CHAPTER III

PROFILE OF
MAHARASHTRA STATE
FINANCIAL CORPORATION
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PROFILE OF MAHARASHTRA STATE FINANCIAL CORPORATION

III.1) INTRODUCTION:

This chapter emphasizes profile of MSFC. The objective of this chapter is to discuss the scope, objectives and various factors contributing to the emergence of MSFC.

The Government of India after consultation with the State Government and Reserve Bank of India introduced State Financial Corporation Bill in the Parliament in December 1950. It was enacted in 1951 and State Financial Corporations Act, 1951 came into force on the 1st August 1952. The Maharashtra State Financial Corporation (MSFC) has been set up under this Act. The MSFC has been operating in the State of Maharashtra since 1964 and in the State of Goa and the Union Territory of Daman and Diu since 1964.

MSFC is a leading financial institution in the states of Maharashtra and Goa. It is engaged in providing a complete package of financial services in the form of term loans, lease finance, bill discounting, Merchant Banking assistance etc. to industrial units, Hotels and restaurant, Hospitals and Nursing Homes etc. The MSFC extend financial assistance to a wide range of industry groups including industries like Food, Textiles, Metal products, Chemical and Chemical products. Since its inception upto March-end 2006, out of the total sanctions extend by the MSFC, the share of metal product was 17.40 percent while Chemical and Chemical products accounted for 16.50 percent of the total sanctions. The assistance to Food Manufacturing industry amounted to 7 percent and the share of the Hotel was 8.70 percent of the total sanctions.

MSFC has played a prominent role over the years in the expansion of industrial sector particularly in the backward and developing areas of the state of Maharashtra and Goa, Daman and Diu. Since its inception upto
March-end 2004, 21510 loan proposals for Rs.951.17 crore have been sanctioned in developed areas of Maharashtra while 19462 loan proposals for Rs.1425.92 crore have been granted in developing areas of Maharashtra. Loans amounting to Rs.772.53 crore in 14835 cases have been sanctioned in backward areas in Maharashtra, Rs.209.14 crore in 2399 cases have been given in Goa while assistance provided in Daman and Diu amounted to Rs.72.62 crore in 366 cases.

The existing large units in these states particularly in the field of plastic, Metal, Textile and Engineering are potentially the great source for revival of the industrial units. However, these large sector units have undertaken very little expansion project mainly due to the uncertainties in post-WTO regime of import liberalization and reduced tariff barriers. The expansion and diversification by these large units would give a boost to the industrial units in the state thereby benefiting a large number of units assisted by the MSFC.

The MSFC disbursed region-wise term loans since its inception upto March-end 2006, Mumbai-Konkan Thane Daman and Diu (Rs.963.46 crore) is followed by Pune (Rs.321.47 crore), Nagpur (including Amravati)(Rs.299.07 crore), Nasik (Rs.270.14 crore), Aurangabad (Rs.255.02 crore.), Kolhapur (Rs.216.80 crore.) and Goa (including Sindhudurg)(148.22 crore)

The MSFC continued to concentrate on maximum recoveries and stabilizing its overall operations during the financial year ended 31st March 2006. The recovery, however, continued to be affected due to adverse conditions faced by industrial units mainly due to increased competitions including competitions from ancillary items. As part of the recovery efforts the MSFC also continued to provide opportunity to the defaulting units for One Time Settlement of the dues under the OTS (Negotiated Settlement) Scheme. The favourable policies for the industrial sector and overall economic upswing have been showing positive results and industries are expected to benefit by this optimistic climate. The MSFC, However, adopted cautious approach in sanctioning loans during the year under review by giving priority to the existing good borrowers. The percentage of recovery out of current
demand was 9 percent and the percentage of total recovery to net total demand was 4.94 percent.

III.2] HISTORICAL DEVELOPMENT OF MSFC:
MSFC, which was taken over from its predecessor BSFC, celebrated its Golden Jubilee on 23rd January 2004. Golden Jubilee is not a just period in the history of an organization. It symbolizes victory of dedicated efforts and determination over the difficulties, of courage to shoulder risky ventures to fulfil its objectives, for which the organization was established. MSFC is one such organization that has played such crucial role in the development of industries in the areas under its jurisdiction that its Golden Jubilee is really an event of historical significance. The MSFC has adopted watchword "Arthamula Kriyasiddhi" which means for fulfilling any kind of activity, finance is the basic and foremost requirement.

III.3] BOMBAY STATE FINANCIAL CORPORATION:
MSFC was constituted on Tuesday, the 14th August, 1962 out of the erstwhile Bombay State Financial Corporation (BSFC), which was set up vide Gazette Notification published on 30th November, 1953. BSFC was the third State Financial Corporation (SFC) in the country established under the State Financial Corporation Act, 1951. The first SFC in the country was the Punjab State Financial Corporation set up in October 1953 followed by the Kerala State Financial Corporation in November 1953. BSFC was formerly inaugurated on Monday, the 21st December 1953 at the hands of the Chief Minister of the Government of Bombay, Shri. Morarjibhi Desai. The first Chairman of BSFC was Shri. Purshottam Kanji Cursondass and First Managing Director was Shri. R. S. Bhatt.

The first full operational years of BSFC was Financial Year 1954-55 that showed a net profit before taxes of Rs.2.40 lakh, sanction were Rs.68.37 lakh in 31 cases and disbursement of Rs.30.17 lakh was made.
III.3.1) JURISDICTION OF BSFC:

BSFC at the time of establishment had jurisdiction over all the districts forming part of the then ‘Bombay State’ which included Belgaum, Dharwad and North Canara which were merged with the former Mysore State after the Re-organization of States in 1956. The States' Re-organization also provided for amalgamation of the then existing two financial corporations for the State of Bombay and Saurashtra. These two corporations were amalgamated on 1st November 1956 and were constituted as the Financial Corporations for the new State of Bombay, with the Head Office at Bombay and a Branch office at Rajkot, which was earlier, the Head Office of Saurashtra SFC. Consequent upon amalgamation, the jurisdiction of BSFC spread over the districts in Vidarbha Marathwada regions but excluding the four districts of Belgaum, Dharwad, Bijapur and North Canara. On 28th April 1958, a branch office was set up at Nagpur, which was declared open by Dr. Jivraj Mehata, the then Finance Minister of the State of Bombay.

III.3.2) ORGANISATION AND MANAGEMENT OF BSFC:

The Board of Directors consisted of ten persons, of which State Government nominated three; others represented Scheduled Banks, Cooperative Banks, Financial Institutions, Shareholders, one was nominated by RBI, one by IFCI and one was appointed by the State Government.

The Head Office of the BSFC was at Bombay (now known as Mumbai), in 1958, a branch office was opened at Nagpur.

III.3.3) TECHNICAL PANEL OF BSFC:

There was a need to scrutinize the applications coming from entrepreneurs who wanted to set up non-traditional industries. BSFC drew up lists of panels of technical experts for chemical, engineering and textile industries with the cooperation of State Government and Industrial house. When occasion arose, technical feasibility of projects was referred to them.
III.3.4) LOAN SANCTIONED AND DISBURSED BY BSFC:

Table No. III.1 presents the loan sanctioned and disbursed by BSFC. During eight years (1954 to 1962), the BSFC had sanctioned in all 531 loans for Rs.8.29 crore, including 22 loans for Rs.43.45 lakh sanctioned by former Saurashtra Financial Corporation taken over by BSFC during the year 1956-57 and disbursed Rs.4.62 crore. Initially BSFC considered applications for financial assistance under the 'Corporation’s Own Rules'. From July, 1957 onwards, the Corporation also considered loans under the 'State Aid to Industries (SAI) Rules of 1935' as per Agency arrangement under which the corporation acted as the agent of the State Government. Such loans were fully guaranteed by Government for payment of interest and repayment of principal. Government as 'Interest Subsidy' paid the difference between the rates of interest normally charged by the Corporation and that charged under the SAI Rules to the Corporation.

Table No. III.1

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of proposals Sanctioned</th>
<th>Total amount Sanctioned</th>
<th>Total amount Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>954-55</td>
<td>42</td>
<td>84.00</td>
<td>36.00</td>
</tr>
<tr>
<td>1955-56</td>
<td>51</td>
<td>112.00</td>
<td>54.00</td>
</tr>
<tr>
<td>1956-57</td>
<td>37</td>
<td>73.00</td>
<td>73.00</td>
</tr>
<tr>
<td>1957-58</td>
<td>25</td>
<td>53.00</td>
<td>38.00</td>
</tr>
<tr>
<td>1958-59</td>
<td>27</td>
<td>62.00</td>
<td>22.00</td>
</tr>
<tr>
<td>1959-60</td>
<td>38</td>
<td>90.00</td>
<td>21.00</td>
</tr>
<tr>
<td>1960-61</td>
<td>126</td>
<td>176.00</td>
<td>83.00</td>
</tr>
<tr>
<td>1961-62</td>
<td>185</td>
<td>179.00</td>
<td>135.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>531</strong></td>
<td><strong>829.00</strong></td>
<td><strong>462.00</strong></td>
</tr>
</tbody>
</table>

Source- Golden Jubilee Souvenir published by MSFC
Application for financial assistance were considered under following heads-

1) Corporations own rules.
2) Loans under State-aid to industries. Under this scheme, the corporation acted as the agent of the State Government. But the arrangement charged from time to time.

In the year 1957-58 the MSFC recommended loans to Government, and these loans were formally sanctioned by Government and disbursed directly from Government funds.

In the year 1959-60 the corporation was requested to sanction and disburse the loans from out of the funds placed at the MSFC disposal by Government.

From 1961, the arrangement was known as "Agency cum Guarantee arrangement." The corporation now sanctioned and disbursed loans under the State-Aid to Industries Rules" from its own funds instead of from those placed at its disposal by Government.

The rate of interest charged for small borrowers and units in industrially underdeveloped areas were low. This was according to Government policy.

The period from 1953 to 1962 was full of changes, yet a right beginning was made in respect of 1) Provision of technical experts, 2) Branch opening and 3) Different rate structure to assist small units in backward areas.

III.4) FORMATION OF MSFC:

The process of bifurcation of BSFC commenced following the enactment of the Bombay Re-organization Act, 1960. The draft scheme for the bifurcation was approved at a special meeting at the shareholders on Friday, 28th April 1961 and after completion of necessary formalities, the Maharashtra State Financial Corporation (MSFC) was constituted on Tuesday, 14th August 1962.

When MSFC took over from the erstwhile BSFC on 14th August 1962, its area of operation covered all the then existing 26 districts of the
sate of Maharashtra. Subsequently, by an arrangement dated 18th July, 1964 between the Government of Maharashtra and the Administration of the Union Territory of Goa, Daman and Diu, the jurisdiction of MSFC was extended to Goa, Daman and Diu and the branch office at Panaji, Goa was set up in August, 1964.

After the formation of MSFC in 1962, Government of Maharashtra nominated shri. Purushottam kanji, who had been chairman of BSFC right from inception, as chairman of MSFC. He relinquished the chairmanship of the corporation on 15th August 1964. Thereafter Government of Maharashtra nominated shri B.D. Garware, well-known industrialist as Chairman who continued till 1977. During this period, MSFC grew from strength to strength and gained premier position among all the SFCs in the country. Shri. Homi J. H. Taleyarkhan, noted administrator and leader succeeded Shri. Garware as Chairman of MSFC from 7th October 1977. Dignitaries have always held the post of Chairman of MSFC as shown in Chart No. III.2

Table No. III.2

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>NAME OF CHAIRMEN</th>
<th>TERM OF CHAIRMENSHIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shri. Purushottam Kanji</td>
<td>From 21-12- 1954 To 16-08-1964</td>
</tr>
<tr>
<td>2</td>
<td>Shri. B. D. Garware</td>
<td>From 17-08-1964 To 23-09-1977</td>
</tr>
<tr>
<td>3</td>
<td>Shri. Homi J.H.Taleyarkhan</td>
<td>From 07-10-1977 To 08-01-1981</td>
</tr>
<tr>
<td>4</td>
<td>Shri. S. R. Damani</td>
<td>From 03-02-1981 To 10-05-1990</td>
</tr>
<tr>
<td>7</td>
<td>Shri. V. P. Goyal</td>
<td>From 03-01-1996 To 18-04-1996</td>
</tr>
<tr>
<td>8</td>
<td>Shri. J. T. Wadhwanit</td>
<td>From 17-06-1996 To 12-11-1999</td>
</tr>
<tr>
<td>9</td>
<td>Shri. D. G. Sopal</td>
<td>From 19-08-2000 To 05-09-2000</td>
</tr>
<tr>
<td>10</td>
<td>Sharwaree Gokhale</td>
<td>From 01-01-2002 To 24-02-2003</td>
</tr>
<tr>
<td>11</td>
<td>Dr. (Mrs.) Joyce Shankaran</td>
<td>From 21-10- 2003 To 16-01-2005</td>
</tr>
<tr>
<td>12</td>
<td>Shri. K. Shivaji</td>
<td>From 11-05-2005 to 02-04-2006</td>
</tr>
<tr>
<td>13</td>
<td>Shri Bishvas</td>
<td>From 03-04-2006</td>
</tr>
</tbody>
</table>

Source- Golden Jubilee Souvenir published by MSFC, P.10
III.5) MANAGING DIRECTORS:

Shri. P.S. Mokashi, an experienced Banker and retired officer of the Reserve Bank of India, the first M.D. who was reconstitute of MSFC. After his retirement on 31st December 1968, the post of MSFC was brought on the Maharashtra Cadre of the Indian Administrative Service and Shri. M.S. Palnitkar, I.A.S. was appointment as Managing Director on 1st January 1969. Since then the post of the Managing Director of MSFC has normally been held by Senior Officers of the rank of Secretary to State Government thereby highlighting the importance, which the State Government attaches to the assignment. The successive Managing Directors of MSFC are shown in Table No.III.3

Table No.III.3

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Managing Directors</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shri. R.S. Bhatt</td>
<td>From 30-11-1953 to 31-05-1957</td>
</tr>
<tr>
<td>2</td>
<td>Shri. O.H. Gheewala</td>
<td>From 01-07-1957 to 31-05-1959</td>
</tr>
<tr>
<td>3</td>
<td>Shri. R.S. Pochkhanwala</td>
<td>From 01-06-1959 to 15-08-1962</td>
</tr>
<tr>
<td>4</td>
<td>Shri P.S. Mokashi</td>
<td>From 16-08-1962 to 31-12-1968</td>
</tr>
<tr>
<td>5</td>
<td>Shri. M.S. Palnitkar</td>
<td>From 01-01-1969 to 31-12-1971</td>
</tr>
<tr>
<td>6</td>
<td>Shri. R.K. Zubairy</td>
<td>From 13-01-1972 to 19-04-1972</td>
</tr>
<tr>
<td>7</td>
<td>Dr. M.N. Desai</td>
<td>From 20-04-1972 to 17-09-1972</td>
</tr>
<tr>
<td>8</td>
<td>Shri. V.T. Chari</td>
<td>From 13-10-1972 to 30-04-1976</td>
</tr>
<tr>
<td>9</td>
<td>Shri. M.R. Kolhatkar</td>
<td>From 01-05-1976 to 23-04-1979</td>
</tr>
<tr>
<td>10</td>
<td>Shri. N. Jayaraman</td>
<td>From 21-07-1979 to 11-05-1980</td>
</tr>
<tr>
<td>12</td>
<td>Shri. Y.L. Rajwade</td>
<td>From 07-08-1981 to 11-05-1983</td>
</tr>
<tr>
<td>13</td>
<td>Shri. S.P. Upasani</td>
<td>From 11-05-1983 to 14-05-1986</td>
</tr>
<tr>
<td>15</td>
<td>Shri. A.K.D. Jadhav</td>
<td>From 22-06-1988 to 26-06-1990</td>
</tr>
<tr>
<td>16</td>
<td>Shri. Y.S. Bhave</td>
<td>From 27-06-1990 to 22-03-1993</td>
</tr>
<tr>
<td>17</td>
<td>Shri. B.B. Sharma</td>
<td>From 22-03-1993 to 01-06-1994</td>
</tr>
<tr>
<td>18</td>
<td>Shri. R.M. Pinto</td>
<td>From 01-06-1994 to 22-05-1995</td>
</tr>
<tr>
<td>19</td>
<td>Shri. R.M. Premkumar</td>
<td>From 23-05-1995 to 11-04-1996</td>
</tr>
<tr>
<td>21</td>
<td>Shri Manmohan Sing</td>
<td>From 15-06-1999 to 13-11-2000</td>
</tr>
</tbody>
</table>
III.6) FUNCTIONS AND OBJECTIVE:

The main function of MSFC is to meet the term loan requirements of small and medium scale industries for acquisition of fixed assets like land, building, machinery and equipment. The loans are given for setting up new industrial units as well as for expansion, modernization and diversification of the existing units.

The main objective of the MSFC is to promote more industries in backward and developing areas of Maharashtra, Goa and Union Territory of Daman and Diu.

The MSFC is an autonomous body but it functions in full co-operation with State Government, RBI and Financial Institutions like IDBI, SIDBI, SICOM Ltd., MIDC, MSSIDC Ltd., Mumbai Metropolitan Regional Development Authority, and Regional Development Corporation

III.7) ORGANIZATIONAL SET UP OF MSFC:

The organization of MSFC will be studied in the light of the organization of enterprises set up in either private or public sector.

III.7.1) ORGANIZATION:

Organization is the execution of a business. It is basic framework within which the executive decision making occur. In a static sense an organization is a structure manned by group of individuals who are together towards a common goal. In a dynamic sense, organization is a process of welding together a framework of position, which can be used as management tools for the most effective pursuit of the goals of an enterprise. In any organization the important ingredients are (a) Parts, and
(b) Their relationship with one another, and with the organization as a whole.

The parts consist of human and physical resources, e.g. men, money, materials, machines and methods. As for relationship, these mean relationship between –

a) One individual and another. b) An individual and his group. c) One group and another. d) Individuals and the work or activities to be performed by them, and e) Individuals and the physical resources to be used by them to perform their work or activities.

Organization in the sense of an act or process or arrangement means identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationship among the people for the purpose of enabling them to work most effectively in accomplishing objectives.

According to Koontz and O’Donnell “Organizing involves the establishment of an international structure of roles through determination and enumeration of the activities required to achieve the goals of an enterprise and each part of it, the grouping of these activities, the assignment of such groups of activities to manage, the delegation of authority to carry them out, and provision for coordination of authority and informational relationships, horizontally and vertically, in the organization structure.”

According to Pugh (1990) ‘Organizations are systems of interdependent human beings’

According to G. R. Terry, “Organizing is... the establishing of effective authority relationship among selected work, persons, and work places in order for the group to work together effectively.”

Organization as a process, the organizing functions includes I) Division of work ii) Grouping of activity iii) Assignment of duties iv) Delegation of authority v) Defining relationships.

The process of organizations can be effectively only if it is governed by a set of scientific principles. Top management experts like Henry Fayol, F. W. Taylor and Urwck have laid down certain principles
to be followed in the setting up of the organization structure. A summary of these principles is given below -

1) Objectives- it provides the organization with a sense of purpose and direction.

2) Specialization- each individual in the organization should, as far as possible, have only one activity or function to perform. Such activity should suit his technical competence, education, training and personal attributes.

3) Coordination -In almost every organization, there is a network of diverse activities, which are performed by different individuals at different work-points. Organization can accomplish its objectives only when all its diverse activities are effectively coordinated.

4) Authority -No group effort can be possible in the absence of a center of authority having the power to secure performance of the assigned tasks. From the center, authority flows to every individual in the group. The flow of authority should be clearly defined so that there is no room for any confusion or conflict and the work at each level can be planned and executed in accordance with the enterprise objectives.

5) Responsibility -Authority and responsibility are two sides of the same coin. But while authority is divisible, responsibility is not. A manager may delegate authority to his subordinate but he cannot delegate his responsibilities.

6) Definition- In organization structure, the lines of authority and responsibilities should be clearly demarcated.

7) Balance-An organization structure should provide an ideal mix of authority and responsibility at each level.

8) Span of control- the span of control should be determined in accordance with the nature and type of work to be done, financial costs involved, accomplishment of enterprise objectives, employees moral and personal development. But an ideal span of control is one that facilitates effective control and supervision and easy and smooth communication between managers and their subordinates.
According to Louis A Allen sound organization is indispensable because it –

1) Facilities administration
2) Makes growth and diversification possible through specialization better use of personnel and systematic efforts.
3) Provides for optimum use of technological improvements.
4) Encourages good human relations.
5) Stimulate independent, creative thinking and initiative through well-defined areas of work.

III.7.2) ORGANIZATION STRUCTURE OF MSFC:

The general superintendence, direction and management of the affairs and business of the financial Corporation vests in the Board of Directors which, with the assistance of the Executive Committee and a managing Director, exercises all the power and discharge all the functions which may be exercised or discharged by the financial corporation. Regarding the composition of the Board of Directors, given in the SFC Act, 1951 details as to have either elected or nominated. The Chairman now C.M.D. (Chairman cum Managing Director) is appointed by the state Govt. in consultation with the RBI. The C.M.D. looks after all the business and day-to-day administration of the MSFC.

III.7.3) NETWORK OF MSFC:

The scope of MSFC is limited within the jurisdiction of the State of Maharashtra, due to its very nature as a regional development bank. Sometimes it covers the areas of the neighbouring states/union territories which do not have SFCs their own.

MSFC is a decentralized organization and has got network of offices in the Maharashtra and Goa, Daman and Diu. Following Chart No.III.1 and Map No.III.1 shows the network of MSFC. There are 7 Regional offices and 12 Branch offices. The Head office of MSFC at Mumbai and the 7 Regional offices are Mumbai-Konkan Thane Daman Diu (MKTDD), Aurangabad, Kolhapur, Nagpur, Nasik, Pune and Goa.
(Panaji). The Branch offices are located at Chiplun, Beed, Latur, Nanded, Sangli, Satara, Akola, Amravati, Chandrapur, Jalgaon, Ahamednager, and Solapur.

Chart No.III.1

MAHARASHTRA STATE FINANCIAL CORPORATION
NETWORK

NAGPUR

AKOLA

PANAJI (GOA)

AMARAVATI

CHANDRAPUR

AHMEDNAGAR

SOLAPUR

Mumbai
HEAD OFFICE

KOLHAPUR

PUNE

NASIK

THANE

BEED

URANGABAD

LATUR

NANDED

SANGLI

SATARA

JALGAON

CHIPALUN

Source- Compiled with brochure published by MSC

III.8) SERVICES RENDERED BY MSFC:

The MSFC is highly decentralized organization. Since its inception placed emphasized on the promoting industries in backward and developing areas and encouraged entrepreneurship. The following are the main services rendered by the MSFC.

1) The MSFC grants term loans upto Rs.2.40 crore to limited companies, trusts and registered co-operative societies and upto Rs.90 lakh to proprietary and partnership concerns.

2) The corporation also finances projects with large capital outlay (total project cost upto Rs.5 crore) in participation with SICOM/All India Financial Institutions/Commercial Banks etc. However, in such cases assistance from the MSFC is limited to Rs.2.40 crore.

3) The MSFC provides seed capital assistance upto Rs.4 lakh mainly to the new/first generation entrepreneurs who possess necessary skill or practical experience but lack requisite funds to meet the norms of Debt-
Equity Ratio (DER) and/or minimum promoter’s contribution. The seed capital assistance is given to bridge the gap in expected promoter’s contribution. If the requirements of seed capital exceed Rs.4 lakh, the same is covered by IDBI seed capital scheme. The assistance may be in the form of soft loan or equity. Seed capital assistance is also given for expansion, modernization and diversification. In case of limited companies, the seed capital assistance is given by way of equity/soft loan or redeemable cumulative preference shares. The MSFC does not grant seed capital, if the same is available from other sources such as Government seed capital through Regional Development Corporations/District Industries Centres.

4) The MSFC provides Bill discounting facilities mainly to SSI units against the supply of components and intermediates made by them to reputed companies.

5) The MSFC also provides assistance in the form of Equipment Lease Finance to eligible borrowers. The lessee gets 100 percent finance for acquiring equipment on lease.

6) The MSFC has been granted registration as category I Merchant Banker. The Merchant Banking Activities include project appraisal for public issue, issue management, preparation of prospectus, loan syndication, project advisory services, underwriting of shares, bought-out deals, dealing in shares transaction etc.

III.9) MANAGEMENT OF MSFC:

The management of the MSFC will be studied in the light of the principles of management of enterprises set up in either private / public sector. The expert opinion has always favoured statutory corporations to run public undertakings. Statutory corporations possess flexibility, autonomy, insulated personality and self-contained finance. Most of the merits of statutory corporations flow from the enabling legislation constituting and governing it.

III.9.1) MANAGEMENT:

There is no generally accepted definition of management as an activity, although the classic definition is still held to be that of Henri
Fayol. His general statement about management in many ways still remains valid after eighty years, and has only been adopted by more recent writers, as shown below –

According to Henri Fayol (in 1916) “To Management is to forecast and plan, to organize, to command, to coordinate and to control.”

According to EFL Brech (in 1957) “Management is a social process…the process consist of planning, control, coordination and motivation”.

According to Koontz and O'Donnell (in 1984) “Managing is an operational process initially best dissected by analyzing the managerial functions. The five essential managerial functions (are): Planning, Organizing, Staffing, Directing and controlling.”

“Five areas of management constitute the essence of proactive performance in our chaotic world i) an obsession with responsiveness to customers, ii) constant innovation in all areas of the firm, iii) partnership – the wholesale participation of and gain sharing with all people connected with the organization, iv) leadership that loves change (instead of fighting it) and instills and shares an inspiring vision, and v) control by means of simple support systems aimed at measuring the ‘right stuff’ for today’s environment.” Peters, T (1988)

Basically, what they are saying is that ‘Management’ is a process which enables organizations to set and achieve their objectives by planning, organizing, and controlling their resources, including gaining the commitment of their employees (motivation).

H. Fayol lists fourteen so-called ‘Principles of Management.’ These are the precepts, which he applied the most frequently during his working life. He emphasized that these principles were not absolutes but capable of adoption, according to need. He did not claim that his list was exhaustive, but only that it severed him well in the past. The fourteen principles listed below in Table are given in the order set out by Fayol,

1) Division of work: Reduces the span of attention efforts for any person or group and Develops practices and familiarity.

2) Authority: The right to give orders and should not be considered without reference to responsibility.
3) Discipline: Outward marks of respect in accordance with formal or informal agreements between firm and its employees.

4) Unity of command: One man one superior.

5) Unity of Direction: One head and one plan for a group of activities with the same objective.

6) Subordination of individual interest to the general interest: The interest of one individual or one group should not prevail over the general good. This is a difficult area of management.

7) Remuneration: Pay should be fair to both the employee and the firm.

8) Centralization: Is always present to a greater or lesser extent, depending on the size of company and quality of its managers.

9) Scalar chain: The line of authority from top to bottom of the organization.

10) Order: A place for everything and everything in its place; the right man in the right place.

11) Equity: A combination of kindness and justice towards employees.

12) Stability of tenure of personnel: Employees need to be given time to settle into their jobs, even though this may be a lengthy period in the case of managers.

13) Initiative: Within the limits of authority and discipline, all levels of staff should be encouraged to show initiative.

14) Esprit de corps: Harmony is a great strength to an organization; teamwork should be encouraged.

III.9.2) MANAGEMENT SET-UP OF MSFC (AT PRESENT):

MSFC has a representative type of management. The following Chart No.III.2 shows that the present management set-up of MSFC. It consist top management, middle management and lower management. Top management consist have Chairman-cum Managing Director and few senior executives. This top management is in charge of all managerial functions and powers. The Chairman-cum Managing Director is the chief executive in charge of implementing the policies formulated by the Board of Directors in the light of Government policies.
Middle management is functioning at regional level. It consist Manager/Regional manager, Deputy Manager and few officers. Lower management is functioning at Branch level. It consist Branch manager/Assistant manager, junior officers (Stenographer)/Assistant, Typist/Clerk and peon.

Chart No.III.2

MANAGEMENT SET-UP OF MSFC (AT PRESENT)
III.10) BOARD OF DIRECTORS OF MSFC:
The composition of the Board of Directors is made according to the statutory provisions. At present the Board of Directors consist-
1) Three directors nominated by the Government of Maharashtra.
2) One director nominated by SIDBI (SIDBI vide its letter dated 31-1-2006 has withdrawn its nominee directors on the Board of MSFC)
3) Two directors elected to represent shareholders referred to in clause (d) of sub-section (3) of section 4 of the SFCs Act, 1951.
4) Two directors co-opted as director pursuant to section 10(e)(IV) of the SFCs Act, 1951
5) One director nominated to represent shareholders i.e. referred to in clause (c) of sub-section (3) of section 4 of the SFCs Act 19951 (Nomination withdrawn by LIC of India)

III.11) CAPITAL STRUCTURE OF MSFC:
The Capital structure involves a decision regarding the ratio of ownership capital and ratio among different sources of finance for capital, which include loans, bonds, shares and reserves. The maintenance of ratio between the different types of securities is known as capital structure.

The authorized share capital of MSFC is Rs.100 crore and paid up capital is Rs.62.64 crore inclusive of special class of share capital of Rs.3.75 crore. During the year Government of Maharashtra has not contributed any amount towards share capital of the MSFC. The Table No.III.4 shows the holding of various shareholders as classified under sub-section (3) of section of the State Financial Corporations Act,1951 as on 31st March, 2006.
Table No.III.4

CAPITAL STRUCTURE OF MSFC

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Shareholders</th>
<th>No. of Shareholders</th>
<th>No. of Shares</th>
<th>Amount of Holding (Rs)</th>
<th>Percentage of Holdings</th>
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</thead>
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<tr>
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<td>Govt. of Goa</td>
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<tr>
<td>3</td>
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<td>250483500</td>
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<tr>
<td>4</td>
<td>Public Sector Banks and Insurance cos. Owned or Controlled by the Central Govt.</td>
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<td>34870000</td>
<td>00.56</td>
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<tr>
<td>5</td>
<td>Others</td>
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<td>6263904</td>
<td>626390400</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source- Annual Reports of MSFC 2005-06

III.11.1) FINANCIAL RESOURCES:

It is obvious that each and every financial institution requires adequate amount for refinance. For that it is essential to any financial institution to own financial sources. Following are the financial resources of MSFC-

1) BONDS-

Bonds for Rs.23.00 crore fell due for redemption during the year 2005-06 and the same were redeemed on due dates. In addition to the above, the MSFC has made prepayment of principal of bonds of Rs.13.35 crore during the year 2005-06. Thus, the outstanding balance under the bonds as on 31st March, 2006 was Rs.298.98 crore against Rs.335.33 crore as on 31st March, 2005.

2) REFINANCE FROM IDBI AND SIDBI-

SIDBI AND IDBI has discontinued refinancing since December, 2002. During the year 2005-06 the MSFC has not made any payment towards principal and interest to IDBI or SIDBI. IDBI and SIDBI have recalled their loans. SIDBI has filed its application for recovery of its
dues before DRT, Mumbai and DRT has restricted the MSFC from dealing with the assets of the MSFC.

3) FIXED DEPOSITS:

The MSFC repaid deposits of Rs.0.01 crore during the year 2005-06 and there is no balance payable towards fixed deposit.

4) REPAYMENTS:

During the year 2005-06 under review, the MSFC received by way of repayment of principal towards term loans from its borrowers an account of Rs.57.99 crore as compared with Rs.67.96 crore in 2004-05. The outstanding balance under the loans and advances as on 31st March, 2006 was Rs.333.15 crore against Rs.391.15 crore as on 31st March, 2005. Thus, after considering disbursement of loans of Rs.1.12 crore and the writing off debts of Rs.0.56 crore, the decrease under loans and advances during the year 2005-06 was Rs.64.40 crore.

5) SANCTIONS AND DISBURSEMENTS:

During the year 2005-06, the MSFC did not sanction any term loan as against 23 applications involving Rs.1.12 crore against Rs.5.64 crore of the previous year. The commitments as of 31st March, 2006 were Rs.0.68 crore.

III.12) FINANCIAL SCHEMES OF MSFC:

MSFC has introduced/sponsored time-to-time many attractive and liberalized financial assistance schemes as per requirement of industrial sector and gave developmental opportunities to industrial concerns. There are the various schemes implemented by MSFC for industrial development and growth illustrated here under.

1) SINGLE WINDOW SCHEME (SWS):

The Maharashtra State Financial Corporation has introduced the scheme in 1988-89 especially for small borrowers to ensure adequate finance and to provide single window facility of availing term loan and working capital from one institution only.

The salient features of the scheme are as under:
1) Assistance is available only to new tiny and small scale industrial concerns whose cost of project (excluding working capital margin) and total working capital requirement is within Rs.50 lakh.

2) The loan shall be repayable within a period of 10 years with an initial grace period of 18 to 36 months. The Corporation shall have first charge over the entire assets (both movable and immovable) of the concern.

3) Promoter's contribution- as may be required to arrive at DER of 2:1 for total venture.

4) Proposals for modernization and technology upgradation of existing well-run units and rehabilitation of potentially viable sick units are also covered under the scheme.

5) Designated Bank should agree to take over the working capital account within three years. In case where the banks agree to finance only additional working capital, the MSFC may continue the earlier working capital loans against the specific security.

2) NATIONAL EQUITY FUND SCHEME (NEFS):

The scheme was introduced in 1990-91. Under the scheme, equity type assistance in the form of soft loan is granted for all industrial activities and service industries (except Road Transport Operators). Assistance under the scheme is available for units irrespective of location except for the units in metropolitan areas.

Eligibility for assistance-

1) New entrepreneurs setting up projects in the tiny and small scale sector for manufacture, preservation or processing of goods and existing sick SSI units undertaking rehabilitation if they are found to be potentially viable by the financing institutions, are eligible for assistance.

2) All industrial activities and service industries, except road transport, hotel, restaurant and hospitals/ nursing homes, are eligible for assistance under the scheme.

3) The unit should be located in a village/ town having population not exceeding 5 lakh (15 lakh in the case of hilly areas and North-
Eastern Region). However, in the case of rehabilitation proposals, the project could be located in towns/villages with population not exceeding 15 lakh.

4) New Projects which avail of any margin money or seed/special capital, assistance under the schemes of Central or State Government, SFCs and other State-Level Institutions or banks (except Central/State Investment Subsidy) are not eligible for assistance.

5) The rehabilitation proposal should conform to the norms prescribed under the Rehabilitation Refinance Scheme of SIDBI for SSI Sector.

6) The unit should be registered with State Directorate of Industries/appropriate statutory authority.

7) The unit should be eligible for assistance under the Refinance Scheme of SIDBI. Sanction of refinance in respect of term loan for the project by SIDBI is a prerequisite for extending equity type assistance under the Scheme.

8) The total fund requirement of projects in the form of equity assistance under the Fund, term loan and working capital is provided by a single agency. Central/State subsidy may be retained for meeting working capital requirement.

9) Project Cost: Project cost (including margin money for working capital) should not exceed Rs.10 lakh in the case of new project. In the case of rehabilitation projects also, total outlay on rehabilitation should not exceed Rs.10 lakh per project.

10) Debt-Equity Ratio: DER will be 1.857:1 (excluding State Subsidy which may be retained for meeting working capital requirements).

11) Minimum Promoter's Contribution required 10 percent of project cost.

12) Quantum of Assistance- Equity type assistance in the form of soft loan upto 25 percent of the project cost subject to a maximum of Rs.205 lakh per project.
13) **Repayment Period**: 7 years inclusive of initial moratorium upto 3 years.

14) **Security**: No security including collateral will be insisted upon for the soft loan.

3) **MAHILA UDYAM NIDHI SCHEME (MUNS)**:

In order to give further boost to women entrepreneurs to take up industrial activity, apart from providing them term loan assistance and training assistance through IDBI, the MSFC has introduced the scheme in 1989-90. Under the scheme, the MSFC provides equity type assistance to Women Entrepreneurs to set up new industrial projects upto 15 percent of project cost (for project cost upto Rs.10 lakh) by way of Seed Capital. The women entrepreneurs will be required to bring in promoter's contribution to the extent of 10 percent of project cost. The soft loan assistance is repayable within a period of 10 years including initial moratorium of 5 years. In case of Partnership/Private Limited Companies, the women promoter should have major share (Minimum 51 percent). For term loan, repayment period is 8 years including 2 years moratorium and required Debt Equity Ratio is 2:1

4) **WOMEN ENTREPRENEURS SCHEME (WES)**:

The scheme has been formulated by IDBI and was introduced by MSFC in 1987-88 to (1) provide training and extension services support to women entrepreneurs through a comprehensive package suited to their skills and socio-economic status and (2) extending financial assistance on promoter's contribution @ 12.50 percent to 15 percent of the project cost, depending on the location to enable them to set up industrial units in the SSI Sector.

The programme of training and extension services is organized by IDBI through designated approved agencies independently and or in association with other development agencies.

The assistance in the form of term loans is granted for all projects in the SSI sectors including cottage, village and tiny industry promoted and managed by women entrepreneurs. In case of Partnership/ Pvt. Ltd., women entrepreneurs should have major share-minimum 51 percent.
DER required to be maintained 2:1. Repayment period is 8 years including 2 years moratorium.

5) EQUIPMENT FINANCE SCHEME (EFS):

The scheme was introduced by the MSFC in the year 1985-86. Under the Scheme MSFC grants financial assistance exclusively for purchase of plant & machinery and equipment. The salient features of the scheme are as under

1) Any unit whether assisted by the Corporation or not is eligible.
2) The unit should be well-established Small/Medium scale unit in operation at least for a period of 4 years, earning profits for past 2 years, declaring dividend (wherever applicable) and regular in paying the dues of the Corporation and bank.
3) Minimum promoter's contribution is 22.50 percent of the project cost irrespective of location of the unit.
4) New machinery/Equipment should be for the purpose of modernization, expansion, diversification, balancing, energy saving, pollution control, replacement or any other purpose except for altogether new projects. Only actual users are eligible for assistance. Imported Machinery/Equipment can also consider.
5) The loans are to be repaid within a shorter period of say 2-5 years inclusive of moratorium of 6-12 months.
6) The loans are secured by way of hypothecation of proposed machinery and if necessary, by way of first charge/further charge on the existing assets (wherever desired)
7) Debt-Equity Ratio (DER) is require 2:1
8) Maximum Quantum of Financial Assistance- For Proprietary/Partnership concerns etc. up to Rs.60 lakh and for Private/Public Limited Companies and Co-operative societies up to Rs.90 lakh.

6) REFINANCE UNDER TECHNOLOGY DEVELOPMENT AND MODERNISATION SCHEME (RTDMS):

The scheme was introduced in the year 1978-79. MSFC has devised a special scheme for providing financial assistance to the existing units for modernization by adopting upgraded technology for improved productivity both in quality and quantity and for higher profitability.
The units should be in existence for minimum 5 years. Repayment period will be 8 years including 2 years moratorium. Following activities are covered under the Scheme:

1) Upgradation of process, technology and product.
2) Export Orientation
3) Import Substitution
4) Energy Saving
5) Anti Pollution Measures
6) Conservation/substitution of scarce raw materials and other inputs including recycling/recovery of waste and by-products.
7) Improvement in capacity utilization within the existing capacity through increase in productivity.
8) Improvement in material handling
9) Debt Equity Ratio is required 3:1
10) Maximum Quantum of Financial Assistance- For Proprietary/Partnership concerns etc. upto Rs.60 lakh and for Private/Public Limited Companies and Co-operative Societies up to Rs.90 lakh.

7) GENERAL LOAN SCHEME (GLS):

Under this scheme, loans upto Rs.2.40 crore depending upon the constitution of the units are granted to acquire fixed assets like Land, Building, Plant and Machinery, Equipment and Accessories. Industrial concerns as defined in the SFCs Act, 1951, engaged in activities such as manufacturing, assembling, processing etc. are eligible for assistance. Under this Scheme assistance is available for new units as well as existing units for expansion, diversification and modernization and also for setting up industrial estates. Under the scheme loans are granted normally by maintaining security margin (fixed assets coverage) as under:

1) With Investment Plant and Machinery upto Rs.60 lakh- 25 percent
2) With Investment Plant and Machinery above Rs.60 lakh- 30 percent
3) With joint participation with other financial institutions viz. SICOM, EDC OF Goa, ICICI, IFCI etc. - as mutually agreed.

Hotels, barges, ships, fishing trawlers, road transport vehicles etc. are treated as non-SSI units irrespective of the size of the loan. Promoters'

Promoters'
minimum contribution and varies from 17.50 to 22.50 percent depending on location of the unit. Debt-Equity Ratio is requiring 2:1. The loans are to be repaid within 8 years inclusive of 2 years moratorium. Maximum quantum of financial assistance provided for proprietary/partnership concerns etc. upto Rs.60 lakh and for Private/Public Limited Companies and Co-operative Societies upto Rs.90 lakh.

8) COMPOSITE LOAN SCHEME (CLS):

With a view to create opportunities for self employment under this scheme, MSFC is extending financial assistance upto Rs.50,000/- to artisans, craftsmen and balutedars for equipment as well as for working capital in rural areas (population upto 5 lakh) without minimum promoters contribution. As per the SIDBI’s special scheme, Schedule Cast/Schedule Tribe entrepreneurs and those who are physically handicapped are eligible for assistance under this scheme. Repayment period is 8 years including 2 years moratorium. Artisans, craftsmen, balutedars irrespective of location and small industrial activity in villages and small towns with population not exceeding 5 lakh for project based on locally available resources are eligible for financial assistance. Maximum quantum of financial assistance provides Upto Rs.90 lakh, depending upon constitution.

9) SERVICE INDUSTRIES SCHEME (SIS):

With a thrust on employment generation, especially in the semi-urban and rural areas, the MSFC has decided to grant financial assistance to Service Industries. This measure is meant to promote opportunities of self-employment for professionals, technocrats and skilled persons.

Eligible Activities:

1) Analytical and Testing Laboratories: Providing analytical and testing services to industrial units and having a direct bearing on the productivity of SSI units.

2) Repairs and maintenance of consumer durables: Repairs, maintenance, testing and servicing of consumer durables like TV,
Air-conditioners. (Repairs and servicing of items like cookers excluded)

3) Providing computerization facilities: (excluding those meant for training)

4) Tourism related activities: Like setting up of amusement parks, cultural centres, restaurants, travel and transport and tourist service agencies.

5) Video recording studios: Recording on video tapes/cassettes

6) Providing weigh bridge facilities

7) Manufacture of salt

8) Production of chicken meat

9) Stone Crushing

10) Mechanical production of domestic coke-special smokeless fuel (SSF)

11) Promoter's Contribution: Varying between 12.50 and 22.50 percent depending on location.

12) Debt-Equity Ratio is require 2:1

13) Repayment Period: Maximum upto 8 years with 1 or 2 years moratorium.

14) Loan Amount: As per broader guidelines i.e. upto Rs. 60 lakh in case of proprietary/partnership concerns and upto Rs.90 lakh for public/private ltd. companies and Co-operative societies.

Loans will be granted to meet the financial requirements of the project, against normal security margins. Financial assistance will be provided only to the projects as a whole and not separately for acquiring galas/shed etc. SSI/SSE Registration Certificate as may be applicable required for financial assistance.

10) SCHEME FOR QUALIFIED PROFESSIONALS (QPS):

In the year 1991-92, a scheme was introduced to assist qualified professionals in the field of management, accountancy, medicine, architecture, engineering etc. for setting up for the first time, their professional practice/consultancy ventures. Under the scheme assistance is granted for acquiring land, building, furniture and fixtures and equipment related to the profession subject to the condition that the cost
of the project should not exceed Rs.10 lakh and cost of land and building should not exceed 50 percent of the total outlay. The promoters Contribution: Not less than 25% of the project cost irrespective of location. The repayment period for the loans under the scheme is 5 years inclusive of moratorium of one year. Debt Equity Ratio is require 2: 1

Other terms & conditions: The applicant should devote his direct and full attention towards his proposed profession/self-employment venture. The premises acquired under the scheme should be used exclusively for professional purposes and not as residencecum-office.

11) FINANCIAL ASSISTANCE TO MEDICAL DOCTORS / PRACTITIONERS (MD/MP):

The scheme was introduced by MSFC in the year 1983-84. Under the scheme the Corporation grants financial assistance to individual Doctor/Medical practitioner or a group of them forming Partnership Firm / Private Limited Company or Co-operative Society. The basic qualification insisted upon under the scheme is MBBS/BDS, and graduates in other disciplines like Ayurveda, Homeopathy and Unani and / or Post Graduation like MS/MD etc.

a) Maximum Assistance Available under the scheme-
   1) Individual Doctor/Medical Practitioner forming partnership firm Rs.90 lakh.
   2) Doctors/Medical practitioners forming Pvt. Ltd. companies/co-operative Society Rs.2.40 crore.

b) Area of Operation- Entire state of Maharashtra, Goa and Union Territory of Daman & Diu

c) Purpose: The assistance is available for purchase of Electro Medical Equipment and other related equipments for professional use.

d) Promoter’s Contribution- For a proposal relating to Medical Practitioners minimum contribution is 17.50 percent of project cost.

e) Debt Equity Ratio- 2: 1

f) Repayment Period- 7 years with initial moratorium of one to two years
12) SCHEME FOR ASSISTANCE TO HOSPITALS / NURSING HOMES (AH/ANH):

During the year 1987-88, the scheme was introduced for extending financial assistance maximum upto Rs.2.40 crore for set up small Hospital/ Nursing Homes of 20 to 50 beds. One of the preconditions for the project under the scheme is that services of atleast one expert doctor with post graduate qualifications like M. D., M. S. should be available in Nursing Home/Hospital on full time basis and secondly Hospital/Nursing Home is also required to provide medical assistance at concessional rate to patients from Low Income Group: atleast 10 percent indoor and 20 percent outdoor patients.

The objective of the scheme is to provide modern medical facilities in various locations for diagnosis and treatment of indoor and outdoor patients.

The financial assistance would cover acquisition of land, construction of building, purchase of Electro medical equipments, Hospital furniture, Air conditioners, small generators etc. and ambulance wherever necessary.

The financial assistance will be provided on 25 to 30 percent margin subject to fulfilling Debt Equity Ratio norm of 2:1. Repayment Period would be maximum upto 8 years including moratorium upto 2 years. Under the scheme, financial assistance would also be extended to existing hospitals for expansion/modernization. Promoter's Minimum Contribution: Varying from 17.5 to 22.5 percent depending upon location of the unit.

13) SMALL NURSING HOMES SCHEME (SNHS):

Under the scheme the assistance is available to small hospitals/nursing homes/polyclinics, especially clinics that have facilities for diagnosis and treatment with minimum 10 beds. The cost in such individual projects should not ordinarily exceed Rs.45 lakh. They should be willing to provide medical service at concessional rates to patients from low-income group.
1) Items to be included in the project cost: Land, building, equipment required for medical treatment including diagnostic, monitoring and therapeutic equipment, air conditioners, ambulance, preliminary and pre-operative expenses etc.

2) Debt Equity Ratio: 2:1

3) Repayment period: Maximum 10 years including moratorium upto 2 years.

4) Promoter's Minimum Contribution: Varying from 17.50 to 22.50 percent depending upon location of the unit.

5) Maximum Quantum of Financial Assistance: Depending upon cost of project

14) SCHEME FOR EX-SERVICEMEN (SEMFX)

MSFC has reintroduced the scheme in 1983-84 for Ex-servicemen to provide financial support for their resettlement by providing them self-employment opportunities after retiring from armed Forces. Directorate General of Resettlement DG(R), Ministry of Defence, and Government of India govern the scheme. The financial assistance under the scheme will be available only once.

The salient features of the scheme are as under

1) Eligibility: Ex-servicemen as defined by Government of India, Ministry of Defence and sponsored by Directorate General of Resettlement are eligible for financial assistance under the scheme and include disabled service personnel & widows of Ex-servicemen also.

2) Promoter's Contribution: Minimum 10 percent of the project cost. Seed capital assistance may be considered upto 15 percent of the project cost on the basis of 2:1 Debt-Equity Ratio.

3) Project Cost: a) the project cost shall not exceed Rs.15 lakh for land & bldg. and plant & machinery, b) Assistance for purchase of vehicles (except gas tanker, tipper vehicle & pay loaders) would be limited to purchase of two vehicles only.

4) The Ex-servicemen intending to seek assistance under the scheme should approach the Zilla Sainik Board and furnish information.
The Screening Committee at the State level would do the evaluation of the entrepreneur as to his capability to set up and run the project.

5) Term Loan: Maximum Rs.10 lakh.

6) Seed Capital: Seed Capital Assistance maximum upto 15 percent of the project cost or Rs.2.25 lakh, whichever is less, on soft term for making up the equity required to be brought in by the promoters in addition to term loan assistance.

7) Repayment Period: (A) Term loan is to be repaid within a period of 10 years including usual grace period except for Transport Loans, which will be repayable in 5 years including moratorium period of 6 months. (B) For soft Seed Capital Assistance 4.5 years including 6 months moratorium in case of Transport Loan & 5 years including 2 years moratorium for others.

8) No Security (including collateral security) is required for soft loan assistance.

15) HOTELS & RESTAURANTS (Under IDBI Scheme) (H and RS)

Under the scheme the MSFC grants financial assistance for setting up Hotels & Restaurants as per the details given below: At present interest subsidy shall be available for new proposals with effect from 1st April 2002.

Assistance under the schemes is available for acquisition of following fixed assets and facilities depending upon the types of activities-

1) Land, building, kitchen equipment, office equipment including telecommunication network, air-conditioners, interior decoration, furniture and fixtures, conference hall, health club, swimming pool, indoor sports facilities, shopping arcade, garden equipment etc.

2) In case of restaurants set-up in commercial premises, assistance is available to acquire ownership premises.
Eligibility for assistance:

1) Hotels having provisions for Lodging as well as Boarding.
2) The Maharashtra Tourism Development Corporation (MTDC) should approve plans.
3) The project should be commercially viable to generate cash surplus to service the loan.
4) Assistance is available to restaurants which:
   a) Propose to have modern facilities for providing necessary amenities to the customers without restriction on size.
   b) One of the promoters should be either having three years experience in specific category or be a qualified person from recognized catering institute/college/hotel management institute/similar organization.
   c) Are commercially viable to generate cash surplus to service the loan.
   d) Clearance from municipal/Government Authorities/Health department, Police Authority, if applicable and certificate from nearby fire station from safety point of view i.e. installation of gas cylinders, if necessary.
5) Assistance is also extended to existing Hotels and Restaurants for expansion/renovation etc.
6) Limit of assistance: Financial assistance above Rs.45 lakh and upto Rs.90 lakh for Public/Private Limited Company and Rs.60 lakh for proprietary/partnership concern.
7) Purpose of assistance: Assistance under this scheme would be considered for following assets subject to a Debt-Equity Norm of 2:1
8) Land, site development and construction of restaurant bldg., interior decoration, kitchen equipments & furniture.
9) In case of restaurant starting in commercial premises, loan will be granted to acquire ownership premises.
10) Security and margin: A minimum margin of 25-30 percent in Maharashtra and 22.50 percent in Goa will be maintained against fixed assets created out of the term loan. Guarantee of two persons
acceptable to the Corporation in case if land and building is not offered in security.

11) Repayment period - 8 years including moratorium of 2 years.

16) HOTELS & RESTAURANTS (Under SIDBI Scheme)
Under the scheme the MSFC grants financial assistance for setting up Hotels & Restaurants as per the details given below:
1) Cost of the Project: Upto Rs.45 lakh.
2) Items eligible for assistance: Land, building, office equipment, kitchen equipment, air-conditioning facilities, interior decoration, furniture etc.
3) Debt Equity Ratio: 2:1
4) Repayment Period: Maximum 10 years, including moratorium upto 2 years
5) Promoter's Contribution: 17.50 to 22.50 percent depending upon location.

17) TOURISM RELATED FACILITIES SCHEME (TRFS):
The MSFC has been operating schemes of financial assistance Tour related activities in Maharashtra, Goa, Daman and Diu. The Government of Maharashtra has identified Special Tourism Area with high potentials for developing activities and introduced a Package Scheme of Incentives for tourism-1993. Under the scheme the MSFC grants financial assistance as per the details given below:
1) Eligibility: Setting up or development of tourism related facilities including amusement parks, cultural centres, convention centres, restaurants, tourist service agencies etc. The cost of such individual projects should not ordinarily exceed Rs.45 lakh.
2) Debt Equity Ratio: 2:1
3) Repayment period: Maximum 10 years including moratorium upto 2 years.
4) Promoter's contribution- 12.50 to 22.50 percent depending on location.
5) Maximum quantum of financial assistance - depending upon cost of project.

18) **FINANCIAL ASSISTANCE TO SMALL SCALE UNITS FOR ACQUIRING COMPUTERS (FASSUAC):**
Under the scheme, the MSFC extends assistance to existing SSI units to acquire computers. The MSFC grants financial assistance as per the details given below:

1) **Eligibility:** All industrial concerns in small-scale sector, MSFC assisted units will be given preference.
2) **Term Loan Limit:** Rs.5 lakh (Maximum)
3) **Promoter’s Contribution:** 10 percent (Minimum)
4) **Debt Equity Ratio:** 3:1
5) **Margin:** 25 percent
6) **Repayment Period:** 5 years including 6 months moratorium
7) **Security:** Hypothecation of equipment

19) **TRANSPORT LOAN SCHEME (TLS)**
Assistance is available on selective basis for acquiring Auto rickshaws, trucks, Tourist Taxies and Fleet Owners, upto 6 vehicles only. The MSFC grants financial assistance as per the details given below:

1) **Eligibility:** Person having minimum 3 years driving license. Financial assistance is given to owner-driver only.
2) **Promoter’s Contribution:** 25 percent.
3) **Debt Equity Ratio:** 2:1
4) **Quantum of financial assistance:** Depending upon requirement upto 6 vehicles.
5) **Repayment Period:** 3 to 5 years with initial 2 months moratorium.

**NOTE:** All the cases where in loan amount involved is upto Rs.10 lakh, the Debt Equity Ratio is to be observed at 3:1
20) QUALITY CONTROL FACILITIES FOR EQUIPMENTS SCHEME (QCFES):
Under this scheme maximum financial assistance upto Rs.7.5 lakh for acquisition of quality control/testing equipment is available. For existing project no promoter's contribution is insisted upon. The MSFC has grants financial assistance as per the details given below:
1) Repayment period: 8 years including a moratorium of 3 years for repayment of principal is granted.
2) Assistance is also available to existing SSI and medium scale unit for acquiring instruments for energy audit/monitoring energy consumption.
3) Debt-Equity Ratio: 2:1

21) SHORT TERM ADVANCES TO ARREST INCIPIENT SICKNESS/ TO MEET TEMPORARY WORKING CAPITAL NEEDS (STAA/WC)
Under the scheme, MSFC grants short-term advance to its assisted unit facing incipient sickness situation owing to inability of funds mobilization as well as for temporary working capital needs.

The assistance is available only to the unit having good track record, against Bank Guarantee/ Pledge of shares of Blue Chip Companies/ Corporate guarantee of reputed companies.

The assistance available under the scheme upto Rs.90 lakh depending upon the requirement of the project is repayable within a period of 4 months to 6 months.

22) MARKETING SUPPORT TO COTTAGE AND VILLAGE INDUSTRIES ASSISTANCE FOR PURCHASE OF MOBILE SALES VAN (PMS):
Under the scheme the MSFC grants financial assistance as per the details given below-
1) Eligible Borrowers: All institutions approved by KVIC (including KVI Boards) will be eligible for assistance. The institutions means only co-operative societies and trusts which are engaged/proposed to be engaged
in marketing the products manufactured by cottage and village industries and which are eligible for interest subsidy from KVIC.

2) Loans: Loans are to be granted for acquisition of mobile sales vans and/or converting them as mobile shop units to be utilized exclusively for stocking, display and sale of products of cottage and village industries. The vans may also be used for transportation of raw materials required for manufacture of these products. The vehicle shall not be used as 'public carriers'. Loans for second-hand vehicles are not to be considered.

3) Quantum of Assistance: Loan of Rs.3 lakh per vehicle and number of vehicles shall not exceed six per borrower. The cost of vehicle may include cost of chassis, bodybuilding, initial tax and insurance.

4) Debt Equity Ratio: 2:1

5) Promoters' Contribution: Minimum promoters' contribution shall be 25 percent of the project cost.

6) Repayment period: Not exceeding 5 years inclusive of initial moratorium upto 9 months.

7) Security: First charge by way of hypothecation of the mobile sales vans.

The borrower will be eligible for interest subsidy from KVIC. The borrower directly from KVIC shall avail of such subsidy.

23) MARKETING ENTREPRENEURS DESIROUS OF EXTENDING MARKETING SUPPORT TO SMALL COTTAGE AND VILLAGE INDUSTRIES (MSSCVI):

The MSFC grants financial assistance under the scheme as per the details given below:

1) Eligible Borrowers: Individuals, partnership concerns, private and public limited companies with experience in marketing the products of small and village industry.

2) Eligible Projects: Loans are granted to eligible borrowers for setting-up of new sales outlets and/or for renovation/expansion of sales outlets of existing concerns for marketing products of small cottage and village industries.
3) Cost of the project: The cost of the project should not exceed Rs. 25 lakh. It may include land, building, show room facilities, office equipment, margin money for working capital and reasonable expenses to be incurred on publicity.

4) Debt Equity Ratio: 2:1

5) Promoter's Contribution: Minimum promoter's contribution shall be 25 percent of the project cost.

6) Repayment Period: Not exceeding 10 years including initial moratorium upto 18 months.

7) Security: The loan under the scheme shall be secured by a first charge by way of mortgage/hypothecation of fixed assets of show-room/sales outlet. In case of existing units seeking assistance for expansion/renovation, the charge shall rank paripassu with the existing 1st charge, if any.

8) Special Terms: (1) The proposed sales outlets shall mainly stock and sell the products of small, cottage and village industries. If it is a division of the borrower, it will be necessary for the borrower to maintain and furnish separate accounts in respect of the sales outlet. (2) The borrower shall agree to make a down payment of atleast 50 percent of the value of goods purchased from the cottage, village and small industry entrepreneurs.

24) MEDIUM TERM/CORPORATE LOAN SCHEME (MT/CRLS):

The MSFC has introduced scheme for a period of 1 to 3 years, mainly for assisted units with good track record and adequate internal accruals to meet their short term requirements including capital expenditure. Under the scheme MSFC grants financial assistance as per the details given below:

1) Eligibility-1) Existing unit which good track record for last 4 years earning reasonable net profit (after depreciation). 2) Minimum net worth of Rs.10 lakh. 3) Debt-Equity Ratio of the company 2:1 4) Current Ratio not less than 1.35:1 5) Regular payment of dues of financial institutions
2) Quantum of loan- Minimum of Rs.10 lakh and maximum subject to the overall limit of Rs.2.40 crore depending upon constitution of the unit and present outstanding amount, if any.

3) Security- Loan agreement, Personal/Corporate guarantee, Demand promissory note, Hypothecation of proposed plant and machinery, Right to demand for creation of charge on existing assets in case of default.

4) Repayment- Quarterly instalments commencing at the end of 6 months from the date of disbursement.

25) SHORT TERM LOAN SCHEME (STLS):

Under the scheme, the MSFC grants short term loan (for a period not exceeding 11 months) mainly to assisted units to meet their temporary requirement of funds. Assisted units facing incipient sickness owing to inability to mobilize adequate funds are also eligible for assistance under the scheme. The RBI directives regarding selective credit controls and Bridge loans/Interim finance for public issues are adhered to while considering proposals under the scheme.

The assistance is available only to the unit having good track record, against Bank guarantee/Pledge of shares of Blue Chief Companies/Corporate guarantee of reputed companies.

The assistance under the scheme is available upto Rs.2.40 crore depending upon the constitution and requirement of the unit and it is payable within a period of 11 months.

26) EQUIPMENT LEASE FINANCE SCHEME (ELFS):

MSFC has introduced a scheme for existing concerns with good track record to obtain on fast track basis 100 percent finance for acquiring equipment on lease. The lessee uses the equipment for a specific period on payment of specific rentals, while the MSFC retains the ownership of the equipment. The lessee can avail of tax benefits on entire lease rentals. Under the scheme MSFC grants financial assistance as per the details given below:

1) Eligibility- Industrial concerns, service industries, medical practitioners, hospitals and nursing homes, hotels and restaurants, self-employed
professionals etc. having net-worth (paid up capital plus free reserves) not exceeding Rs.10 crore

2) Criteria- (I) Existing units assisted by the corporation- At least 3 years in operation with last 2 years earning adequate profits and positive net-worth (II) Units not assisted by the corporation- At least 4 years in operation with last 2 years earning adequate profits and net-worth equivalent to twice the lease finance sought. (III) Should be regular in payment of the dues of the Banks/Financial Institutions. (IV) Should be generating sufficient cash to take care of the future annual lease rent atleast to a major extent.

3) Quantum of assistance- (i) Private /Public Limited companies Trusts and Co-operative societies - Rs.5 lakh to Rs.2.40 crore. (ii) Others- Rs.5 lakh to Rs.90 lakh.

4) Period of lease- the primary lease period would be upto 5 years.

27) EXTENDED CREDIT FACILITY SCHEME (ECFS):

The MSFC has introduced this scheme for assistance on fast track basis for good class of clients of the MSFC having proven track record, to purchase plant and machinery and equipment on the basis of self-appraisal report prepared by the concerned unit. The existing and past clients of the MSFC as well as the sister concern/associate concerns of these clients are also eligible for assistance. Under the scheme MSFC grants financial assistance as per the details given below:

1) Eligibility- (a) At least 4 years in operation earning profits after tax or declaring dividends on equity shares, during preceeding 3 years. (b) Should be regular in payment of the dues of the Banks/Financial Institutions (c) The Debt-Equity Ratio for the company after availment of the facility should not exceed 2:1.

2) Purpose- Under the scheme, assistance in the form of credit limit is granted which should be utilized within a period of one year of acquisition of new indigenous/imported plant and machinery/equipment including dies, jigs, and fixtures. Second hand imported plant and machinery/equipment can also be considered.
3) Quantum of assistance- (i) For Private limited companies/Trusts and Cooperative societies- upto Rs.2.40 crore (ii) Others- upto Rs.90 lakh.

4) Repayment period- upto 5 years including 1-year moratorium.

5) Rate of interest- 2 percent above the net rate of interest charged by the MSFC on term loans, payable quarterly.

6) Fees- processing fee- 0.5 percent, Management fee- 1 percent.

28) BILL DISCOUNTING FACILITY (BDF):

The MSFC has introduced a scheme for discounting of bills drawn by the small vendors from SSI and medium scale sectors, in respect of parts, components, sub-assemblies, accessories and intermediates supplied by them to reputed medium and large units.

Under the scheme, a small vendor raises a bill on a large company (drawee) for the goods supplied by it. The bill thus drawn will have to be necessarily accepted by the indenting purchaser (drawee) and then sent to the MSFC for direct discounting, accompanied by final invoices/receipted delivery challans etc. The MSFC shall then purchase the bill at the discounted rate fixed by it for the concerned drawee within the drawing limit fixed for the company. The discount rate shall depend on the risk perception by the MSFC and on the Credit Rating of the drawee. The floor rate shall ordinarily be not less than 20 percent per annum, which may be reduced in case of drawees with AAA Credit Rating.

The scheme is intended to improve the liquidity of the small vendors and provide medium and large units access to such vendors on credit terms for their mutual advantage. Thus, while small vendor are benefited by quick realization of their payments, the medium and large purchasers get time upto 90 days to pay the bills to the MSFC.

29) TECHNOLOGY UPGRADATION FUND SCHEME (TUFS):

Government of India has launched Technology Upgradation Fund Scheme (TUF) for Textile and Jute industries with effect from April, 1999. SIDBI has been appointed as the Nodal Agency for Small Scale Industrial units in the Textile industry and Cotton Ginning and pressing sectors. IFCI and 4 co-operative banks have been co-opted by SIDBI.
Under this scheme process control equipments, lab-dyeing machine and electronic dispensing pipette, machinery processing of fabrics, machinery for cotton waste recycling plant, sewing thread manufacturing activities etc. are admissible.

30) REFINANCE SCHEME FOR TEXTILES INDUSTRY UNDER TECHNOLOGY UPGRADATION FUND (RTUFS):

Pursuant to the announcement made by the Ministry of Textiles, SIDBI has decided to introduce Refinance scheme for Textile Industry under Technology Upgradation Fund (RTUF) for Small Scale units. MSFC implemented the scheme for Small Scale Industrial Units in the Textile industry and Cotton Ginning and Pressing Sectors.

1) Objective: To provide encouragement to Textile industrial units in the Small Scale Sector for taking a technology upgradation and to modernize their production facilities.

2) Scope of the scheme: The following activities covered under RTUF -

3) Eligible Borrowers: Sole proprietorships, Partnerships Firms, Co-operative Societies, Private and Public Limited Companies are eligible for taken loan under RTUF.

1) Project cost and Promoters contribution: The project cost for coverage under the scheme shall not exceed Rs.100 lakh and minimum 20 percent of project cost is the promoter's contribution.

2) Period of Repayment: Period of repayment will be fixed based on the repaying capacity of borrowing concern but not normally exceeding 7 or 10 years, including moratorium upto 2 years, in case of existing or new units respectively.
31) SCHEME FOR ACQUISITION OF ISO 9000 SERIES CERTIFICATE BY SSI UNITS (SAISO 9000):
The scheme introduced by SIDBI in 1996, duly modified on May 1999. The SIDBI is presently operating a scheme for providing financial assistance for acquisition of ISO 9000 series certification by SSI units. SIDBI has decided to introduce with immediate effect, a special scheme viz, ‘Refinance Scheme for Acquisition of ISO 9000 series certification by SSI units.’

Assistance under the scheme will be extended through the eligible primary lending institutions to their ultimate borrower on the same terms and conditions that were extended by SIDBI under its direct assistance scheme.

ISO stands for International Organization for Standardization. The organization comprises national standards bodies of 91 countries including India. It is made up of 160 technical committees. Each committee is responsible for an area(s) of specialization.

Why 9000 number? In 1967, six standards were issued. One on standard terminology, and five standards (known as ISO 9000 series), which clarify relation between quality concept and present three modes for quality assurance systems.

32) REFINANCE SCHEME FOR ACQUISITION OF ISO 9000 SERIES CERTIFICATION BY SSI UNIT (R ISO - 9000)
1) Objective – To promote quality management system in SSI units with a view to strengthening their marketing and export capabilities.
2) Eligible Institution – SFC, SIDC, Scheduled Commercial Banks, State Cooperative Banks and Scheduled Urban Co-operative Banks.
3) Eligible Borrowers – Existing industrial concern in the SSI sector having a good record of past performance and sound financial position are eligible for assistance, for this purpose, the concerns should -
   a) Have been in operation for a period of at least four years.
   b) Have earned profit and /or declared dividend during the preceding two financial years.
   c) Not be in default to institutions / Banks in payment of their dues; and
   d) Have been exporting their product, directly or indirectly or have plans to manufacture products for exports.
4) Purpose – Expenses on consultancy, documentation, audit, certification fees, equipment and calibrating instruments requirement.

5) Amount of loan / Refinance – Assistance under the scheme will be need based. SIDB would provide 100 percent. Refinance in respect of rupee term loans provided by the PLIs (Primary Lending Institutions) under the scheme.

6) Promoters Contribution – The minimum promoters contribution required would be 15 percent of the cost of the project and may be in the form of additional share capital contribution, interest free unsecured loans to be brought in by the promoters or internal cash accruals during the implementation period.

7) Terms of Assistance -
   a) Rate of interest

Table No.III.5

RATE OF INTEREST FOR R ISO 9000 SCHEME

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Amount of assistance Under scheme</th>
<th>Interest on Term Loan Per annum Excl. Int. tax</th>
<th>Interest on Refinance Percentage p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Up to Rs.25000</td>
<td>12.00 Percent</td>
<td>9.00 Percent</td>
</tr>
<tr>
<td>II</td>
<td>Rs.25001 to Rs.2 lakh</td>
<td>13.50 Percent</td>
<td>10.50 Percent</td>
</tr>
<tr>
<td>III</td>
<td>Above Rs.2 lakh</td>
<td>16.50 Percent*</td>
<td>14.50 Percent</td>
</tr>
</tbody>
</table>

* Prime Lending Rate (PLR) of SIDBI Refinance will be available at 2% below PLR. These rates are current lending rates prescribed by SIDBI. As and when the rates are revised by SIDBI, the rates of interest on refinance/loan will also be revised.

b) Debt Equity Ratio – Not more than 2:1 for borrowing concerns.

c) Repayment Period – Period of repayment will be fixed based on the repaying capacity of the borrowing concern but normally not exceeding five years including moratorium upto one year.

a) Security – To be decided on case-to-case basis. Generally, the loans sanctioned under the scheme are to be secured by way of suitable charge on the assets of the units.
8) Procedural Aspects – I) the eligible institutions should superscribe the 
refinance application 'Refinance scheme for acquisition of ISO 9000 
Series Certification by SSI unit 'to specifically indicate that the 
proposal related to scheme. This would facilitate consideration of 
relaxed norms and also serve for MIS purpose. ii) Proposals covered 
under the Automatic Refinance Scheme may be included in a separate 
statement prominently indicating that they relate to the scheme and 
eligible PLIs should specifically mention at the end of the statement are 
for technology upgradation / modernization of the respective industrial 
units and that the assistance has been given for the purpose mentioned 
in the scheme iii) Loans sanctioned under the scheme shall be outside 
the purview of SIDBI’s and SIC’s 

9) Others – The units availing of assistance under the scheme and 
acquiring ISO 9000 Certification would be eligible for being considered 
for Government of India incentive subsidy of 75 percent of the cost of 
acquisition of certificate upto a maximum of Rs.75,000 subject to the 
provision of the scheme of DC (SSI), Government of India, directly for 
this purpose, along with permanent SSI/Ancillary Registration 
Certificate of DIC / State Director of Industries valid as of date, ISO 
9000 series certification awarded to the units and documents showing 
proof of payments of charges made the certification Agency. The term 
loan assistance under the R ISO 9000 scheme would be available to all 
eligible SSI units irrespective of the availability of incentive from 
Government of India.

33) SCHEME OF TAKE-OVER OF LOAN ACCOUNT FROM BANK 
AND OTHER FINANCIAL INSTITUTION (STLA):

The scheme was introduced by MSFC in November 2004. In the past of 
some of the good client of the MSFC switched over to Bank and other financial 
institutions by making prepayment of loan of MSFC because the rates of 
interest were high in the MSFC. Further, such type of clients subsequently 
availed additional/fresh loans for their expansion, diversification, and 
modernization projects because the MSFC had kept the sanction hold for past 2 
years or so.
MSFC has started sanctions of loans as per new sanctioning policy and the rate of interest charged by the MSFC is competitive as compared to present rates of interest offered by Bank and other financial institutions. Further repayment period available with MSFC is comparatively longer. The Board of directed that the scheme be modified on the basis of similar scheme being operated by SIDBI. Under the scheme MSFC grants financial assistance as per the details given below:

1) Eligibility- the unit approaching under the scheme should fulfil following norms.
   1) Should have been past borrower having good track record
   2) Should comply with eligibility norms as per new sanctioning policy
   3) The applicant’s account should be default-free and categorized as “Standard”

2) Purpose of loan- the loan shall be for repayment of outstanding term loan of the bank/other financial institution granted for acquisition of project fixed assets.

3) Quantum of loan- the minimum loan limit under the scheme shall be Rs10 lakh and the maximum loan at Rs.240 lakh.

4) Rate of Interest- 11 percent per annum with monthly rest without any incentives for prompt payment and it is depending on the fluctuations in the market.

5) Repayment period- Not more than 6 years with no moratorium in case of take over of bank account.

34) CREDIT LINK CAPITAL SUBSIDY SCHEME (CLCSS):
Since last year, the MSFC has started sanctions of fresh loans on selective basis to existing good and successful clients and from current year to existing good and successful non-clients as per sanctioning policy. Now MSFC has been receiving loan application under the captioned scheme. Therefore in order to implement the scheme, the MSFC has executed a general agreement on 11th November 2004 with SIDBI, the nodal agency under the scheme.
Important conditions, parameters and procedural aspects of the scheme are as under-

1) The Government assistance cannot be utilized for the purposes other than, for which it has been sanctioned.

2) The credit risk under the scheme will be born by the eligible Prime Lending Institution (PLI)

3) There shall not be any binding obligation on the part of SIDBI to obtain sanction from Government of India for the Governmental financial assistance in respect of proposal, which are covered under CLCSS.

4) Entrepreneur/ the beneficiary unit availing credit linked capital subsidy for technology up-gradation shall not avail any other benefit including interest subsidy, under any other scheme of the Central Government.

5) Promoter's contribution, security, debt-equity ratio, up-front fee, etc. will be determined by the lending agency/PLI (MSFC) as per its existing norms.

III.13) PROCEDURES OF FINANCIAL ASSISTANCE:

A procedure is specific task sequence aimed at achieving the laid down objectives. A well-designed procedure specifies who does what and, in general, how and when. A procedure is the working level of system; it is an actual guide to employees on how to proceed each time a particular running type of work is to be performed. A procedure can be stated as a planned sequence of operations for handing recurring business transactions uniformly and consistently. According to Koontz O’Donnel procedures, must be designed to help and reflect the objectives and policies of the enterprises. They should involve the minimum of duplication, overlapping and conflict. The basic objective of an organization is to perform the work at minimum cost and maximum productivity and to help the management to achieve its goals. These can be achieved by eliminating unnecessary procedures, by simplifying them, and by mechanizing the routine task wherever possible.
MSFC is an organization of Government undertaking; it has its own policy and procedure of financial assistance. The following steps are required to avail of the financial assistance from MSFC.

III.13.1) LOAN APPLICATION FORMS

Prescribed loan application form (Rs.20 per set of 4 forms) are prescribed for loan amount upto Rs.2 lakh, Rs.2 lakh to 15 lakh, Rs.15 lakh to 1 crore and above Rs.1 crore is available at all offices of the MSFC which is to be submitted with required additional particulars indicated in the checklist. Separate application forms are prescribed for Loan under seed capital assistance, equipment lease finance and Extended Credit Facility scheme and scheme for Medical Practitioners.

III.13.2) PROCESSING FEE:

Loan application forms should be accompanied by processing fee. Processing fee for long term and short term loan shown in Tables III.6 and III.7 respectively:

Table No.III.6

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>Processing fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Composite loans upto Rs.25000</td>
<td>Rs.100</td>
</tr>
<tr>
<td>2 Above Rs.25000 upto Rs.50000</td>
<td>Rs.225</td>
</tr>
<tr>
<td>3 Above Rs.50000 upto Rs.10 lakh</td>
<td>0.70% of sanction amount</td>
</tr>
<tr>
<td>4 Above Rs.10 lakh</td>
<td>1% of sanction amount subject to Maximum Rs.1 lakh.</td>
</tr>
</tbody>
</table>

Source- As per MSFC circular

In respect of loan applications received from SC/ST entrepreneurs, ex-servicemen, under the respective scheme, the processing fee is to be charged at 50 percent of the rates mentioned above.
Table No.III.7

PROCESSING FEE FOR SHORT TERM LOAN

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>Processing fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Upto Rs.50 lakh</td>
<td>Rs.10000</td>
</tr>
<tr>
<td>2 Above Rs.50 lakh upto Rs.100 lakh</td>
<td>Rs.15000</td>
</tr>
<tr>
<td>3 Above Rs.100 lakh</td>
<td>Rs.20000</td>
</tr>
</tbody>
</table>

Source- As per MSFC circular

Note- 1) Interest of term loans with effect from 6-5-2004 is 1.50 percent interest intensive for prompt payment i.e. 1.50 percent rebate.

2) In respect of loan applications from Scheduled Cast/Scheduled Tribe entrepreneurs and Ex-servicemen, processing fee to the extent of 50 percent of the above rate would be charged for projects under the respective scheme viz. Composite Loan Scheme and SEMFEX (Ex-servicemen).

III.13.3) QUANTUM OF ASSISTANCE:

The loan amount is worked out on the Debt-Equity Ratio and minimum Promoter's contribution norms also ensuring that at least 5 to 10 percent security margin is maintained on the value of fixed assets eligible for the loan. High security margin and/or collateral security may also be insisted upon depending upon risk perception.

III.13.4) DEBT-EQUITY RATIO (DER):

For loan upto Rs.10 lakh, DER at 3:1 (75 percent loan, 25 percent equity) is observed while for loan amount over Rs.10lakh DER at 2:1 (66.67 percent loan, 33.33 percent equity) is applicable. For the purpose of calculating this ratio, 'Equity' includes promoters contribution, share capital, seed capital, State Government subsidy, reserves, portion of accruals transferred out of profits, irredeemable preference shares and redeemable preference shares with a maturity not less than 12 years. Accumulated losses (including miscellaneous expenses not written off) are deducted from Equity. 'Debt' includes long-term...
loans; deferred payment on acquisition of fixed assets and redeemable preference shares of less than 12 years maturity.

The promoter is given an option of applying for higher amount of loan in lieu of State Investment Subsidy; so that the project is not held up for want of subsidy.

III.13.5) PROMOTER’S CONTRIBUTION:

The following Table No.III.8 illustrates the promoter’s contribution for financial assistance.

Table No.III.8
PROMOTERS CONTRIBUTION

<table>
<thead>
<tr>
<th>Category</th>
<th>Promoter’s contribution (percentage of the project cost)</th>
<th>Districts in Maharashtra</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>12.50 percent</td>
<td>Gadchiroli</td>
</tr>
<tr>
<td>B</td>
<td>17.50 percent</td>
<td>Aurangabad, Chandrapur, Jalna, Ratnagiri, Sindhudurg</td>
</tr>
<tr>
<td>D</td>
<td>20.00 percent</td>
<td>Beed, Bhandara, Buldhana, Dhule, Jalgaon, Latur, Nanded, Osmanabad, Parbhani, Raigad and Yavatmal.</td>
</tr>
<tr>
<td>Other non backward Areas</td>
<td>22.50 percent</td>
<td></td>
</tr>
</tbody>
</table>

Source- Schemes for financial assistance Booklet Published by MSFC.
Note-Information based on Central Government classification of industrially backward districts

III.13.6) PROJECT COST:

The project cost includes cost of fixed assets, margin money for working capital, preliminary and pre-operative expenses and contingencies.

III.13.7) PROCEDURE FOR SANCTION OF LOANS:

The loan application form is submitted with required additional particulars indicated in the checklist. The loan applications are to be submitted to the concerned Divisional Offices. Promoters are advised to first discuss the proposal with the Zonal/Divisional Managers before submitting the loan application. Preliminary clearance for further processing of the proposal is
given within 10 days after scrutiny of the proposal and interview with the promoters by the Screening Committee at the Divisional Office or at the Head Office depending upon the loan amount. After detailed Technical and Financial Appraisal, the loan is sanctioned by concerned sanctioning authority viz. Divisional Managers and Regional Manager upto Rs.15 lakh, General Manager Rs.15 lakh upto Rs.25 lakh, Chief’s Committee upto Rs.25 lakh, Managing Director’s Committee upto Rs.50 lakh, Executive Committee Upto Rs.1 crore and Board of Directors upto Rs.2.40 crore.

III.13.8) ISSUE OF SANCTION LETTER:

After the loan is sanctioned by the sanctioning authority in the MSFC, a letter of sanction is issued incorporating all the term and conditions stipulated by the Sanctioning Authority. The promoters are required to communicate their unqualified acceptance to the terms and conditions by a letter duly signed by the proprietor, partner or director authorized in this behalf.

III.13.9) TIME LIMIT FOR ACCEPTANCE:

The sanction of assistance communicated through the sanction letter is to be acceptance in writing by the loanee concerns within 15 days from the date of issue of sanction letter. In case the loanee concerns do not convey their unqualified acceptance within the stipulated period, MSFC has a right to cancel the sanctioned loan limit without any reference to the loanee concerns.

III.13.10) ACCEPTANCE LETTER:

Alongwith the acceptance letter, processing fees, service charges as indicted in the letter of sanction should be paid. The processing fees, service charge is ranging between 0.7 and 1 percent of loan applied. Out of this, processing fee paid at the time of submission of the application is deducted.

III.13.11) COMPLIANCE OF TERMS AND CONDITIONS:

The loanee concerns have to comply with the requirements of two departments viz. Post Sanction Department and Legal Department. The concerns are, therefore, advised to contact the Heads of these two Departments and find out the formalities to be completed by them for availing the disbursement of loan. The loanee concerns are also advised to note that there
are certain terms and conditions, which are required to be fulfilled before availing of any disbursement of loan. These conditions, which are otherwise known as pre-disbursement conditions are very important and unless the concerns fulfill these conditions, the MSFC is not ordinarily in a position to disburse the loan. The loanee concerns, therefore, should take immediate steps to fulfill such conditions. In case of genuine difficulties, the MSFC considers only at its discretion modification of these conditions in exceptional cases depending on the merit of each case.

III.13.12) INTEREST RATES:

Interest rates ranging from 14 percent to 23 percent per annum depending upon the scheme, quantum of loan, eligibility for refinance etc. Interest rates are subject to change depending upon changes in refinance rates of interest of Industrial Development Bank of India/ Small Industries Development Bank of India. No separate interest tax, service charges, inspection fee is charged.

As per circular dated 21-7-2004, Annexure ‘A’ Interest Rate Structure indicates in the following Table No.III.9 (Proposed rate for all term loans).

Table No.III.9

<table>
<thead>
<tr>
<th>PROPOSED RATE OF INTEREST</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Term loans to all borrowers 13 percent</td>
</tr>
<tr>
<td>2 Sale of units u/s 29 14 percent</td>
</tr>
<tr>
<td>3 Takeover of all accounts 11 percent</td>
</tr>
</tbody>
</table>

Source- MSFC circular dated 21-07-2004
(Only General loan scheme will be functional. All other schemes are kept in abeyance)

III.13.13) LEGAL FORMALITIES/ DOCUMENTATION:

MSFC’s legal Department at the Head office and Divisional Offices provide necessary guidance to loanee concerns in respect of legal formalities/documentation at the preliminary clearance stage itself. The investigation of title of property offered in mortgage and preparation and execution of all legal documents are done by the Legal Department. The MSFC generally accepts papers in English Mortgage for securing
immovable assets such as land, building and machinery. If the loan is only against plant and machinery, Deed of Hypothecation is executed.

III.13.14) DOCUMENTS REQUIRED FOR COMPLETION OF LEGAL FORMALITIES:
1) Documents in respect of properties offered in security.

III.13.15) CHECK LIST:
1) SSI/SSSBE Registration certificate for SSI units from Directorate of Industries (for units in districts, concerned District Industries Centre and for units in Mumbai Metropolitan Area, Joint Director of Industries). Large and Medium Scale units are required to submit Industrial Entrepreneurs Memorandum to Secretarial of Industrial Approvals, Ministry of Industry, New Delhi.
2) No-objection certificates from The Directorate of Industries, Maharashtra Industrial Development Corporations (MIDC), Collector, Municipal Corporation/ Municipal council/Gram Panchayat/Zilha Parishad/Health Department/Food and Drug Authority/Maharashtra Pollution Control Board/Environmental Department etc. whichever is applicable. The new units as well as existing units proposing expansion/diversification are also required to obtain No-objection certificates from prescribed authorities for Maharashtra State Electricity Board (MSEB) power sanction.
3) Copy of agreement for freehold/leasehold land where factory building is to be constructed if the land is leasehold basis.
4) Architect’s detailed estimates for the proposed construction of the factory building or Architect’s certificate showing cost of the proposed building.
5) Approval of the building plans by the concerned authority i.e. Municipal Corporation/ Gram Panchayat/ Food and Drug Authority, as the case may be.
6) Approvals of the plans by the Inspector of Factories, if necessary.
7) A complete list of existing and proposed machinery as per the schedule in the application form.

8) Latest quotations from the machinery suppliers for the proposed machinery (at least from 3 different suppliers).

9) A copy of Memorandum and Articles of Association certified as up-to-date and signed by the chairman or Managing Director.

10) Copies of the import licences in respect of imported machinery.

11) Audited balance sheet, profit and loss account for the past three years. If more than six months have passed after completion of the latest year in respect of which accounts have been already furnished, provisional accounts for the said period.

12) Name and address of the bank and type of account with the bank.

13) Copy of partnership deed together with registration certificate. No minor is allowed to admit to the benefit of the partnership.

14) In case of private/public limited companies having their registered office out of the State of Maharashtra, seeking financial assistance for their projects in Maharashtra, their registered offices have to be shifted to the State of Maharashtra, for which a certified copy of permission of High Court.

15) Certified copy of the Income Tax, Wealth Tax clearance certificate for the latest year, and copies of returns/assessment orders for the past three years.

16) It is advisable to prepare a Project Report through it is not essential for assistance under most of the schemes of MSFC.

17) A copy of letter of sanction for different credit facilities sanctioned by the bankers of the concern.

18) Background of key technical personnel who would be associated with the project.

19) Note on marketing covering the strategy to be adopted, and letters from prospective buyers.

20) Certified copy of no-objection certificate from the registrar of Co-operative societies, if the Co-operative society proposes to raise loan from the MSFC and exemption order from the provisions of section 43 and 45 of Maharashtra Co-operative societies Act, and Rule 46-A of Maharashtra Co-
operative societies Rules 1961 from the Co-operation Department, Government of Maharashtra.

21) Resolution of the society for appointment of the Managing Director or Chairman.

22) Resolution of the society for raising the loan in pursuance of its borrowing powers.

23) Permission from the competent authority to mortgage under section 27(2) or exempting under section 20 or notice under section 26 duly acknowledged by the competent authority of the ULCR Act of 1976.

In addition to the above, the promoters are required to fulfill all other terms and conditions stipulated in the sanction letter.

III.13.16) REPAYMENT PERIOD:

Repayment schedule is fixed on the basis of the debt servicing capacity of the project. Maximum 8 years repayment period inclusive of moratorium period upto 2 years from the date of first disbursement is given. For certain schemes shorter repayment period is prescribed. Only interest payment commences during the moratorium period. For repayment of principal amount charged half yearly instalments and for payment of interest charged quarterly instalments. Normally 15 days extra period from the date of calculation is given for the payment of interest.

III.13.17) DISBURSEMENT OF LOAN:

After completing the sanction and compliance formalities the disbursement is considered in stages and is done in not more than eight instalments usually, depending on the progress of the project and on the basis of fixed assets acquired/created by the loanee concerns for which the loan is sanctioned. Loanee concerns have to furnish necessary documents and Chartered Accountant’s certificate in the prescribed format to prove the expenditure incurred. Physical verification of the assets acquired/ created is also carried out.

The disbursement amount is released by keeping the margin stipulated on the value of the specific assets, upon completion of legal formalities/
documentation. Disbursement of loan can be availed at the Head Office or at the concerned Divisional Office by the loanee concerns.

III.13.18) SUPERVISION AND FOLLOW-UP:

The work of the MSFC does not end with sanction and disbursement of loans. In fact, it is only the beginning of its long association. It has to ensure successful implementation of the projects of the assisted units. In order to ensure proper functioning of the assisted units and recovery of dues in time, the MSFC has evolved a system of inspection and follow-up. To ensure that the projects are implemented as per schedule and within the cost estimates, the loanee concerns are advised to take certain precautions as below-

1) The loanee concerns are, therefore advised to ensure proper utilization of the loan for the purpose for which the loan is released by MSFC and avoid diversification of the funds for any other purpose.

2) The loanee concerns should take all the necessary steps to ensure that the time schedule given for implementation of the project is strictly adhered to. It is necessary for the loanee concerns to ensure that the project is implemented within the cost estimates and there is no overrun in the cost of the project originally envisaged.

3) The loanee concerns should ensure that the estimates of production, sales, profit etc. as originally envisaged are being realized and the overall operational performance is satisfactory so as to meet the obligations and commitments of the financial institutions on due dates.

4) The loanee concerns should pay the instalments of principal and interest on due dates. The instalments in respect of principal are usually payable half yearly in case of industrial loans and in case of transport loans the instalments are payable monthly. The interest on loan is payable quarterly.

III.13.19) MONITORING:

In order to help the MSFC in monitoring the health of assisted units during the currency of the loan, the loanee concerns are required to furnish the following-

1) Progress report about project implementation in the prescribed format should be sent every quarter ending during the period of implementation of
project. Thereafter, the progress report is required to be sent regularly once in a year as on the date of closing of account of the units.

2) Audited accounts along with the report of the auditors within 3 months from the date of closing of annual accounts.

3) Furnish such information or documents to the officer of the MSFC for the purpose of periodical inspection.

4) The borrowers should not make any changes in the constitution of the firm during the implementation of the project without MSFC’s prior approval in writing.

5) The MSFC stipulates several negative covenants while granting financial assistance according to which the loanee concerns are restricted/prohibited from doing certain things during the currency of the loan without prior written approval of the MSFC. In deserving cases, whenever the loanee concerns approach the MSFC for modifying or relaxing aforesaid conditions, the request are considered sympathetically on the merits of each case.

6) As per the provisions of the SFCs Act and the guidelines of the IDBI, the MSFC appoints its nominee on the Board of assisted companies to ensure speedy and timely implementation of the projects and monitor the health and performance of the unit.

### III.14) RECOVERY STRATEGY (STEPS TAKEN):

A comprehensive recovery strategy has also been finalized whereby the major thrust of the operation of the MSFC is being diverted towards maximizing recovery. The main features of the strategy are-

1) Preventing slippage of not a single account from the standard category.

2) Efforts to be made for upgradation of accounts falling in sub-standard category.

3) Discouraging premature closure/premature part payment by borrowers falling in standard category.

4) Selective acquisition of assets under section 29 of the State Finance Act and vigorous efforts to be made to dispose off all the units in
possession particularly those, which are in possession for more than five years.

5) Specific Non-Performing Assets (NPA) Containment Action Plan (CAP) including suitable legal recourse where action U/s 29 and U/s 31(1)(aa) of SFCs Act are challenged in Court.

6) ABC analysis of suit filed cases with respect to amount involved and status of Court case so as to maximize recoveries in the shortest possible time.

For the purpose of effective recovery, MSFC has introduced and implemented following schemes:

1) OVERDUE INTEREST SETTLEMENT AND LOAN RESTRUCTURING SCHEME (OIS AND LR):

The scheme was introduced by MSFC in April, 2003. In order to tide over the acute problems faced by the industries, in view of the prevailing recession as also to provide an opportunity to the ailing assisted units, to regain their health, the MSFC has formulated a scheme for Overdue Interest Settlement and Restructuring of outstanding principle (OIS and LR) for benefit of its borrowers.

2) NON—DISCRETIONARY AND NON-DISCRIMINATORY SCHEME NO.IV (NDND OTS IV):

The MSFC has been implementing the scheme for recovery of dues relating to Non Performing Assistance (NPAs) through One Time Settlement. In order to give the tool in the hands of Regional Managers to get rid of, especially loss accounts. The Board of Directors accepted the scheme in September 2003.

3) ONE TIME SETTLEMENT SCHEME (OTS):

Pursuant to the decision taken by the Board in its meeting held on 3rd March, 2005, it has been decided to introduce parameters for settlement formula/ guidelines for OTS for accounts from Doubtful and Loss category. Further, it has also been decided to delegate the powers of approval of OTS proposals to the Regional Manager's Committee in case the offers received
confirms to the settlement formula / guidelines for OTS as approved by the Board. Further, for offers from Doubtful and Loss category which are less than the principal outstanding, the Regional Manager's Committee has been authorized to recommend such offers by recording the justification for the same, which can then be placed before the appropriate Committee for decision based on the principal outstanding.

It has also been decided to increase the coverage of OTS proposals from Doubtful and Loss category, which could be placed before Special Constituted Committee (SCC) for decision. Circular No. 14 dated 15th March, 2005 containing various aspects such as parameters for settlement formula / guidelines for OTS, procedural aspects, constitution of Regional Manager's Committee, delegation of powers to the Regional Manager's Committee and other related issues. The details about scheme mentioned in Appendix....

III.15) COMPUTERISATION IN MSFC:

MSFC has developed the software packages for computerizing its major operating areas such as appraisal of various project reports for grant of loans, disbursement of loans, maintenance of accounts, recovery of the principal and periodical interest thereon etc. The software packages are-

3) Project Appraisal for industrial projects, & Projects of Hotels & Restaurants, & Hospitals & Nursing Homes.
4) Financial Accounting System
5) Loan Accounting System including a system for Asset Classification/Health Code Analysis etc. & the History Data Management System
6) Payroll

After the successful implementation of project Appraisal software, MSFC has developed Financial Accounting (FA) & Loan Accounting (LA) package.

III.16) PERFORMANCE OF MSFC:

MSFC has always encouraged potential entrepreneurs even if they lacked necessary pre-requisites in the form of adequate promoter's contribution or security. There are numerous examples of entrepreneurs located in remote areas who have received MSFCs assistance at a time when no bank or other agency dared to extend helping hand to them. Many of such entrepreneurs have
achieved very good success, which would not have been possible without the help of MSFC.

MSFC always felt that entrepreneur is the main source of strength for the success of any venture and with this view in mind co-founded the well-known ‘Maharashtra Centre for Entrepreneurship Development (MCED)’ at Aurangabad, which has grown into the premier state level Entrepreneurship Development Institute in the country. MSFC’s executive was at the helm of MCED for number of years after its formation.

As a part of the Golden Jubilee Celebration, MSFC has planned to conduct Entrepreneurship Development Programmes (EDPs) in various districts in collaboration with MCED and other training institution, especially for the Small Scale Industrial Units facing difficulties. Such EDPs are first of its kind in the country. MSFC is of the opinion that acquiring and selling of the assets of defaulting units is not the solution but effectively re-deploying these assets in to productive use by deviating from the normal coercive actions would be a better strategy for infusing energy into the enterprises and also to strengthen the partnership of MSFC with the entrepreneurs which will generate feeling of confidence among them.

Since inception of MSFC increases its working capacity and area throughout the Maharashtra. For the purpose of present study, researcher studied the period from 1993-94 onwards upto 2004-05, but 2005-06 year also is included for the measurement of performance of MSFC.

The Table No.III.10 exhibits the financial performance of MSFC. The total sanctions during the year 1993-94 it’s since inception was Rs.1851 crore, which was reached upto level of Rs.3431.39 crore in 2005-06. That means it shows the increase by more than 1.75 times during the above period. It shows a steady growth of sanctions except in the year 2005-06 in which MSFC did not sanction any term loan.

The total disbursement during the year 1993-94 since inception was Rs.1209.90 crore which was reached upto Rs.2474.27 crore at the end of March 2006. Table indicates continuous increasing trend in disbursement going on. The rate of amount disbursed shows slow and steady as compared to rate of amount sanctioned. It also points out that the sanctioned amount is not wholly disbursed. The growth of disbursement is about 2 times.
The average rate of sanctions during the period 1993-94 to 2005-06 was Rs.3093.86 crore and average rate of disbursement in the same period was Rs.2187.03 crore which is much slower, but the average rate of total collections i.e. principal amount plus interest amount was Rs.223.17 crore.

Similarly operating income also indicates the rising trend from Rs.100.34 crore upto end of March 1994 to Rs.177.60 crore upto end of March 1997 and decreasing trend from Rs.175.86 crore to Rs.23.37 crore upto end of March 2006.

Average of operating expenses during 1993-94 to 2005-06 was Rs.24.51 crore per year and trend was flexible. As per revival strategy, MSFC has reduced in operating expenses e.g. operating expenses was Rs.21.53 crore in 1993-94, which was decreased upto Rs.11.09 crore in the year 2005-06. It is also pointed out in the table that number of employees has been decreased from 977 to 229 during above thirteen year. It indicates the policy of MSFC regarding minimizing of expenses.

It is observed from the table Net Profit After Tax (NPAT) indicates increasing trend from March 1994 upto the end of March 1996, then there was continuous incurred losses upto the end of March 2006.

Share capital (including share application money) was Rs.52.71 crore in the year 1993-94 it is reached upto Rs.62.65 crore at the end of March 2006.

The average rate of gross outstanding (includes interest not debited to loan accounts) was 1173.73 crore and overdues in the year 1993-94 was Rs.182.34 crore while at the end of March 2006 it was 1285.03 crore. It increased by Rs.1102.69 crore during thirteen year.
Table No. III.10

PERFORMANCE OF MSFC:

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<td>(53.73)</td>
<td>(17.88)</td>
<td>(37.49)</td>
<td>(7.28)</td>
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<td>(95.50)</td>
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<td>(331.50)</td>
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<td>i) Appr. Of Res</td>
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<tr>
<td>ii) Pro. for Div.</td>
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<tr>
<td>iii) Surplus c/f</td>
<td>(614.97)</td>
<td>(609.84)</td>
<td>(570.70)</td>
<td>(415.19)</td>
<td>(429.96)</td>
<td>(98.46)</td>
<td>(60.97)</td>
<td>(53.70)</td>
<td>(22.53)</td>
<td>(21.30)</td>
<td>0.61@</td>
<td>0.74@</td>
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<td>i) Share cap. Including appl. money</td>
<td>62.65</td>
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<td>62.64</td>
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<td>4.11</td>
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<td>1237.48</td>
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<td>1272.80</td>
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<td>940</td>
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Source: Compiled from Annual Reports of MSFC 2002-03 and 2005-06, p. iv, iv

Note: 1) Figures are converted lakhs into crores, at the time of figures converted fractions are ignored

2) * Mark indicating includes interest not debited to loan accounts

3) # Mark indicating total of principal and interest amount

4) @ Mark indicating figures in lakhs
III.17 PROBLEMS FACED BY MSFC:

MSFC has reached a stage where rescheduling and restructuring are crucial for survival. As part of the efforts in this direction, MSFC has implemented several measures directed towards curtailing the operating cost, internal strengthening and restructuring. To bring about operational restructuring, nine Branch Offices of the MSFC and one regional Office have been relocated. With a view to curtail recurring expenditure, inter-alia, Voluntary Retirement Scheme (VRS) was introduced for employees. In its efforts for regaining strength and revival of its operations, MSFC has faced different types of problems.

Till 1995-96 MSFC was a profit making institution. Thereafter it has started suffering losses making due to following reasons.

1) Blockage of funds in Bill discounting and short-term loan schemes.
2) Increasing provisioning required covering Non-Performing Assets (NPA).
3) Industrial recession lasted for a period of 7 to 8 years.
4) Incurred competition to SSI sector from cheaper imported product.
5) Reduced the opportunities to ancillary units due to curtailment of orders and postponement of expansion programmes by large-scale units.
6) High rate of interest structure of MSFC finance.
7) Nationalized Banks, Scheduled Banks, Commercial Banks, Co-operative Banks and Private financial institutions started extending financial assistance to all the activities (to which MSFC is financing) which were so far neglected by all these financial institutions that is to say these institutions were not financing for long term requirements or long term loans to industrial units and which were mainly catering to the needs of working capital facilities.
8) Charge Low rate of interest for financial assistance by other financial institutions as compared to the rate of interest charged by MSFC.
9) Withdrawal of helping hands from SIDBI and State Government for revival of MSFC.
10) Failure to get financial support from SIDBI in the form of waiver of interest on refinance for the loans, which have been returned of or closed by the MSFC under One Time Settlement (OTS).
11) No reduction in the rate of interest by SIDBI on refinance.
12) No increases in the avenues for financing new sector other than the sectors traditionally available for SFC’s.
13) Application of NPAs (Non Performing Assets) for developmental institutions like MSFC that has deteriorated the financial health of the MSFC.
14) Reduction in very good accounts due to high rate of interest of MSFC for which finance at low rate of interest was available from other financial institutions.

MSFC has been debate since its establishment it has been criticized in various aspects, time to time as follows-

1) Violation of rules- the nature of the MSFC functioning formerly was as partnership firm of Reserve Bank and State Government. Then IDBI and now SIDBI. They have refinanced MSFC. According to the law State Government should have planned their policy with the consultation of SIDBI. But actually it is not done. The State Government has conducted the MSFC with the influential group of industrialist in the State, political relationship between industrialist and political leaders. Uncontrolled policies were declared and implemented by the State Government.

2) Political interference- the MSFC has a greater responsibility being a special financing body. This body should have taken the decisions, proved empirically and with the consultations with experts in the field. There should not be political interference in the entire affair of the body. MSFC has become the victim of the political interference like the other State Finance Corporations in the country. The present bad status of MSFC is because of the political interference.

3) Huge dues of loans at the industries- already there is great responsibility in the industrial fields. The Government tries to base the economy through various policies regarding the market, so this responsibility is increased more. Because of this many industries have become sick or defunct even when they were established with great efforts and a great deal of investments. This possibility is more in
medium-scale industries and maximum in Small Scale Industries. The statistical record of sick units or defunct unit financed by MSFC is not available. India has become the member of World Trade Organization because of which many products of small-scale industries have been imported on the large-scale. So the status of small-scale industries has been opened to large-scale industries. Sick or defunct units can't repay the loans availed by them from MSFC. The dues will be paid by small-scale industries and medium scale industries to MSFC. Only the interests are recovered from industries. The economy of MSFC has been collapsed because of the dues at medium and small-scale industries.

4) The problem due to the overpaid loan instead of subsidy- To establish the industries in the backward region of Maharashtra. State Government motivates the businessmen by offering subsidies. State Government has promised businessmen to give subsidy. But due to the collapsed economy of the Government the Government did not fulfill this promise. MSFC has financed the industrialists already and then it gave overloan to them. The amount of subsidy has not been repaid and there is no interest on it. The economy of newly established industries collapsed as they were given loan without subsidy. Many of them became sick or defunct. The amount of subsidies not received by the new industrialists financed by MSFC, is more than Rs.200 crore. The vicious circle, of no subsidy from Government, economic pressure on industrialists, MSFC relief of overloan, no repayment by industrialists, sickness of the units, has totally imbalanced the economy of MSFC.

5) Scandal in Bills Discounting scheme- MSFC has implemented the bills discounting scheme in very false manner. This scheme was implemented for the period from March 1995 to April 1996. This scheme was planned to avoid the inconvenience of small industries due to the delay in giving money to them by large industries. Assuming the support of IDBI to this scheme, concerned officers implemented the scheme for non-capital products. IDBI had taken strong objection to this after giving 25.52 crore then this scheme was closed. So the improper implementation of this scheme has caused MSFC the loss of RS.120 crore.
The public undertaking committee of the legislative assembly had taken a serious note of the scandalous affair of MSFC. The authority, of relaxing the rules of the scheme, was given to the Managing Directors by MSFC. The Managing Directors of MSFC have misappropriated their authority. The public undertaking committee has held them responsible for it.

The scheme, which was for small-scale industries temporarily, was actually used for big and well-developed industries, giving them crores of rupees, without any bank guarantee and only on collateral security and post dated cheques, without the prior permission of MSFC. Four industries outside the State were financed, as found in the inquiry.

The public undertaking committee has taken objection against this scheme. The legislative committee has recommended that there should be the investigation through CID and the concerned officers and servant be penalized.

Many scams are found in the MSFC because of the loose administration, lack of economic foresight, partiality, lack of transparency. Scam in leather industry is one of the examples of it.

There are many problems before MSFC. After giving loans to medium and small industries, the principle amount and interest are not recovered so there is a problem of overdues. The industries, which were given term loan, have become defunct and the problem became more serious. MSFC has confiscated some of the defunct industries and put them on auction. But in some cases nobody wanted to purchase these industries. In some cases the industries were not sold on profitable dealings. There is no change in this situation.

Central Government has appointed a committee headed by Gupta, to consider the competency of MSFC and to bring MSFC in good financial position. The committee has submitted its recommendations but they are not more usefull. MSFC itself is responsible for its condition.

Due to the leather industry scam and the irregularities in bills discounting scheme, MSFC has become weak in its proper functioning. It went into loss of Rs.200 crore. Chief Managing Director Joyas Shankaran tried to improve the condition of MSFC through some of his solutions
with the support of SIDBI. After the transfer of Shankaran Dr. K. Shivaji became the Chief Managing Director and there was no progress in improving the situation.

MSFC, which was in profit making upto 1995-96, had a great ambition of extension of business since 1996-97 and there started the degradation of it. In the initial stage Vicco Laboratories, Camalin India Ltd., Asian Paints Ltd., Vadilal Dairy, Lokmat Newspapers Ltd., Videecon Ltd., Menon Group, Mikrotech, Jain irrigation system, Pidilite Industries Ltd. etc. industries were financed by MSFC and these companies prospered well but since 2002-03 there started degradation of MSFC. The borrowers, stricken by recession, were given various concessions. MSFC had to repay the loan taken from SIDBI through the recovery of the old debt. Maharashtra State, which is at the top in industries and investments, but MSFC is loosing its importance.

Government of Maharshtra wants to revive MSFC with certain plans, so the committee headed by Chief secretary R.M. Premkumar has been appointed for it. The third meeting of the committee for restructuring and revival of MSFC was recently held. There are only 250 employees at present while there were 940 in 1996. Of them only the employees required for the recovery of loans are continued and others are terminated. So the future of MSFC seems quite dark and the Government role is awaited.

III.18) REVIVAL STRATEGY OF MSFC:

The prospects of the MSFC are also linked with the need for reducing the borrowing cost of funds made available to the MSFC. The rigid and high borrowing cost about 12.90 percent has forced the MSFC to extend assistance at higher lending rate, which has proved a major contributing factor for creation of Non Performing Assets. Because of the high borrowing cost, MSFC, like other State Financial Corporations (SFCs) in the country, is not in a position to lend at a competitive rate of interest as offered by Banks. Considering the fixed nature of refinance rates, MSFC is not in a position also to reduce on its own, high interest rates charged to the
borrowers which have resulted in premature repayment by many borrowers, attracted by reduced rates offered by banks.

In its efforts for regaining strength and revival of its operations, MSFC has taken various steps by concentrating on maximizing recovery of dues, reduction in the operating cost, utilization of the assets to the fullest possible extent and proposed diversification in terms of new activities. MSFC has approached the State Government and refinancing agencies for their assistance towards revitalization and restructuring of the MSFC. Now the MSFC has started the "MSFC Special Asset Reconstruction Division" under SARFAESI Act, 2002.

III.19) INTRODUCTION OF SARFAESI ACT, 2002

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Act, 2002 (SARFAESI-2002) was enacted with a view to enforce the lenders' right and improve the recovery from NPAs (Non Performing Assets). Before the enactment of the Act, the banks and FIs (Financial Institutions) had to take recourse to legal action by approaching the court of law, which resulted in considerable delays in recovering the NPAs. The Act aims to address this problem by allowing the banks and FIs to sellout the assets charged to them by not having to approach the court of law, thus making it easier for the banks to recover the dues within the shortest possible time. This Act addresses the following areas:

1) It facilitates Securitization that will lead to development of debt markets in India.

2) It provides for establishment of Assets Reconstruction Companies (ARC), which facilitates reconstruction of financial assets through professional management of distressed assets.

3) It helps in enforcement of security interest by taking possession of the assets and disposing of the same without the intervention of the court of law.

4) It provides for assignment of NPAs to ARC, which will then dispose of the assets and realize the proceeds.
III.19.1) QUALIFICATION FOR ACTION:
1) NPA amount should be above Rs.1 lakh.
2) Secured assets should back NPAs.
3) Amount due is not less than 20 percent of the principal and interest thereon (If 81 percent of amount due is paid and no action can be taken).
4) Account is not time barred.

III.19.2) PROCEDURE FOR ACTION:
1) Issue of Demand notice under Section 13(2)
   a) Demand Notice must contain correct details descriptions of the secured assets intended to be enforced.
   b) Correct description and address of the borrower.
   c) Entire amount due as on the date of the notice and future interest until payment.
   d) Measures to be taken u/s 13 (4) on failure to company with the demand.
2) Reply to representations or objections from borrower.
3) After service of notice of 60 days if the borrower has failed to comply with the demand measures under Section 13 (4) to be taken:
   a. Take possession
   b. Takeover management of the business
   c. Appoint any person as manager to manage the secured assets
   d. Issue notice under Section 13 (4)(d) to the third party who has acquired the secured assets from the borrower.
7) Taking possession of movable secured assets:
   1) If amount due not paid then authorized officer (not less than a Chief Manager) shall take possession of movable property in the presence of two witnesses.
   2) Panchanama be recorded and signed by the authorized officer, witnesses.
   3) Inventory to be prepared in the prescribed format and copy given to the borrower or representative.
4) The property shall be kept in the custody-authorized officer or in the custody of the person authorized by the authorized officer.

5) Insurance cover is obtained until they are sold.

6) If property is subject to speedy or natural decay or the expenses of safekeeping are likely to exceed its value, the authorized officer can sell it immediately.

8) Valuation or Reserve price:
   1) Approved valuer need not do valuation of Movable Secured Assets.
   2) Authorized officer can obtain estimate value of movable assets.
   3) The authorized officer in consultation with the secured creditor may fix reserve price.
   4) 30 days sale notice must be served and movable secured assets can be sold only after the expiry of 30 days.
   5) A copy of the notice to the guarantor also be served.

6) Mode of sale:
   1) By inviting tenders by publication of sale notice in two leading newspapers (one in vernacular language) having sufficient circulation.
   2) By holding public auction by publication of sale notice in two leading newspaper (one in vernacular language).
   3) By obtaining quotations
   4) By private treaty (agreement)

7) Certificate of sale of Movable Secured Assets:
   1) Certificate of sale should contain
   2) This certificate shall be prima facie evidence of title of the purchaser.
   3) Applicable sales tax must be collected from the purchaser and remitted to the sales tax authorities.

8) Taking possession of immovable secured assets:
   1) Delivery of possession notice in the prescribed format
   2) Notice to be affixed on the outer door of the property
   3) Publishing notice in 2 leading newspapers (one vernacular)

9) Valuation of the property by the banks approved valuer:
10) Fixation of reserve price (20 percent of the concluded valuation can be fixed as reserve price)

11) Sale of immovable secured assets:
   1) 30 days sale notice must be served
   2) Mode of sale can be by way of tenders, public auction, by quotation or by private treaty.

12) Certificate of sale for immovable secured assets.

III.19.3) MSFC AND SARFAESI ACT, 2002:

MSFC, by virtue of the powers vested under section 29 of the State Financial Corporations (SFCs) Act, has gained considerable expertise, in taking over possession of the mortgaged assets (such as land, building, plant and machinery and collateral security in the form of flat, shop, plot of land etc.) and disposal of the same by releasing advertisements for transfer of property with clear title. The MSFC has time tested procedures for take over and disposal of the distressed assets in the minimum time.

III.19.4) SERVICES OFFERED UNDER SARFAESI ACT, 2002:

MSFC offered following services under this act.

III.19.4.1) PRE TAKE OVER SERVICES:
1) Perusal and checking of security documents
2) Site visit and inspection of assets mortgaged as per the security documents
3) To check up the dues position of other lenders in respect of JPS cases and if so to obtain their consent for take over.
4) Drafting the take over notice as per the format stipulated under SARFAESI ACT.
5) Informing and obtaining the permission of local authorities for support if necessary.
6) Planning the logistics for take over.

III.19.4.2) SERVICES AT THE TIME OF TAKE OVER:
1) Arrangements for Police protection
2) Arrangements for appointing Panch for panchanama
3) Taking inventory and valuation of the assets
4) Sealing of the premises and drawing up of panchanama
5) Posting security personal

III.19.4.3) SERVICES OFFERED FOR POST TAKE OVER:
1) Issue of notice at site and in the newspapers to arrange for
disconnection of water and power services.
2) Inform MIDC or local authorities.
3) Insurance of the assets
4) Arrangements for inspection of the units by prospective buyers.

III.19.4.4) SERVICES OFFERED FOR DISPOSAL OF ASSETS:
1) To fix the reserve price in consultation with secured creditor/s.
2) To finalize the mode of sale
3) To fix the term of sale
4) To fix the auction schedule by inviting tenders by publishing
   advertisements in newspapers, receiving bids, organizing the bid
   opening and accepting or rejecting the bids.
5) On receiving consent from Co-lenders if any accept the offer and on
   receipt of consideration prepare the documents.

III.19.4.5) SERVICES OFFERED FOR HANDING OVER POSSESSION:
1) Finalization and execution of the sale deed
2) Making arrangements for handing physical possession as per
   inventory, preparing possession receipt and withdrawal of the security.

III.19.4.6) FEES OR COMMISSION:
   Fees to be charged/commission depends upon combination of various
   factors and services provided/required to be provided and would be known
   after review of portfolio and on case basis.
References-

2) Annual Report of MSFC, 2005-06, P.5
3) Ibid, p.6
5) Golden Jubilee Souvenir, Published by MSFC, 2004, P.6
6) Ibid, p.7
7) Pandit S.B. 'Working of Maharashtra State Financial Corporation 1962 to 1979, p.90
8) Ibid p.91
10) Ibid, p.113
11) Ibid, p.124
13) Pamphlet Published by MSFC regarding Network of MSFC
14) Scheme for Financial Assistance Booklet Published by MSFC, P.1
15) Ibid, p. 3
16) Ibid, p. 20
17) Annual Report of MSFC, 2005-06, P. i
18) Ibid, p. 2
19) MSFC Circular No.28 (14)/2000-MS/12(Circular No.11) regarding TUFS
20) MSFC Circular No.FI 1/1999-2000 dated 28th April 1999 regarding RTUFS
21) MSFC Circular dated 29th October, 1999 regarding SAISO 9000
22) MSFC Circular dated 29th October, 1999 regarding R ISO 9000
23) MSFC Circular No.10 (HO/TACC/2004) dated 29th November, 2004 regarding STLA
24) MSFC Circular No.9 (HO/TACC/2004) dated 29th November, 2004 regarding CLCSS
28) MSFC Circular dated 16th April 2003 regarding OIS and LR Scheme
29) MSFC Circular No.77 dated 24th October, 2003 regarding NDND OTS IV Scheme
30) MSFC Circular No.14 (HO/Zone II/2004-05) dated 15th March, 2005 regarding OTS Scheme
31) Pamphlet of MSFC regarding SARFAESI Act, 2002