CHAPTER V

PERFORMANCE OF FINANCE CORPORATIONS
INTRODUCTION

Though the district of Anantapur is one of the backward districts of a backward region in Andhra Pradesh it has a well developed money market consisting of both organised and unorganised sectors. Eversince the Nationalisation of Commercial Banks and introduction of the Lead Bank Scheme the progress made by commercial banks, regional rural banks, co-operative banks is in no way insignificant from the viewpoint of branch expansion, deposit mobilisation, credit deployment for different purposes including priority sector. The branch expansion especially in rural areas in the district hitherto neglected could make the credit available at cheaper rate of interest. Nevertheless, the unorganised sector of money market in Anantapur district consisting of money lenders, finance corporations, pawn brokers, chit firm, nidhis
could create its own market, in spite of the banking
development that took place after Nationalisation. This can
be witnessed from the progress made by the unorganised
sector in the Post-Nationalisation era. In order to
understand the functioning of unorganised money market which
is responsible for its progress in the district under study,
a sample consisting of 100 finance corporations (60 general
finance corporations, 27 film finance corporations, 9 auto
finance corporations, 2 chit firms and 2 pawn broker units)
is selected and their working from the viewpoint of
inception, form of organisation, composition of partners,
deposit mobilisation, fund utilisation, recovery and other
related issues are discussed in the following paragraphs of
this chapter.

INCEPTION

The beginning of any finance corporation can be traced to the intentions of few like-minded individuals
whose motive is to earn profit by lending money to those who
are in need of it in an organised way. The emergence of an
organisation is a process of polarisation of few individuals
around one or two strongly motivated and experienced persons
in financing activities. All finance corporations which
came into existence in Anantapur district without exception
are of partnership firms. The partnership form of
organisation facilitates to create confidence among the
persons who intend to deposit their surpluses for higher
rate of interest in corporations from two dimensions, viz.,
i) it is a registered entity and
ii) there is a collective responsibility of different partners.

The individuals at the first instance, invest their savings not exceeding Rs. 1 lakh by all members put together as there is a limit under the provisions of Banking Laws (Miscellaneous Provisions) Act, 1963 and get it registered on a name mutually agreed upon with the Registrar of Firms, Hyderabad. The procedure is to file an application for registration of firms i.e., Form No. 1 vide rule 3 of A.P. Partnership [Registration of Firms] Rules 1951 (Refer Annexure-1) duly filled in by all partners by remitting Rs. 100 towards registration fee along with the partnership deed executed.

As a next step, managing partner from among other partners is chosen for managing the day-to-day affairs either with the help of an adviser or paid manager/accountant. After the completion of the preliminaries, the immediate task before all the partners in general and the manager in particular is to collect deposits from various categories of people by introducing different schemes and by offering various gifts like suit cases, leather bags, wrist watches, gold rings, tourist trips etc. The status of deposit holders generally consists of friends and/relatives, co-firms, business men, employees,
pensioners, widows, landlords. Generally the percentage of deposits from relatives and friends is more compared to other classes of deposit holders.

COMPOSITION OF PARTNERS

The composition of partners in sample finance corporations in Anantapur district as on 31st March 1990 is presented in table 5.1. Out of 834 partners belonging to different categories of corporations are in proportion of 500 members or 69.95 per cent in General Finance, 215 members or 25.78 per cent in Film Finance, 83 members or 9.95 per cent in Auto Finance, 18 members or 2.16 per cent each in Chit Firms and Pawn Broker units. Out of total 834 partners in 100 sample corporations, 548 or 77.70 per cent belong to men as against 180 or 21.58 per cent women and 6 or 0.72 per cent minors. Out of 648 men partners, 397 partners belong to 60 General Finance Corporations followed by 158 partners for Film Finance Corporations, 67 partners for Auto Finance Corporations, 13 partners each for Chit Firms and Pawn Broker Units. In case of women partners 102 belong to General Finance Corporations, out of a total 180 partners in all categories. Out of 6 minor partners unlike the men and women, 3 partners belong to Auto Finance Corporations followed by 2 partners of Film Finance Corporations and 1 partner of General Finance Corporation. In case of General Finance Corporations, the composition of men, women and minor partners out of 500 is 79.40 per cent (397), 20.40 per cent (102) and 0.2 per cent (1) respectively.
Table 5.1
Composition of partners in sample Finance Corporations in Anantapur District as on 31st March 1990

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Corporations</th>
<th>Men Average</th>
<th>Women Average</th>
<th>Minors Average</th>
<th>Total</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>GFC</td>
<td>60</td>
<td>397 6.62</td>
<td>102 1.7</td>
<td>1 0.02</td>
<td>500</td>
<td>8.33</td>
</tr>
<tr>
<td></td>
<td>(79.40)</td>
<td>(20.40)</td>
<td>(0.20)</td>
<td>(59.95)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FFC</td>
<td>27</td>
<td>158 5.85</td>
<td>55 2.04</td>
<td>2 0.07</td>
<td>215</td>
<td>7.96</td>
</tr>
<tr>
<td></td>
<td>(73.49)</td>
<td>(25.58)</td>
<td>(0.93)</td>
<td>(25.78)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFC</td>
<td>9</td>
<td>67 7.44</td>
<td>13 1.44</td>
<td>3 0.33</td>
<td>83</td>
<td>9.22</td>
</tr>
<tr>
<td></td>
<td>(80.72)</td>
<td>(15.66)</td>
<td>(3.61)</td>
<td>(9.95)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CF</td>
<td>2</td>
<td>13 6.50</td>
<td>5 2.50</td>
<td>--</td>
<td>18</td>
<td>9.00</td>
</tr>
<tr>
<td></td>
<td>(72.22)</td>
<td>(27.78)</td>
<td>(2.16)</td>
<td>(2.16)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PB</td>
<td>2</td>
<td>13 6.50</td>
<td>5 2.50</td>
<td>--</td>
<td>18</td>
<td>9.00</td>
</tr>
<tr>
<td></td>
<td>(72.22)</td>
<td>(27.78)</td>
<td>(2.16)</td>
<td>(2.16)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>648 6.48</td>
<td>180 1.80</td>
<td>6 0.06</td>
<td>834</td>
<td>8.34</td>
</tr>
<tr>
<td></td>
<td>(77.70)</td>
<td>(21.58)</td>
<td>(0.72)</td>
<td>(100.0)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey.

Note: Figures in parenthesis indicate the percentages to total.
The average membership of men, women and minors in General Finance Corporations is 6.62, 1.7, 0.02 respectively as against 5.85, 2.04 and 0.07 in Film Finance Corporations and 7.44, 1.44 and 0.33 in Auto Finance Corporations. The average men (6.5) and women (2.5) is the same both in Chit Firms and Pawn Broker Units. It further signifies that the average membership of men, women and minors is less in Film Finance Corporation (5.88), Auto Finance Corporation (1.44) and General Finance Corporation (0.02) compared to the district average of 6.48, 1.80 and 0.06 respectively. The above analysis indicates that General Finance Corporation occupies a higher position from the view point of number of corporations, number of men and women partners.

It also signifies that the participation of women is the highest in Pawn Broker and Chit Firm and the lowest in Auto Finance Corporation which shows their preparedness to venture some activities like finance business.

PARTNER PARENT'S ACTIVITY

The data relating to partner parents activity in sample finance corporations in Anantapur district as on 31st March 1990 is presented in table 5.2 in order to assess which activity is influencing the partners to establish a finance corporation.

The activities of parents are grouped into three categories viz., financial activity includes moneylending
Table 5.2

Partners’ Parents Activity in Sample Finance Corporations as on 31st March 1990

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Corporations</th>
<th>Financial Activity</th>
<th>Business Activity</th>
<th>Other Activity</th>
<th>Grand total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>A</td>
<td>No.</td>
<td>A</td>
<td>No.</td>
</tr>
<tr>
<td>GF</td>
<td>60</td>
<td>299 (59.8)</td>
<td>60</td>
<td>1.0 (12.00)</td>
<td>141</td>
</tr>
<tr>
<td>FF</td>
<td>27</td>
<td>109 (50.70)</td>
<td>66</td>
<td>2.44 (30.70)</td>
<td>40</td>
</tr>
<tr>
<td>AF</td>
<td>9</td>
<td>48 (57.83)</td>
<td>29</td>
<td>3.22 (34.94)</td>
<td>6</td>
</tr>
<tr>
<td>CF</td>
<td>2</td>
<td>7 (38.89)</td>
<td>6</td>
<td>3.0 (33.33)</td>
<td>5</td>
</tr>
<tr>
<td>PB</td>
<td>2</td>
<td>7 (38.89)</td>
<td>3</td>
<td>1.5 (16.67)</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>470 (56.35)</td>
<td>164</td>
<td>1.64 (19.66)</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Note: Figures in parenthesis indicate the percentages to total.

A : Denotes Averages.
and finance business; business activity refers to money merchants, cloth merchants, estate brokers insurance agents, commission agents, trade in silk, oil mill owners and other activity means employment and agriculture. It is clear that out of the parents of 834 partners carrying on different activities individually accounted for 470 or 56.35 per cent in financial activity, 164 or 19.66 per cent in business activity and 200 or 23.99 per cent in other activities. In case of financial activity the parents of 470 partners, 299 or 58.0 per cent belong to General Finance Corporations, 109 or 50.7 per cent in Film Finance Corporations, 48 or 57.83 per cent in Auto Finance Corporations and 7 or 38.89 per cent each in Chit firm and Pawn Broker units.

In case of business activity, out of 164 partners parents, 29 or 34.94 per cent are in Auto Finance Corporations followed by 6 or 33.33 per cent in Chit Firms, 66 or 30.7 per cent in Film Finance Corporations, 3 or 16.67 per cent in Pawn Broker units and 60 or 12.0 per cent in General Finance Corporations.

Regarding other activity, of the parents of 200 partners, Pawn Broker units constitutes 8 or 44.44 per cent, 141 or 28.20 per cent in General Finance Corporations, 5 or 27.78 per cent in Chit Firms, 4 or 18.6 per cent in Film Finance Corporations and 6 or 7.23 per cent in Auto Finance Corporations.
It indicates that percentage of the parents of partners in case of General Finance Corporations, Film Finance Corporations, Auto Finance Corporations and Chit firms is higher in financing activity as against business and other activities in Pawn Broker units. The other activity is in least position in Auto Finance Corporations as 6 or 7.23 per cent as against 289 or 59.8 per cent and 29 or 34.94 per cent for financial and business activities respectively.

It also signifies that majority of partners in case of General, Film, Auto and Chit Corporations has a high influence from their parents to undertake the present financing activity and it has been lower in case of Pawn Broker units.

RELATIONSHIP

It is observed from the sample finance corporations that every association belongs either to relatives or friends group or both. The data relating to sample finance corporations is presented in table 5.3. It is evident that 50 per cent of the corporations are resultant of agreements between relatives and friends group. The relatives and friends group independently constitutes 28.0 per cent and 24.0 per cent respectively. Out of 60 General Finance Corporations, 34 (56.67 per cent) represents relatives and friends group, 14 (23.33 per cent) constitutes only friends group and 12 (20.0 per cent) belongs to only relatives group. In Film Finance Corporations relatives and
Table 5.3
Number of Relatives, Friends and Relatives and Freinds groups in Sample Finance Corporations as on 31st March 1990

(No. of Respondents)

<table>
<thead>
<tr>
<th>Relationship</th>
<th>GFC No.</th>
<th>GFC %</th>
<th>FFC No.</th>
<th>FFC %</th>
<th>AFC No.</th>
<th>AFC %</th>
<th>CF No.</th>
<th>CF %</th>
<th>PB No.</th>
<th>PB %</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relatives</td>
<td>12</td>
<td>46.15</td>
<td>8</td>
<td>30.77</td>
<td>5</td>
<td>19.23</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>3.85</td>
<td>26</td>
</tr>
<tr>
<td>and Friends</td>
<td>34</td>
<td>68.0</td>
<td>13</td>
<td>25.0</td>
<td>2</td>
<td>4.00</td>
<td>1</td>
<td>2</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(56.67)</td>
<td>(48.15)</td>
<td>(22.22)</td>
<td>(50.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friends</td>
<td>14</td>
<td>58.33</td>
<td>6</td>
<td>25.0</td>
<td>2</td>
<td>8.33</td>
<td>1</td>
<td>4.67</td>
<td>1</td>
<td>4.67</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>(23.33)</td>
<td>(22.22)</td>
<td>(22.22)</td>
<td>(50.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>27</td>
<td>9</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey.
Note: Figures in parenthesis indicate the percentages to total.
friends group constitute 48.15 per cent (13 corporations) followed by relatives group of 29.63 per cent (8 corporations) and friends group 22.22 per cent (5 corporations). But in contrary Auto Finance Corporations (5 corporations) 55.56 per cent represents relatives and (2 corporations) 22.22 per cent each in relatives and friends and friends independently. In case of Chit Firms and Pawn Broker units 50 per cent represents relatives and friends group and relatives group respectively and the balance of 50 per cent by friends and relatives group.

Out of 26 relatives group, 12 (46.15 per cent) represents General Finance Corporations, 8 (30.77 per cent) for Film Finance Corporations, 5 (19.23 per cent) for Auto Finance Corporations and 1 (3.85 per cent) for Pawn Broker units as against 24 friends group which consists of 14 (58.33 per cent) in General Finance Corporations, 6 (25 per cent) in Film Finance Corporations, 2 (8.33 per cent) in Auto Finance Corporations and one each (4.17 per cent) in Chit Firms and Pawn Broker units. In case of relatives and friends group of 50 corporations, General Finance Corporations constitute 34 (68.0 per cent) followed by 13 (26.0 per cent) in Film Finance Corporations, 2 (4.0 per cent) in Auto Finance Corporations and 1 (2.0 per cent) in Chit Firms.

From the table it is evident that no corporation is formed by admission of a stranger. That means, for
admission the existing partners must be having clear knowledge, acquaintance, relationship with each other. The main purpose is to keep the facts in secrecy and to collect deposits from their relatives or friends.

NORMS IN SELECTION OF A PARTNER

The admission of a partner is generally guided by different norms. They include capacity to invest, ability to mobilise deposits, capacity to recover debts, business experience and social status. The selected partners may be categorised into three groups viz., relatives, relatives and friends and friends. The basis adopted in selecting the partners is presented in the table 5.4.

Out of 834 partners belonging to 100 corporations, 225 partners or 26.98 per cent belonging to 26 corporations are admitted as relatives, of which 31 partners of 4 corporations admitted on their capacity to invest, followed by 87 partners of 10 corporations on deposit mobilisation, 71 partners of 8 corporations on recovery of debt, 17 partners of 2 corporations on business experience and 19 partners of 2 corporations on the basis of social status.

As relatives and friends, 421 partners or 50.46 per cent were admitted. The distribution of according to norms adopted is, 71 of 8 corporations on capacity to invest, 204 of 24 corporations on deposit mobilisation, 96
Table 5.4
Norms in Selecting Relatives and Friends as Partners in Sample Finance Corporations in Anantapur District as on 31st March, 1990

(No. of Partners)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Group</th>
<th>No. of Corporations</th>
<th>Capacity to Invest</th>
<th>Deposit Mobilisation</th>
<th>Recovery of debt</th>
<th>Business Experience</th>
<th>Social Status</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Relatives</td>
<td>26</td>
<td>31</td>
<td>87</td>
<td>71</td>
<td>17</td>
<td>19</td>
<td>225</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(26.98)</td>
</tr>
<tr>
<td>2</td>
<td>Friends and</td>
<td>50</td>
<td>71</td>
<td>204</td>
<td>96</td>
<td>33</td>
<td>17</td>
<td>421</td>
</tr>
<tr>
<td></td>
<td>Relatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(50.48)</td>
</tr>
<tr>
<td>3</td>
<td>Friends</td>
<td>24</td>
<td>18</td>
<td>85</td>
<td>51</td>
<td>18</td>
<td>16</td>
<td>188</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(22.54)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
<td>120</td>
<td>376</td>
<td>218</td>
<td>68</td>
<td>52</td>
<td>834</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(14.39)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(45.09)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(26.13)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(8.15)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(6.24)</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Note: Figures in parenthesis indicate the percentages to total.
of 12 corporations on recovery of debt, 33 of 4 corporations on business experience and 17 of 2 corporations on social status.

In friends category 160 or 22.54 per cent were admitted. Their composition is based upon 16 of 4 corporations on capacity to invest, 85 of 10 corporations on deposit mobilisation, 51 of 6 corporations on recovery of debt, 16 of 2 corporations on business experience and 16 of 2 corporations on social status.

The above analysis shows that more than half of partners were admitted as relatives and friends. Further, more than 1/3 rd of partners were admitted taking into consideration their capacity to mobilise deposits.

MIGRATION OF PARTNERS

In sample finance corporations of Anantapur District about 244 partners or 29.26 per cent migrated from different other places due to various reasons like, partnership (PS), marital status (MS), partnership cum employment (PE), marital cum employment (ME), marital, partnership cum employment (MPE) and partnership cum marital (PM). The details of migration of partners in sample corporations is presented in table 5.5. Of the 244 migrated partners, the number in General Finance Corporations is 128 of 52.46 per cent, 75 or 30.74 per cent in Film Finance Corporations, 32 or 13.11 per cent in Auto Finance
Table 5.5

Migration of Partners in Sample Finance Corporations
(as on 31st March 1990)

(No. of Partners)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Category</th>
<th>No. of Partners in sample</th>
<th>No. of partners migrated</th>
<th>Causes for Migration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>PS</td>
</tr>
<tr>
<td>1.</td>
<td>GFC</td>
<td>500</td>
<td>128 (52.46)</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(25.6)</td>
<td>(48.44)</td>
</tr>
<tr>
<td>2.</td>
<td>PFC</td>
<td>215</td>
<td>75 (30.74)</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(34.88)</td>
<td>(50.67)</td>
</tr>
<tr>
<td>3.</td>
<td>AEC</td>
<td>83</td>
<td>32 (13.11)</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(38.55)</td>
<td>(50.0)</td>
</tr>
<tr>
<td>4.</td>
<td>CF</td>
<td>18</td>
<td>5 (2.05)</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(11.11)</td>
<td>(40.0)</td>
</tr>
<tr>
<td>5.</td>
<td>PE</td>
<td>18</td>
<td>4 (1.64)</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(22.22)</td>
<td>(50.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>244</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(29.26)</td>
<td>(49.18)</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Note: Figures in parenthesis indicate the percentages to total.
Corporations, 5 or 2.05 per cent in Chit Firms and 4 or 1.64 per cent in Pawn Broker units. Out of partners migrated, 120 or 49.18 per cent is due to partnership, 72 or 29.5 per cent partnership cum marital, 24 or 9.84 per cent marital, partnership and employment, 14 or 5.74 per cent marital status, 7 or 2.87 per cent partnership employment and 7 or 2.87 per cent marital cum employment causes.

Out of 120 partners migrated for partnership covers different categories viz., 62 or 48.44 per cent in General Finance Corporations, 38 or 50.67 per cent in Film Finance Corporations, 16 or 50.0 per cent in Auto Finance Corporations, 2 or 40 per cent in Chit Firms and 2 or 50.0 per cent in Pawn Broker units. Out of 72 partners migrated for partnership cum marital, 48 or 37.5 per cent in General Finance Corporations, 20 or 26.67 per cent in Film Finance Corporations, 3 or 9.38 per cent in Auto Finance Corporations and 1 or 20.0 per cent in Chit Firms.

Considering all different categories of finance corporations it is further observed that out of total partners migrated 78.68 per cent has accounted by two reasons i.e., partnership and partnership cum marital. The analysis signifies that a major percentage of migration accounted for 50.67 per cent in Film Finance Corporations for partnership as against the lowest of 0.78 per cent in General Finance Corporations for marital cum employment.
Among all Corporations, there is the highest percentage of migration in Auto Finance Corporations (32 out of 83) as against the lowest in Chit Firms (5 out of 18).

To identify the important reasons which accounted for major percentages of migration, 'Pareto Analysis' is carried out. The results explicitly reveal that around 15 per cent of reasons i.e., partnership (PS) and partnership cum marital (PM) accounted for 78.68 per cent of migration, 57 per cent of reasons i.e., marital, partnership cum employment (MPE), marital status (MS) and partnership cum employment (PE) account for 18.45 per cent of migration and a mere 28.0 per cent of reasons i.e., marital cum employment (ME) is due to the balance of 2.87 per cent of migration.

In precise it can be noted that migration of partners is majorly due to partnership and partnership cum marital.

MANAGEMENT

It can be observed from table 5.6 that out of 100 corporations, 66 corporations are managed by managing partners assisted by advisers who happened to be promoters and whose activity is to advise the promoted corporations as consultants with certain honorarium as against 24 corporations managed by managing partners and 10 corporations by managers appointed on salary basis who are not partners.
Out of 60 General Finance Corporations there are 37 corporations (51.67 per cent) managed by managing partners assisted by advisers followed by 15 (25.0 per cent) by managing partners and 8 (13.33 per cent) by managers.

### Table 5.6
Management of Sample Finance Corporations in Anantapur District as on 31st March 1990

<table>
<thead>
<tr>
<th></th>
<th>GFC</th>
<th>EFC</th>
<th>AFC</th>
<th>CF</th>
<th>PB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Managing partner assisted by adviser</td>
<td>37</td>
<td>20</td>
<td>6</td>
<td>1</td>
<td>2</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>(61.67)</td>
<td>(74.07)</td>
<td>(66.67)</td>
<td>(50.00)</td>
<td>(100.00)</td>
<td></td>
</tr>
<tr>
<td>ii. Managing partner only</td>
<td>15</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>---</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>(25.0)</td>
<td>(18.52)</td>
<td>(33.33)</td>
<td>(50.0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii Manager who is not a partner</td>
<td>8</td>
<td>2</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>(13.33)</td>
<td>(7.41)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>27</td>
<td>9</td>
<td>2</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Note: Figures in parenthesis indicate the percentages to total.

In Film Finance Corporations, 20 corporations (74.07 per cent) are managed by managing partners assisted by advisers, 2 (7.41 per cent) by managers and 5 (18.52 per cent) by managing partners out of total 27 corporations.

In Auto Finance Corporations, 6 corporations (66.67 per cent) are managed by managing partners assisted by advisers, 3 (33.33 per cent) by managing partners as
against 1 (50.0 per cent) each by managing partner assisted by adviser and managing partner in Chit Firms. Only the two Pawn Broker units are managed by managing partners assisted by advisers.

It shows, all categories of corporations take the help of advisers in managing the affairs. The percentage of outsiders in managing the corporations as managers is confined only to General Finance Corporations and Film Finance Corporations. Managing the corporation by managing partner is prevalent in all categories excepting Pawn Broker units. Thus, the managing partner assisted by adviser occupies the first position followed by managing partner and managers in managing the day-to-day affairs of the corporations.

Normally the management of finance corporations cannot be vested in the hands of hired managers. However, in certain circumstances where the confidence among the partners is meek and the partners do not possess the requisite knowledge and skill to manage day-to-day affairs, corporations are forced to appoint the hired managers. This is what exactly the case as expressed during the course of interview with partners of 10 corporations which are managed by the managers.
CAPITAL INVESTMENT

The capital investment in different finance corporations in Anantapur district by March 1990 is presented in Table 5.7.

Table 5.7

Capital investment by Partners in Sample Finance Corporations in Anantapur District (as on 31st March, 1990)

<table>
<thead>
<tr>
<th>Range</th>
<th>GFC</th>
<th>FIC</th>
<th>ARC</th>
<th>CF</th>
<th>PB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Rs. 3,000</td>
<td>9</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td>(50.0) (1.00)</td>
</tr>
<tr>
<td>Rs. 3,000-6,000</td>
<td>52</td>
<td>47</td>
<td>54</td>
<td>12</td>
<td>6</td>
<td>171</td>
</tr>
<tr>
<td></td>
<td>(10.4)</td>
<td>(21.86)</td>
<td>(65.06)</td>
<td>(55.67)</td>
<td>(33.33)</td>
<td>(20.50)</td>
</tr>
<tr>
<td>Rs. 6,000-9,000</td>
<td>279</td>
<td>105</td>
<td>23</td>
<td>6</td>
<td>3</td>
<td>422</td>
</tr>
<tr>
<td></td>
<td>(55.8)</td>
<td>(48.84)</td>
<td>(34.94)</td>
<td>(33.33)</td>
<td>(16.67)</td>
<td>(50.60)</td>
</tr>
<tr>
<td>Rs. 9,000-12,000</td>
<td>140</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
<td>173</td>
</tr>
<tr>
<td></td>
<td>(28.0)</td>
<td>(15.35)</td>
<td></td>
<td></td>
<td></td>
<td>(20.74)</td>
</tr>
<tr>
<td>Rs. 12,000-15,000</td>
<td>23</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>(4.6)</td>
<td>(11.16)</td>
<td></td>
<td></td>
<td></td>
<td>(5.64)</td>
</tr>
<tr>
<td>Above Rs. 15,000</td>
<td>6</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>(1.2)</td>
<td>(2.79)</td>
<td></td>
<td></td>
<td></td>
<td>(1.44)</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>215</td>
<td>83</td>
<td>18</td>
<td>18</td>
<td>834</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Note: Figures in parenthesis indicate the percentages to total.

Out of 834 partners in 100 sample corporations, 422 (50.60 per cent) partners invested individually in the range of Rs. 6,000-9,000 followed by 173 (20.74 per cent) partners in Rs. 9,000-12,000, 171 (20.50 per cent) partners in Rs. 3,000-6,000, 47 (5.64 per cent) partners in Rs. 12,000-
15,000, 12 (1.44 per cent) partners above Rs.15,000 and 9 (1.08 per cent) partners below Rs.3,000.

Considering different categories of corporations, it is further observed that out of 500 partners in General Finance Corporations 279 (55.8 per cent) partners individually contributed Rs.6,000-9,000 range as against 105 (48.84 per cent) partners out of 215 Film Finance Corporations. Out of 83 partners in Auto Finance Corporations 54 (65.05 per cent) individually contributed in the range of Rs.3,000-6,000 as against 12 (66.67 per cent) partners out of 18 in Chit Firms. In Pawn Broker units out of 18 partners 9 (50 per cent) invested individually below Rs.3,000.

No single partner contributed more than Rs.9,000 each in Auto Finance Corporations, Chit Firms and Pawn Broker units and below Rs.3,000 except in Pawn Broker units. Capital contributed more than Rs.15,000 are in General Finance Corporations (6 partners or 1.2 per cent) and Film Finance Corporations (6 partners or 2.79 per cent).

DEPOSIT COLLECTION FROM PARTNERS

In establishing a corporation, every partner has an obligation to collect a minimum deposit of Rs.30,000. Table 5.8 reveals that out of 834 partners in Sample Finance Corporations, 230 or 27.58 per cent of partners are
mobilising deposit of Rs. 45,000 followed by 155 or 18.59 per cent of Rs. 50,000, 129 or 15.47 per cent of Rs. 55,000, 97 or 11.63 per cent of Rs. 60,000, 89 or 10.67 per cent of Rs. 65,000, 53 or 6.35 per cent of Rs. 30,000, 51 or 6.12 per cent of Rs. 35,000 and 30 or 3.59 per cent of Rs. 65,000.

**Table 5.8**

Deposit collection from Partners in Sample Finance Corporations in Anantapur District (as on 31st March 1990)

<table>
<thead>
<tr>
<th>Minimum amount of Deposits</th>
<th>CPC</th>
<th>FTC</th>
<th>AFC</th>
<th>CP</th>
<th>PB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. 30,000</td>
<td>27</td>
<td>16</td>
<td>10</td>
<td>53</td>
<td>(5.4)</td>
<td>(7.44)</td>
</tr>
<tr>
<td>Rs. 35,000</td>
<td>33</td>
<td>10</td>
<td>10</td>
<td>51</td>
<td>(6.6)</td>
<td>(3.72)</td>
</tr>
<tr>
<td>Rs. 40,000</td>
<td>56</td>
<td>32</td>
<td>9</td>
<td>97</td>
<td>(11.2)</td>
<td>(14.88)</td>
</tr>
<tr>
<td>Rs. 45,000</td>
<td>132</td>
<td>74</td>
<td>24</td>
<td>230</td>
<td>(28.4)</td>
<td>(34.42)</td>
</tr>
<tr>
<td>Rs. 50,000</td>
<td>103</td>
<td>25</td>
<td>19</td>
<td>155</td>
<td>(20.6)</td>
<td>(11.63)</td>
</tr>
<tr>
<td>Rs. 55,000</td>
<td>84</td>
<td>26</td>
<td>10</td>
<td>9</td>
<td>(16.6)</td>
<td>(12.03)</td>
</tr>
<tr>
<td>Rs. 60,000</td>
<td>42</td>
<td>27</td>
<td>20</td>
<td>89</td>
<td>(8.4)</td>
<td>(12.66)</td>
</tr>
<tr>
<td>Rs. 65,000</td>
<td>23</td>
<td>7</td>
<td>30</td>
<td>(4.6)</td>
<td>(3.26)</td>
<td>(3.59)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>500</td>
<td>215</td>
<td>83</td>
<td>18</td>
<td>18</td>
<td>634</td>
</tr>
</tbody>
</table>

**Source:** Field Survey.

**Note:** Figures in Parenthesis indicate the percentages to total.
In case of General Finance Corporations, out of 500 partners 132 or 26.4 per cent each collecting a deposit of Rs. 45,000 followed by 103 or 20.6 per cent each of Rs. 50,000, 84 or 16.8 per cent of Rs. 55,000, 56 or 11.2 per cent of Rs. 40,000, 42 or 8.4 per cent of Rs. 60,000, 33 or 6.6 per cent of Rs. 35,000, 27 or 5.4 per cent of Rs. 30,000 and 23 or 4.6 per cent of Rs. 55,000.

Out of 215 partners in Film Finance Corporations, 74 or 34.42 per cent each are collecting Rs. 45,000 followed by 32 or 14.88 per cent of Rs. 40,000, 27 or 12.55 per cent of Rs. 60,000, 26 or 12.09 per cent of Rs. 55,000, 25 or 11.63 per cent Rs. 50,000, 16 or 7.44 per cent of Rs. 30,000, 8 or 3.72 per cent of Rs. 35,000 and 7 or 3.26 per cent of Rs. 65,000.

In Auto Finance Corporations out of 83 partners 24 or 28.91 per cent each contributing Rs. 45,000 followed by 19 or 22.89 per cent of Rs. 50,000, 20 or 24.10 per cent of Rs. 65,000 and 10 or 12.05 per cent each of Rs. 30,000 and 55,000 as against 10 or 55.55 per cent of Rs. 35,000 and 9 or 44.45 per cent of Rs. 50,000 in Chit Firms and 9 or 50 per cent of Rs. 40,000 and 55,000 each.

It is further observed that partner who collects or obtains maximum amount of public deposits are enjoying high degree of managerial power and subsequently are elected as managing partners and subsequently or elected as managing
partners. To satisfy the condition every partner is mobilising deposits from their friends, relatives and from close associates.

PARTNER ACTING AS PARTNER IN OTHER SIMILAR BUSINESS

The partners who belong to different categories of sample Finance Corporations are also partners in other corporations in Anantapur district (See table 5.9) Out of 834 partners belonging to 100 corporations 418 or 50.11 per cent are having partnership in different finance corporations in the district. In case of General Finance Corporations, 236 or 47.2 per cent out of among 500 are having partnership in other corporations followed by 120 or 55.81 per cent out of 215 in Film Finance Corporations, 48 or 57.83 per cent out of 83 in Auto Finance Corporations, 8 or 44.44 per cent in Chit Firms out of 18 and 6 or 33.33 per cent out of 18 in Pawn Broker units. On overall the highest percentage of the partners who are also partners in the corporations is in the Auto Finance Corporations (57.83 per cent) and the lowest of 33.33 per cent in Pawn Broker units.

The analysis shows about 50 per cent of partners are having a partnership of other corporations. This is probably due to restriction of Rs.1 lakh capital ceiling availed for their benefit. This is also one of the causes for the multiplication of corporations in each category in the district.
Table 5.9
Number of Partners acting as partners in other similar units in Anantapur district as on 31st March 1900

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Category</th>
<th>No. of Partners in sample units</th>
<th>No. of partners acting as partners in the similar business (No.)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>GFC</td>
<td>500</td>
<td>236</td>
<td>47.20</td>
</tr>
<tr>
<td>2.</td>
<td>FFC</td>
<td>215</td>
<td>120</td>
<td>55.81</td>
</tr>
<tr>
<td>3.</td>
<td>AFC</td>
<td>83</td>
<td>48</td>
<td>57.83</td>
</tr>
<tr>
<td>4.</td>
<td>CF</td>
<td>18</td>
<td>8</td>
<td>44.44</td>
</tr>
<tr>
<td>5.</td>
<td>PB</td>
<td>18</td>
<td>6</td>
<td>33.33</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>834</td>
<td>418</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey.

Reasons Prompted the Customers to Keep the Deposits in Finance Corporations

In Anantapur district the public is more inclined to keep their savings in form of deposits in finance corporations though the services of commercial banks and post office savings banks are in existence. The important reasons prompted the customers are identified as acquaintances with partners, socio economic status of partners, financial soundness of firms, effective administration, high rate of interest and prompt service or repayment of principal on demand. The data collected from sample finance corporations in form of preferences are listed out in table 5.10. The weightage points from 6 to 1 are given for first to six reasons and the aggregate value is indicated in the last column.
Table 5.10

Reasons prompted the customers to keep deposits in Finance Corporations

(No. of respondents)

<table>
<thead>
<tr>
<th>Reasons</th>
<th>In Preferences</th>
<th>Aggregate Values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st</td>
<td>2nd</td>
</tr>
<tr>
<td>1. Acquaintances with partners</td>
<td>32</td>
<td>20</td>
</tr>
<tr>
<td>2. Socio economic status of partners</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>3. Financial soundness of the firms</td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td>4. Effective administration</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>5. High rate of interest</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>6. Prompt service of repayment of principal</td>
<td>22</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Field Survey.
The table clearly indicates that the public is motivated to keep deposits in finance corporations on account of their acquaintances with partners supported by the financial soundness of the corporation and capacity of the firm to repay debt than socio-economic status of partners, their capacity to manage the corporation on effective lines and not even by the high rate of interest. It is very evident that out of six reasons, high rate of interest is having a low aggregate value.

Method adopted to raise funds by the Corporations

In Anantapur district the finance corporations are adopting different methods in a competitive way to attract the deposits from the public. The general factors which are influencing the market situation are identified as appeal through friends and relatives, offering high rate of interest, providing gifts in cash and kind, advertisements, circulars, financial soundness of partners and through services of brokers. The preferences identified by the sample respondents are listed out in table 5.11. Due weightage points are given for each preference from 7 to 1 for first to seventh preferences respectively. The aggregate values of each factor was ascertained and recorded in the last column.

It indicates that out of seven factors the aggregate value of factor number one i.e., appeal through friends and relatives stood first position with 534 points.
Table 5.11

Methods adopted to raise fund by finance corporations

(No. of respondents)

<table>
<thead>
<tr>
<th>Methods adopted</th>
<th>In Preferences</th>
<th>Aggregate Values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st</td>
<td>2nd</td>
</tr>
<tr>
<td>1. Appeal through friends and relatives</td>
<td>50</td>
<td>14</td>
</tr>
<tr>
<td>2. High rate of interest</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>3. Gifts in cash &amp; kind</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>4. Advertisements</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>5. Circulars</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>6. Financial soundness of partners</td>
<td>12</td>
<td>46</td>
</tr>
<tr>
<td>7. Service of Brokers</td>
<td>6</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Field Survey.
followed by financial soundness of partners with 511 points, service of brokers with 432 points, high rate of interest with 397 points, circulars with 339 points, gifts in cash and kind with 321 points and the last through advertisement with 317 points.

This statement can be supported by the previous two table i.e., migration of partners and norms in selection of a partner. It is identified that the partner who is migrated from outside the district need not be an active partner and in selection of a partner 50 per cent emphasis is made for deposit mobilisation among relatives and friends and in the rest 28 per cent by relatives and 24 per cent by friends. Thus, the collection of deposits from relatives is mostly based on the confidence rather than any other criterion.

INTEREST ON DEPOSITS

There is no shortage of funds in form of deposits from the public. They are enjoying confidence, profits, regular payment of interest and in case of emergencies the principal amount also. The interest offered by finance corporations on deposits varies between 16 to 24 per cent per annum considering the demand for and supply of money in credit market.

In early stages of formation every Auto Finance Corporation used to offer only 10 per cent. But due to
severe competition with General Finance Corporations and Film Finance Corporations the interest rate on deposits increased to 20 per cent in Auto Finance Corporations with an intention to retain the existing deposits and to attract fresh deposits. During 1975-80 all categories of finance corporations offered 1 per cent commission to their commission agents. On knowing this fact deposit holders used to demand additional 1 per cent of interest by offering deposits directly. During the same period on account of bad credit policies corporations failed to recover the debt from the borrowers. As a result they failed even to pay the interest on deposits. That resulted in demanding the deposit amount by the investors. At that stage, all categories of Finance Corporations collectively decided a uniform rate of 18 per cent for all categories of deposit holders including charitable and educational institutions.

A group of finance corporations are accepting deposits for a period of 45 months under a specific scheme in which the amount will be doubled. But in this scheme deposit holder actually not eligible to claim any interest before maturity. Under this scheme the interest rate roughly works out to 22.5 per cent per annum.

**MODE OF PAYMENT OF INTEREST ON DEPOSITS**

The details of period-wise and category-wise interest payment to the deposit holders of different
corporations in Anantapur district in 1990 is presented in Table 5.12.

In General Finance Corporations 43 per cent of deposit holders preferred to reinvest their interest dues instead of receiving in cash as against 22 per cent received monthly interest, 20 per cent annually, 10 per cent quarterly and 5 per cent half yearly. The reinvestment is preferred by 36 per cent in Film Finance Corporations, 32 per cent in Auto Finance Corporations, 24 per cent in Chit Firms and 18 per cent in Pawn Broker units.

The monthly category accounts for 32 per cent, the highest in Chit Firms followed by 30 per cent in Pawn Broker units, 22 per cent in General Finance Corporations, 17 per cent in Auto Finance Corporations and 15 per cent in Film Finance Corporations as against 15 per cent in Chit Firms, 25 per cent in Pawn Broker units, 10 per cent in General Finance Corporations, 23 per cent in Auto Finance Corporations and 18 per cent in Film Finance Corporations in case of quarterly payment preference.

In case of Half yearly preference for receiving interest has accounted for 18 per cent, the highest in Chit Firms followed by 15 per cent in Pawn Broker units, 12 per cent in Film Finance Corporations, 10 per cent in Auto Finance Corporations and 5 per cent in General Finance Corporations. The deposit holders who prefer annually cover
20 per cent in General Finance Corporations, 19 per cent in Film Finance Corporations, 18 per cent in Auto Finance Corporations, 12 per cent in Pawn Broker units and 11 per cent in Chit Firms.

The above analysis signifies that there is almost equal preferences in receiving interest due to the deposit holders on their deposits. However, the highest percentage of deposit holders prefer for reinvestment providing that the higher percentage of deposits are not from those whose day-to-day needs are to be met with interest received monthly or in other instalment periods.

Table 5.12

Period-wise and Category-wise details of Interest Payment to the Deposit Holders in Sample Finance Corporations in Anantapur District as on 31st March, 1990

(in percentages)

<table>
<thead>
<tr>
<th>Category</th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Half yearly</th>
<th>Annually</th>
<th>Reinvestment</th>
</tr>
</thead>
<tbody>
<tr>
<td>GFC</td>
<td>22</td>
<td>10</td>
<td>5</td>
<td>20</td>
<td>43</td>
</tr>
<tr>
<td>FFC</td>
<td>15</td>
<td>18</td>
<td>12</td>
<td>19</td>
<td>36</td>
</tr>
<tr>
<td>ARC</td>
<td>17</td>
<td>23</td>
<td>10</td>
<td>18</td>
<td>32</td>
</tr>
<tr>
<td>CF</td>
<td>32</td>
<td>15</td>
<td>18</td>
<td>11</td>
<td>24</td>
</tr>
<tr>
<td>PB</td>
<td>30</td>
<td>25</td>
<td>15</td>
<td>12</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Field Survey.
ADVANCE AGAINST DEPOSIT

The corporation grants advance against deposit receipt to the holder. He would not get any exemption or reduction in interest rate. The corporations collect 16 per cent flat rate towards interest. The corporation obtains deposit receipts as a security. There are few corporations which provide an advance below 16 per cent interest but not less than 14 per cent to those deposit holders who have more number of deposit accounts in that corporation.

RESERVE FUND

There is no practice of transferring any amount to reserve fund to meet the contingencies. A few Finance Corporations are in practice of transferring a sum of Rs.5,000 per annum out of profits after taxes towards reserve fund to avoid complications and to meet emergency expenditure for the business with a view to strengthen the unit financially.

SECURITY TO DEPOSIT HOLDERS

The only security for the deposit holder is a promissory note issued and signed by the managing partner of the corporation. It is only the proof of evidence to claim back the deposit amount from the corporation and if it fails to repay the deposit, the depositor can file a civil case in the jurisdiction identified in the bond to claim that amount against a promissory note and not as a depository.
There is no other security other than personal security of the partner and hence the relationship between the partner and the deposit holder is just a good faith and confidence i.e., the capacity of the corporation to repay the deposit including interest thereon on demand or on maturity.

FUND UTILISATION

The General Finance Corporations in Anantapur district are sanctioning loans to borrowers for the purpose of trading, commercial and economic activities. No corporation encourages the debt for agricultural purposes because of fear developed in the minds of partners that legislative protections are making the borrowers not to pay the debt. The government attitude to protect the borrowers by amending the rules in Moneylenders Act and Debt Relief Act created an impression that they could not recover the debt even in the court of law. Hence, the corporations are not recording the purpose of loans as agricultural needs. The corporations are giving preference to those who are utilising the loan amount for commercial and trading activities because the amount borrowed will fetch certain return and hence the borrower can promptly repay the debt. At Hindupur town there are corporations in which the partner was a commission agent in purchase and sale of shares and debentures of companies and other marketable securities. They even advance loans for speculative purposes in certain
cases. But could not recover the debts and the corporation was forced to liquidate.

The Auto and Film Finance Corporations are granting advances for purchase of automobiles particularly lorries under hypothecation agreement and for production and distribution of films respectively. The Pawn Broker units and Chit Firms are granting advance against the security of movable property irrespective of utilisation.

DOCUMENTATION

Documentation is very important aspect as large sums of money are lent on the strength of documents executed. In event of non-recovery of debt the corporation files a case in a court of law for the recovery. The court pronounces its final verdict on the basis of documents. Hence, great care should be exercised in the format adhering to legal formalities.

a) Auto Finance Corporations

The corporation while granting advance on heavy vehicles obtains a set of documents from the borrower creating legal and moral obligations for repayment of debt before or on due date or after due date with certain penalty.

1) Property certificate issued by Mandal Revenue Officer identifying the list of assets which are in the names of family members and borrower;
ii) Hypothecation agreement duly signed by the borrower, accepting all conditions within and countersigned by the sureties who are partners in certain cases (Refer Annexure-II);

iii) Rs. 10 bond paper [non-judicial] with the signature of the borrower by creating a first charge on the properties in the name of the partners against the loan account with the sureties without date;

iv) Promissory note not duly accepted for the entire loan granted along with interest thereon (Refer Annexure-III).

b) Film Finance Corporations

The corporation demands following important documents from the prospective borrower.

i) A letter of request in writing to grant loan i.e., application for advance duly signed and recommended by any one of the partners in the corporation (Refer Annexure-IV);

ii) A promissory note duly stamped, signed without date for a specific sum of amount (i.e., to the extent of loan required together with the interest at a flat rate) for the period agreed upon to repay the debt (Refer Annexure-V);

iii) A finance agreement (Refer Annexure-VI) duly countersigned by the partner who recommended the loan application as surety filled-in and signed by the borrower cum producer in the presence of managing
partner that both the parties are abiding with the rules and regulations of advance;

iv) An undertaking from a film lab to extent laboratory services regarding processing of negatives, printing and release of prints (Refer Annexure VII);

v) An undertaking from a film lab that it will hand over the first print to the censor department or producer or distributor only after the receipt of clearance certificate from the financier (Refer Annexure-VIII);

vi) A property certificate identifying the list of assets of the borrower cum producer issued by Mandal Revenue Officer;

vii) A general charge created in non-judicial bond of Rs.10 by the borrower cum producer on assets in favour of the partner who acts as a surity;

viii) A voucher duly signed by the borrower to the effect that he has received payment from the Corporation.

In General Finance Corporations, Chit Firms and Pawn Broker units loans are granted against a simple promissory note duly signed by the borrower with surity.

INTEREST ON ADVANCES IN GENERAL FINANCE CORPORATIONS

In Anantapur district the General Finance Corporations are charging interest on general loans at the rate of 20 to 22 per cent flat considering the demand and supply of money. It was observed that corporations are
deducting the interest amount at the time of disbursement of loan amount to the concerned. The number of instalments, instalment amount and interest rate thereon will be fixed by their mutual agreement. The corporation will charge agreed rate considering the capacity for repayment of debt, time required for redemption, amount payable in each instalment, socio-economic and financial aspects of the borrower and promptness of the borrower in case of old customers.

In General Finance Corporations the interest will be deducted from the principal while granting the loan and are recovering the amount in different methods. There are three systems of recovery of debt viz., Daily, Weekly and monthly basis subject to the conditions agreed upon at the time sanction. In first two methods the collecting agent appointed by the corporation will collect the instalments from the borrower and remit the same against the loan account of the individual. He will be paid a minimum per cent of commission on actual amount of loan recoveries.

The interest rate is varying in the district basing on the security, personal contact, mode of payment, amount required etc. The following is the actual situation prevailing in the market for the recovery of debt and interest collected from the borrower in three types of lending.
Payment on daily basis: To a loan of Rs. 1,000 the corporation is deducting a sum of Rs. 80 on the condition that the borrower should repay the debt at the rate of Rs. 10 per day continuously for a period of 100 days. The Corporation is not showing entire amount in the books of accounts. It is recording a sum of Rs. 80/- in the books and partners are sharing the balance as a private transaction.

Payment on Weekly Basis: To a loan of Rs. 1,000 the corporation is deducting Rs. 90/- as advance interest on the condition that the borrower should pay the debt in 11 to 12 weekly equal instalments. Out of Rs. 90/- the corporation is showing only Rs. 80/- in the books of accounts and the partners are sharing the balance as a private transaction.

Payment on Monthly Basis

For a loan of Rs. 1,000 the corporation is charging interest at the rate of Rs. 3/- per every Rs. 100 per month. Depending upon the period of repayment the borrower should deposit a sum of rupee one only per day to the corporation in advance as interest.

In this method borrower should remit instalment amount in the office of the corporation before or on due date. Generally, corporation grants credit to individuals under salaried group. The corporation sanction loans under this category provided the partner should recommend the application as if he knows the applicant very well. In
practice corporations are not encouraging loans under this category because the turnover of cash will be reduced automatically compared to that of previous two methods.

CALCULATION OF ACTUAL INTEREST RATE

If a principal 'P' is paid in 'n' daily instalments, rate of simple interest per annum being 'r' percent, then the total interest 'I' accruing on the principal is given by:

\[
I = \frac{P \times r \times n + 1}{365,000} \times \frac{n + 1}{2}
\]

\[
r = \frac{2 \times 365000 \times I}{P(n+1)}
\]

In the above formula n + 1 can be replaced by n when n is large.

Illustration

(1) Let \( p = 930 \) \( n = 100 \) \( I = \text{Rs. 70/-} \)
(2) Let \( p = 940 \) \( n = 100 \) \( I = \text{Rs. 60/-} \)
(3) Let \( p = 920 \) \( n = 100 \) \( I = \text{Rs. 80/-} \)

Case (1): If I was charged at simple interest on the principal for 100 days, the rate of interest works out to be

\[
r = \frac{I \times 100}{Pn} = \frac{70 \times 100}{930 \times 100/365} = \frac{60 \times 100}{940 \times 100/365} = \frac{80 \times 100}{920 \times 100/365}
\]

\[
= 27.47\% \text{ p.a} \quad = 23.30\% \text{ p.a} \quad = 31.74\% \text{ p.a}
\]
Case (ii): If the same I = Rs. 70 or Rs. 60 or Rs. 80 is charged for a loan in 100 equal instalments, the rate of interest effectively charged comes as per the above formulas.

\[ r = \frac{1 \times 100 \times 2}{Pn} \]

\[ = \frac{70 \times 100 \times 2}{930 \times 100/365} \quad \frac{60 \times 100 \times 2}{940 \times 100/365} \quad \frac{80 \times 100 \times 2}{920 \times 100/365} \]

\[ = \frac{54.94\% \text{ p.a.}}{46.60\% \text{ p.a.}} = \frac{62.48\% \text{ p.a.}}{Which is exactly double the rate charged in case (i).}

Case (iii): if the rate of interest charged both in case (i) and case (ii) is to be held constant the corporation must charge only Rs. 35/-, Rs. 30/- and Rs. 40/- in case (ii) as shown below:

\[ I = \frac{Pr}{100} \times n/2 \]

\[ = \frac{930 \times 27.47 \times 100}{100 \times 365 \times 2} \quad \frac{940 \times 23.30 \times 100}{100 \times 365 \times 2} \quad \frac{920 \times 31.74 \times 100}{100 \times 365 \times 2} \]

\[ = \text{Rs. 35.00} \quad = \text{Rs. 30.00} \quad = \text{Rs. 40.00} \]

Thus, it must charge the same rate in case (ii) as in case (i) but for only half the period or alternatively on only half the principal for the entire amount.

**INTEREST ON ADVANCES IN AUTO FINANCE CORPORATIONS**

These corporations provide an advance under hypothecation agreement to the borrowers to purchase either new or old vehicles. The rate of interest chargeable varies considering the financial soundness of the borrower, make,
model and type of vehicle, period of repayment, principal amount required, nature of security, name and address of sureties, prompt repayment in case of old customers.

In Anantapur district Auto Finance Corporations are charging interest at the rate of 13 to 16 per cent flat in case of new vehicles and 15 to 18 per cent flat in case of old vehicles. Flat rate means the rate on entire amount of advance and not on diminishing balance basis and therefore, the true rate of interest is far in excess of what the flat indicates. The rate of interest in this sector did not decline because of increased demand for funds.

In addition to interest the corporation collects Rs.500 as Deposit amount, Rs.500 as Insurance Deposit on vehicle, 10 per cent on hire charges as Finance Commission (commission to brokers and agents) and Rs.50 towards documentation charges. Corporations are refunding deposit and insurance amounts at the time of closure of loan.

One month grace period will be provided to the basic instalments because the borrower may take time to construct the body of vehicle hence, may not enjoy the revenue immediately after the receipt of loan. An option will be given to the borrower to choose the number of instalments to repay the debt. If he has no option the corporation collects the debt not exceeding 50 instalments.
by fixing minimum instalment amount as Rs.5,000 and Rs.2,000 for new and old vehicles respectively.

The following example reveals the number of instalments, instalment amount, rate of interest etc. Suppose a borrower wants to borrow Rs.2,00,000 for a period of 40 months at the rate of 14 per cent flat: Then,

<table>
<thead>
<tr>
<th>Hire charges</th>
<th>2,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>(\frac{2,00,000 \times 14 \times 41}{100 \times 12} = 95,660)</td>
</tr>
<tr>
<td>Deposit amount</td>
<td>500</td>
</tr>
<tr>
<td>Insurance Deposit</td>
<td>500</td>
</tr>
<tr>
<td>Finance Commission</td>
<td>2,000</td>
</tr>
<tr>
<td>(10 per cent of hire charges)</td>
<td>Total 2,98,660</td>
</tr>
</tbody>
</table>

No. of instalments : 40

Basic instalment :
\[\begin{align*}
8,110 \times 1 & = 8,110 \\
7,450 \times 39 & = 2,90,550 \\
\hline
\text{Total} & = 2,98,660
\end{align*}\]

INTEREST ON ADVANCES IN FILM FINANCE CORPORATIONS

These corporations are charging 24 to 28 per cent flat on advance considering the acquaintance with borrowers. The corporations are collecting entire amount in a single instalment and if the borrower fails to pay the debt on the due date, he must pay an additional 4 per cent interest as penalty. The borrowers are not objecting this practice as they have given consent.
AVERAGE DEPOSITS, ADVANCES AND RETURN ON CAPITAL EMPLOYED

The average deposits, advances and percentage of return on average capital employed for different categories of sample finance corporations for 7-year period i.e., from 1984 to 1990 is presented in table 5.13.

In case of General Finance Corporation highest average deposits of Rs. 17.25 lakhs was recorded in 1984 as against the lowest of Rs. 9.12 lakhs in 1988. However, the average advances stood at Rs. 18.84 lakhs in 1984 being the highest as against the lowest of Rs. 10.92 lakhs both in 1985 and 1988.

The average deposits was the highest in 1984 accounting for Rs.22.99 lakhs in case of Film Finance Corporation as against the lowest of Rs.17.34 lakhs in 1990. The average advances was Rs. 26.04 lakhs in 1984 the highest, and Rs. 22.09 lakhs the lowest both in 1989 and 1990.

In Auto Finance Corporation the highest average deposits was Rs. 24.46 lakhs in 1984 as against the lowest of Rs. 12.52 lakhs in 1988. However, the average advances was Rs. 30.20 lakhs in 1984 as against the lowest of Rs. 16.27 lakhs in 1987.

In case of Chit Firms and Pawn Broker units the average deposits and advances were around Rs. 2.0 lakhs only
Table 5.13

Average Deposits, Advances and Percentage of return on average capital employed in
sample finance corporations in Anantapur District (1984 - 1990)

(Rs. in Lakhs)

<table>
<thead>
<tr>
<th>Years</th>
<th>GFC</th>
<th>FFC</th>
<th>AFC</th>
<th>CF</th>
<th>PB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DP</td>
<td>AD</td>
<td>NP</td>
<td>% R</td>
<td>DP</td>
</tr>
<tr>
<td>1984</td>
<td>17.25</td>
<td>16.64</td>
<td>0.51</td>
<td>77.10</td>
<td>22.99</td>
</tr>
<tr>
<td>1985</td>
<td>9.57</td>
<td>10.92</td>
<td>0.10</td>
<td>15.12</td>
<td>22.43</td>
</tr>
<tr>
<td>1986</td>
<td>10.06</td>
<td>11.40</td>
<td>0.20</td>
<td>30.23</td>
<td>20.73</td>
</tr>
<tr>
<td>1987</td>
<td>9.46</td>
<td>11.80</td>
<td>0.36</td>
<td>54.42</td>
<td>19.43</td>
</tr>
<tr>
<td>1988</td>
<td>9.12</td>
<td>10.92</td>
<td>0.19</td>
<td>28.72</td>
<td>19.70</td>
</tr>
<tr>
<td>1989</td>
<td>9.41</td>
<td>11.33</td>
<td>0.36</td>
<td>54.42</td>
<td>19.78</td>
</tr>
<tr>
<td>1990</td>
<td>9.33</td>
<td>11.32</td>
<td>0.48</td>
<td>72.56</td>
<td>17.34</td>
</tr>
</tbody>
</table>

Source:
1. Field Survey

Note:
- 'DP' = Deposits; 'AD' = Advances; 'NP' = Net Profit; '% R' = Percentage of return on average capital employed
- 'GFC' = General Finance Corporation, 'FFC' = Film Finance Corporation, 'AFC' = Auto Finance Corporation
- 'CF' = Chit Fund; 'PB' = Pawn Broker unit
in 2 years i.e., 1989 and 1990.

The average deposits and advances among all categories of Finance Corporations excepting Chit Firms and Pawn Broker units was highest in Auto Finance Corporation in 1984 accounting for Rs. 24.46 lakhs and Rs. 30.20 lakhs respectively as against the lowest of Rs. 9.12 lakhs in 1988 and Rs. 10.92 lakhs each in 1985 and 1988 in General Finance Corporation.

The above analysis signifies that both deposits and advances are high in Auto Finance Corporations in earlier period, i.e., 1984 and subsequently declined. However, the average deposits and advances are lowest in General Finance Corporations in latter period i.e., 1988.

Further, it reveals that the performance in mobilising deposits on an average for 7-year period was better in Film Finance Corporations and Auto Finance Corporations than General Finance Corporations, Chit Firms and Pawn Broker units as they stood at Rs. 17.34 lakhs and Rs. 14.09 lakhs respectively. The interest rate paid on deposits by all these corporations is the same.

The average capital investment in a corporation was Rs. 66,150 the highest in General Finance Corporation followed by Rs. 62,815 in Film Finance Corporation, Rs.
51,222 in Auto Finance Corporation, Rs. 45,000 in Chit Firm and Rs. 27,000 in Pawn Broker unit.

In case of General Finance Corporations the percentage of return on average capital employed for 7-year period i.e., from 1984 to 1990 was 77.10 which was highest in 1984 has been reduced to 54.42 in 1987 and further declined to 28.72 within one year and thereafter retained its stability by reaching 72.56 in 1990.

In Film Finance Corporations the return on average capital employed was 63.68 per cent in 1984. It was however reduced to 28.86 per cent in 1986 and remained unchanged in 1987. Thereafter it increased to 50.50 per cent by 1989 and again fell to 52.54 per cent in 1990.

In Auto Finance Corporations the highest return on average capital employed was 288.94 per cent in 1990 as against the lowest of 37.09 per cent in 1987.

In case of Chit Firms and Pawn Broker units the return on average capital employed was in between 2.0 per cent and 4.5 per cent and 7.4 per cent to 11.11 per cent respectively.

Among all categories of Finance Corporations excepting Chit Firms and Pawn Broker units the return on average capital employed was highest in Auto Finance
Corporation in 1990 accounting for 280.94 per cent as against the lowest of 15.12 per cent in General Finance Corporation in 1985.

It can also be observed that the return on average capital employed from 1984 onwards was declining irrespective of the category with an exception of General Finance Corporation. But after 1988 the return was reduced even in General Finance Corporation. An increase, however, was registered in Film and Auto Finance Corporations accounting for 26.73 per cent and 70.81 per cent respectively.

The above analysis signifies that the return on average capital employed was increasing in Auto Finance Corporations in latter period i.e., from 1988 onwards. It is because that the partners have reinvested their profits in form of deposits in business, whereas in General Finance Corporations and Film Finance Corporations, the partners are withdrawing the profit share at intervals.

PARTNER AS SURETY

It is observed that corporations are demanding the signature of any one of the partners as surety. Each partner can act as surety to the extent of capital contributed and deposits collected from the public. When the borrower repays the debt within the time, the partner will be provided additional 10 per cent commission out of the net income in
the transaction, besides regular share in profits as a 
private transaction. The sharing of additional commission 
was to cover the risk that the partner has taken because if 
the borrower fails to pay the debt the entire amount will be 
adjusted to capital. This practice is not in existence in 
Auto Finance Corporations of Hindupur. It was further 
observed that corporations which are not taken partners as 
surety, facing more difficulties and complications for the 
recovery and ultimately leading to liquidation. Most of the 
corporations are not adhering to this practice an account of 
internal competition, misunderstandings between partners, 
partner acting as partner in more number of corporations, 
fear in loss of capital etc. Most of the partners are not 
willing to act as sureties because of their unlimited 
liability.

AUTHORITY TO GRANT LOANS

The final authority to grant loan rests with 
managing partner. But in practice he is consulting with the 
remaining partners also with a view to fix collective 
responsibility in recovery. Managing partner is collecting 
information from partners regarding the financial soundness, 
character, repayment capacity and social status of the 
borrowers.

NORMS IN FIXATION OF LOAN AMOUNT

Selection of party is done very carefully after a 
very detail credit investigation. The loan application would
be sanctioned without delay considering its quickness of service in competitive situations.

The Auto Finance Corporations are granting advance to the tune of 80 to 90 per cent on new vehicles and 30 to 50 per cent on old vehicles. The norms of fixing the percentage depends upon not only its value but also the security offered, model of the vehicle, running conditions, prompt repayment of debt (in case of old borrowers), financial soundness of the borrower etc.

The Film Finance Corporations are considering different factors before granting advance for production and distribution of films viz., financial soundness of producers, producers ability to produce good films, actors and actresses and their popularity, preview of the film, agreement between producers with actors and actresses, agreements with technicians to keep the film in lab for safety, agreement with distributors, theme of the film and its reflection in society regarding social, economical, political and cultural aspects etc.

In General Finance Corporations borrower must have direct or indirect acquaintance with any one of the partners. In Chit Firms the foreman will admit the subscribers who are closely related or known to him. In Pawn Broker units the security value of the asset will be taken while granting loan.
TIME TAKEN TO PROCESS LOAN APPLICATIONS

Time taken in processing the loan applications by Finance Corporations in Anantapur district is presented in Table 5.14.

Table 5.14

<table>
<thead>
<tr>
<th>Category</th>
<th>Immediately</th>
<th>About 7 days</th>
<th>About 15 days</th>
<th>About 30 days</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GFC</td>
<td>40 (66.66)</td>
<td>15 (25.0)</td>
<td>5 (8.34)</td>
<td>--</td>
<td>60</td>
</tr>
<tr>
<td>FFC</td>
<td>8 (29.63)</td>
<td>15 (55.55)</td>
<td>4 (14.82)</td>
<td>--</td>
<td>27</td>
</tr>
<tr>
<td>AFC</td>
<td>5 (55.56)</td>
<td>2 (22.22)</td>
<td>2 (22.22)</td>
<td>--</td>
<td>9</td>
</tr>
<tr>
<td>CF</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>2 (100.0)</td>
<td>2</td>
</tr>
<tr>
<td>PB</td>
<td>2 (100.0)</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>55 (55.00)</td>
<td>32 (32.00)</td>
<td>11 (11.00)</td>
<td>2 (2.00)</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Survey.

Note: Figures in parenthesis indicate the percentages to total.

Out of 100 corporations, 55 per cent of corporations have cleared the loan applications immediately i.e., within few hours. About 7 days on an average by 32 per cent of corporations followed by 15 days by 11 per cent of corporations, about 30 days by 2 per cent of corporations. Out of 60 General Finance Corporations, 40 or 66.66 per cent have cleared the loan applications immediately, 15 or 25.0 per cent and 5 or 8.34 per cent corporations about 7 days and 15 days respectively.
In Film Finance Corporations 8 or 29.63 per cent of corporations have cleared the applications immediately, 15 or 55.56 per cent of corporations about 7 days and 4 or 14.82 per cent of corporations about 15 days as against 5 or 55.56 per cent immediately, 2 or 22.22 per cent about 7 days and 2 or 22.22 per cent about 15 days by Auto Finance Corporations.

The only 2 Chit Firms have cleared the applications about 30 days. 2 Pawn Broker units also cleared the applications immediately.

This signifies that General Finance Corporations and Auto Finance Corporations never crossed 15 days in processing the applications. However, majority of General Finance Corporations and Auto Finance Corporations have cleared immediately whereas Film Finance Corporations took 7 days.

VERIFICATION OF PURPOSE

No finance corporation including Auto Finance Corporation is verifying the purpose for which loans are granted because advances are made on the basis of hire purchase agreement. In case if the management suspects or default continues, then they are deputing an agent to verify the utilisation of fund. In case of second hand vehicles corporations are not verifying the purpose at all. In such cases borrowers are obtaining more debt and utilising the
excess for the purpose of redemption of old debt, purchase of estates, investment in shares or debentures, meeting marriage expenses for dependents, construction of buildings etc.

INSURANCE CONTRACT

Every Auto Finance Corporation compels the borrower to maintain insurance contract against the vehicle to protect the risk of loss on account of accidents, strikes, fire loss etc., under comprehensive policy. It obtains all records and a sum of Rs.500 towards insurance deposit to keep the payment regular, if the borrower fails to pay the same. In case of accidents the corporations are deputing their agents to assess the exact portion of loss or damage caused to the vehicle and to assist the insurance authorities to settle the claim within a reasonable time. After the payment of last instalment the corporation refunds the balance of insurance deposit amount to the party.

RECOVERY PERCENTAGE

The recovery of dues in sample finance corporations is presented in table 5.15 for the year 1989-90.

Out of 100 corporations, 18 corporations the highest are in the recovery percentage of 65-70 followed by 16 corporations in between 75-80, 13 between 80-85, 12 between 70-75 10 each between 80-85 and 85-90, 9 between 55-60, 8 between 50-55 and the lowest of 4 between 45-50.
Table 5.15
Recovery Percentage of debt in Sample Finance Corporations
for the year 1969-90
(No. of Respondents)

<table>
<thead>
<tr>
<th>% of Recovery</th>
<th>CFC</th>
<th>FTC</th>
<th>AFC</th>
<th>CF</th>
<th>PB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>45 - 50</td>
<td>3 (5.0)</td>
<td>1 (11.11)</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>50 - 55</td>
<td>5 (8.33)</td>
<td>2 (7.40)</td>
<td>1 (11.11)</td>
<td></td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>55 - 60</td>
<td>6 (10.0)</td>
<td>3 (11.11)</td>
<td></td>
<td></td>
<td>1 (50.0)</td>
<td>9</td>
</tr>
<tr>
<td>60 - 65</td>
<td>7 (11.67)</td>
<td>4 (14.81)</td>
<td>1 (11.11)</td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>65 - 70</td>
<td>12 (20.0)</td>
<td>5 (18.52)</td>
<td>1 (11.11)</td>
<td></td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>70 - 75</td>
<td>8 (13.33)</td>
<td>3 (11.11)</td>
<td>1 (11.11)</td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>75 - 80</td>
<td>8 (13.33)</td>
<td>4 (14.81)</td>
<td>2 (22.23)</td>
<td>1 (50.0)</td>
<td>1 (50.0)</td>
<td>16</td>
</tr>
<tr>
<td>80 - 85</td>
<td>6 (10.20)</td>
<td>2 (7.40)</td>
<td>1 (11.11)</td>
<td>1 (50.0)</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>85 - 90</td>
<td>5 (8.34)</td>
<td>4 (14.81)</td>
<td>1 (11.11)</td>
<td></td>
<td></td>
<td>10</td>
</tr>
</tbody>
</table>

60 27 3 2 2 100

Source: Field Survey.

Note: Figures in parenthesis indicate the percentages to total.

Out of 60 General Finance Corporations, maximum of 12 (20 percent) lying between 65-70 per cent and the minimum of 3 (5.0 percent) between 45-50 per cent as against 5 (18.52 percent) in between 65-70 per cent and 2 (7.40 percent) each in between 50-55 per cent and 80-85 per cent out of 27 Film Finance Corporations. Out of 9 Auto Finance Corporations 1 (11.11 percent) each starting from 45-50 per cent to 85-90 per cent ranges except nil in 55-60 per cent and 2 (22.23 percent) in 75-80 per cent. One each (50.0 percent) in between 75-80 per cent and 80-85 per cent in Chit firms. Out of 2 in Pawn Broker units, one (50.0 percent) in between 60-65 per cent and another (50.0 percent)
is in 75-80 per cent. It is evident from the above analysis that the overdues of General Finance Corporations, Film Finance Corporations and Auto Finance Corporations are in the range of 10 to 15 per cent.

SERVICE CHARGES AND PENALTIES

Every Auto and Film Finance Corporation is collecting a sum of Rs.1,000 to Rs. 1,500 depending upon the financial soundness of the borrower as service charge or agreement charge for every agreement. The corporations are not showing entire amount as income in profit and loss account. The partners on the date of the agreement are sharing the maximum amount among themselves as a private transaction. The borrower is asked to pay a sum of Rs.200 to Rs.300 to the clerk in the corporation for every agreement to extent his service regarding preparation of legal documents, certificates etc.

Corporations are charging 24 to 30 per cent interest as penalty subject to the conditions in agreement for the entire amount outstanding. In case of continuous default corporations are issuing reasonable notices to the concerned parties i.e., borrower and surety either to seize the vehicle (in case of automobiles) or file a civil case for recovery of debt.
PARTNERS LIABILITY

The general liability of any partner in a corporation is joint and several, if the borrower fails to pay the debt though the managing partner himself might have taken a final decision regarding the sanction of loan. Corporations at Hindupur are enjoying the services of business advisors to decide whether the loan application should be considered or not. In such cases also the final liability rests in the hands of partners only.

During 1986 a new credit policy was developed in the field of advance to film production and distribution i.e., a group of corporations are forming as an association by contributing a minimum of Rs.25,000 each and are granting loans to single producer or distributors with a prime motive to spread the loss in recovery and to fix collective responsibility. If the borrower intentionally fails to pay the debt automatically his credit worthiness will be affected in the market and in the long run he can not avail financial assistance from any corporation in the locality.

The relatives or friends of financiers are not at all having any inclination or agreements to act in any film. This is also one of the important reasons for the recovery of debts effectively at Dharmavaram in recent times.
REASONS FOR DEFAULT:

The researcher identified the following important reasons for default in course of discussions with the borrowers and managing partners.

i) The driver who is not a owner not showing any interest in collection of service changes promptly from their customers;

ii) Seizing of vehicle by the customs or police or revenue or excise authorities on account of transportation of confiscated articles by the hired driver;

iii) Dealings of collecting agents with the borrowers without knowledge of the corporation;

iv) Obtaining debt in excess utilising for unproductive needs by the borrower i.e., repayment of old debt, performing the marriages of dependents, construction or purchase of house, purchase of shares or debentures, investment in estates etc;

v) Due to severe competition between corporations the management fails to verify the RC's whether original or duplicate;

vi) Fall in chassis premium and increase in cost of diesel, petrol, wages, maintenance expenses and replacement of tyres, tubes, spares by the hired driver.

FACTORS INFLUENCING SEIZING OF A VEHICLE ON ROADS

Due to regular postponement of instalments the dues are accumulated to the maximum, so this factor influences the managing partner or the firm to seize the
vehicle on roads. The situation affects the borrowers income and increases the cost of maintenance to the corporations.

PROCESS OF SEIZING A VEHICLE:

Corporations are issuing sufficient advance notices to the default customers to seize the vehicles. They are carrying their process in the presence of a witness, identifying the accessories. Repayment of instalments becomes irregular and despite best efforts put in by the corporation the customer fails to repay the debt, it is necessary to re-possess the asset with the help of police. But police help is always not possible as they require court order. Therefore, personal arrangements are required to seize the vehicle. Corporations are seizing vehicles with the help of experienced field staff.

In case, if the borrower fails to pay the regular instalments or three fourths of the loan amount remains outstanding, the corporation first issues a telegram to the borrower to pay the loan with interest immediately. On receipt of telegram if the borrower would not respond, the corporation then deputes a collecting agent to collect the dues at the cost of the borrower. The collecting agent plays an important role in collection of over dues and the success of recovery depends upon him only. The corporations are paying commission to the agents on the amount recovered. The collecting agent will go in search of the borrower as per the address given in the loan application. There are few
individuals who are acting as professionals in this field. There are certain unscrupulous agents who undertake underhand dealings without the knowledge of the partners for their self interest. There are certain instances when the borrower actually paid the entire amount due or a part and the collecting agent misuses it for his personal needs. Even after deputing the collecting agent, if the borrower would not pay, then a partner will be deputed along with the hire driver as search party. The corporation with the help of search party are obtaining the physical possession of the vehicle.

To avoid legal complications in the hire purchase agreement a specific right to seize the vehicle recorded in clause 16 and the conditions for recovery are expressed in clause 17. Clause 16 clearly identifies the right of the Finance Corporation to resell to a third party, direct or by auction or rehire without any notice to the defaulter. It also further states that, the owner (finance corporation) should not pay the hirer any surplus or profit that arises on the disposal of the vehicle. Clause 17 empowers the corporation to demand all expenses, legal and other charges incurred to know the whereabouts of the hirer, vehicle or taking steps to resume possession of the vehicle, including the cost of inspection in case of default, total charges for the owner and their agents etc. It is advisable to issue a notice to the police to repossess the vehicle otherwise defaulter may file a complaint of theft with police.
The borrower after knowing the fact of seizing vehicle, used to file a private complaint with the police recording it as a theft. This situation creates more legal complications and the corporation must prove that there is default. The police has to verify the RC's regarding the prevailing conditions in hire purchase agreement. Otherwise the police cannot take action against finance corporation. The corporations are obtaining injunction orders to avoid police excesses from the District Court.

CONSEQUENCES OF SEIZING A VEHICLE

The main factors multiplying the condition of default on account of seizing a vehicle on roads are identified as;

i) The revenue for the borrower towards service charges becomes nil or zero;

ii) The corporation has to pay Rs.3/- towards garage rent per lorry per day;

iii) Broker's service charges increases on account of frequent visits for collection of debt;

iv) The corporations has to bare cost and allowances to the search party;

v) Corporations has to pay taxes and insurance premiums so long as the vehicle remains in its possession;

vi) The cost of legal and court expenditure increases when delay in settlement of cases;
vii) The corporation wants to dispose of the sized vehicle; the sale proceeds may not be sufficient to write off the outstanding loan;

viii) Borrowers are demanding the blance by adjusting the debt from the sale proceeds from the corporations if the vehicles are seized;

ix) The cost of arbitration trails before filing case in a court increases.

The district had a financial crisis in 1985 in the field of Finance Corporation's business. A number of corporations were forced to liquidate. A personal interview was carried out with partners, borrowers and deposit holders of such corporations. Their experiences and grievances helped the researcher to identify the reasons for debacle, viz.,

i) Deterioration of public confidence in corporations;

ii) Lack of financial control over the funds due to severe competition;

iii) Rigorous campaign by Co-operative Banks and Commercial Banks to collect deposits as a competitor by announcing deposit mobilisation schemes;

iv) Delay and non-recovery of debt;

v) Absence of statutory regulations to control credit policy;

vi) Adverse propaganda by a partner about one corporation in which his relative acts as a partner due to personal or family strained relationships;
vii) Investment of corporation fund in speculative and real estate business by partners in slack seasons and failure to dispose off the asset in case of emergencies;

viii) No adequate return on sale when disposed off;

ix) Lack of confidence leads to run on corporations for return of deposits which makes the corporation bankrupt; and

x) Ineffective administration.

MEETINGS OF PARTNERS

It is observed in the study area a group of finance corporations are holding monthly meetings of their partners. The objective is to assess the actual financial situation and specially to carry out certain business decisions to solve the problems relating to management. It includes:

i) Verification and approval of receipt and payment account for the previous period prepared by the managing partner;

ii) Reviewing present cash-debt position and initiating future action to recover old dues if any;

iii) Reconsideration of profit divisibility ratio based on existing turn over of business;

iv) Nomination or election of any partner as managing partner in case it becomes vacant;

v) Fixation of additional responsibility on the partner who has given his consent as surety to collect the debt in case of borrowers continuous default;
vi) Adjustment of partners capital contributions against the debt for which they have given consent as sureties if the borrower fails to repay the debt though necessary steps taken by them for recovery.

Finance Corporations are now paying Rs.50/- to each partner for every meeting as a sitting allowance. It serves two purposes, viz., it motivates the partner to attend the meeting and to educate the partner regarding the situation of loans for which he/she is acting as a surety. 50 per cent of the strength of members is recognised as quorum. If quorum is not present meeting will be adjourned to the next week. In the adjourned meeting required quorum is absent, meeting will be convened if the relevant partner who acts as a surety attends.

SERVICE TO CUSTOMERS

Finance Corporations in Anantapur district are extending services which include deduction of advance tax on interest, payment of tax, filing of returns, legal advice, consultancy services regarding purchase and sale of industrial securities, accepting cheques and bills for discount (Refer Annexure-IX), dividend coupons for collection to their customers i.e., depositors and borrowers. There are two General Finance corporations at Hindupur in which estate brokers are partners extending service to their customers in the field of investment in estates. There is one Auto Finance Corporation at Hindupur
in which two partners are acting as brokers in stock exchange, providing temporary services to their customers in the purchase and sale of securities. It is observed that partners are also working as brokers in real estates to enjoy certain percentage of brokerage besides their services to corporation.

COMMUNITY WELFARE ACTIVITIES

The Finance corporations in Anantapur district are contributing directly or indirectly to charitable purposes with an intention to protect the welfare of community. The donations to charitable institutions are for the purpose of performing religious functions, maintenance of student hostels, purchasing of books for libraries, providing financial assistance to deserving students, construction or renovation of temples, churches etc. It is observed that the average donation of a corporation in a year ranges between Rs.2,000 to Rs.5,000. The contributions vary with the purpose. It is further observed that out of the total contributions Auto Finance Corporations at Hindupur are dominating in community welfare activities. Corporations established at Anantapur, Hindupur, Dharmavaram, Kadiri dominates in this activity compared to other centres.