Chapter: 3 Research Design

3.1. Introduction:

Economic growth depends on the mobilization of resources, men and material and their utilization in a planned manner.

Financial institutions provide maximum financial convenience to the industries. Financial institutions promote overall saving of the economy by deepening and widening the financial structure. They also distribute the available savings in a more efficient manner. They also create credit and deposit money, production and distribution in furtherance of the economy.

Development banks play an important role in development of the industrial sector by providing short term and long term loans to industries. Banks grant loans to small-scale industrial units for expansion, modernization and renovation and also provide them with working capital finance.

GSFC play a role in the growth and development of a Gujarat State as it provides required infrastructure for economic development of the State. In our country and our state a large population lives in villages and small city. The world has become a global market. The impact of globalization privatization and liberalization has totally changed the style of banking sector in India. In India banking sector is entering in several new activities SSIs. They do all the activities, which can assist their customers. The more highly developed a country.
3.2. Statement of The Problem:

As discussed in introduction section, Gujarat State Financial Corporation is operating in intense competitive environment and therefore faces the biggest challenge of managing profits. However, their existence is vital for the economy, as the small and middle scale industry. The present study intends to look into financial performance not only from profitability but also in terms of liquidity, funds management as well as performing and non–performing assets management to take holistic view of performance. In addition for survival and growth the Gujarat State Financial Corporation requires to remain financially profitable and therefore, an inquiry into financial management, financial planning and control system – is felt needed.

Therefore, based on present scenario of the financial institutions especially the intense competition faced by Gujarat State Financial Corporation within the institution and other financial substitutes and literature review of research studies on financial institutions this study is focused on an analytical study of financial performance of state financial corporation by analyzing the past financial performance and inquire about the present practices of financial planning and control system in Gujarat State Financial Corporation and suggest improvement if required.

Accordingly the study is embodied in “An Analytical Study of Financial Performance of State Financial Corporation with Special Reference to Gujarat State Financial Corporation”
3.3. Review Of Exiting Literature:

1. Poonam Mahajan, Aparna Bhatia and Subhash Chander, in their paper titled: “ROA performance of public sector banks in India” by have received that the Indian banking sector remained relatively healthy during the current economic crisis and the performance of the banks was not impacted negatively in a significant manner.

2. Dr. Vijaykamar Khurana, Dr. M. N. Maurya and Dr. Rohit Garg, in their article titled: “NPA Management by Indian Banking sector in the Turbulent Economic Environment” by have concluded that the an increase in proportion of infrastructure loan and deregulation of saving rates could worsen the assets – liability management profit and increase the interest rate sensitivity of banks. The RBI is planning to introduce a comprehensive dynamic provisioning framework for bank in India with dynamic and countercyclical elements. Thus, RBI and banks need to exercise high degree of caution on NPA and credit management.

3. Dr. R. K. Uppal, in his article titled: “New Competition and emerging changes in Indian Banks” by has concluded that although most of the banks have succeeded to bring down their non – performance assets and costs, but still they are facing deterioration in their profitability. Most of the public sector banks even with the highest share in assets, rural branches, priority sector advances and investment of all scheduled commercial banks, still have to face competition in terms of new challenges from new private sector banks and foreign banks as their costs in the highest along with continuous deterioration in profit and spread.
4. A Ph.D. thesis on ‘The Study of Financial Performance of Banking Sector of India’, by Nirmal Nathwani for the period of five years from 1997 – 1998 to 2001 - 2002, under the guidance of Dr. D. C. Gohil. He analyzed the financial performance with the help of Interest Income Ratios, non - Interest Income Ratios, Capital Adequacy Ratios, Capital Risk Ratios, and Profit Ratios. He found out that the, (I) The overall profitability of Indian banking sector had been significantly differed in all the five group during the period of the study  (II) The operational efficiency in all the banking groups was significantly differing in this analysis, It indicated that the ability of leverage on its average total resources against operational income was low.

5. A Ph.D. thesis on ‘Critical evaluation of Indian Banking Sector with reference to Private Sector Banks and Public Sector Banks, by Deepak M. Sharma for the period of five years from 1998 – 1999 to 2002 – 2003, under the guidance of Dr. S. J. Parmar. Researcher has covered five public sector banks and five private sector banks for this study, in the light of factors like productivity, profitability and financial efficiency of the selected banks. He found out that the productivity related to the business volume per branch was not remarkable in the public sector banks. The overall profitability of Indian banking sector had been significant differed in all selected banks during the study period.

6. A Ph.D. thesis on ‘Performance appraisal of urban Co-operative banks in North Gujarat’ by Mr. Suresh V. Desai for the period of five year from 1997 – 1998 to 2003 – 2004, under the guidance of Dr. S. J. Parmar. Researcher has covered twenty urban Co-operative banks for this study, in the light of factors like common size statement analysis, productivity and financial
analysis of the selected banks. He found out that the Co-operative banks are facing problems of high cost of business operation, low capital base, inadequate loan appraisal and credit planning, poor recovery performance, dual control, high level non – performing assets.

7. A Ph.D. thesis on ‘Performance appraisal of State Bank of India and its associate Banks’, by Ms. Parul P. Chotalia for the period of ten years from 1st April 1996 to 31st March 2006, under the guidance of Dr. H. J. Shukla, touching on the various aspects of productivity and profitability and comparative analysis of deposits and advances of selected banks. He found that the, (I) Bank’s productivity had been reduced due to like in wages and increasing operational cost in the banks. (II) Interest spread of banks was also under pressure due to administered rates imposed on the banking system. (III) The banking system has failed to gain internal strength and the decline in efficiency, productivity and profitability has resulted in deteriorating the financial health of the sector.

8. A Ph.D. thesis on ‘A Comparative Analysis of Financial Efficiency in Nagrik Co-Operative Bank in Gujarat’, prepared by Mrs. Hetal A. Desai for the period of six years from 1997 – 1998 to 2002 - 2003, under the guidance of Dr. P. L. Chauhan. She selected eight Nagrik Co-Operative Banks of south Gujarat for this study. She analyzed the financial efficiency with the aspects of profitability, collection of deposits and provided loan by the banks, study of N. P. A., and financial strength of selected banks. She concluded that the overall profitability of Nagrik Co-Operative Banks had been significant differed in all selected banks during the study period. There is a very low Debt – Equity Ratio of the selected banks.
9. A Ph.D. thesis on ‘Analytical Study of Advances Performance Evaluation of Co-operative Banks with Special Research to Saurashtra Region’, by Satyen P. Sitapara, for the period of five years from 2002 – 2003 to 2009 - 2010, under the guidance of Dr. H. M. Shah, touching on the various aspects of share capital, deposits, Advances, loan, profit and loss, funds, income and expenses. He selected five District co-operative banks for this study. He suggested that the state co-operative will provide guidance supervision and financial help for the development of efficiency of selected co-operative banks.

10. A Ph.D. thesis on ‘Financial Performance of Selected Foreign Banks in India’, by Vinod K. Ramani for the period of five years from 2001 – 2002 to 2005 - 2006, under the guidance of Dr. R. J. Yadav. He analyzed the financial performance with the help of financial statement analysis, cash flow statement analysis, productivity ratios, profitability ratios, Capital Adequacy Ratios. He observed that the deposits and advances had been increased during the study period. He also observed that the income of interest and operating expenses had been increased during the study period.

11. V.K. Bhatasana studied the ‘Appraisal of financial performance of State Bank of India’ (1980 – 1995) particularly productivity and profitability of State Bank of India during the study period, he observed adequacy of capital fund, growth in deposits, branch expansion in rural area and less borrowing from Reserve Bank of India in this study period of State Bank of India improved the productivity & profitability of State Bank of India among public sector banks.
12. A Ph.D. thesis on ‘Comparative Analysis of Financial Efficiency of the selected banks under the study’ by Mrs. Swati Katira, studied the financial efficiency with the aspects like profitability, financial strength and operational efficiency in selected public sector banks, in Gujarat Urban Scheduled Co-operative banks, in private sector banks and in foreign banks.

13. M. R. Vyas, studied “Financial Performance of Regional Rural Banks in Rajasthan”. He analyzed the financial performance with the help of quick ratio, credit deposit ratio, and profit to proprietors, capital ratio and working capital analysis. He concluded that regional rural banks had a bright future as an effective instrument in the economic growth and upliftment of down trodden sections of Indian society particularly in rural area.

14. A.K. Vashist, in his study titled ‘Performance appraisal of commercial banks in India’ evaluated the performance of public sector commercial banks with regard to six key indicators i.e. branch expansion, deposits, credit, priority sector, advances, DRI advances and net profit. He developed the composite weighted growth index, which is used for ranking the banks. For improving the performance of commercial banks, he suggested that the developing of marketing strategy for deposit mobilization and profit planning and strength, weaknesses, opportunities and threat analysis in commercial banks.

15. Vinay Dutta, in his article titled: “Lending for Recovery: The Mantra for a Healthy Banking System” by has reviewed that recovery process in the banks is speeding up and many banks have started fixing targets for time bound recoveries. OTS (One Time Settlement), CDR (Corporate Debt Restructuring) and SARFAESI Act (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) are helping the banks
in speedy recovery of the problem loans. There is need for banks to behave in responsible manner while implementing the provisions of these systems. Instead of concentrating only on recovery of bad loans, banks should also acquire skills and expertise in sound credit appraisal and supervisions. He has suggested that banks should build strong credit departments by adopting sound lending principles and practices, which would lead to healthy banking system and reduce the problem of bad loans.

16. Ghosh has brought out the economic changes that place in the 1980’s and especially in the 1990’s when the government took up the Liberalization, Privatization and Globalization route for the development of the economy. The author has also mentioned how the economy moved from the Hindu rate of growth of GDP of a mere 3.5 percent to about 5.6 percent GDP growth rate in the 1980’s and 1990’s. This article shows the relevant changes that took place in the economic policy of the Government and its outcome.

17. Vakil and Brahmanand, in this book have described the methodology of planning and have also described the economy during the first five year plan. They have also discussed the role of small scale and village industries and have further discussed the approaches to capital formation in the underdeveloped countries.

18. Subramanian has authored the book to describe the Indian financial system that was prevailing at that time. The book begins with the historical perspective and includes the British legacy; it also includes the budgets and the financial administration and throws light on the Finance Commission and their recommendations. It includes the financing of the five year plans and the evolution of the Indian public sector. It lays special emphasis on the
functions and the working of the Reserve Bank of India and the various financing institutions and concept of development banking. This book is useful in understanding why development banking was required and also what are the various types of development finance institutions in India. The book helps in understanding the vast panorama of Indian public finance.

19. Parikh has in this article divided the period as prewar period, stabilization period (1946-56) and rapid expansion period (1956-67). The article also focuses on financing of small scale sector and public sector. The author sees a close parallel between the growth of industry and banking in India and an attempt is made to study this relationship as it emerged in India over a period of time.

20. Ghosh has tried to study Indian economy and understand its nature and the problems it faces. In this book the author has started by introducing the nature of an underdeveloped economy and special reference has been given to India. He has also discussed the planning aspect of any economy and the five year plans of India. The book then discusses the various problems faced by the Indian economy. Industrial finance has discussed at length and a critical review of the various industrial finance and development corporations including the state financial corporations has been done. This book helps one to understand the economic scenario prevailing in the economy and the various problems of the economy. It also helps in understanding the role of the various. Industrial financing institutions and how far they have been successful in fulfilling their purpose.
21. Essays on Finance by S. L. N. Simha have been divided in four major parts viz., monetary policy, development finance, international finance and planning & management. This book gives a detailed insight into development finance and the role of institutional finance in the development of the economy. It helps one to get the idea about the industrial finance scenario during that period and also the evolution of industrial finance structure can be understood from it. Problems of credit management and development financing have also been discussed.

22. Desai & Bhalerao have given a comprehensive picture of industrialization in India. They have explained the concept of industrialization and have also analysed the structure of Indian industries since the British rule till independence. The Industrial policy of the country and the five year plans have also been discussed and analysed in this book. The growth and development in the various sectors of the economy viz., the public sector, private sector and the small scale sector have also been analysed. They have described at length the industrial finance scenario and discussed the various industrial finance institutions. Critical assessment of the role played by the public sector financial institutions in the sphere of industrial finance has been done. Lastly, they have reviewed the industrial growth since independence and have brought out the shortcomings of India’s industrialization and strategy for future industrial growth in India. This book helps one in understanding the industrial finance scenario and the role of the public sector financial institutions in the industrial development of the economy.
23. Gupta in this book has very clearly shown the scenario relating to industrial finance which was prevailing prior to independence and also post-independence. This book enables one to get an in-depth idea with regard to the institutional structure of industrial finance and its evolution in India. This book also covers the main financial institutions concerned with industrial financing and gives an overview about these institutions. Then the book covers specific aspects of the industrial securities market and the role of intermediary institutions. The book concludes with a critical analysis of the industrial finance scenario and the author has compared India’s institutional finance with the institutional finance system prevailing in other developed economies. The author has suggested that the Indian institutional financial system depends much on the specialized institution, whereas in developed economies it is the saving which are channelized into the growth and development of the economy and suggest that the same should be done in India by developing such instruments and systems as required.

24. Joshi has described the various financial intermediaries in India. The author of this book has very nicely been able to bring out the problems in industrial financing. He described the managing agency system that prevailed with its pros and cons. He has given a vivid picture of the capital markets that prevailed at that time and the Governments role in financing industry. These topics are explained in lucid manner and the scenario is very clear in one’s mind. It also makes one understand the role of development banking and its need. The various industrial financing institutions have also been elaborately discussed. The book helps one in understanding the structure of financial intermediaries in India.
25. Kotia in book has described the framework of industrial finance in India and this has been divided into two broad tenures i.e. Scenario describing industrial finance upto independence and scenario post-independence. Key industrial financial institutions are also discussed in the book. The author has also highlighted the regional imbalances in the economy and the financial institutions. This book gives an idea about the industrial finance scenario and also the various financial institutions and their role with regard to the industrial imbalance.

26. Empirical study was done by Sarma on the role of financial institutions in the industrial development of backward areas. The author has concentrated on the role of IDBI in the regional development of the economy. This book gives the overall overview of institutional financing in India and then it concentrates on the various schemes offered by IDBI and also the sector wise allocation done by IDBI. The author by his study has tried to assess the role of various financial institutions in the growth and development of the backward regions. This book is helpful in understanding the role of the financial institutions in the growth and development of the backward areas of the economy.

27. Balachandran has described the economic scenario and role played by the Reserve Bank of India during 1951-1967. In this book in the fourteenth chapter the evolution of the state financial institutions for financing small industries and exports. The role discussed. The book also mentions the various problems faced by the state financial institutions and the various committees formed by the Reserve Bank of India to review the working of the state financial institutions. It is also mentioned that by the year 1967 there
were eighteen state level financial corporations which covered all the states of the country. This book helps one in knowing in detail the evolution process of the state financial institutions and the functions performed by the Reserve Bank of India for the same.

28. Bhuleshkar and Desai have described the various changes that have taken place in the Indian economy. The book gives a very comprehensive view of the Indian economy and all the aspects are covered in its various chapters. The book starts with describing how the Indian economy has been managed both at the micro and macro level. It also describes the basic economic structure and the structural transformation process of the Indian economy. Economic system and economic planning. Monetary policy and fiscal reforms and policies have also been touched upon in this book. The book throws light on the Indian financial system and the banking structural development with reference to Narasimhan committee report and institutional credit structure for agriculture and rural development. Special focus has been given to the origin and evolution of development banking in the World Economy and the various development banks in India and the arrangements for industrial finance in India. State level development banks and their role in the industrial development have also been discussed at length. The book also includes the developments that have taken place in the capital markets and the role played by institutions such as Discount and Finance House of India and the stock exchanges. This book gives a birds’ eye view of the whole economic scenario and the industrial finance structure and its role in economic development of the nation.
29. In this study the author, Kaur has given in a nutshell the review of the different researches that have taken place in the field of development finance in India. This study begins with the need and requirement of finance in the economy and then throws light on the Indian financial system. It focuses on the concept of development banking and how this source of finance is different from the other sources of finance. In this study the author has reviewed fourteen different research papers, articles and books written by various scholars on the topic of development finance. The author after doing the review of this literature has come out with some findings such as most of the studies conducted relate to the financial institutions in general and they have evaluated the financial performance of financial institutions. Majority of these studies have been done relating to the performance of these institutions and they are on the whole going in the same direction having very little variations. The author further concludes that since the performance of these financial institutions differs from state to state, these aggregate studies are not of much importance from specific state’s point of view.

One of the studies reviewed by the author was that of Bansal (1984) “Role of UPFC in financing industrial growth of Uttar Pradesh”. The study evaluates the role of Uttar Pradesh Financial Corporation in financing the industrial growth. The study highlights that by and large the beneficiaries of the UPFC are sole proprietors and that tough attitude towards co-operative and public sector units should be adopted.
Another study reviewed by the author is by Appa and Sujatha “Recovery Performance of SFC: An analysis”. The study concludes the there is huge outstanding for a period exceeding five years and it would not contribute to industrial development. The study comments that the lending services of the SFCs are quite satisfactory quantitatively but the quality of lending is poor. It further mentions that some small units do not repay because of genuine problems but for the majority of defaulters the problem could be solved if the SFCs act as supporting agents for the problems encountered by small and medium enterprises. It suggests developing a system of regular follow up and inspection of assisted units to reduce the problems.

Another review done is of a book by Kuchal S. C. (1987) titled “Industrial Economy of India”. In his book author has analyzed the role of financial corporation in industrialization of the economy. He has attributed lack of project appraisal, marketing intelligence and regular monitoring and follow up of assisted units by SFCs to the problem of industrial sickness.

Another review done is of the research done by Gupta and Vashishat (1992) titled “Haryana Financial Corporation and Inter District Disparities”. The authors have analysed the operational performance of Haryana Financial Corporation and have concluded that the sanctioning and disbursement by HFC has been quite satisfactory but recovery position has been very poor which can be attributed to lack of proper monitoring system.

Another research paper reviewed is by Chander Singh (1993) titled “Role of Punjab Financial Corporation in financing the industries in Punjab” The research shows that PFC caters more to tiny and small units and also
focuses on balanced regional growth. It also brings out that the internal control system in the PFC is very weak and it results in red tapism and bureaucracy.

30. Andhra Pradesh State Financial Corporation has studied by Reddy. The crux of this study was to see if marketing efforts were required on the part of SFC’s in current competitive environment. The study begins with the introduction and the role played by the SFCs. Then the study focuses on the challenges that the SFCs have to face from the commercial banks and SIDBI and other term lending institutions. The study also focuses on Andhra Pradesh State Financial Corporation and how it began prompting itself by organizing one day entrepreneurship awareness seminars and this step along with its step to come out with citizen charter for improving transparency in governance and has also specified in it the time limits for availing various services and also that if there is any problem they could approach the Managing Director. The author has compared the key financial details like the sanctions, disbursements, recoveries and operative profits for a period of five years from 2000-2001 till 2004-2005 and has found that it has over this time period. The author concludes that because of its creative promotional and marketing strategies the corporation has been able to retain its No. 1 rank among all other state financial corporations for a period of four years beginning from 2001-02 till 2004-05. This study helps one in understanding how a state level financial corporation could survive amidst competition.

31. A research has been done by Satyanarayana on the Andhra Pradesh State Financial Corporation and its role as a major source of industrial finance in Andhra Pradesh. This Book is an outcome of the doctoral research done by the
author on the above mentioned theme. The study tries to find out role of the state level financial institution as a major used as a case study for other states also. The author has grouped the industries into three clusters based on investment, employment and technology. The period of study is of ten years starting from 1974-75 to 1983-84. The book starts with discussing the position of SSI in Andhra Pradesh and then it discusses the role of APSFC in promotion SSI in Andhra Pradesh. The analysis of loan disbursed has been done based on cluster wise loan analysis. It is useful in understanding the role of the state level financial institutions in the industrial development of a state.

32. Kumar and Garg have analysed the trends in loans sanctioned and disbursed by HFC (Haryana Financial Corporation) to small scale units in Haryana during the post-reform period form 1991-92 to 1998-99. The study has analysed the loans sanctioned and disbursed industry wise. The study concludes that HFC should concentrate on the small and tiny sector and loans should be disbursed taking into account broad objectives of economic development and not only profits. The study helps one in understanding the lending operations of one of the state financial corporations.

33. Analytical study of overdue in a financial corporation is done by Gangadhar V. and Reddy R. K. The authors have analysed the overdue of the Andhra Pradesh State Financial Corporation for a period of ten years and have brought out certain outcomes and suggested ways to reduce overdue and increase profitability of the state financial corporation. They have concluded that the arrears have increased by 8.6 times and this may be due to recession in some of the industries and even due to power cuts in the state. They also concluded that more than 91 percent of the total arrears were held up with units of private
sector only. In client wise arrears more than 86 percent were locked up in clients of small scale units. This study helps one in understanding the reasons for overdue and the sectors responsible for overdue.

34. What should be the future role of development financial institutions has been discussed by Datar in his research paper the DFI’s in an era of Developing Capital Markets. In this research paper the author discusses that the development financial institutions were set up because banks were unable to meet the requirements of industry for long-term finance. But since then the capital markets have developed which means an alternative source of funds for the industry, moreover over a period of time development financial institutions own source of funds have also changed. Further the author mentions that the universal banking concept has been introduced in India and due to all these changes the development financial institutions have to change their role. In this paper the author mentions that earlier the DFIs could have access to low-cost long term funds like the SLR bonds but now they are also required to raise funds from capital markets. In this paper the scholar mentions what the Committee on banking sector reforms i.e. the second Narasimhan Committee had mentioned in its report “DFIs over a period of time should convert themselves into banks. There would then be only two forms of intermediaries, viz, banking companies and non-banking finance companies. “In this paper the author has given an-depth discussion on the concept of universal banking and emphasized on the differences between DFIs and banks and to conclude mentions that there is a very high degree of similarity in their operations and have the same prudential norms to be followed. The author has also mentioned the RBI discussion paper (1999) which mentions that in the current state of
capital market corporate demand for long term funds may be met by DFIs. The question whether should the DFI become a bank or a NBFC should be left with the management of the DFI but the regulatory policy stance should steer the DFIs to a choice that would facilitate meeting diverse financial needs of the industrial sector. The author argues further that DFIs cannot become NBFCs due to their size of operations and direct and indirect government ownership. He suggests that instead a regulatory framework is required which would enable industrial DFIs to continue to support industrial development. He concludes by mentioning that it would be difficult to maintain that capital markets have become mature enough to meet long-term fund requirements. In a developing market DFIs would be required to play the role similar to venture funding. The paper finally concludes as the author disapproves that the future role of DFIs to adopt ‘either a bank or an NBFC’ approach and mentions that it is hardly the remedy for the problem. This research paper is of much relevance as it gives an idea with regard to future scenario regarding development banks in India.

35. Reddy in this article has tried to find out whether the SFCs have served their purpose and in the current scenario would they be required for the overall economic growth and development. This article starts with the introduction and then moves towards the contributions made by SFCs and the challenges that are faced by the SFCs. He mentions that with the liberalization of the economy due importance is not given to SFCs and introduction of universal banking concept has increased competition for development banks. Further, he mentions that the sources of funds for SFCs have also changed and they now do not get the subsidized SLR bonds. He gives the relevance of SFCs and
mentions those are required for a balanced regional development and the growth and development of small scale sector in India. At the end of the article he mentions what steps are required to be taken so that SFCs can provide quality service. He emphasizes on being innovative to beat the competition and he also suggests that SIDBI and the Government be more pro-active while framing the guidelines. Further, he suggests that commercial banks should provide a line of credit at 2% below prime lending rate. He concludes by mentioning that SFCs have played a vital role in the development of SSI sector which is an important sector from the economic point of view and hence the Government of India, SIDBI and the various state level financial institutions should come together and do their best for strengthening the SFCs. The paper is significant to show the importance of the SFCs and the challenges that they are facing and also suggests the strategies for the same.

36. The functions and scope of state financial corporations have been analysed with an eye to the future by Majumder. In his analysis the author who is an officer, (finance) at the TIIC Limited, Chennai has brought out the factors responsible for poor performance of the SFCs. The major factors are: loans are advanced to the priority sector where there is an inherent risk of failure, lack of effective legal machinery for collection of dues, high cost of borrowings by the SFCs, stiff competition by banks and other institutions, etc. He further gives strategies for improving the overall performance of the SFCs and mentions that SFCs should not only depend on lending operations but should also concentrate on other activities like project consultancy, merchant banking, etc. This would lead to less dependency on lending and it would result in reducing the risk also. The SFCs should ensure that the SSI units get the working capital loan from
banks at the time of sanctioning the long-term loans. SFCs should source their funds from other sources which are less costly in order to be competitive with other lenders. This article tries to give an insider view of the performance of the SFCs and the strategies to enhance the performance.

37. Challenges and constraints of liberalization faced by state financial corporations have been analysed by Subramanian. In this research paper the author has brought out the challenges faced by the SFCs and also the constraints that they have to face because of liberalization. The economic reform process has its advantages and disadvantages and one of the disadvantages of this process is the distorted impact as seen in the regional development. The author brings forward that the performance of SFCs with respect to their profitability is quite poor and hence he concludes that the financial health of SFCs is in a poor state. It has further been found out that there is a relative decline in the growth rates of sanction as well as disbursement of financial assistance after the economic liberalization in the country. Another outcome is that there is relatively declining share of small scale industries in the total assistance of SFCs. It is also seen that there is scope for diversifying into various activities by the SFCs and rather then strictly adhering to only long term lending they can also think about providing working capital loans to the units assisted by them and this would also lead to iess probability of the unit not repaying the dues as most of the units cannot repay the long-term loan because they have problem financing the working capital and this would lead to delay in starting the production. This may also lead to reduction in the NPAs of the SFCs. The author has also tried to probe into the structural constraints that are faced by the SFCs and include inadequate share
capital base of SFCs, lack of concessional line of credit for the SFCs, restrictive terms of refinance, inadequate provisioning for NPAs, proper procedure for project appraisal and monitoring the assisted units is lacking. The author further comments that the most critical constraint among all these constraints is the nexus with the government and the loss of managerial autonomy to operate in a competitive environment. The author has concluded by giving suggestions to remove or reduce the constraints and has also given the case of Kerala State Finance Corporation. This research paper helps one in understanding the challenges faced by the SFCs in the liberalized economy.

38. In their research paper the authors, Kaur and Batra have analysed the financial performance of the Punjab State Financial Corporation. The authors have mentioned the important ratios recommended by IDBI for evaluating the performance of various financial organizations and they are: debt equity ratio, debt service coverage ratio, return on capital employed, cost of borrowings, administrative cost as a percentage of average total assets, arrears as percentage of loan outstanding and recovery against total demand. For the purpose of analysis they have taken a period of ten years beginning from 1980-81 till 1989-90 and they have calculated the above mentioned ratios and some other ratios such as funded debt to total capitalization, administrative cost as a percentage of total income, earnings per share, dividend per share, return on shareholder’s equity, share of net refinance from IDBI in total business of PFC and interest on bonds, deposits and borrowings as a percentage of interest on loans and advances. They have then concluded on the liquidity and profitability aspects of PFC and found out that PFC is making increasing use of financial leverage during the period under study. The recovery performance of PFC has
improved but the earnings per share position has deteriorated and the major factors responsible for the same are use of heavy debt, increased cost of borrowings, increase in administrative and other financial expenses. This study helps one in understanding how to analyses the financial performance of financial institution and gives an idea about the performance of PFC.

3.4. Objectives of the Study:

1) To study the role of GSFC in the development of industrial Sector

2) To analyze the Profitability of GSFC

3) To analyze the financial position of GSFC

4) To analyze the N.P.A. management of GSFC

5) To know the present practices of financial planning and control system of GSFC

6) To suggest an appropriate strategy for improvement of financial soundness of GSFC

3.5. Scope of the Study:

The scope of the present study is limited to the analysis of profitability, liquidity, short term financial strength, long term financial strength, capital structure analysis and sources and uses of funds analysis. The study covers only GSFC out of nineteen SFCs in the country.
3.6. Hypothesis Of The Study:

3.6.1. Null Hypothesis:

1) The profitability of Gujarat State Financial Corporation under the study has not been an effective and efficient manner.

2) The financial position of Gujarat State Financial Corporation under the study has not been an effective and efficient manner.

3) Performing and non- performing assets management of Gujarat State Financial Corporation under the study has not been performed in an effective and efficient manner.

3.6.2. Alternative Hypothesis:

1) The profitability of Gujarat State Financial Corporation under the study has been an effective and efficient manner.

2) The financial position of Gujarat State Financial Corporation under the study has been an effective and efficient manner.

3) Performing and non- performing assets management of Gujarat State Financial Corporation under the study has been performed in an effective and efficient manner.

3.7. Period Of The Study:

The present study covers a period of ten years from 2002-03 to 2011-2012. The period of ten years is covered enough to underline the trends in any activity. Several important studies have also been made earlier in the fields of financing. Thus, the choice of the study period is deemed a reflection of the methodology used by the contemporary researchers.
3.8. Sample Selection:

There are nineteen State Financial Corporations was set up under the Industrial Finance Corporation Act, 1948. Researcher has selected only one Gujarat State Financial Corporation out of nineteen for this study, because this subject is broad and sufficient for take proper conclusions.

3.9. Data Collection:

1) The main information and the data have been collected from the websites of the Gujarat State Financial Corporation.

2) The second sources of the information and data collection is annual published reports of Gujarat State Financial Corporation.

3) Personal discussion with the office manager of Gujarat State Financial Corporation.

4) Books, Journals, Newspapers, Magazines, etc.

3.10. Data Analysis:

For the purpose of data analysis accounting and statistical tools and techniques have been used:

3.10.1. Accounting techniques:

For analyzing financial performance and measuring financial efficiency to GSFC, accounting tools like:

3.10.1.1. Ratios Analysis:

3.10.1.2. Trend Analysis:
3.10.2. Statistical techniques:
   For making the study, more scientific and accurate statistical tools like:
   
   3.10.2.1. Measures of Central Tendency: Mean
   3.10.2.2. Index Number:
   3.10.2.3. Diagrams & Graphs:

3.10.3. Mathematical Techniques:

3.11. Limitations Of The Study:

1) It is limited to a specific type of organization (Gujarat State Financial Corporation only).

2) It is based on published accounts i.e., subsidiary data and interview with the officer of Gujarat State Financial Corporation.

3) The limitation of the tools and techniques used for analysis cannot avoid the impact of the limitation realized in the study.

3.12. Outline of Chapter Plan:

   The present study aims at wider coverage both conceptually and analytically of various operational and financial aspects of Gujarat State Financial Corporation. The study is divided into following seven chapters.

   The first chapter is on ‘Profile of the Gujarat State Financial Corporation’ discusses the Indian Financial system and banking business, historical background, State Financial Act, 1951, The genesis of Gujarat State Financial Corporation, objectives of the GSFC.

   The second chapter is on ‘Performance Analysis – A Conceptual Framework’ the concept of performance, measurement of performance, area of performance in case of GSFC, need and importance of performance analysis, the techniques of performance analysis, ratio analysis as a tool or performance analysis.
The third chapter is on ‘Research Methodology’ Nature and deals with objectives, period of the study, hypothesis tools and techniques used for the study, review of literature and limitations of the study.

The forth chapter is on Analysis of Profitability of Gujarat State Financial Corporation’. In this chapter includes point - wise analysis of concept of profitability, meaning of profitability, profit and profitability, efficiency and profitability, factors affecting profitability, Measurement of profitability concept of profit margins, various concepts of profit margins and operating ratio etc.

The fifth chapter is on Financial Analysis of Gujarat State Financial Corporation’. This Chapter is divided into two parts. First part is the analysis the liquidity position and short term financial strength of the GSFC through different liquidity ratios, statistical tools and techniques, graphs and charts, etc. Second part is the analysis and interpretation of the capital structure and long term financial strength of the GSFC. The long - term financial strength of the GSFC has been judged by the analysis of capital structure through various accounting and statistical tools and techniques.

The sixth chapter is on ‘Management of Performing and Non – Performing Assets of Gujarat State Financial Corporation’

The seventh chapter provides the ‘Summary, Findings and suggestions of the study’. The important conclusions that emerge from the study have been listed. This chapter takes in some suggestions based on the findings of our study.
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