into 4 Zones Depending on their Backwardness**

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Zone</th>
<th>No of Taluks</th>
<th>Backwardness</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Zone 1</td>
<td>39 Taluks</td>
<td>Most Backward Taluks</td>
</tr>
<tr>
<td>02</td>
<td>Zone 2</td>
<td>40 Taluks</td>
<td>More Backward Taluks</td>
</tr>
<tr>
<td>03</td>
<td>Zone 3</td>
<td>85 Taluks</td>
<td>Backward Taluks</td>
</tr>
<tr>
<td>04</td>
<td>Zone 4</td>
<td>12 Taluks</td>
<td>Industrially Developed Taluks</td>
</tr>
</tbody>
</table>

*Source: KSFC Brochure “product & Services” Year of Publication 2009, pp.11-12.*
Table 4.4 indicates that 85 taluks are backward and only 12 taluks are industrially developed. Therefore, there is a need to extend financial support to make other taluks also industrially developed.

**Table 4.5: Investment Promotion Subsidy provided by KSFC for Micro Manufacturing Enterprises:**

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Zone</th>
<th>Value of Fixed Assets</th>
<th>Maximum Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Zone 1</td>
<td>25% Value of Fixed Assets</td>
<td>max.Rs.10.00 lakhs</td>
</tr>
<tr>
<td>02</td>
<td>Zone 2</td>
<td>20% Value of Fixed Assets</td>
<td>max.Rs.7.5 lakhs</td>
</tr>
<tr>
<td>03</td>
<td>Zone 3</td>
<td>15% Value of Fixed Assets</td>
<td>max.Rs.5.00 lakhs</td>
</tr>
<tr>
<td>04</td>
<td>Zone 4</td>
<td>NIL</td>
<td>NIL</td>
</tr>
</tbody>
</table>

*Source: KSFC Brochure “product & Services” Year of Publication 2009, pp.11-12.*

The table No.4.5 Reveals that the subsidy for Zone 01 is 25 percent value of fixed assets and in Zone 04 is Nil. The purpose of the subsidy is to encourage the new entrepreneurs to take some activity in the backward areas.

**Table 4.6: Investment Promotion Subsidy provided by KSFC for Small Manufacturing Enterprises:**

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Zone</th>
<th>Value of Fixed Assets</th>
<th>Maximum Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Zone 1</td>
<td>20% Value of Fixed Assets</td>
<td>max.Rs.20 lakhs</td>
</tr>
<tr>
<td>02</td>
<td>Zone 2</td>
<td>15% Value of Fixed Assets</td>
<td>max.Rs.15 lakhs</td>
</tr>
<tr>
<td>03</td>
<td>Zone 3</td>
<td>10% Value of Fixed Assets</td>
<td>max.Rs.10 lakhs</td>
</tr>
<tr>
<td>04</td>
<td>Zone 4</td>
<td>NIL</td>
<td>NIL</td>
</tr>
</tbody>
</table>

*Source: KSFC Brochure “product & Services” Year of Publication 2009 pp.11-12.*
It is evident from the above table that the investment promotion subsidy for small manufacturing enterprises in Zone 01 is 20 Percent value of fixed assets. The motive of such subsidy is to bring the most backward taluks into developed ones.

**Table 4.7: Investment Promotion Subsidy provided by KSFC for Medium Manufacturing Enterprises (minimum 25 workers):**

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Zone</th>
<th>Maximum Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Zone 1</td>
<td>Rs.30.00 lakhs</td>
</tr>
<tr>
<td>02</td>
<td>Zone 2</td>
<td>Rs.20.00 lakhs</td>
</tr>
<tr>
<td>03</td>
<td>Zone 3</td>
<td>Nil</td>
</tr>
<tr>
<td>04</td>
<td>Zone 4</td>
<td>Nil</td>
</tr>
</tbody>
</table>

*Source: KSFC Brochure “product & Services” Year of Publication 2009, pp.11-12.*

The above table show that the investment promotion subsidy for medium manufacturing enterprises in Zone 01 is Rs. 30 Lakhs whereas in Zone 04 is nil. The very purpose of such disparity is bring the backward taluks in developed taluks.

**4.8.1: Notes:**

a) 25% of the subsidy sanctioned amount will be released every year on refund basis towards the payments made by the unit in respect of gross VAT, ESI and PF and power tariff.

b) In cases of enterprises which do not use power and not covered under VAT, EPF, ESI the investment subsidy will be released against the loan dues.
c) This incentive is available to enterprises availing term loan to an extent of minimum 50% cost of the fixed assets only.

d) The unit shall avail sanctioned subsidy within the period of five years.

e) Additional subsidy to SC/ST, Women, and Physical challenged, Ex-servicemen Entrepreneurs and enterprises coming up in most backward taluks of Hyderabad Karnataka region.

f) Additional 5% subsidy subject to a maximum of Rs.1.00 lakhs, Rs.3.00 lakhs and Rs.5.00 lakhs for Micro, Small and Medium Manufacturing Enterprises respectively.

4.8.2: Exemption from Stamp Duty:

MSME, Large and Mega Projects: Stamp duty has to be paid in respect of (i) loan agreements, credit deeds, mortgage and hypothecation deeds executed for availing term loans from State Government and / or State Financial Corporation, Industrial Investment Development Corporation, National Level Financial Institutions, Commercial Banks, RRBs and other institutions which may be notified by the Government from time to time for the initial period of five years only and (ii) for lease deeds, lease-cum-sale and absolute sale deeds executed by industrial Enterprises in respect of industrial plots, sheds, industrial tenements, by KIADB, KSSIDC, KEONICS, KSIIDC, Industrial Co-operatives and approved private industrial estates shall be exempted as below:
Table 4.8: Zonal wise Payment of Stamp Duty

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Zone</th>
<th>Stamp duty has to be paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Zone 1</td>
<td>100%</td>
</tr>
<tr>
<td>02</td>
<td>Zone 2</td>
<td>100%</td>
</tr>
<tr>
<td>03</td>
<td>Zone 3</td>
<td>75%</td>
</tr>
<tr>
<td>04</td>
<td>Zone 4</td>
<td>Nil</td>
</tr>
</tbody>
</table>


Concessional Registration Charges: MSME, Large and Mega Projects: For all loan documents and sale deeds as specified in 2 above, the registration charges shall be at a concessional rate of Rs.1 per 1,000.

4.8.3: Incentives for Export Oriented Enterprises;

MSME, Large and Mega Projects

a) Exemption from payment of ET: For 100% EOUs, 100% exemption from payment of ET on ‘Plant & Machinery and Capital goods’ for an initial period of 3 years from the date of commencement of project implementation irrespective of zones. For other EOUs, (Minimum Export obligation of 25% of their total turnover) 100% exemption from payment of ET on raw materials, inputs, component parts & consumables (excluding petroleum products) for an initial period of 3 years from the date of commencement of commercial production in Zone 1,2, and 3 and 50% in Zone 4.
b) **Refund of Certification Charges:** Refund of expenses incurred for compulsory marking like Conformity European (CE), China Compulsory Certificate (CCC), etc., to the extent of 50% of expenses subject to a maximum of Rs.2.00 lakhs per unit for both 100% and other EOU s in all zones.⁹

**4.9: Conclusion:**

It may be concluded that the KSFC has brought day of hope in the industrially backward areas like Gulbarga by providing loans at a reasonable rates. Subsidy for different Zones is yet another noble service the KSFC is rendering to the area.
References

1. KSFC Brochure “product & Services” Year of Publication 2009 p.01.


5. http://ksfc.in/KSFCWebPortal/KSFCWebPortal.do;jsessionid=42A9DC479F751473FE9834768EC2AF2


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