Chapter 2:

Functioning of U.P. and M.P. State Financial Corporations
Chapter 2: Functioning of U.P. And M.P. State Financial Corporations

The functions rendered by the Uttar Pradesh Financial Corporation (UPFC) and the Madhya Pradesh Financial Corporation (MPFC) are as follows:

(i) To extend term loan assistance for setting up industrial units in the small scale units and medium-scale sectors;

(ii) To extend composite loan (inclusive of working capital) assistance to artisans and others with a view to developing cottage, village and traditional industries;

(iii) To provide term loan, both for fixed assets and working capital under Single Window Scheme (SWS);

(iv) To provide assistance under the Rehabilitation Scheme of Industrial Development Bank of India (IDBI);

(v) To provide financial assistance under the Modernisation Scheme of Industrial Development Bank of India;

(vi) To provide Seed Capital Assistance under the Scheme of Industrial Development Bank of India;

(vii) To provide short term loan to cover the equity gap to help small industrial units being set up in backward areas and / or rural growth centres / or by technical entrepreneurs under the Special Class of Share Capital Scheme;

(viii) To act as an agent for implementing various schemes sponsored by the Central and / or State Government;

(ix) To undertake various promotional activities including organisation of entrepreneurial development programmes and seminars, etc., aimed at aiding the growth of industries in the state;
(x) To provide assistance for bridging the gap in the equity to small projects and for rehabilitation of potentially viable sick units under the National Equity Fund Scheme of the Small Industries Development Bank of India (SIDBI);

(xi) To provide marketing support to small scale units under Small Industries Development Bank of India Scheme for assistance to marketing outlets.

**SERVICES RENDERED BY MPFC**

The services rendered by the Madhya Pradesh Financial Corporation may broadly be classified into:

(a) the fund-based services, and

(b) the non-fund based services.

The fund-based services are categorised on the basis of the fact that the said service requires an input of funds on behalf of the Corporation. It then charges interest, as applicable, on the financial assistance extended under a particular service. The core business of the Corporation is based on fund based services.

In recent years, the Corporation has expanded its area of operations into non-conventional areas like Merchant Banking and Consultancy. These services, termed as non-fund based, do not require an input of finances. The corporation charges a fees on these services, in exchange for expertise provided. In a time when the State Financial Corporations in general are facing stiff competition from commercial banks, which have more streamlined operations, and thereby, offer financial assistance at more competitive rates, it becomes necessary for the Corporation to diversify into these areas of business, particularly since it already
has the technical expertise as well as infrastructure, in order to support these services.

<table>
<thead>
<tr>
<th>Fund – Based Services</th>
<th>Non - Fund Based Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• TERM LOANS SCHEME</td>
<td>• PUBLIC ISSUE APPRAISAL</td>
</tr>
<tr>
<td>• EQUIPMENT FINANCE SCHEME</td>
<td>• ISSUE UNDERWRITING</td>
</tr>
<tr>
<td>• ASSET CREDIT SCHEME</td>
<td>• ISSUE MANAGEMENT</td>
</tr>
<tr>
<td>• SHORT TERM LOAN SCHEME</td>
<td>• PROJECT REPORT PREPARATION</td>
</tr>
<tr>
<td>• WORKING CAPITAL TERM LOAN SCHEME</td>
<td>• CREDIT SYNDICATION</td>
</tr>
<tr>
<td>• SCHEME FOR ELECTRO-MEDICAL EQUIPMENT</td>
<td>• CORPORATE ADVISORY SERVICES</td>
</tr>
<tr>
<td>• HOSPITAL FINANCE SCHEME</td>
<td></td>
</tr>
<tr>
<td>• SCHEME OF FINANCE FOR PROFESSIONALS</td>
<td></td>
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<tr>
<td>• HIRE PURCHASE AND PORTFOLIO MANAGEMENT</td>
<td></td>
</tr>
<tr>
<td>• LOAN REPLENISHMENT SCHEME</td>
<td></td>
</tr>
<tr>
<td>• DIESEL GENERATOR SET FINANCE</td>
<td></td>
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<tr>
<td>• FINANCE FOR MARKETING ACTIVITIES</td>
<td></td>
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<tr>
<td>• EQUITY PARTICIPATION SCHEME</td>
<td></td>
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<tr>
<td>• SOFT LOAN SCHEME</td>
<td></td>
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<tr>
<td>• COMPOSITE LOAN SCHEME</td>
<td></td>
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<tr>
<td>• CLOSED UNITS PURCHASE SCHEME</td>
<td></td>
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<tr>
<td>• COMMERCIAL COMPLEX SCHEME</td>
<td></td>
</tr>
<tr>
<td>• FAST TRACK SCHEME</td>
<td></td>
</tr>
<tr>
<td>• IT VENTURE CAPITAL SCHEME</td>
<td></td>
</tr>
</tbody>
</table>
Chapter 2: Functioning of U.P. And M.P. State Financial Corporations

Since its very inception, the Madhya Pradesh Financial Corporation has been providing financial assistance to industrial units in the state of Madhya Pradesh. As indicated above, it has been extending a wide-ranging fund and non-fund based services. A number of new schemes for providing financial assistance and services to industries, professionals and other business associates have been successfully introduced by the corporation. MPFC's fund based schemes are available for setting up business within the state of Madhya Pradesh, while the non-fund-based schemes are available throughout India.

Following is a description of the fund-based services -

a. **TERM LOAN SCHEME** - Term loans are provided for the purpose of creation of fixed assets (hence also termed as FATL, the Fixed Asset Term Loans). Fixed Assets are defined to include within their purview land, factory building, plant and machinery, electrical equipment, etc. This scheme is applicable in case of new units. The scheme also covers modernisation, diversification, expansion, and/or replacement of equipment in existing units.

Finance under term loan scheme is provided to new industrial units, hotels, service industries, transport sector, and for research & development activities. As of March 31, 2001, the maximum limit of assistance under the scheme for the non-corporate sector is Rs. 20 Million and for the corporate sector, it is Rs. 50 Million. The period of assistance depends upon merits of the case ranging between 5-8 years.

The prevailing annual interest rate structure, applicable as of March 31, 2001, is as follows:

<table>
<thead>
<tr>
<th>Amount of Term Loan</th>
<th>Applicable rate of interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Scale Industrial (SSI) Sector:</td>
<td></td>
</tr>
<tr>
<td>Up to Rs. 0.2 Million</td>
<td>12.5%</td>
</tr>
<tr>
<td>Above Rs. 0.2 Million up to Rs. 1.0 Million</td>
<td>14.5%</td>
</tr>
</tbody>
</table>

43
<table>
<thead>
<tr>
<th>Above Rs. 1.0 Million</th>
<th>15.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-SSI Sector</td>
<td>15.5%</td>
</tr>
</tbody>
</table>

A penalty applicable at the rate of 4% per annum is levied in case default for the period and amount of default.

b. **EQUIPMENT FINANCE SCHEME** - Assistance under the scheme is available for acquiring identifiable and new items of plant & machinery, and equipment. It is available to industrial concerns that have been in existence for not less than 4 years, earning profits, declaring dividend on their shares for preceding two years and not in default to institutions or banks in the payment of their dues.

Maximum amount of assistance available is 77.5 percent of the cost of the machinery, subject to a maximum of Rs. 9 Million per proposal. Further, the overall debt equity ratio (including the assistance under the scheme) should not be more than 2:1.

c. **ASSET CREDIT SCHEME** - Assistance under the Asset Credit Scheme is available for purchase of equipment for the purpose of expansion, modernisation, diversification and/or for the replacement of the equipment. Medical equipment, energy saving systems, vehicles and other equipment for manufacturing and service industry is also eligible for finance under the scheme.

This scheme is available to existing concerns having not less than two years of profitable operations. Up to 100 percent of the cost of the equipment can be financed under the scheme subject (as of March 31, 2001) to a minimum of Rs 2.5 Million and a maximum of Rs. 9 Million.

The debt equity ratio (including the assistance under the scheme) should be 1:1.
The assistance under the scheme is available for 3 to 5 years & is repayable in monthly/quarterly equated installments. The rate of interest applicable is same as the normal lending rates. A penalty applicable at the rate of 4% per annum is levied in case default for the period and amount of default.

d. **SHORT TERM LOAN SCHEME** - This scheme has been designed to meet the short term requirement of funds for working capital purposes due to peak season needs or for fulfillment of specific order/job enhancement of working capital limits pending up to Bank etc.

It is provided to concerns that have earned profits for the past four years, having working capital limits sanctioned by any other commercial bank, having a regular account with MPFC or other financial institution.

The minimum assistance under the scheme (as of March 31, 2001) is Rs. 1.0 Million and maximum Rs. 7.5 Million. The debt equity ratio should not be more than 1:1 and current ratio should not be less than 1.5:1. The loan is to be repaid within 6 months.

Interest rate (applicable as of March 31, 2001) ranges from 17.0% to 20.0% for the scheme. A penalty applicable at the rate of 4% per annum is levied in case default for the period and amount of default.

e. **WORKING CAPITAL TERM LOAN SCHEME** - Term Loan is provided under this scheme to part finance long term/medium term working capital requirements of the industrial units.

It is provided to industries having last 3 years profitable operations and proven track record with a financial institution or bank. Concerns that have availed of loans under the various schemes of MPFC, and whose fixed assets are mortgaged with MPFC, as also those who are not MPFC borrowers but
intend to offer all their existing fixed assets by way of mortgage as primary security, can avail of assistance under the scheme.

Minimum loan of Rs. 1.0 Million and maximum loan of Rs. 900 Million may be provided under this scheme. Repayment has to be made within 3-5 years.

The prevailing annual interest rate (applicable as of March 31, 2001) is 15.5%. A penalty applicable at the rate of 4% per annum is levied in case default for the period and amount of default.

f. ELECTRO-MEDICAL EQUIPMENT SCHEME - Financial assistance under this scheme is available for purchase of new electro-medical and other equipment. It is provided to private practitioners having MBBS or BDS or qualified as physiotherapists, or holding equivalent qualifications.

This loan is to be repaid within 6 years.

g. HOSPITAL FINANCE SCHEME- Term Loan is available for establishment of new hospital/nursing homes (having minimum 10 beds). It is also available for expansion/modernization of existing facilities.

The operation of this scheme is similar to the Term Loan Scheme.

h. SCHEME OF FINANCE FOR PROFESSIONALS- Term loan is available for setting-up of professional practice or consultancy ventures, being set up for the first time or for acquiring additional equipment in the existing setup. It is provided to professionals in the field of management, accountancy, medicine, architecture, engineering, or other professional fields.

The cost of project should not exceed Rs. 1.0 Million, of which land/building should not be over 50% of the total outlay. This loan is to be repaid within 5 years.
i. **HIRE PURCHASE PORTFOLIO MANAGEMENT** - Financial assistance under HPPM is available for the purpose of providing hire purchase loans against heavy and light motor vehicles. Other equipment including dump trucks, excavators, construction and mining equipment etc. are also covered under the scheme.

The corpus of loan is provided to existing reputed finance companies engaged in this business.

Under the scheme, the assisted finance company is required to enter into a Memorandum of Understanding (MOU) with MPFC. Subsequently, it gets an individual agreement executed between the vehicle operator and MPFC, whenever the corpus fund is used.

The corpus fund assistance is a one-time assistance and needs to be utilised within a specified period. All risks of finance under the scheme are to be undertaken by the assisted (loanee) company.

Interest rate (applicable as of March 31, 2001) ranges from 17.0% to 20.0% for the scheme. A penalty applicable at the rate of 4% per annum is levied in case default for the period and amount of default.

j. **LOAN REPLENISHMENT SCHEME** - Assistance under this scheme is available for the purpose of additional purchase of machinery and extension of factory building for the purpose of modernising or expanding the existing line of activity.

It is provided only to MPFC's existing profit making borrowers, who have a good track record of repayment, which is contingent on the parameter that at least three due installments of loan have been paid in time. The limit of assistance is up to the extent of the loan already repaid by them till the date
of application. The minimum amount of the loan is Rs. 0.5 Million, and the maximum is Rs. 7.5 Million. The loan should be repaid within 5 years.

The prevailing annual interest rate structure (as of March 31, 2001) is as follows:

<table>
<thead>
<tr>
<th>Amount of Assistance</th>
<th>Applicable rate of interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Scale Industrial (SSI) Sector:</td>
<td>15.0%</td>
</tr>
<tr>
<td>Non-SSI Sector</td>
<td>15.5%</td>
</tr>
</tbody>
</table>

A penalty applicable at the rate of 4% per annum is levied in case default for the period and amount of default.

k. DIESEL GENERATOR SET FINANCE SCHEME - With the aim of tiding over the problems faced by entrepreneurs and industrialists due to frequent power failures or cuts, a scheme for financing D G Sets has been introduced.

Assistance under this scheme is provided to all existing industrial units. However, assistance to projects under implementation may be considered on merits. Up to 90% (60% in case of second-hand sets) of the cost of D G Set (invoice value) subject to a maximum loan amount of Rs. 5.0 Million can be considered under the Scheme.

The loan is to be repaid within 5 years.

The prevailing annual interest rate structure (as of March 31, 2001), is as follows:

<table>
<thead>
<tr>
<th>Amount of Finance</th>
<th>Applicable rate of interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Scale Industrial (SSI) Sector:</td>
<td>15.0%</td>
</tr>
<tr>
<td>Non-SSI Sector</td>
<td>15.5%</td>
</tr>
</tbody>
</table>
A penalty applicable at the rate of 4% per annum is levied in case default for the period and amount of default.

I. **FINANCE FOR MARKETING ACTIVITIES** - Assistance under this scheme is available for the purpose of

- meeting capital expenditure on marketing campaign
- acquiring mobile sales vans
- setting up or renovation of showroom, warehouse, marketing office for industrial concerns
- acquiring ISI, ISO and/or other certification
- developing infrastructure like setting-up of permanent exhibition centres, industrial complexes, etc.

It is provided to existing profit making Small or Medium Scale Industries with good track record with financial institutions or Banks. The minimum amount of assistance under the scheme (applicable as of March 31, 2001) is Rs. 1.0 Million with a maximum of Rs. 5.0 Million. Assistance under this scheme is available for a period ranging from two to five years.

m. **EQUITY PARTICIPATION** - Under the scheme, MPFC participates in the equity of any limited company - making public issue of equity shares, either in the promoter’s quota or on firm allotment basis against the reservation for financial institutions.

A maximum of Rs. 5.0 Million may be contributed (as of March 31, 2001), subject to a maximum of 10% of the total paid-up capital of the company. However, in suitable cases, the limit of 10% can be increased up to 25%. The amount under the scheme is released only after raising the promoter’s contribution towards the share capital.
n. **SOFT LOAN SCHEME** - MPFC provides soft loan to deserving entrepreneurs (on selective basis) either under the seed capital scheme of IDBI/SIDBI or out of special Capital of MPFC.

o. **COMPOSITE LOAN SCHEME** - Assistance under the scheme is available for procurement of equipment, or working capital, or both.

It is granted to artisans, village and cottage industries, and small-scale industries in the tiny sector (located in areas other than metropolitan areas), for investment in projects involving utilisation of locally available natural resources and/or human skills. Loan up to a maximum of Rs. 0.2 Million in granted under the scheme.

The loan is to be repaid within 10 years, with an initial moratorium of 12-18 months (for both, interest and principal). No upfront fee is levied under the scheme.

p. **CLOSED UNITS PURCHASE SCHEME** - In deserving cases, the purchaser of any MPFC assisted sick or closed unit is allowed to pay purchase consideration partly on finalisation of negotiation and the balance in installments, over a period not exceeding 3 years.

The deferred payment carries interest at the normal lending rate of the corporation.

MPFC also considers term loan assistance for restarting the same unit or diversifying into some new product line on the merits of the proposal.

q. **COMMERCIAL COMPLEX SCHEME** - The scheme is aimed at providing financial assistance for construction of commercial complex including show rooms and sales outlets.
Loan under the scheme is given for purchase of land and construction of commercial complex within the State of Madhya Pradesh. Sale of shops, show rooms or any portion of a complex shall be permissible with the prior approval of the Corporation. The proceeds shall be deposited in the loan account of the borrower as per terms of agreement. The minimum cost of project should be Rs 1.0 Million.

The promoter is required to contribute 50% of total cost of project. In case of companies, net worth should not exceed Rs. 100 Million.

MPFC will hold the first charge by mortgaging assets i.e. land & building, shop premises, or the saleable part of commercial complex.

The loan should be repaid in 5 years, including a maximum of 2 years moratorium.

Interest (as of March 31, 2001), shall be 15.5% p.a. A penalty applicable at the rate of 4% per annum is levied in case default for the period and amount of default.

r. **FAST TRACK SCHEME**- The scheme is for providing financial assistance in the form of small loans to Service Units or Small Industrial Establishments.

Finance up to Rs. 2.5 Million for the various fund-based schemes will be made available to entrepreneurs in 15 days, otherwise the application fee will be refunded.

Applicable interest rate (applicable as of March 31, 2001) is 15.5%

s. **IT VENTURE CAPITAL SCHEME**- This scheme is with a view to promoting Information Technology projects in Madhya Pradesh.

The promoters of the proposed project must be technically or professionally qualified. The project must be under SSI or MSI and promoted under the
Chapter 2: Functioning of U.P. And M.P. State Financial Corporations

constitution of a Public Limited Company. It should be an eligible activity within the overall provisions of the SFCs Act 1951.

The support provided under the scheme is in the form of either or both of the following components:

- In the form of Equity Assistance to support promoters' contribution.
- In the form of Term Loan.
- The maximum amount of support (applicable as of March 31, 2001) shall be Rs. 24.0 Million in the case of promoters with proven track record, or Rs. 15.0 Million in the case of first generation entrepreneurs. The assistance shall necessarily have a part in the form of loan component.
- The loan should be repaid in 5 years, including a maximum of 2 years moratorium.
- The loan component shall carry prevailing interest rate of the Corporation.
- The exclusive promoters' contribution shall not be less than 20% of the total project cost.
- The loan component shall be secured by way of first charge on the fixed assets of the company.
- The Corporation may insist for any additional security depending upon the merit of the case.
- The buyback agreement shall also have recourse on the fixed assets of the company.
- The promoters and any other person concerned shall also offer personal guarantee for the loan as well as equity component.
- The shareholdings of the promoters shall remain pledged with Corporation.

The procedure for availing assistance under the scheme is as follows:

- The promoters shall furnish a brief profile of the project as well as that of promoters.

- The specialised screening committee will examine the profile, which may include a presentation of the project by the promoters.

- The Corporation shall accept the proposal for detailed appraisal, once it is cleared by the above-mentioned committee.

- The Corporation shall decide about the proposal considering all the aspects of the case through a delegated authority of the sanction.

Non-Fund Based Services rendered by MPFC:

MPFC also undertakes a number of non-fund based services, which are in conjunction mainly with its Merchant Banking Activities. Following is a description of these -

a. **PUBLIC ISSUE APPRAISAL**- MPFC has been involved in project financing for four decades and has developed the requisite relevant expertise, backed by a comprehensive database, which enables it to take up project appraisal of public issue proposals.

b. **ISSUE UNDERWRITING**- Underwriting of shares and debentures for public and rights issues is undertaken, based on the strength of the company, prospects of the issue and the prevailing state of the capital market. The Corporation also assists in arranging underwriting commitments both from institutional and private underwriters.
c. **ISSUE MANAGEMENT**- Issue management services as provided by MPFC are as follows - acting as lead managers, co-lead managers, advisors to the issue, etc. MPFC also assists in public issue subscription through its wide network of zonal and branch offices spread over the state and of brokers, sub-brokers and other market intermediaries.

d. **PROJECT REPORT PREPARATION**- Project reports are prepared based on the latest information concerning technology and market survey of products. Reports are prepared for technology oriented projects, and for innovative items.

e. **CREDIT SYNDICATION**- Services for credit syndication with other financial institutions/banks/finance companies in respect of term loans/lease finance/working capital, etc., are provided.

f. **CORPORATE ADVISORY SERVICES**- MPFC provides corporate advisory services including management systems, project services, firming consortium tie-ups, technical assistance etc.
SERVICES RENDERED BY UPFC-

(i) The Uttar Pradesh Financial Corporation (UPFC) sanctions long-term loans to the extent of Rs. 9.0 Million for the creation of proposed fixed assets, including land, building, plant and machinery, besides meeting the expenses on interest during the period of construction and technical consultancy fees, and other expenses, for small and medium-scale enterprises to be located in the State of Uttar Pradesh. It also sanctions loans in joint participation with the Pradeshiya Industrial and Investment Corporation of Uttar Pradesh (PICUP), and Scheduled Banks. The paid-up capital and free reserves of the assisted company should not, however, exceed Rs. 3000 Million. It also provides bridge-loan facilities against the sanctioned amount of term loan in order to accelerate the pace of implementation of its assisted units, whenever necessary. Under its Handloom Weavers Scheme, the Corporation caters to the needs of the Handloom Weavers of the state. Under the Composite Loan Scheme, UPFC sanctions term loan and working capital assistance to village, cottage and tiny industries.

A detailed note on the services rendered by UPFC follows -

The services rendered by the Uttar Pradesh Financial Corporation, in a similar fashion to those offered by MPFC, may broadly be classified into (a) the fund-based services, and (b) the non-fund based services.
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<table>
<thead>
<tr>
<th>Fund - Based Services</th>
<th>Non – Fund Based Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• EQUIPMENT REFINANCE SCHEME</td>
<td>• MERCHANT BANKING, INCLUDING</td>
</tr>
<tr>
<td>• HIRE PURCHASE SCHEME</td>
<td>a. ISSUE MANAGEMENT</td>
</tr>
<tr>
<td>• EQUIPMENT LEASE FINANCE SCHEME</td>
<td>b. UNDERWRITING</td>
</tr>
<tr>
<td>• WORKING CAPITAL TERM LOAN SCHEME</td>
<td>c. SUBSCRIPTION TO EQUITY SHARES</td>
</tr>
<tr>
<td>• SHORT TERM LOAN SCHEME</td>
<td>d. ADVISORY SERVICES</td>
</tr>
<tr>
<td>• FOREIGN CURRENCY LOAN SCHEME</td>
<td>e. PROJECT CERTIFICATION</td>
</tr>
<tr>
<td>• BRAND EQUITY SCHEME</td>
<td>f. OTHER FINANCIAL SERVICES-</td>
</tr>
<tr>
<td>• TRANSPORT OPERATORS SCHEME</td>
<td>g. BILL DISCOUNTING, EQUIPMENT LEASING AND HIRE PURCHASE</td>
</tr>
<tr>
<td>• SCHEME FOR NURSING HOMES / ELECTRO-MEDICAL EQUIPMENT</td>
<td>• FACTORING</td>
</tr>
<tr>
<td>• MAHILA UDYAM NIDHI</td>
<td>• DEFERRED PAYMENT GUARANTEE</td>
</tr>
<tr>
<td>• SCHEME FOR WOMEN ENTREPRENEURS</td>
<td>• FOREIGN LETTER OF CREDIT</td>
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<tr>
<td>• SCHEME FOR QUALITY CONTROL EQUIPMENT</td>
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<tr>
<td>• MODERNISATION SCHEME</td>
<td></td>
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<td>• SEMFEX SCHEME</td>
<td></td>
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<tr>
<td>• SINGLE WINDOW SCHEME</td>
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<tr>
<td>• FINANCIAL ASSISTANCE FOR TOURISM RELATED FACILITIES</td>
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<tr>
<td>• FINANCIAL ASSISTANCE FOR ROAD CONSTRUCTION EQUIPMENT</td>
<td></td>
</tr>
<tr>
<td>• FINANCIAL ASSISTANCE FOR MARKETING ACTIVITIES</td>
<td></td>
</tr>
<tr>
<td>• NATIONAL EQUITY FUND SCHEME</td>
<td></td>
</tr>
</tbody>
</table>
a. EQUIPMENT REFINANCE SCHEME - In order to provide faster and better service to established entrepreneurs, I.D.B.I. / S.I.D.B.I. have envisaged the equipment refinance scheme. Under this scheme, loan facility is extended to existing profit making small and medium industrial units, having a good track record, for the purchase of plant and machinery only. Loans under this scheme are sanctioned and disbursed with a minimum of technical, financial and legal formalities. Assistance under the scheme is available to the existing industrial concerns eligible for refinance assistance from I.D.B.I. / S.I.D.B.I. The concerns should have a good track record of performance and sound financial position. In particular, the concern should have been in operation for at least 4 years, should have earned profits and/or declared dividend on equity shares during the preceding two financial years, and should not have been in default to institutions or banks as concerns payment of their dues. Such loan may be availed for the purchase of identifiable items of plant and machinery and other equipment, including energy saving systems for modernization, expansion, balancing, replacement, or for any other purpose except for setting up of new projects. Only actual users are deemed eligible for assistance. Further, only imported second hand machinery can be considered on a case-to-case basis, provided that the capital goods should not be more than seven years old, and should have a minimum residual life of five years. Purchase of indigenous second hand machinery is not eligible under the scheme.

Maximum assistance under the scheme by U.P.F.C. covers up to 77.5% of the cost of capital goods or equipment to be acquired. The borrowing concern will have to meet to a minimum of 22.5% of the cost of equipment, in addition to the allied expenditure, which will be in the nature of Promoter's Contribution. For loan amounts up Rs.1.0 Million, the minimum debt equity
ratio of 3:1 is permissible. For loans exceeding Rs.1.0 Million, a Debt to Equity ratio of 1.5:1 or 2:1 is considered satisfactory.

i. UPFC can grant loans up to Rs. 15.0 Million per proposal under this scheme.

ii. Total loan assistance (existing outstanding plus proposed) form UPFC will be subject to a ceiling of Rs. 24.0 Million per concern.

iii. If the borrowing concern is of proprietorship or partnership nature, the ceiling of total exposure of the loan will be limited to Rs.9.0 Million in a case.

The borrower concerns are required to pay the prevailing rate of interest, which may vary from 16.0 % to 17.0 % per annum, including interest tax on the loan amount, on a quarterly basis. Rate of higher interest in case of defaulted amount and for period of default is kept at 2.5%. However, the above interest rate is subject to revision from time to time.

The borrower is required to deposit processing fee (as of March 31, 2000), as given below:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Amount of Financial Assistance Applied For</th>
<th>Processing fee (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Up to Rs. 1.0 Million</td>
<td>1000 to 4000</td>
</tr>
<tr>
<td>2</td>
<td>Above Rs. 1.0 to 3.0 Million</td>
<td>8000</td>
</tr>
<tr>
<td>3</td>
<td>Above 3.0 to 6.0 Million</td>
<td>12000</td>
</tr>
<tr>
<td>4</td>
<td>About Rs 6.0 to 9.0 Million</td>
<td>18000</td>
</tr>
<tr>
<td>5</td>
<td>About Rs 9.0 Million</td>
<td>25000</td>
</tr>
</tbody>
</table>

An upfront fee amounting to 1 percent of Equipment Refinancing Scheme Loan amount along with interest tax applicable is payable by the borrower on or before disbursement. The Internal Committee is the sanctioning authority
for all amounts of loans. The loan is repayable between 2 to 5 years inclusive of moratorium of six months, depending upon repayment capacity of the unit.

Loans granted under the scheme are secured by first charge by way of Hypothecation of capital goods or equipment financed, along with first charge or subsequent charge on the other fixed assets of the concern wherever possible.

b. HIRE PURCHASE FINANCE SCHEME - UPFC provides hire purchase assistance to acquire plant & machinery, and other capital goods, with 10% promoter's investment. Such loans are available to concerns intending to expand, modernize or diversify their activities. Any Industrial concern, which has been in operation for the last three years and has earned net profit during the last two years, is eligible for financing under this scheme, provided it they should not be in default to any financial institution or bank. It is applicable for new indigenous or imported equipment, or for second hand imported equipment, for concerns engaged in activities like the operation of Nursing Homes, Restaurants etc. It is also applicable for purchase of office equipment like photocopiers, fax machines, computer, and other equipment for professionals. It may also be availed by commercial transport vehicle operators having business for at least 3 years, who have a positive net worth.

The loan is to be repaid within three to five years depending upon the economic life of equipment, technological obsolescence, perception of risk as well as profitability of the concern. Payment is to be made via monthly installments payable in advance with one to 6 months moratorium. Under this scheme, a maximum assistance of up to Rs. 240 Million can be extended besides the existing limit of term loan.
A flat rate of interest is levied under this scheme, varying from 9.5% to 11% per annum. In addition, maximum Hire Purchase processing fees of Rs. 35,000 depending upon quantum of assistance, and a Hire Purchase management fees of 1% is also payable by the beneficiary.

Upto ninety percent of the cost of the equipment may be financed under the scheme. Advantages offered are quick financing with simple procedural formalities, and tax shields in the form of depreciation benefits available to concern.

c. EQUIPMENT LEASE FINANCE SCHEME- UPFC provides lease assistance to acquire plant & machinery. Without any promoter's investment to concerns intending to expand, modernize or diversify its activities. Industrial concerns, which have been in operation for the last three years and have earned net profit during the last two years and have not been in default are eligible for finance under the scheme. It is applicable for the acquisition of new indigenous or imported equipment, or for second hand imported equipment. The lease period is between three to five years, depending upon the economic life of equipment, technological obsolescence, rate of depreciation, perception of risk as well as profitability of the concern.

Mode of Payment

a) Monthly rental payable in advance with one month moratorium

Or

b) Monthly structuring of lease rentals according to users need.

Limit of Accommodation

Besides the existing limit of term loan, maximum assistance up to Rs. 30.0 Million can be extended.
Charges

a) Maximum Lease processing fees of Rs. 2500/-, depending upon quantum of assistance.

b) Lease management fees of 1%.

Advantages

i. 100% finance.

ii. Quick financing with simple procedural formalities.

iii. Lease rental allowed as tax deductible expenses.


v. Flexible rental structuring according to user's need.

d. WORKING CAPITAL TERM LOAN SCHEME

Eligibility Criteria

a) The Scheme is meant for all small scale and medium scale industrial units where net worth of the company /firm (excluding revaluation reserves) does not exceed Rs. 100.0 Million.

b) Unit which are not financed by UPFC, should be in operation preferably for a minimum period of 3 years and should have earned profit in the last financial year.

c) Units, which have availed working capital from the Banks, would also be eligible.

Quantum of Assistance

i) Maximum limit of Working Capital Term Loan to a Company shall be Rs. 15.0 Million over and above the Term Loans Sanctioned by UPFC, subject to a maximum exposure of Rs. 24.0 Million. However, in case the
borrower being firm (partnership or proprietorship) the maximum limit of Working Capital Term Loan shall be Rs. 9.0 Million subject to a maximum exposure of Rs. 9.0 Million in a case.

ii) Security Debt Ratio shall normally be kept at 1.5:1.

Security for Working Capital Term Loan (WCTL)

WCTL shall be secured by the following security:

a) First charge by way of hypothecation of current assets such as raw material, finished goods, stores and spares to be acquired by the proposed Working Capital Term Loan.

AND

b) Extension of Charge on fixed assets of the unit viz. Land, building and hypothecation of plant and machinery etc.,

OR

i) First charge by way of mortgage of land and building and hypothecation of plant and machinery etc., or

ii) First pari-passu charge on the fixed assets of the unit, it the assets are mortgaged to other Institution/Bank.

c) Collateral security to cover the Working Capital Term Loan in the shape of liquid security viz. National Savings Certificates (NSCs), Fixed Deposit Receipts (FDRs), quoted shares of Blue Chip Companies, Kisan Vikas Patra (KVPs), etc, is required. It may also be acceptable in the form of fixed assets including urban land property, including residential plot/house, commercial shops/plots. Agricultural land or rural property will not be preferred as the marketability of the same is difficult.
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Rate of Interest

The present rate of interest is 17 to 18 percent per annum for SSI and 18 to 19 percent per annum for Non-SSI. However, above rates are subject to change from time to time.

Repayment Period

The loan shall be repayable in 5 years, inclusive of moratorium of 3 months, depending upon repayment capacity of the unit.

Sanctioning Authority

Internal Committee is the sanctioning authority for Working Capital Term Loan cases of all amounts.

Annual Service Charges

The borrower shall pay service charge amounting to 1 percent of the sanctioned amount of Working capital Term Loan.

Mode of Application

The entrepreneurs are required to apply for loan on the prescribed application form alongside the Project Report. Simplified application forms are available at our Regional Offices as well as at the Head Office.

e. SHORT TERM LOAN SCHEME

This scheme is meant for meeting short term funds requirement of existing borrowers, having good track record of profit and repayment, like working capital requirement to execute large work orders within short time, to meet temporary working capital shortage, development /expansion of new markets/products, margin money for opening of LC till the sanction and release of funds from financial institutions for capital goods or for imported raw material etc.
Eligibility Criteria

d. The borrower should be engaged in manufacturing activity, have been in operation for more than 3 years and also be in profit during the last two years after providing depreciation and interest.

e. The borrower should not be in default on payment of dues of the Corporation, Bank or any other financial institutions. The borrower shall also have to submit certificate from a Chartered Accountant indicating therein that it is not in default to any Financial Institution/Bank as on that date.

f. Leasing and finance companies shall be outside the purview of scheme.

Quantum of Assistance:

The amount of assistance shall be minimum of Rs. 1.0 Million and a maximum of 6.0 Million.

Security

a) Personal guarantee of the partners / directors.

b) Loan Agreement with the Corporation along with Demand Promissory Note.

c) Post dated cheques for interest as well as principal repayment.

d) The loan shall be secured either by extension of charge on existing assets mortgaged with the Corporation or by way of collateral security to entire satisfaction of the Corporation. Minimum security cover of 150% shall have to be maintained in each case. The valuation of the collateral security shall be done by the Corporation, as per its norms.

Interest Rate:

Rate of Interest amounting to 19 percent shall be charged on outstanding loan; compounding shall be done on a quarterly basis.
f. FOREIGN CURRENCY LOAN SCHEME

This scheme is meant primarily for export oriented units which want to import capital goods to either diversify, expand or modernise or setup new units to increase their competitiveness in the global market at competitive interest rates. The maximum limit of loan under the scheme shall be the rupee equivalent of Rs. 24.0 Million and interest rate shall be 7% above 06 months libor. The borrower is required to make the repayment of loan in foreign currency. Foreign Currency Loan shall be restricted to foreign currency requirement for importing plant and machinery. Other operational parameters are similar to normal FATL scheme except as mentioned above.

g. BRAND EQUITY SCHEME

The assistance under this scheme is meant for units having good track record for improving marketability of their products by undertaking activities such as market research, advertising, creating or enhancing the value of brand, providing audio/Video for electronic media, participation in trade fair and setting up distribution network etc.

The maximum loan amount per borrower shall be Rs. 2.0 Million and minimum Rs. 0.5 Million. The assistance rendered under this scheme shall be usually 05 to 10% of turnover of the unit and disbursement may be made in three strokes depending upon requirement of funds.

Security Required:

a. Extension of charge over existing asset.

b. Collateral security of 150% of the loan, if the existing security is not sufficient.

c. Exclusive charge on assets acquired under scheme.
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Rate of Interest:

As applicable to W.C.T.L. cases, presently 17.0% to 19.0% p.a.

Period of Loan:

3 to 4 years with gestation period of 06 months.

h. TRANSPORT OPERATORS SCHEME

The assistance under this scheme is an extension of the prevailing norms for assistance to transport operators. As per these norms, UPFC has now extended the scheme for all categories of entrepreneurs in the State of U.P. This scheme is therefore available for:

(i) Tourist coaches subject to their firm tie-up and recommendations for a sustained business by the Tourism Department.

(ii) Road Tankers for transportation of petroleum products (LPG) on contract basis from Indian Oil Corporation, etc., for a period of five years.

(iii) For trucks with firm business tie-up arrangements with other UPFC assisted units / public sector undertakings.

i. SCHEME FOR NURSING HOMES / ELECTRO-MEDICAL EQUIPMENT

Financial assistance under the scheme is available to a maximum extent of Rs. 9.0 Million, for purchase of electro-medical equipment, and/or for Nursing Homes providing the specialised services of at least one post graduate doctor with a qualification of MD or MS, etc., on a full-time basis. Assistance is also available for expansion/modernisation of the existing nursing homes. UPFC also provides term-loan assistance to medical practitioners, having qualifications of MBBS/BAMS or BDS, for the establishment of X-Ray Clinics.
j. **MAHILA UDPAM NIDHI**

Seed Capital Assistance is available to women entrepreneurs under the MUN scheme, to a maximum extent of five percent of the project cost, at zero percent interest, provided that the total cost of the project does not exceed Rs. 1.0 Million.

k. **SCHEME FOR WOMEN ENTREPRENEURS**

UPFC provides financial assistance to small-scale units (including cottage, village and tiny industries) promoted and managed by women entrepreneurs.

l. **SCHEME FOR QUALITY CONTROL EQUIPMENT**

UPFC provides financial assistance to SSI Units, for the purchase of quality control equipment, irrespective of the fact that it is a new unit, or an existing one already financed by the Corporation. This loan is aimed at the acquisition of testing and quality control equipment.

m. **MODERNISATION SCHEME**

Under the Modernisation Scheme, UPFC provides financial assistance for the modernisation of industrial units, especially to overcome the backlog in modernisation, and to adopt improved and updated technology and modern methods of production, to prevent mechanical and technological obsolescence, normally for replacement or renovation. The assisted unit should have been in existence for at least five years. The objectives behind the scheme are primarily to reduce the unit cost of production, bring about technology improvement, encourage enhancement in productivity (both in terms of quality and quantity), for better profitability. Export oriented and import substitution proposals are accorded high priority under the scheme.
n. **SEMFEX SCHEME**

Loan assistance is granted to ex-servicemen, war widows and disabled service personnel under the Self-Employment Scheme for Ex-Servicemen, commonly known as the SEMFEX Scheme. The scheme provides for seed capital assistance to the extent of 15 percent of the project, and is also available for meeting a part of the equity requirements. Capital assistance under this scheme bears nominal rates of interest, and longer repayment periods. Promoter’s contribution is kept at 10 percent of the project cost.

o. **SINGLE WINDOW SCHEME**

UPFC provides financial assistance to new tiny and small scale units to help them in their working capital requirements, where the project cost does not exceed Rs. 2.0 Million (excluding margin money for working capital) and the total working capital (at optimum capacity utilisation) does not exceed Rs. 1.0 Million.

p. **FINANCIAL ASSISTANCE FOR TOURISM RELATED FACILITIES**

Assistance from UPFC is available for tourism related facilities (TRF), including the establishment of hotels, motels, restaurants, amusement parks, convention halls or travel agencies in specific areas, to promote tourism in the state. Loan amount not exceeding Rs. 9.0 Million is available under the scheme for the above activities.
q. FINANCIAL ASSISTANCE FOR ROAD CONSTRUCTION EQUIPMENT

UPFC has devised a scheme for financing equipment, intended for use in construction, development or maintenance of roads. The scheme is essentially aimed at providing loan assistance to experienced and approved contractors.

r. FINANCIAL ASSISTANCE FOR MARKETING ACTIVITIES

UPFC has adopted the marketing scheme for providing long-term financial assistance essentially for marketing the products of cottage, village and small-scale units. The assistance provided is to be utilised in the setting up of new sales outlets and showrooms, or for the renovation and modernisation of the existing sales outlets. Loan amount amounting to 75 percent of the costs involved may be availed.

s. NATIONAL EQUITY FUND SCHEME

With the objective of providing equity type assistance to smaller industrial units, UPFC extends soft loan assistance to the extent of project cost, to units being set up in a village or town having a population not exceeding 0.5 Million (1.5 Million in the case of hilly areas and the north-east regions).

SCHEME FOR MERCHANT BANKING & FINANCIAL SERVICES

UPFC was initially set up for the industrial development of U.P. by the provision of term loan assistance to small & medium scale units. Since then it has broadened its approach to a more professional styling in the area of Industrial Financing. Several small-scale units nurtured by UPFC have grown into large enterprises.

With a view to taking advantage of the liberalized policy of the Government, and the changed economic scenario, and the opportunities arising therefrom, UPFC
has started Merchant Banking & other financial Services to serve its valued clients. UPFC is registered with SEBI as a Category-I Merchant Banker. It possesses all the requisite expertise in project appraisal and term lending, as well as the necessary infrastructural setup, on the basis of which it offers a whole gamut of Merchant Banking Services, including:

a. **ISSUE MANAGEMENT**: UPFC provides expert services towards the management of public issues of companies. It has already managed several Public Issues as a Lead Manager to the issue.

b. **UNDERWRITING**: In order to provide a protective umbrella to the public issues of its clients, and also comply with the regulatory requirements that have been put into place by SEBI, UPFC also underwrites the issues of the companies for which it acts as Manager / Lead Manager.

c. **SUBSCRIPTION TO EQUITY SHARES**: UPFC subscribes to the equity shares reserved under FI quota, to enable the issuing companies to market their public issue effectively.

d. **ADVISORY SERVICES**: UPFC, on the basis of its long experience, renders various advisory services to its clients such on issues concerning Capital Structure, Loan Syndication, etc.

e. **PROJECT CERTIFICATION**: UPFC also certifies the projects which are desirous of tapping the capital markets for their fund requirements. This is a specialized activity of the Corporation.

f. **OTHER FINANCIAL SERVICES**: With the intent of providing professionalised financial services to its clients, UPFC also offers services related to Bill Discounting, Equipment Leasing & Hire Purchase Services, Short- Term Loans, Brand Equity Loans, etc., to meet the diversified requirements of its clients.
FACTORING

Factoring is a continuing financial arrangement designed to help firms to manage their receivables better. Under factoring arrangement, a factor, who is typically a merchant banker, collects the accounts on due dates, effects payments to the firm on these dates and also assumes the credit risks associated with the collection of the accounts.

Sometimes the factor provides an advance against the values of receivable taken over by it. In such cases factoring serves as a source of short-term finance for the firm.

In order to provide a gamut of financial services under one roof, the UP Financial Corporation has also started factoring services. Under the scheme Corporation shall be at the time being only providing advances or prepayments against receivable and other services provided by the factor such as debt collection and administration of sales ledger etc. shall be taken later on.

Under the scheme receivables only arising out of domestic trade shall be considered for factoring. Supplier/Borrower shall draw bills of exchange for goods supplied and the purchaser shall accept that. After acceptance of bills of exchange, Corporation shall make prepayment of 80% of invoice value after deducting its discount charges at rates ranging from 17 to 18 percent per annum, for period of Bill of Exchange to supplier. The balance payment of 20 percent of the invoice value is required to be made after collecting the payment from the purchaser. If the purchaser fails to pay the due amount on due dates, the supplier is required to make the payment. The Borrower or Supplier, as the case may be, shall submit the Bill of Exchange, along with invoice LR/RR receipts. To be eligible for factoring, suppliers must have a minimum track record of 3 years, with consistent profitability, and a minimum net worth of Rs. 2.5 Million.
Usually, before providing advance payments to the supplier, an agreement is entered with the supplier for raising the debts of purchaser in favour of the Corporation, and the Corporation makes advances only against the invoices drawn to this particular purchaser. The sub-limit of each purchaser is fixed and the sum of these sub limits is the overall limit of the supplier. Usually, the purchaser should have been dealing with, the supplier for a minimum period of two years. The maximum limit of each purchaser should not exceed Rs. 2.5 Million at any point of time.

Usually, the limit for factoring is calculated on the basis of the projected receivables on the credit sales of the company, after deducting existing bills/books debts limits enjoyed by the company from bank. The maximum limit shall not exceed two months average turnover of the supplier, as per the last audited balance sheet or projected turnover of the current year, subject to a maximum of Rs. 10.0 Million.

DEFERRED PAYMENT GUARANTEE

This is a non-fund-based activity, wherein the Corporation guarantees the payment of the amount to be paid by the customers for purchase of capital goods within India, payment on account of which has been spread over or deferred over a period of time. Under this arrangement, the supplier selected should be of repute, and should also be agreeable to supplying the capital goods on deferred payment basis.

The maximum amount of guarantee should be Rs. 20 million and the maximum period should be 5 years. The guarantee commission at a rate of 2 percent per annum should be charged on reduced liability (diminishing balances) basis and the same may be charged upfront for the entire period.

FOREIGN LETTER OF CREDIT
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Under this scheme, the Corporation will open the foreign letter of credit to import the capital goods through its banker on behalf of the clients, who have already been sanctioned the term loan for acquisition of imported capital goods.

The Corporation will charge service charges / commission amounting to 0.05 percent of the amount of Foreign Letters of Credit (FLCs), subject to minimum of Rs. 20,000/- per FLC for 90 days from borrower. An additional service charge / commission amounting to 0.25% per every quarter or part thereof will be charged from the borrower if the period extends beyond 90 days.

References

Data presented concerning various schemes of MPFC and UPFC has been compiled and adapted from various reports, pamphlets, handbooks and web pages of both the Financial Corporations. The handbook titled 'Assistance to Industries - An entrepreneur's guide', published by the MPFC, has been of immense use in this study.