SUMMARY AND RECOMMENDATIONS
SIDCs in the true spirit of development banking engaged in the task of enterprise creation, particularly the backward regions. In keeping with the objectives - growth with social justice, new class of entrepreneurs and balanced regional development are consciously encouraged. Their operational policies and programmes are reflected in the volumes of operations and the district transformation being brought in the industrial location and ownership, have borne impressive results. The innovation of offering the entire range of services to prospective entrepreneurs on a near turn-key basis is particularly remarkable. The process is considerably helped by the proximity of these corporations with policy planning bodies of respective state governments and close links targeted by them with IDBI and other developmental agencies both at national and state levels. While socio-economic benefits accrued, viz.- investment catalysed, output thereof, dispersal of industries, broadening the industrial and entrepreneurial base, employment generation, direct/indirect contribution of exchequer can form one set of yardsticks to the evaluation of one’s work for institutions which have to sustain their own viability, direct performance indicators are equally relevant. This reflects the aspirations, pace and the quality of metamorphosis being brought about in the process. However, comprehensive and comparable data on the former set are readily available.

Opportunities and tasks for development banks would indeed be enormous in attaining plan objective and targets. SIDCs will have to gear themselves to shoulder
much greater responsibilities in the field of project identification/promotion, term lending operations and, in several cases, area development too. The corporations need exercise, a greater degree of initiative, innovation and selectivity in their choice of projects for promotion and financing. A conscious change in emphasis from traditional ones to those involving high technology with export potential is likely to come about. Liberalisation by government with regard to import of technology and process know-how on one hand, and gradual exposure of Indian Industries to international competition would mean that inefficient units might have to make room for the efficient ones. Apart from technology, two other vital factors determining the long-term viability of industrial enterprises are adherence to schedule of implementation and enlightened management policies. These aspects call for close association of SIDs with the promoted/assisted projects right from the preliminary stage itself, if the projects are to be insulated against possible time and cost overruns. Such involvement, to be meaningful, must not be confined to merely providing financial assistance or ensuring recovery of dues. It must transcend the bounds of conventional financing and sketch to the realm of participative association capable of gaining a feel of the problems of the units at the appropriate time showing a preparedness to respond to use norms with an element of spontaneity and conviction. It is the experience everywhere that in spite of close scrutiny and subsequent monitoring, some projects fail. Risk is inherent in any enterprise in an ever-changing environment. Adaptation to new environment calls for up-gradation of technology and/or temporary relief in the period of transition. The units often require special dispensation in the form of modernisation and/or rehabilitation packages. Awareness on
the part of development bankers of the dimensions of such modernisation and rehabilitation can be of great help to move forward with the changing requirements of the industries in the respective states.

Another significant measure which must widen the scope of business for SIDCs is the introduction of foreign currency refinance scheme, whereby SIDCs can, for the first time, meet the foreign currency loan requirements of their clientele in the medium scale sector. Similarly, the proposed equipment refinance scheme should also augment their business potential further. Thus, future would open up new vistas for operations by SIDCs. Time is, therefore, opportune for them to review their philosophy, working and institutional capabilities. They need to reorient their future direction in consonance with the challenging tasks that would emerge during the coming years. They are carrying out a variety of functions, each important in itself. In the context of self evaluation referred to above, each corporation needs to clearly delineate areas of focus. Efficiency and productivity will have to be the hallmarks of their future operations as, in the ultimate analysis, they determine the degree of success in the pursuit of set goals.

The exercise could begin with a comprehensive study of organisational structure, operational system and procedures. As part of its institutional development programmes, IDBI would be willing to extend necessary assistance to them for the purpose. Corporate planning, performance budgeting, resource mobilisation and an efficient management information system could constitute the core of their strategy in playing their role more effectively.
Main Findings of the Study

An analysis of organisational structure and operational aspect of the corporations have been discussed in chapter two of the study. It is revealed that the delegation of authority by the Board of Directors to the Managing Director has been much oriented towards centralisation. All the decisions taken by the corporation regarding the selection of the financial proposals are to be ratified by the board and again by the PAB. But, each divisional head is delegated with sufficient authority, which is in conjunction with the activities of the corporations. Though, the SIDCs have to their credit of the separation of the offices of the Chairman and Managing Director, which the Narismiham Committee recommended much later, the Board of Director of any enterprise constitutes a pivot of the organisation. It is here, that the major policies and programmes are determined for action. The decision making by the Directors largely depend upon its nature, composition and size. A detailed discussion attempted in this chapter, reveals that, policy boards have been preferred over the functional boards. It is also observed that in these corporations, there is a dominance of official Directors nominated by the respective State Governments. It has also been pointed out in this regard that almost all the Directors are nominated by the respective State Governments in their ex-officio capacities. The Directors of these corporations held such positions on more than one board of other corporations in addition to their government position. At the same time, the corporations have inadequate representations of experts in the specialised fields which is much desired in the organisations which perform specialised
functions. The official element on the board has furthered the circumstances of autonomy and resulted in bringing some degree of instability in the board.

As far as operational activities are concerned, the corporation’s share in the joint/assisted projects seems to be inadequate especially in the projects coming up in the backward districts of respective states where the infrastructural facilities are not developed. Apart from project promotion and project financing activities, the corporations are also engaged in some specialised activities related to the infrastructural and industrial development in the states. These activities involve seed capital assistance, central subsidy scheme, industrial infrastructure development, Growth centers, export promotional industrial parks, merchant banking and other activities including sale of Indian made foreign liquor (IMFL) by DSIDC.

So far as profitability in these corporations, as discussed in chapter three reveals that during the initial years under review, the returns were low as may be these corporations were largely operating keeping in view their social obligation rather than economic. It can further be noticed that despite low returns, the corporations continued their efforts of speeding up the process of industrialisation in the respective states. The rate of returns as highlighted in this chapter supports the fact that these corporations except JKSIDCO have been striving hard to improve their profitability and have been successful in their attempts as can be viewed from the high per annum growth of the returns in terms of average investment, shareholder’s equity, average total assets and capital employed. It can be noticed that in case of DSIDC also, the returns on shareholder’s equity were not satisfactory like JKSIDC where returns seem to be
unsatisfactory. As the non-financial activities of the development institution is no less essential than the financial just as the position of the profitability of these corporation but for JKSIDC suggest that the average ratio of return on average investment and shareholders equity is less but an encouraging trend is exhibited in the later years. Moreover, the profitability from other ratios viz. Interest expense ratio and interest coverage ratio, the corporations have built up adequate profits (except for JKSIDC) and are reinvesting them in profitable projects. The return in PSIDC and HSIDC are better than DSIDC and HPSIDC revealing the potential of its investments in such projects causing the stabilisation of profits.

Resource Management aspect of SIDCs as discussed in chapter IV of this study reveals that PSIDC, HSIDC and JKSIDC have relied more on equity than debt in the initial years but it has declined over the years. This factor will have a negative impact on the overall profitability of the corporations, as the cost of borrowings will erode the profitability of these corporations. Somehow they realigned their policies and are now relying more on equity, which is a welcome trend. The analysis of the ratio of average cost of borrowings indicate that the return has increased with few variations in case of PSIDC, HSIDC and DSIDC which further justifies that these corporations have increased the debt proportion in its above given ratios together imply a negative impact on the profitability of these corporations. The ratio of administrative and other expenses to total income highlights a declining trend in all the corporations except JKSIDC during the later years which shows that these corporations have initiated some economic measures to reduce then expenses which has a positive impact on the profitability.
On the other hand, the share of refinance availed of from IDBI has declined more or less towards the end in PSIDC, HSIDC and HPSIDC clearly showing that the corporations have decreased their dependence on the IDBI to refinance the industries in their respective states.

Furthermore, it can be seen that the share of investment in quoted shares in the total investment in all the corporation has improved in later years though it has slightly declined during the last. The promotional and developmental role of the corporations as discussed in the chapter five of the study highlights that the corporations have been unable to check the regional disparities in the respective states. The assistance sanctioned and disbursed has largely concentrated in few of the industrially non-backward and industrially backward districts in the respective states. Besides, there was no consistency in the pattern of assistance by the corporations. The corporations in respective states have not only ignored some of the backward districts like Faridakot, Ferozpur, Gurdaspur and Hoshiarpur in Punjab, Bhiwani, Jind, Mahendergarh and Kaithal in Haryana and Lahoul and Spiti, Mandi, Bilaspur, Kangra, and Simla incase of Himachal Pradesh but also districts like, Kapurthala and Jalandhar (Punjab), Kurukshetra, Karnal, Yamunagar (Haryana) in non-backward districts. The percentage calculated of assistance in terms of sanctions and disbursements haven been fluctuating widely over the years as well as amongst the districts of each state. In addition, it has been found out that the more of the assistance has concentrated in already industrially developed districts of concerned states. This trend could be ascribed to the lack of infrastructural facilities in the above mentioned districts of respective states.
It has also been found that the corporations have, to a large extent promoted and financed the select industries, viz.- Textile, Food manufacturing, Chemical and Chemical products, Electronics and Electrical Machinery and Metal products except Machinery in case of Punjab; Textile, Food Manufacturing, Chemical products, Metal Products and Transport equipment in Haryana; and Chemical, Steel, Paper and Hotel in case of Himachal Pradesh, have received the highest share of the total assistance sanctioned and disbursed by these corporations.

Thus, it can be said that the corporations have not diversified their assistance in a properly magnified manner, which is most desired, as such a pattern enables technological linkages and thereby providing better potential for over all industrial base in the respective states. However, it is also realised that industrial diversification across districts in each state is not possible in the initial phase but as a particular district attains sufficient industrial base, then there the need of diversification arises. But, since inception, these corporations have concentrated their assistance in few of the districts of respective states thereby failing in their attempt to correct the regional and inter-district disparities over the states.

Taking cognizance of the findings of the study, the following suggestions seem to be worthwhile in bringing about improvements in the overall working of the corporations.

1. The State Governments must frame policies laying emphasis on creating infrastructural facilities for establishing electronic, software and FMCGs as these industries would not only give impetus to the process of industrialisation
but also help to bring the country as a whole at par with the industrially
developed countries.

2. The State Government must frame a special industrial policy for the medium
and large-scale industries in the States. It would further strengthen the base for
industrial growth in the States. The Governments should come out with special
incentive schemes to attract the non-resident Indian (NRI), as at present there is
ample change due to the liberalisation. It must fully utilise the scope provided by
the Central Government in this regard to bring in investment collaboration from
abroad.

3. The official element in the Board of Directors must be reduced to one or two
members and some experts in the area of banking, law, management etc. On the
recommendations of the Narasimham Committee\(^1\), must be included to either as
full time or part time directors to bring in professionalism.

4. The Government’s influence may be restricted only to broad policy matters and
it should not interfere, through the Board of Director and PAB in selection of
collaborator or co-promoter for the projects coming up in joint/assisted sectors.

5. No Director on the Board should hold more than two directorships at a time.
Further, the recommendations of the ARC\(^2\) and Committee on Public
Undertakings\(^3\), which suggested that civil servants who have been working in

\(^1\) M. Narasimham, Report of Financial System, New Delhi, A Nabhi Publication, 1993 (Reprint)
p-66.

\(^2\) Administrative Reforms Commission, Recommendations and Conclusions of Administrative

\(^3\) Government of Punjab, Committee on Public Undertakings, First Report, Chandigarh, Punjab
Vidhan Sabha Secretariat, 1973, p.3.
public undertaking for three years should opt out of the service permanently for service in public enterprises. The recommendations should be reconsidered as this would help in bringing in more business like approach in the functioning of the corporation.

6. The Corporations, except HSIDC and JKSIDC at present operates only from the State Headquarters in this way they are aloof from the local problems of the entrepreneurs, however, it may be suggested that these Corporations for better performance need to create area offices so as to facilitate better interaction between the corporations and their clientele.

7. A full banking license can be eventually granted to DFIs. In the interim, DFIs may be permitted to have banking subsidiary (with holdings up to 100 per cent), while the DFIs themselves may continue to play their existing role.

8. Management and shareholders of Banks and DFIs be permitted to explore and enter into gainful mergers. These mergers should be possible not only between Banks out also between Banks and DFIs and not only between strong and weak though viable entities and even between two (or more) strong Banks and DFIs. Such restructuring/consolidation should be brought about in a market-oriented fashion and should be led by viability and profitability considerations alone. This would require the right legal and industrial relations environment to prevail. This shall foster an optimum advantage derived from the proposed restructuring/consolidation through a process of rationalisation.
9. If the DFIs are required to assume any developmental obligations, the RBI/Government should provide an appropriate level of financial support to enable them to fulfil these obligations.

10. A Standing (Co-ordination) committee be set up on which Banks and DFIs would be presented.

11. a) Complete redesigns of the business system, with the top Management spelling out the strategic objectives for principal stakeholders (clients, employees, shareholders, etc.).

b) An attitudinal change in favour of a pro-active relationship-based approach, with Relationship Managers serving as the single contact point.

c) Consensus-driven committee-based approaches for loan sanctions to get the benefit of pluralistic views and at the same time eliminate individual biases.

d) Decisions on organisation structure be allowed to be based purely on commercial judgement.

12. A clear strategy approved by the Board of Directors as to their risk management policies and procedures. The Senior Management should ensure that the structure of Banks/DFIs’ business and the level of risk it assumes are effectively managed with a well-defined system and based on a clear definition of individuals/committees responsible for managing such risks.

13. For each proposal, terms and conditions regulating the co-promoters need to be clearly spelled out to avoid delays in implementation of the projects. The
concerned government departments should be induced to expedite the release of all official sanctions in time to avoid such delays.

14. The adding of the interest chargeable on loans to the equity for calculating the share prices, which are not listed on stock exchanges, at the time of disinvestment, takes away the risk element of equity, which mainly distinguishes it from loans. Such a condition must be done away with.

15. As the details of the scheme indicate that under its risk rests with the corporations and not IDBI. In light of this characteristic of the scheme, SIDCs must be at liberty to formulate their own criteria, and terms and conditions for sanctioning loan.

16. The Corporations should also redesign their security policy as the present one reflects the conservative attitude of the corporations. The co-promoter or the borrower has to pledge his present and future movable and immovable property in favour of the corporations. In such a case, if the need for additional funds arise, the borrower or the co-promoter has to approach institutions or commercial banks for securing further loans.

17. In this regard the Corporations, it may be pointed out, take a personal guarantee of a bank from the co-promoter to ensure the buy-back of the shares. The co-promoter to ensure the buy-back of these shares. The co-promoters, as are left with nothing to pledge with the bank and arrange such a guarantee, it is, thus, suggested the corporations must adopt a liberal stance in this regard.
18. Further the corporation is charging some rate of interest, under the IDBI refinance scheme, from the entrepreneurs setting up projects in the backward and non-backward districts. This policy should be done away with instead incentives in shape of differential interest rate should be given to entrepreneurs for setting up projects in the backward districts.

19. It becomes obvious from the preceding discussion that keeping in view its social obligations as DFIs, SIDCs face the challenge of striking a balance between its developmental functions and economic functions affecting its profitability. To achieve this conflicting objective, inter alia, SIDCs should endeavor towards having more rigorous follow up measures through the nominee Director, and the monitoring division.

20. In order to ensure better returns, SIDCs should enforce upon satisfactory proportion of equity capital while sanctioning financial assistance to projects. As revealed by the analysis a greater reliance of the borrowers is on debt as a means of financing projects, thus the norms should be strengthened which would check low returns that impair the profitability of these corporations.

21. Industrially non-backward district which have received no or marginal share of the assistance extended by corporations should be declared as industrially backward and vice-versa.

The foregoing analysis about the organisations and performance appraisal of SIDCs does not give a very encouraging picture. There are a number of areas where the SIDCs have been a complete failure. In this regard, these corporations alone are not to
be blamed. Though some of the lapses are the doings of the corporations themselves, yet the policies and programmes of the concerned State Governments relating to the incentives to the medium and large scale industrial projects is definitely a cause of concern, both for the corporations and the industrial environment in the states. The governments have to adopt such a policy so as to strengthen the base for industrial development laying special emphasis on the medium and large-scale industries. The researcher would feel amply rewarded if the present study stimulates serious thinking in some of the crucial areas influencing the profitability of the SIDCs. This field is quite ripe for more detailed investigation and many gaps are still visible where no systematic inquiry has been attempted. Some researchers may like to take up the issue, which have been highlighted in the preceding pages. Such studies will facilitate the testing of the inferences drawn from the present study for future generalisations.