CHAPTER

EIGHT
8.0. CONCLUSION AND RECOMMENDATIONS:

After going through the above readings, we find that State Financial Corporations and particularly Uttar Pradesh Financial corporations have given a new turn to Indian Economy up to a greater extent.

Survey of various industries having different sizes, products, structures, and locations was made and in person meetings were had with the promoters/Entrepreneurs so as to take on record their views about the working of Uttar Pradesh Financial Corporation. The survey findings can be divided in the following paragraphs:

1. Uttar Pradesh Financial Corporation has financed the maximum amount of loan in the Western side of Uttar Pradesh and more and more offices are located in this side including the DGM West Office and the Liaison office. It may please be noted there is only the office of DGM (West) in Noida and there is no office of DGM (East), DGM (South), DGM (North) thus giving the importance to only western Uttar Pradesh. As has been discussed earlier, there have been sanctions and disbursements 40% to 50% only in the Meerut
Commissionery, which is situated under the control of DGM(West). The below depicted chart shows the availability of DGM in different dimension of Uttar Pradesh.

DGM (North)

Whether deputed: NO

DGM (West)

Whether deputed: Yes

DGM (East)

Whether deputed: No

DGM (South)

Whether deputed: No

In the above, we saw that only the Western UP area has been given an additional Deputy General Manager so that on the spot decisions can be taken but the rest of Uttar Pradesh has not been paid much attention with this viewpoint. The hierarchy of management says that these type of financing institutions should be as closer to public as may be. This may be one of the
reason that the rest of Uttar Pradesh has been a victim of lesser help of U.P. Financial Corporation.

2. U.P. Financial Corporation has not been very active in rehabilitation of the sick units. Under the scheme of rehabilitation of sick units, the sick units are classified in accordance with the Non Performing Classification Policy. There are the following types of categories of Non Performing Assets as envisaged by the corporation:

- Standard
- Sub standard
- Doubtful I
- Doubtful II
- Loss

Further, if we go through the viability of the project, there can be the following types of the projects:

- Sick units, which are viable
- Sick units, which are semi viable.
- Sick units, which are not viable.
During the careful study of the various cases financed by Uttar Pradesh Financial Corporation, we found that there is no proper system of recognising viability of the sick unit.

Though the corporation claims that it has formed a committee known as Special Committee to solve Old and Sticky cases, but after interviewing the various sick units, it was our findings that 96% entrepreneurs feel that the Special Committee is on the paper only and though discussions are held but the cases are not solved and the even the genuine problems of the Entrepreneurs are not given due attention by UPFC officials.

During the survey of the Entrepreneurs from all parts of Uttar Pradesh, it was discovered that the system of Corporation is very lengthy and it takes a lot of time to avail the money from Uttar Pradesh Financial Corporation. Based on the data collected on sampling basis, we found that 63% of the cases of UPFC disbursement took time between 3 to 6 months time and 14% took over 1 year or say 12 months. The today’s generation is fast generation and this time gap very large in comparison today’s banking when one person can avail off the loan and any other assistance within 24 hours from Foreign Bank like Citi Bank NA, American Express Banking Corporation and so on.
The following is the flow chart of activities, which are essential to be crossed for availing any assistance from the corporation.

- Filing of form with project report
- Interview of the Promoters
- If successful, deposit Processing Fee
- If unsuccessful, the application rejected
- File the requisite information for processing of the case
- Appraisal is done by the Official of UPFC
- The Regional Manager recommends the loan for sanction of Committee
- The Committee considers the same in meeting and if satisfied, approves

The scenario of UPFC is such that you can not be sure at any point that your case shall be sanctioned unless you get the letter of sanction. The generation as on date do not want to be in dilemma and hence, they prefer to contact the Banks. In banks, the modus operandi is that once the Manager concern who is looking after the proposal for assistance is satisfied, the loan may altogether to deemed to be sanctioned. This type of hassles are there in the workings of State Financial Corporations all over Uttar Pradesh.
The State Financial Corporations have been given wide powers under section 29 of State Financial Corporations Act, 1951 from the defaulters and it speaks of the rights of Financial Corporations in case of default by the borrowers. During the survey, it was revealed by the entrepreneurs that the application of section 29 of the State Financial Corporation is done in very haste manner and even the genuine problems of the Entrepreneurs are overlooked by the corporation. In Uttar Pradesh, if we combine the situation of sickness of industries, we find that over 70% of the units financed by Uttar Pradesh Financial Corporation are sick and in most of the cases, these are lying abundant and thus we feel that there is lot infrastructure which is not being exploited for several reasons. There are so many defaults and malafide intentions on the part of entrepreneurs also. Uttar Pradesh Financial Corporation should take realistic and supportive steps to overcome this problem.

During the survey, it was also revealed by the entrepreneurs that as on date there is no distinction between the Technical Entrepreneur and Non Technical Entrepreneur. In earlier years, there was Interest subsidy to Technical Entrepreneurs and that is why more and more Technical Entrepreneurs have been willing to establish the industry. In our opinion, there is no harm in
giving some subsidy to Technical Entrepreneurs so that the better talent may join the industrial activities.

It is a fact that the U.P. Financial Corporation is based on the concept of Development Banking meaning thereby Development is the first criteria not profit making. The rates charged by the UPFC on assistances are very high and in case there is default which is a normal phenomena in the business context, the rates of interest are much higher. The new units can not share this burden which is very heavy and hence, there should be some reduction in interest rates.

The State Financial Corporations should also develop the activity of Project consultation to various entrepreneurs. During the survey, the various Professionals and Entrepreneurs emphasized that this type of facility is not available to the common public whatever the UPFC may advertise in this connection. Developing the Industrial culture in U.P. is a difficult and as per discussions had, it was found that UPFC has not concentrated at this facet. Uttar Pradesh Financial Corporation should try to develop this activity so that it may sharpen the edge of its own working.
A Survey of units financed was conducted so as to ascertain whether the cost of project appraised by Uttar Pradesh Financial Corporation was accurate. The findings were that all the units financed by UPFC were under estimated and there were so many items which were considered into cost of project while appraising the project. These items include Electricity connection fee, Constructions and Erections made before six months from the date of sanction of Term loan by UPFC and so on. There were assurances from the end of officials of UPFC that these items can be considered future and additional loan can be granted to the unit concerned but only 7% units could avail off this facility.

It is not our aim to criticise the State Financial Corporations always. There seems to be liability of Entrepreneurs also. During the survey of Industries and units financed by UPFC, we came to know that only 30% of the total entrepreneurs were properly experienced of the line in which they proposed to set up industry. Needless to mention that as on date, the cost of learning is very higher and in various cases, it is out of the reach of the entrepreneur. Proper selection of the entrepreneur can give the UPFC, a new turn in the industrialisation of the state.
During the financial year 1995-96 and 1996-97 there has been depressed Financial Market conditions and hence, the various activities like merchant banking, project certification, underwriting etc. could not be generated. The year 1998 is having much depressed conditions of Financial market all over ASEA and the economy of India as well as of the world is passing through the depression sentiments. Under the present market conditions, the State Financial Corporation can not grow in the field of Merchant Banking. If we go through the statistics of Share Capital Issues, we find that only one Public Issue of Shares was floated in the month August, 1997 in whole India. Now, we see that UPFC has got no merchant banking opportunity. Keeping in mind this scenario, the Merchant Banking Division of Uttar Pradesh Financial Corporation is also doing non fund based activities like Opening of Foreign Letter of Credit, Project Consultancy and Loan syndication etc.

The State Financial Corporations are basically focus on the sanction of Term Loans for the purchase of Capital assets. However, it is a fact, that without working capital no industry can run. Keeping in mind this consideration, UPFC started to sanction Loans for Working Capital also. In such cases, a minimum cover of security of 1.5 times of the amount of the working capital sanctioned should be available. These loans are termed as Working Capital
Term Loan which are repayable over the period of about 5-7 years in installments which are based on the calculations of DSCR of the unit. During the survey, it was found that the interest rates charged by UPFC were much higher than the interest rates charged by the banks. There were no realistic calculations for estimations of working capital and hence, the working capital sanctioned and disbursed may not be useful in real terms to the entrepreneurs.

There are various other problems such as no proper response from the end of Uttar Pradesh Financial Corporation like lengthy paper working, hassles in legal documentation, wrong recovery practices, no proper monitoring of the units which can be deterred if there is strong will at the end of Uttar Pradesh Financial Corporation.

There are various lackings at the workings of State Financial Corporations and particularly at the end of Uttar Pradesh Financial Corporation which should be reduced to its bare minimum.

The long term viability of the State Financial Corporations should be ensured by effecting certain changes in the State Financial Corporations Act, 1951.
The ceiling on the cost of project and equity capital of assisted companies should be made to some upper limit so that the good project and Industrial groups may be assisted. The Government of Uttar Pradesh has appointed a committee under the chairmanship of Mr. Khan known as Khan Committed which has given various recommendations for improvement in working of the State Financial Corporation which are yet to be implemented.

State Financial Corporations should improve relation with Entrepreneurs, Scheduled Banks, Co-operative Banks, Other financial institutions and various other agencies involved which create hindrance to Industries in particular, then, these State Financial Corporations shall be more effective.