CHAPTER VII

SUMMARY OF FINDINGS AND SUGGESTIONS

7.1 INTRODUCTION

In this Chapter, the researcher has presented the summary of the points made during the course of study and offers suggestions with a view to improving the contribution of TIIC in the Industrial Development of the State Tamilnadu.

Industrialisation is indispensable to achieve rapid economic growth in the era of economic liberalisation. Instances of fiscal and financial incentives playing a major role in balanced regional development of the country are many. The thrust, in this connection has come from industrialisation which, in turn, necessitates to be financed through term loans. The creation of special machinery of term-lending institutions at the initiative of the Government, more appropriately designated as "Development Bank", has been the most outstanding development in the sphere of industrial finance. Development banks with variegated structure, as a group, have played a significant part in the economic development
of India and have emerged as the backbone of the financial system. The magnitude of industrial financing by these development banks has been considerable. In fact, they have outgrown their supplementary character of suppliers of funds in terms of their conception as gap fillers and have assumed the character of normal financing agency.

A development bank is an organic body that acts and reacts to the needs of its environment. It must strive to find an appropriate place for itself in the economy and also create a proper image for itself with Government, industry and other sectors that it serves. It has a great role to play in giving rise to new entrepreneurs, assisting sick industry, raising the level of human skill, improving management techniques, development of backward regions, persuading potential investors etc.

Recognising the importance of financial agencies providing medium and long-term funds for industrial development, a number of financial institutions were established both at the All India and State levels during the Post-Independence period.
The State Financial Corporations are the most important constituents of development bank since they are working for the regional development and national priorities of the country. The primary function of SFCs is to provide term loans to small and medium scale industrial units.

The Tamil Nadu Industrial investment Corporation (TIIC), the premier and pioneer state level financial institution was incorporated in the year 1949 as a company under the Companies Act, to promote industrial development in the state of Tamil Nadu. It provides financial assistance catering to the needs of small scale and medium scale industrial units for acquisition of fixed assets like land, building, plant and machinery and equipments for setting up of industries. TIIC grants financial assistance to set up new industries, and for expansion, diversification, renovation and modernisation of existing industries.

The primary objective of this study, is to evaluate the contribution of TIIC to the Industrial Development of Tamil Nadu. More specifically, the study intends:

a. To analyse and evaluate the project financing procedure and practices adopted by TIIC.
b. To examine the overall performance of TIIC based on the financial performance of the Corporation.

c. To assess the contributions made by the Corporation in the development of Small Scale Industries, in the state of Tamil Nadu, their diversification and expansion and the development of backward regions; and

d. To evaluate the effectiveness of the services provided by the Corporation through clientele perceptions.

This study is an attempt to evaluate the working and performance of TIIC in the industrial development of the State of Tamil Nadu. Being the pioneer SFC, with a fairly long experience of working, enough data are available on the performance of TIIC. A vast volume of data on the various aspects of functioning of the Corporation and its yeomen services to industrial development of the State are very well visible. This tempted the researcher to undertake an in depth Case analysis of this pioneer State Agency. Sincere attempts have been made to look into the functional aspects of the corporation in an objective manner. This endeavor leads to some findings which will add to the existing body of knowledge and serve the researchers and policy-makers who are interested in working for improving the Corporation's performance in particular and SFCs in general.
The study evaluates the project financing procedure, policies and performance of the TIIC. An attempt has also been made to assess TIIC's contribution to the industrial development of the State of Tamil Nadu. An opinion survey has also been conducted among the clientele units to know their perception of TIIC as a development bank.

7.2 FINDINGS OF THE STUDY

Among the financial agencies and institutions available in the Tamil Nadu State for industrial development, the TIIC has been adjudged as the foremost State Financing Agency. It has been playing a prominent position in the industrial development of Tamil Nadu since its inception. The Growth history of TIIC has been analysed in terms of its routine functions, various schemes of assistances etc. The growth of TIIC's assistance to industries showed an upward trend every year and therefore, it can be presumed that the growth of industrial development has been positive in the State significantly.

It is a matter of pride that TIIC has found a niche amongst the gamut of the leading SFCs of the country. Among the top five SFCs in India, TIIC stood first in the last two years in terms of loan sanctions made.
TIIC has designed its lending policies with the concurrence of IDBI and Government of Tamil Nadu by giving due weightage to the development priorities and strategies. They are striving continuously to sophisticate its tools for project identification, project appraisal, implementation and follow-up.

The operational performance of the corporation has been studied from the point of view of the Corporation and from the point of view of the economy of the region of Tamil Nadu. The main operations of TIIC such as Sanctions, Disbursement and Collections have shown significant improvement in the last 17 years. The trend of key activities such as sanctions, disbursement and collections was computed in terms of Linear and Compound Growth Rates. Both LGR and CGR reveal that collection performance was better than sanctions and disbursement. It is given in the following table.

<table>
<thead>
<tr>
<th>Operations</th>
<th>LGR</th>
<th>CGR</th>
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<tbody>
<tr>
<td>SANCTIONS</td>
<td>15.03</td>
<td>15.70</td>
</tr>
<tr>
<td>DISBURSEMENT</td>
<td>10.91</td>
<td>17.38</td>
</tr>
<tr>
<td>COLLECTIONS</td>
<td>16.93</td>
<td>21.41</td>
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</tbody>
</table>
The correlation coefficient between disbursement and collection during the study period works out to \( r = .89 \) and the value of correlation co-efficient is highly significant. This indicates that the TIIC has been consistently performing the loan disbursement and collection functions.

From the study of operations of TIIC, it emerged that it acquired a prominent place among all SFCs in view of its performance in the field of sanctions. It was in first place in the year 1995-96, 1996-97 and has been in the list of top five SFCs since 1970-71.

In the initial years of the study period the corporation has not concentrated much on the diversification of its assistance portfolio. Major share of assistance was given in the form of loan and advances only.

* TIIC mainly concentrates on the New Project Financing. Financing for Modernisation and Rehabilitation and Over-run financing have not been encouraged properly. Though the Corporation has a mix of forms of assistances, Equity financing, Loan Guaranteeing etc have remained neglected, Whereas the new forms of financing such as Leasing and
Hire-Purchasing and Short-term working capital financing have been picking up significantly.

The sector-wise analysis of TIIC's financing discloses that the major beneficiaries of the study unit is private sector 62.70% of total sanctions has gone to private sector. However, the share of Private sector assistance has decreased from 95.50% in the year 1980-81 to 62.70% in the year 1993-94.

The size-wise distribution of assistance reveals that the big industrialists in small sector benefitted much than the small entrepreneurs especially since 1990-91. They have availed 30-50% of total assistance sanctioned by the Corporation.

It is also found that the schemes which in fact, aimed at liberal assistance to village craftsmen, rural artisans and first generation entrepreneurs have not received adequate importance from the corporation. In the year 1980-81 a major share of 75% of the total assistance have been availed by them. However, they were able to get only 14.04% share of total assistance sanctioned by the TIIC in the year 1996-97.
The Industry-wise assistance of the Corporation pointed out that the capital intensive industries such as engineering industries, chemical and chemical products industries, fishing trawlers have been widely assisted (59.40% of total sanction) than the traditional and service category.

TIIC's services to backward area development in terms of sanctions and disbursement seems to be moderate. The share of backward area assistance over the cumulative sanctions of TIIC comes to 34.66% which is lesser than the share of all SFCs 46.03%. However, the share of disbursement of loan to backward area was 53.05% which is higher than the SFCs average of 49.92% of cumulative disbursement. The Compound Growth Rates of backward area assistance sanctioned and disbursed over the period of seven years (1989-90 to 1995-96) were 24.54% and 16.17%. This is less than the CGR of total sanction (27.95%) and disbursement (19.26) of TIIC over the same period.

The Corporation has been trying its best to enlarge its assistance towards SSI sector. Though per unit assistance sanctioned to SSI Unit has been increased, the share of Small Scale Sector assistance to total assistance sanctioned
by the Corporation has declined from 100% in 1980-81 to 70.70% in 1996-97.

36.4% share of SSI assistance goes to strengthen the infrastructural industries such as Small Road Transport Operators (SRTOs), Power Generators, Hoteliers, Medical Practitioners etc.

The study of financial performance of TIIC has, no doubt, an important bearing on the financial position and operational performance of the corporation. The Corporation has not adopted the rule of thumb to have loan and equity in equal proportion.

Considering the interest of the Government, SFCs have to deal with loan financing rather than equity financing, because most of the Government funds, being borrowed claims, cannot be used indiscriminately. Besides, loan financing helps in passing on the burden of interest deficit to the tax-payers.

In order to evaluate long-term financial strength of TIIC, seven solvency ratios have been computed for the period under study.
The average debt-equity ratio of TIIC during the period 1980-81 to 1996-97 was 7.61:1. It varied from a minimum of 3.35:1 in 1980-81 to a maximum of 22.02 in 1996-97. This high debt-equity ratio indicates the deviations of TIIC from the conservative canons of D-E ratios. This further reveals that the corporation has not tried to maintain equity loan mix in equal proportion.

The Capital Structure position reveals that TIIC has been excessively depending upon the debt sources. This implies that the Corporation would be required to increase their equity funds along with their additional borrowings to meet the growing obligations. Further this forces the management to adopt conservative attitude in its operation.

The cost of debt funds of TIIC has risen from 4.14% in 1980-81 to 12.24% in 1996-97. This is because of old bonds being redeemed and fresh being issued at higher interest rate and also general increase in the bank rate.

The Overdue ratio to Loan Outstanding started declining from 31.10% in 1980-81 to 22.17% in 1996-97 thus showing improvement in recovery of loans. The situation was not that bad in case of TIIC, where overdues as % to loan outstanding had remained less than 25% in last two years.
In the initial years of the study period overdues towards the principal amount was higher than the overdues towards the interest amount of the loan disbursed. However, the situation totally saw a reversal in the second half of the study period.

Recovery Performance of TIIC shows better position than what it was. The Recovery percentage to total demand raised has increased over the period. It was maximum of 94.58% in the year 1995-96. This may be due to regular monitoring of default cases and recovery position.

The share of net refinance in total business of TIIC reveals that the Corporation is not heavily relying on refinance for their operations. This declining ratio indicates that the Corporation has rolled over the funds effectively and played a key role in the industrial development of the State.

The average Debt Service Coverage Ratio of TIIC over the period comes to 1.88:1 which indicates that TIIC was better placed in terms of its capacity to repay borrowings especially from IDBI & SIDBI.
The Profitability position of TIIC indicates that the Corporation's performance is better on the criterion of Return on Capital Employed, Return on Networth, Earning Per Share and Plough back to Shareholders Equity. The spread management tools such as Return on Capital Employed, Return on Total Assets, Return on Equity Shares indicate that the profitability of the Corporation has been satisfactory. The profit margin is likely to be affected as a result of greater emphasis placed on the concessional assistance for setting up industries, creation of project specific and area specific facilities in "no industry district"/backward areas, modernisation of industries and development of the Small Scale Industry. Besides that, the interest rates on market borrowings are higher.

The Liquidity position of TIIC has been better in all the 17 years. The current ratio of TIIC has been above the theoretical norms of 2:1. The another indicator of liquidity position i.e. the Debt Survive Coverage Ratio has been comfortable over the study period.

Overall, it appears that TIIC's emphasis has been on business principles so as to maximise the wealth of shareholders.
To evaluate TIIC as a development bank, an opinion survey was conducted among clientele units to assess their perception of TIIC. Around 120 TIIC assisted industrial units were surveyed to elicit their views with regard to the services of the corporations, problems encountered by them at the time of availing assistance and also invited suggestions from them to ensure the performance of the Corporation in the years to come.

It is an observance of the study that most of the SSI units assisted by the corporation have been registered with District Industries Centre. Among the eight categories of SSI classification grouped for the survey a share of 40% of the sample units belong to engineering industry group. About 52% of the sample unit represent proprietorship form of organisation. A portion 42% of the sample units were located in industrial estates. Further, the survey showed that 67% of sample units belonged to manufacturing industry group.

The survey noted that, of the 108 clientele units which availed loan from TIIC, a considerable portion of 45.8% made estimation of financial needs on their own. Hardly 34% of the respondent units alone were able to launch the unit without time and cost overrun.
The analysis of data relating to problems in availing of financial assistances, problems in general access to corporation revealed certain startling facts.

From the clientele perception, TIIC's operations has been satisfactory in general but there are several ills and woes in their functioning affecting the zeal and interest of the assisted units. To highlight the problems /grievances, some of their observations are:

The process of sanction and disbursement is complex and cumbersome resulting in many difficulties to the clientele units like filling up of various forms and obtaining reports and certificates from various agencies, security requirements, procedural problems, bureaucratic system etc.

The survey reveals that the Corporation generally takes three months to one year for sanction of loan after application is submitted by the loanees concern. Such a delay in processing the application results in time overrun and the cost overrun.

Clientele units felt that repeated visits to the office of the Corporation results in the loss of working days for the industrial units.
High processing fee and too much paper work are the other problems faced by the clientele units while getting loan from the Corporation.

On the procedural side, various guidelines and procedures for sanction of loans and advances is not strictly adhered to. Appraisal of project is ineffective and inadequate with emphasis on personal orientation rather than project orientation.

Post sanction inspection and guidelines are not adhered to effectively. Some of the clients felt that the Corporation has been very particular in imposing guidelines and instruction in the pre-sanction stage. Once the loan sanction is given, the Corporation does not take any follow-up steps except for recovery of loan. Post-implementation guidelines and counselling were very poor.

As far as the training component of the Corporation's function is concerned, no clients were satisfied with respect to adequacy, frequency and quality of training programme.
7.3 SUGGESTIONS

After highlighting the major findings of the study, the following suggestions are made for the removal of inadequacies and laxities of the system with a view to achieve operational effectiveness. The following suggestions emanate from a careful scrutiny of the findings listed above.

* Delay in sanctioning loan may be reduced by simplifying the formalities connected with the sanction of loan. Suitable measures may be evolved for the speedy sanction and disbursement such as single window system, application of computer software for easing the processing and documentation work.

* The appraisal team very often, cuts down the cost of the project and working capital requirements without much justification and logic. As the promoters are at the receiving end they simply agree for these changes. Underfinancing of the projects of the SSI units has to be avoided.

* The highest injustice is done in fixing a shorter moratorium period. In fact, the problem first starts when the entrepreneurs are asked to pay interest and
principal before the completion of the project and many times, entrepreneurs pay this amount from their capital which is detrimental to the project. So, higher moratorium period may be given especially to the SSI units depending upon the genuineness of the case.

* Excessive political interference in individual credit decision-making and internal management of the Corporation must be avoided.

* Professionalism and autonomy in the internal functioning should be encouraged.

* Integrity in lending and adherence to strict business principles are essential to make its business a success. Besides that, the Corporation should not mortgage cardinal lending principles in the name of social objective and welfare.

* The Corporation may be advised to provide working capital on more liberal terms to SSI units when units production activity is regular and which has not defaulted any instalment due to Corporation.
Many entrepreneurs are not aware of the very existence of Corporation, how to establish access with them etc. Hence, wide publicity may be given regarding the functioning of the Corporation particularly at the grass-root level especially about the various special schemes of assistances of the Corporation such as Equity Financing, Women entrepreneurs scheme, Infrastructural projects schemes etc.

Concessions/benefit extended by Government should be made known to the existing as well as aspiring entrepreneurs so that all the eligible entrepreneurs may derive benefits. At regular intervals, notification concerning SSIs concessions, facilities etc., may be even posted to their addresses by charging a nominal fee or through audio/visual media.

Monitoring, after the extension of credit, is essential in order to avoid the deterioration of the asset quality. TIIC should regularly keep track of business condition and check whether sales, profits and cashflows are being maintained in accordance with the original business plan. Consequent to the business operations, if unsatisfactory results arise, the TIIC
should investigate the cause. If the factors such as 
deterioration of the business conditions of a customer 
or delay or failure of the project are found, the TIIC 
needs to strengthen the customers credit management 
through stricter monitoring of the customer business 
conditions and if necessary additional funding or 
expert guidance be given, so that the working situation 
can be rectified.

* TIIC has to assist all types of projects without any 
discrimination to their risk characteristics. The risk 
analysis should be done as a primary requirement to 
finance an industrial project. This risk analysis will 
act as a good information support. The information 
support includes project details and its promoter’s 
market conditions and economic conditions which will 
help to identify risk factors and control them 
effectively. TIIC has to undertake a comprehensive 
review of their Investment / Loan portfolios and make 
analysis on a regular basis to reduce to the maximum 
extent the contaminated portfolio.

* To overcome the hardship of the loanees and make branch 
offices of the TIIC effective, more powers should be
delegated to branches with respect to sanctions and disbursement of assistance at the branch level.

* The new phase of development banking will be characterised by increasing sophistication and diversification. This will necessarily call for greater refinement in policies, identification of fresh priorities and greater attention towards improving the impact of the Corporation's policies and programmes.

* SFC is a very sensitive industry which is constantly under the public gaze. Better customer service, whether in the urban or rural area, whether to the backward region or developed region, and the productivity of the Corporation are the most vital factors to which this industry has to play closer attention if it is to discharge its responsibilities in a satisfactory manner.

* Industrial Financing and Financial Services are the two key economic activities. These activities are facing acute competition in the era of globalisation. Finance industry has been growing in both depth and breadth which warrant these State Agencies to ensure the quality of services to withstand and survive in the vibrant business environment.
* Then, the Corporation should take immediate steps to arrange training programmes for entrepreneurs at regular intervals.

* Functionalist representation in the Board of the Corporation could be strengthened for greater effectiveness in their functioning right from the sanctioning of loan to the execution of projects and flow of repayments.

* The Corporation has to develop close rapport with other development banks, Government Departments, Commercial Banks, Technical and Consultancy organisations, to enhance the chances of effective functioning of Corporation.

* Interaction with and objective feed back from the Clientele units will ensure confidence in the minds of the clients and lessen the degree of goal-orientation of the Corporation.

To Conclude, the widening network of the Corporation has taken them nearer and nearer to the masses and giving them increasing opportunities of ameliorating their living conditions. If all these measures are pursued whole
heartedly it will not be too far to see that quest for betterment of industrial scene is well realised through the media of small enterprises in the State. Thus, the Corporation will prove to be an essential ingredient to provide the nucleus for industrial growth of the State Tamil Nadu.

7.4 SCOPE FOR FURTHER RESEARCH

The researches on governance of a financial corporation need greater deepening and widening. Then it must have to shift from descriptive and narrow compilation to conceptual and policy transformations. Hence, agenda for future research on the functioning of State Financial Corporation is inevitable.

A Comparative study of SFCs with other State Level Agencies of the developed and underdeveloped states could provide meaningful guidelines for ensuring better operation of the SFCs in India.

Impact of the Capital Market on the functioning of SFC may be studied keeping in view the various financial sector reforms and globalisation strategies adopted in the country.
A comparative study of the operational and financial performance of state level development banks and national level development banks may be attempted.

Further research may be made in the area of development of models which can help financial institutions in predicting bankruptcy of assisted business organisation.

The impact of the finance factor on the entrepreneurship development can be exclusively studied either region-wise or industry-wise.

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