CHAPTER II

ESTABLISHMENT OF STATE FINANCIAL CORPORATIONS IN INDIA
Provisions of State Financial Corporations Act:

The SFCs Act, 1951 empowers the State Government to establish a Financial Corporation for the State. The Financial Corporation shall be a body corporate, having perpetual succession and a common seal, with power to acquire, hold and dispose of property.

Share Capital and Shareholders:

The Authorised Capital of the Financial Corporation shall be such sum as may be fixed by the State Government in this behalf, but it shall in no case be less than fifty lacs of rupees or exceed five crores of rupees. It shall be divided into such number of fully paid up shares as the State Government may determine and shall be issued to the parties mentioned below at such times and in such manner as the Government may determine and each such share shall have the same face value.

With the approval of the Central Government, the State Government shall determine the number of shares which may, respectively, be distributed among the State Government, the Reserve Bank, Scheduled Banks, Insurance Companies, including the Life Insurance Corporation of
India, or other financial institutions, and other parties, provided that the number of such shares does not exceed twenty-five percent of the total number of shares.

The shares of the Financial Corporation shall not be transferable except to the State Government, the Reserve Bank or any other financial institution, recognised in this behalf by the State Government. These shares shall be guaranteed by the State Government as to the repayment of principal and the payment of annual dividend at such minimum rate as the State Government may, with the approval of the Central Government, fix at the time of issuing the shares.

Additional Capital of the Financial Corporation and its borrowing powers:

The Financial Corporation may, in consultation with the Reserve Bank, issue and sell bonds and debentures carrying interest for the purpose of increasing its working capital and such bonds and debentures shall be guaranteed by the State Government as to the repayment of the principal and the payment of interest at such rate as the State Government may fix at the time the bonds and debentures are issued.
The Financial Corporation may, for the purposes of carrying out its functions, borrow money from the Reserve Bank, repayable on demand or on the expiry of a fixed period not exceeding ninety days from the date on which the money is so borrowed against the security of stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest trust money by any law for the time being in force in India, or such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Reserve Bank or as are fully guaranteed as to the repayment of the principal and payment of interest by a State Government repayable on the expiry of a fixed period not exceeding eighteen months from the date on which the money is so borrowed, against securities of the Central Government or any State Government of any maturity, or against bonds and debentures issued by the Financial Corporation and guaranteed by the State Government and maturing within a period not exceeding eighteen months from the date on which the money is so borrowed, provided that the amount thus borrowed by the Financial Corporation shall not at any time exceed in the aggregate sixty percent of the paid up share capital thereof.

The Financial Corporation may, for the purposes of carrying out its functions, borrow money from the State
Government in consultation with the Reserve Bank on such terms and conditions as may be agreed upon.

The Financial Corporation may, with the prior approval of the Reserve Bank, also borrow money from any financial institution notified in this behalf by the Central Government on such terms and conditions as may be agreed upon.

The total amount of bonds and debentures issued and outstanding, and the amounts borrowed by the Financial Corporation, shall not at any time exceed ten times the amount of the paid up share capital and the reserve fund of the Financial Corporation.

**Deposits with the Financial Corporation:**

The Financial Corporation may accept from the State Government or, with the prior approval of the State Government and the Reserve Bank, a local authority or any other person deposits repayable after the expiry of a period which shall not be less than twelve months from the date of the making of the deposit and on such other terms as it thinks fit, provided that the total amount of such deposits shall not at any time exceed the paid up share capital of the Financial Corporation.
Management of Financial Corporations:

The general superintendence, direction and management of the affairs and business of the Financial Corporation shall vest in a Board of Directors which, with the assistance of an Executive Committee and a Managing Director may exercise all the powers and discharge all the functions which may be exercised or discharged by the Financial Corporation.

Board of Directors:

The Board of Directors shall consist of three directors nominated by the State Government, one director nominated by the Reserve Bank, one director nominated by the Industrial Finance Corporation of India, three directors elected in the prescribed manner, one of whom shall be elected to represent scheduled banks, another to represent co-operative banks and the third to represent the remaining financial institutions, one director elected by the shareholders from among themselves, and a managing director appointed by the State Government in consultation with the Reserve Bank.

Executive Committee:

The Executive Committee shall consist of the
Managing Director who shall be the Chairman of the Committee, and other directors, chosen as two directors elected by the nominated directors, one from among the directors nominated by the State Government and one from among the directors nominated by the Reserve Bank and the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948.

**Business which Financial Corporation may transact:**

The Financial Corporation may carry on and transact guaranteeing, on such terms and conditions as may be agreed upon, loans raised by industrial concerns which are repayable within a period not exceeding twenty years, and are floated in the public market; loans raised by industrial concerns from scheduled banks or State Co-operative banks; guaranteeing, on such terms and conditions as may be agreed upon, deferred payments due from any industrial concern in connection with its purchase of capital goods within India; underwriting of the issue of stock, shares, bonds or debentures by industrial concerns; acting as agent of the Central Government or the State Government or the Industrial Financial Corporation of India established under the Industrial Finance Corporation Act, 1948, or any
other financial institution notified in this behalf by the Central Government in the transaction of any business with an industrial concern in respect of loans or advances granted, or debentures subscribed by any one of them; receiving in consideration of the services mentioned in the preceding clauses such commission as may be agreed upon; retaining as part of its assets any stocks, shares, bonds or debentures of an industrial concern which it may have to take in fulfilment of its under-writing liabilities, so that it disposes of the stocks, shares, bonds or debentures so acquired as early as practicable, but in no case the stocks, shares, bonds or debentures so acquired shall be retained beyond a period of seven years from the date of such acquisition, except with the prior permission of the Reserve Bank;

Provided that the Financial Corporation may subscribe to stock or shares of the industrial concern if such concern increases its subscribed capital by the issue of further stock or shares in accordance with, and subject to, the provisions of section 81 of the Companies Act, 1956 but the stock or shares so subscribed shall not be retained after the stock or shares of the industrial concern taken in fulfilment of its underwriting liabilities, are disposed of; granting loans or advances, to, or subscribing to debentures of an industrial concern, repayable
within a period not exceeding twenty years from the date on which they are granted or subscribed to, as the case may be;

Provided that nothing contained in this clause shall be deemed to preclude the Financial Corporation from granting loans or advances to, or subscribing to debentures or loans into stock or shares of the Industrial concern;

Provided further that the Financial Corporation may, in the exercise of such option, convert such debentures or loans into stock or shares of the industrial concern and may also subscribe to stock or shares of the industrial concern if such concern increases its subscribed capital by the issue of further stock or shares in accordance with, and subject to, the provisions of the Companies Act, 1956; generally, the doing of such acts and things as may be incidental to, or consequential upon, the exercise of its powers or the discharge of its duties under this Act.

The aggregate contingent liabilities of the Financial Corporation shall not at any time exceed twice the paid up share capital and reserve fund of the Corporation except with the prior approval of the State Government and in consultation with the Reserve Bank but in no
case shall exceed thrice the paid up share capital and reserve fund of the Corporation.

Limit of Accommodation:

The Financial Corporation shall not enter into any arrangements with any industrial concern so that the total amount outstanding against that concern in respect of all such arrangements is more than twenty lakhs of rupees in the case of a public limited company or a co-operative society registered under the Co-operative Societies Act, 1912 or any other law relating to co-operative societies for the time being in force and ten lakhs of rupees in any other case.

Power to impose conditions for accommodation:

In entering into any arrangement with an industrial concern, the financial corporation may impose such conditions as it may think necessary or expedient for protecting the interests of the Financial Corporation and securing that the accommodation granted by it is put to the best use by the industrial concern, where one of conditions imposed is that a director shall be appointed by the Financial Corporation in the Board of Directors of the industrial concern to protect the interests of the Financial Corporation, such condition shall be a valid condition notwithstanding anything contained in
the Companies Act, 1956, or in any other law for the
time being in force or in any instrument relating to
the industrial concern.

Prohibited business:

The Financial Corporation shall not accept
deposits except as provided in section 8, subscribe
to the shares or stock of any company except as pro-
vided in clauses (f) and (g) of sub-section (1) of
section 25; nor grant any loan or advance on the
security of its own shares.

Rights of Financial Corporation in case of Default:

Where any industrial concern, which is under
a liability to the Financial Corporation under an agree-
ment, makes any default in repayment of any loan or
advance or any instalment thereof or otherwise fails
to comply with the terms of its agreement with the
Financial Corporation, the Financial Corporation shall
have the right to take over the management of the indus-
trial concern as well as the right to transfer by way
of lease or sale and realise the property pledged,
mortgaged, hypothecated or assigned to the Financial
Corporation.

Any transfer of property made by Financial
Corporation, in exercise of its powers under sub-section (1) shall vest in the transferee all rights in or to the property transferred as if the transfer had been made by the owner of the property.

The Financial Corporation shall have the same rights and powers with respect to goods manufactured or produced wholly or partly from goods forming part of the security held by it as it had with respect to the original goods.

Where the management of an industrial concern is taken over by the Financial Corporation or any property is transferred and realised by it under the provisions of sub-section (1), all costs (charges and expenses which in the opinion of the Financial Corporation have been properly included) by it as incidental to such management, or transfer and realisation shall be recoverable from the industrial concern and the money which is received by it from such management or transfer and realisation shall, in the absence of any contract to the contrary, be held by it in trust to be applied firstly, in payment of such costs, charges and expenses and, secondly, in discharge of the debt due to the Financial Corporation, and the residue of the money so received shall be paid to the person entitled thereto.
Where the Financial Corporation takes over the management of an industrial concern under the provisions of sub-section (1), the Financial Corporation shall be deemed to be the owner of such concern, for the purposes of suits by or against the concern, and shall sue and be sued in the name of the concern.

Power to call for repayment before agreed period:

Notwithstanding anything in any agreement to the contrary, the Financial Corporation may, by notice in writing, require any industrial concern to which it has granted any loan or advance to discharge forthwith in full its liabilities to the Financial Corporation, if it appears to the Board that false or misleading information in any material particular was given by the industrial concern in its application for the loan or advance; or if the industrial concern has failed to comply with the terms of its contract with the Financial Corporation in the matter of the loan or advance; or if there is a reasonable apprehension that the industrial concern is unable to pay its debts or that proceedings for liquidation may be commenced in respect thereof; or if the property pledged, mortgaged, hypothecated or assigned to the Financial Corporation as security for
the loan or advance is not insured and kept insured by the industrial concern to the satisfaction of the Financial Corporation or depreciates in value to such an extent that, in the opinion of the Board, further security to the satisfaction of the Board should be given and such security is not given; or if, without the permission of the Board, machinery, plant or other equipment, whether forming part of the security or otherwise, is removed from the premises of the industrial concern without being replaced; or if for any reason it is necessary to protect the interests of the Financial Corporation.

Special Provisions for Enforcement of Claims by Financial Corporation:

Where an industrial concern, in breach of any agreement, makes any default in repayment of any loan or advance or any instalment thereof or otherwise fails to comply with the terms of its agreement with the Financial Corporation or where the Financial Corporation requires an industrial concern to make immediate repayment of any loan or advance under section 30 and the industrial concern fails to make such repayment, any officer of the Financial Corporation, generally or specially authorised by the Board in this behalf, may apply to the District
Judge within the limits of whose jurisdiction the industrial concern carries on the whole or a substantial part of its business, for an order for the sale of the property pledged, mortgaged, hypothecated or assigned to the Financial Corporation as security for the loan or advance; or for transferring the management of the industrial concern to the Financial Corporation, or for an act interim injunction restraining the industrial concern from transferring or removing its machinery or plant or equipment from the premises of the industrial concern without the permission of the Board, where such removal is apprehended.

An application under sub-section (1) shall state the nature and extent of the liability of the industrial concern to the Financial Corporation the ground on which it is made and such other particulars as may be prescribed.

**Power of Financial Corporation to appoint directors or administrators of an industrial concern when management is taken over:**

When the management of an industrial concern is taken over by the Financial Corporation, the Financial Corporation may appoint as many persons as it thinks fit,
in any case in which the industrial concern is a company, as defined in the Companies Act, 1956, to be directors of that industrial concern; or in any other case, to be administrators of that industrial concern.

The power to appoint directors or administrators under this section includes the power to appoint any individual, firm or company to be managing agent or manager of the industrial concern on such terms and conditions as the Financial Corporation may think fit.

Nothing in the Companies Act, 1956 or in any other law for the time being in force or in any instrument relating to the industrial concern shall, in so far as it makes in relation to a director, any provision for the holding of any share qualification, age limit, restriction on the number of directorships, retirement by rotation or removal from office, apply to any director appointed by the Financial Corporation under this section.

Powers and duties of directors and administrators:

Subject to the control of the Financial Corporation, the directors, or as the case may be, the administrators appointed under section 32A, shall take
such steps as may be necessary for the purpose of efficiently managing the business of the industrial concern and shall exercise such powers and have such duties as may be prescribed.

Without prejudice to the generality of the powers vested in them, the directors or as the case may be, the administrators appointed under section 32A, may, with the previous approval of the Financial Corporation, make an application to a court for the purpose of cancelling or varying any contract or agreement entered into at any time before the issue of the notified order under section 32A, between the industrial concern and any other person and the court may, if satisfied after due inquiry that such contract or agreement had been entered into it had faith and is detrimental to the interests of the industrial concern, make an order cancelling or varying that contract or agreement and the contract or agreement shall have effect accordingly.

No right to compensation for termination of contract of managing agent, managing director etc:

Notwithstanding anything to the contrary contained in any contract or in any law for the time being in force, no managing agent, managing director or any other director
or a manager or any person in charge of management of an industrial concern shall be entitled to any compensation for the loss of office or for the premature termination under this Act of any contract of management entered into by him with such concern.

Nothing contained in sub-section (1) shall affect the right of any such managing agent or managing director, or any other director or manager or any such person in charge of management to recover from the industrial concern, moneys recoverable otherwise than by way of such compensation.

**Funds of the Financial Corporation:**

Every Financial Corporation has its own fund, and all receipts of the Financial Corporation shall be carried thereto and all payments by the Corporation shall be made therefrom.

All moneys belonging to the fund shall be deposited in the Reserve Bank or the State Bank of India or a scheduled bank or a State Co-operative Bank.

**Investment of funds:**

The Financial Corporation may invest its funds
in the securities of the Central Government or any State Government.

Disposal of profits:

The Financial Corporation shall establish reserve funds. After making provision for bad and doubtful debts, depreciation of assets and all other matters which are usually provided for by banking companies the Financial Corporation may out of its annual profits declare a dividend;

Provided that for so long as the Reserve Fund is less than the paid up share capital of the Financial Corporation and until there has been repaid to the State Government such sum, if any, as that Government may have paid under guarantee, the rate of such dividend shall not exceed the rate guaranteed by the State Government.

Notwithstanding anything contained in this section, no dividend paid under this section shall under any circumstances exceed the rate of 5\% per annum and if, in respect of any financial year after the Reserve Fund becomes equal to the Share Capital of the Financial Corporation, there is surplus in the net profits after
declaring a dividend at the rate specified in this sub-section, such surplus shall be paid to the State Government.

Special Reserve Fund:

The Financial Corporation may establish a special reserve fund, to which shall be transferred such portion of the dividends accruing to the State Government and the Reserve Bank on the shares or to the Financial Corporation as may be fixed by agreement between the State Government and the Reserve Bank.

Provided that the total amount in the said fund shall at no time exceed 10% of the Paid Up Share Capital of the Financial Corporation.

No shareholder of the Financial Corporation other than the State Government and the Reserve Bank shall have any claim to the special reserve fund.

The amount standing to the credit of the special reserve fund may be utilised by the Financial Corporation for only such purposes as are approved by the State Government and the Reserve Bank.
**General Meeting:**

A General Meeting shall be held annually at a place, in the State where there is an office of the Financial Corporation within three months from the date on which the annual accounts of the Financial Corporation are closed, and a general meeting may be convened by the Board at any other time.

The shareholders present at the General Meeting shall be entitled to discuss the annual accounts, report of the Board on the working of the Financial Corporation throughout the year and the Auditor's report on the annual Balance Sheet and Accounts.

**Audit:**

The affairs of the Financial Corporation shall be audited by not less than two auditors duly qualified to act as auditors of companies, one of whom shall be appointed by the Act of 1956 State Government in consultation with the Controller and Auditors General of India and elected in the prescribed manner, and such remuneration as the State Government may fix, shall be paid to the auditors by the Financial Corporation.
Every auditor shall be supplied with a copy of the annual balance sheet of the Financial Corporation, and it shall be his duty to examine it, together with the accounts and vouchers relating thereto, and every auditor shall have a list delivered to him of all books kept by the Financial Corporation and shall at all reasonable time have access to the books, accounts and other documents of the Financial Corporation and may, in relation to such accounts, examine any director or officer of the Financial Corporation.

The auditors shall make a report to the shareholders upon the annual balance sheet and accounts, and in every such report they shall state whether in their opinion the balance sheet is a full and fair statement containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of affairs of the Financial Corporation, and in case they had called for any explanation or information from the Board, whether it has been given the same and whether it is satisfactory.

The State Government may, in consultation with the Comptroller and Auditor-General of India, at any time issue directions to the auditors requiring them to report to it upon the adequacy of measures taken by the Financial
Corporation for the protection of its shareholders and creditors or upon the sufficiency of their procedure in auditing the affairs of the Financial Corporation and may enlarge or extend the scope of the audit or direct that a different procedure in audit be adopted, or direct that any other examination be made by auditors, if in its opinion public interest so requires.

The Financial Corporation shall send a copy of every report of the auditors to the Comptroller and Auditor-General of India at least one month before it is placed before the shareholders.

The Comptroller and Auditor-General of India may also, either of his own motion or on a request received in this behalf from a State Government, undertake such audit and at such times as he may consider necessary.

Provided that where the State Government is required to make any payment on account of the guarantee given, such audit shall be undertaken by the Comptroller and Auditor-General of India.

Every audit report shall be forwarded to the State Government and the Government shall cause the same
to be laid before the legislature of the State.

Returns:

The Financial Corporation shall furnish a statement, in the prescribed form, of its assets and liabilities as at the close of business on the last Friday of each month or, if that day is a public holiday under the Negotiable Instruments Act, 1881, at the close of business on the preceding working day to the State Government and to the Reserve Bank within ten days from the date to which the statement relates.

The Financial Corporation shall furnish in the prescribed form to the State Government and to the Reserve Bank once every three months or, as frequently as the State Government or the Reserve Bank may require, a statement showing the classification of its loans and investments and of all loans guaranteed by it and underwriting agreements entered into by it.

The Financial Corporation shall furnish to the State Government and to the Reserve Bank within four months of the close of each financial year a statement in the prescribed form of its assets and liabilities as
at the close of that year, together with a Profit and Loss Account for the year, the Auditor's Report and a report of the working of the Financial Corporation during the year and copies of the said statement, account and reports shall be published in the official Gazette and shall also be laid before the legislature of the State.

**Power to give instructions to the Financial Corporation on questions of policy:**

In the discharge of its function, the Board shall be guided by such instructions on questions of policy as may be given to it by the State Government in consultation with the Reserve Bank.

If any dispute arises between the State Government and the Board as to whether a question is or is not a question of policy, the decision of the State Government shall be final.

If the Board fails to carry out the instructions on the question of policy laid down by the State Government, the State Government shall have the power to supersede the Board and appoint a new Board in its place to function until a properly constituted Board is set up,
and the decision of the State Government as to the grounds for superceding the Board, shall not be questioned in any court.

Provisions relating to income tax and super-tax:

For the purposes of the Indian Income Tax Act, 1922, the Financial Corporation shall be deemed to be a Company within the meaning of that Act and shall be liable to income tax and super-tax accordingly on its income, profits and gains.

Provided that any sum paid by the State Government under the guarantee given, shall not be treated as the income, profits and gains of the Financial Corporation and any interest on debentures paid by the Financial Corporation out of such sum shall not be treated as expenditure incurred by it.

Provided further that in the case of any shareholder such portion of a dividend as has been paid out of any such sum advanced by the State Government shall be deemed to be his income from "Interest on Securities", and the income tax shall be payable thereon as if it were the interest receivable on any securities of a State Government issued income-tax free.
Liquidation of Financial Corporation:

No provision of law relating to the winding up of companies or corporations shall apply to the Financial Corporation, and the Financial Corporation shall not be placed in liquidation, save by order of the State Government and in such manner as it may direct.

Power to apply Act to certain financial institutions in existence at commencement of Act:

The Central Government may by notification in the official Gazette, direct that all or any of the provisions of this Act shall, subject to such exceptions and restrictions as may be specified, apply to any institution in existence at the commencement of this Act which has for its object the financing of industrial concerns, and on the issue of such notification, the institution shall be deemed to be a Financial Corporation established by the State Government for the State within the meaning of this Act, and the provisions of this Act shall become applicable thereto according to the tenor of the notification.

Any notification issued under sub-section (1) may suspend the operation of any enactment applicable to
any such institution immediately before the issue of the notification.

**Power of State Government to make rules:**

The State Government may make rules not inconsistent with the provisions of this Act to give effect to the provisions of this Act and in particular, such rules may provide for the limitation on the voting right of a shareholder and the manner in which such voting rights may be exercised and where there is any inconsistency between the rules and the regulations made under this Act, the rules shall prevail.

**Power of Board to make regulations:**

The Board may, after consultation with the Reserve Bank and with the previous sanction of the State Government, make regulations not inconsistent with this Act and the rules made thereunder to provide for all matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of this Act.

In particular, and without prejudice to the generality of the foregoing power such regulations may
provide for the holding and conduct of elections under this Act, including the final decision or doubts or disputes regarding the validity of elections; the manner in which, and the conditions subject to which, the first allotment of the shares of the Financial Corporation shall be made; the manner in which, and the conditions subject to which, the shares of the Financial Corporation may be held and transferred and generally all matters relating to the rights and duties of shareholders; the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which voting rights may be exercised; the calling of meeting of the Board and of the Executive Committee, fees for attending meetings thereof and the conduct of business thereat; the manner and terms of issue and repayment of bonds and debentures by the Financial Corporation; the conditions which the Financial Corporation may impose in granting loans or advances; the manner of determining the sufficiency of the security taken under sub-section (2) of section 25; the forms of returns and statements required under this Act; the duties and conduct of officers, other employees, advisers and agents of the Financial Corporation; the establishment and maintenance of provident or other benefit funds for employees of the Financial Corporation; the taking over of the management of any
industrial concern on a breach of its agreement with the Financial Corporation; the appointment of advisory committees, for technical and other advice for the purposes of this Act, and, generally, the efficient conduct of the affairs of the Financial Corporation. All regulations made under this section shall be published in the Official Gazette and shall come into force on such publication.

Comparison of the State Financial Corporations Act with Industrial Finance Corporation Act regarding problems of (i) Management (ii) Capital Structure and (iii) lending policies for financing of industries:

The Industrial Finance Corporation Act was passed in 1948. Three years afterwards, in 1951 was passed The State Financial Corporations Act. The following is a comparative study of the two Acts regarding the problems of management, capital structure and lending policies for financing of industries.

Management:

The general superintendence, direction and management of the affairs and business of the State
Financial Corporation shall vest in a Board of Directors which, with the assistance of an Executive Committee and a managing director, may exercise all the powers and discharge all the functions which may be exercised or discharged by the State Financial Corporation.

In the case of Industrial Finance Corporation, the general superintendence and direction of the affairs and business is entrusted to a Board of Directors which may exercise all powers and do all acts which may be exercised or done by the Corporation. While discharging its functions, the Board shall act on business principles having due regard to the interests of industry, commerce and the general public. On questions of policy, it shall be guided by the Development Bank. Any dispute arising between the two shall be referred to the Central Government whose decision thereon shall be final. If the Board fails to carry out the instructions on the question of policy, given by the Development Bank, the Central Government shall have the power to supersede the Board and appoint a new Board in its place to function until a properly constituted Board is set up. The decision of the Central Government as to the grounds for superseding the Board shall not be questioned in any court of law.
Board of Directors:

In a State Financial Corporation, the Board of Directors will consist of nine directors, out of which three directors will be nominated by the State Government; one by the Reserve Bank; one by the Industrial Finance Corporation of India; one director will be elected to represent scheduled banks; one Co-operative bank; one the remaining financial institutions, and one the shareholders of the Financial Corporation.

The Board of Directors of the Industrial Finance Corporation shall consist of twelve directors, out of which, four will be nominated by the Development Bank, and two by the Central Bank. Two directors will be elected by the scheduled banks, who are the shareholders of the Corporation; two by the shareholders of the Corporation, other than the Development Bank, the scheduled banks and Co-operative banks and two directors will be elected by the Co-operative banks who are shareholders of the Corporation.

The managing director of the State Financial Corporation shall be appointed by the State Government in consultation with the Reserve Bank. The Chairman of the Industrial Financial Corporation will be appointed
by the Central Government after consultation with the Development Bank. The Chairman of the Board of Directors of the State Financial Corporation shall be one of the directors, not being the managing director, nominated by the State Government, after considering, except in the case of the nomination of the first Chairman, the recommendation of the Board.

Remuneration:

The managing director of the State Financial Corporation shall receive such salary and allowances as the Board, with the previous approval of the State Government, may determine.

Provided that the first managing director shall receive such salary and allowances as the State Government may fix.

The other directors, not being servants of the Government, shall be paid such fees as may be prescribed for attending meetings of the Board and, if they are members of the Executive Committee, or any other committee appointed by the Financial Corporation, for attending meetings of such committee.

The Chairman of the Board of Directors of the
Industrial Finance Corporation shall receive such salary and allowances as may be determined by the Development Bank with the approval of the Central Government.

The directors of its Board shall be paid such fees as may be prescribed for attending the meetings of the Board and, if they are members of the Central Committee or any other committee appointed by the Corporation, for attending meetings of such committee.

Term of Office and retirement:

The Chairman of the Board of Directors of the SFC shall hold office for two years or until the successor has been nominated. The nominated director of its Board shall hold office during the pleasure of the authority nominating him. An elected director, however, shall hold office for four years, provided that two out of the four directors so elected shall retire at the end of two years after the first election and the other two at the end of four years after such election, the directors so to retire being determined by lot. An elected director shall continue in office until his successor is elected and shall also be eligible for re-election for not more than two full consecutive terms after the rotation of elected directors has begun.
The Chairman of the Board of Directors of the IFC shall hold office for three years or until his successor is appointed and shall be eligible for re-appointment. The nominated Director shall hold office during the pleasure of the authority appointing him. An elected Director shall hold office for four years; provided that one out of the two Directors elected to represent the share-holders referred to in each of the clauses (c), (d) and (e) of section 10 of the Industrial Finance Corporation Act, 1948 shall retire at the end of two years after the first election; the Directors so to retire shall be determined by lot. An elected Director shall be required to continue in his office until his successor has been elected, of course, he shall be eligible for re-election for not more than two full consecutive terms after the rotation of elected Directors has begun.

Committees, Offices and agencies:

The Executive Committee of the SFC shall consist of the Managing Director, who shall be the Chairman of the Committee and other directors chosen as two directors elected by the nominated directors, one from among the directors nominated by the State Government and
one from among the directors nominated by the Reserve Bank and the IFC, and one director elected by the elected directors.

A director elected to be a member of the Executive Committee shall hold office as such for the rest of his term of office as director.

The SFC may also appoint one or more advisory committees or committees for the purpose of assisting the Financial Corporation in the efficient discharge of its functions as well as for the purpose of securing that these functions are exercised with due regard to the circumstances and conditions prevailing in, and the requirements of, particular areas or industries.

The State Financial Corporation shall establish its head office at such place in the State as the State Government may specify and may, with the previous sanction of the State Government, establish offices or agencies in any other place in the State.

The Industrial Finance Corporation of India shall establish a Central Committee which shall consist of a Chairman, two Directors elected by the nominated Directors and two Directors elected by the elected Directors. The Chairman of the Board shall be the
Chairman of the Central Committee. A Director elected to be a member of the Central Committee shall hold office as such for the rest of his term of office as Director for which he is so elected.

Subject to such general and special directions, as the Board may from time to time give, the Central Committee shall be competent to deal with any matter within the competence of the Board. The minutes of every meeting of the Central Committee shall be laid before the Board at its next following meeting.

The IFC may from time to time appoint one or more Advisory Committee or Committees for the purpose of assisting the Corporation in the efficient performance of its functions and in particular, for purpose of securing that those functions are exercised with due regard to the circumstances of, conditions prevailing in, and requirements of, particular areas or industries.

The IFC shall establish its head office in Delhi and offices in Bombay, Calcutta, Kanpur and Madras, and may, with the previous sanction of the Development Bank, establish offices or agencies in other places in India.
II. Capital Structure of State Financial Corporations:

Share Capital and Share-holders:

The authorised capital of the State Financial Corporation shall be such sum as may be fixed by the State Government in this behalf, but it shall in no case be less than fifty lacs of rupees or exceed five crores of rupees.

The authorised capital shall be divided into as many fully paid-up shares as the State Government may determine and shall be issued to the parties mentioned in sub-section (3) at such times and in such manner as the Government may determine and each such share shall have the same face value.

The State Government shall, with the approval of the Central Government, determine the number of shares which may, respectively, be distributed among:-

(a) the State Government,
(b) the Reserve Bank,
(c) Scheduled banks, insurance companies

including the Life Insurance Corporation of India established under section 3 of the Life Insurance Corporation Act, or other financial institutions and

(d) Parties other than those referred to in clauses (a), (b), and (c); provided that the number of shares which may be allocated to the parties referred to in clause (d) shall in no case exceed 25% to the total number of shares.

Subject to the other provisions contained in this section, the allocation of shares among the parties referred to in clause (c) and (d) of sub-section (3) remain unsubscribed, they shall be subscribed for by the State Government, but the State Government may at any time thereafter dispose of the shares so subscribed for, to any party who was eligible to subscribe for it in the first instance.

Restrictions on transfer of shares:

The shares of the State Financial Corporation are not transferable except to the State Government, the Reserve Bank or any other financial institution* (or class of financial institution recognised in this behalf

* Ins. by Act 56 of 1956, Section 5.
by the State Government), provided that the shares subscribed for by the parties referred to in clause (d) of sub-section (3) of section (4) shall be freely transferable.

Shares guaranteed by the State Government:

The shares of SFC's are guaranteed by the State Government as to the repayment of principal and the payment of annual dividend at such minimum rate as the State Government may with the approval of the Central Government, fix by notification published in the Official Gazette at the time of issuing them. They are deemed to be included among the securities enumerated in section 20 of the Indian Trusts Act, 1882 and also to be approved securities for the purposes of the Insurance Act, 1938 and the Banking Regulation Act, 1949.

Additional Capital of the State Financial Corporation and its borrowing powers:

The State Financial Corporation may, in consultation with the Reserve Bank, issue and sell bonds and debentures carrying interest for the purpose of increasing its working Capital and such bonds and debentures are
guaranteed by the State Government as to the repayment of the principal and the payment of interest at such rate as the State Government may, on the recommendation of the Board and with the approval of the Central Government, fix at the time the bonds and debentures are issued.

The State Financial Corporation may, for the purposes of carrying out its functions, borrow money from the Reserve Bank —

(a) repayable on demand or on the expiry of a fixed period not exceeding ninety days from the date on which the money is so borrowed against the security of:

(i) stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest trust money by any law for the time being in force in India, or

(ii) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Reserve Bank or as are fully guaranteed as to the repayment of the principal and payment of the interest by a State Government;

(b) repayable on the expiry of a fixed period.
not exceeding 18 months from the date on which the money is so borrowed, against securities of the Central Government or any State Government of any maturity, or against bonds and debentures issued by the Financial Corporation and guaranteed by the State Government and maturing within a period not exceeding 18 months from the date on which the money is so borrowed;

Provided that the amount borrowed by the State Financial Corporation under clause (b) shall not at any time exceed in the aggregate 60% of the paid up share capital thereof.

The State Financial Corporation may, for the purposes of carrying out its functions borrow money from the State Government in consultation with the Reserve Bank on such terms and conditions as may be agreed upon.

The State Financial Corporation may, with the prior approval of the Reserve Bank, also borrow money from any financial institution notified in this behalf by the Central Government on such terms and conditions as may be agreed upon.

The total amount of bonds and debentures issued
and outstanding and the amounts borrowed by the State Financial Corporation and the contingent liabilities of the State Financial Corporation in the form of guarantees given by it shall not at any time exceed ten times the amount of its paid up share capital and the Reserve Fund.

**Deposits with the State Financial Corporation:**

The State Financial Corporation may accept from the State Government or, with the prior approval of the State Government and the Reserve Bank, a local authority or any other person deposits repayable after the expiry of a period which shall not be less than 12 months from the date of making of the deposit and on such other terms as it thinks fit:

Provided that the total amount of such deposits shall not at any time exceed the paid up share capital of the State Financial Corporation.

All such deposits shall be guaranteed by the State Government as to the payment of the principal and interest.
Industrial Finance Corporation - Share Capital and Share-holders:

The authorised capital of the IFC is ₹10 crores divided into twenty thousand fully paid up shares of ₹5,000/- each, of which ten thousand shares of the total value of ₹5 crores were issued in the first instance, and the remaining shares were to be issued with the sanction of the Central Government from time to time as and when the Corporation might deem it fit.

Of the capital issued in the first instance, the Central Government and the Reserve Bank each had to subscribe for two thousand shares.

Scheduled banks might subscribe for 2,500 shares; insurance companies, investment trusts and other like financial institutions for 2,500 shares and co-operative banks for 1,000 shares of the Corporation. Of course, no institution would be allotted more than 10% of the shares reserved for the class of institution to which it belonged.

Shares of the Corporation are not transferable.
except to the Development Bank, any scheduled bank, any insurance company*, any investment trust or any other like financial institution or any co-operative bank in accordance with the regulations made in this behalf.

Transfer of shares and increase of capital:

As per provisions of the Industrial Finance Corporation Act, 1948, modified up to 1st November, 1964, all shares of the Corporation held by the Central Government and the Reserve Bank shall stand transferred to and vest in the Development Bank and as compensation therefor the Development Bank shall pay to the Central Government and to the Reserve Bank respectively the face value of the shares held by that Government and by that Bank.

The Capital issued by the Corporation shall be increased by such number of shares as the Central Government may specify in this behalf and all such shares shall stand allotted to and be subscribed by the Development Bank, so that after such increase the Development Bank holds not less than 50% of the paid up capital of the Corporation.

If, and when, the remaining shares in the capital

* Insurance Company includes the Life Insurance Corporation of India established under section 3 of the Life Insurance Corporation Act, 1956.
of the Corporation, or any part thereof, are issued, such further shares shall be offered to the holders of the shares of the Corporation in proportion, as nearly as circumstances admit, to the capital paid up on those shares at the date of such further issue, provided that if any such shares remain unallotted, they shall be subscribed for by the Development Bank.

**Guarantee by Central Government:**

The shares of the Corporation shall be guaranteed by the Central Government as to the repayment of the principal and the payment of the annual dividend at such minimum rate as may be fixed by the Central Government by notification published in the Official Gazette at the time of issuing the shares. The shares of the Corporation shall be deemed to be included among the securities enumerated in section 20 of the Indian Trusts Act, 1882, and be also deemed to be approved securities for the purposes of the Insurance Act, 1938, and the Banking Companies Act, 1949.

**III. Lending Policies for financing of industries:**

The SFC may guarantee loans raised by industrial concerns which are repayable within a period not exceeding
twenty years, and are floated in the public market; and loans raised by industrial concerns from scheduled banks or State Co-operative banks.

It may also guarantee deferred payments due from any industrial concern in connection with its purchase of capital goods within India. It may underwrite the issue of stock, shares, bonds or debentures issued by industrial concerns.

The SFC may act as agent of the Central Government or State Government or the Industrial Financial Corporation of India, or any other financial institution notified in this behalf by the Central Government in the transaction of any business with an industrial concern in respect of loans or advances granted, or debentures subscribed by any one of them.

For rendering these services, the SFC may receive such commission as may be agreed upon.

It may underwrite any stock, shares, bonds or debentures of an industrial concern, but they can, in no case, be retained beyond a period of seven years from the date of such acquisition, except with the prior permission of the Reserve Bank.
It may subscribe to stock or shares of the industrial concern if such concern increases its subscribed capital by the issue of further stock or shares, but the stock or shares so subscribed shall not be retained after the stock or shares of the industrial concern taken in fulfilment of its underwriting liabilities, are disposed of.

The SFC may grant loans or advances to, or subscribe to debentures of, an industrial concern, repayable within a period not exceeding twenty years from the date on which they are granted or subscribed to.

The State Financial Corporation will not, however, guarantee loans or underwrite or subscribe stock or shares or grant loans and advances unless it is sufficiently secured by a pledge, mortgage, hypothecation or assignment of Government or other securities, stock, shares or secured debentures, bullion, movable or immovable property or other tangible assets as prescribed by regulations, or unless it is guaranteed as to the repayment of the principal and the payment of interest by the State Government, a scheduled bank or a State Co-operative Bank.

The aggregate of contingent liabilities of the SFC shall not at any time exceed twice the paid up share
capital and reserve funds of the Corporation except with the prior approval of the State Government and in consultation with the Reserve Bank, but in no case shall exceed thrice the paid up share capital and reserve fund of the Corporation.

The SFC shall not enter into any arrangement with any industrial concern so that the total amount outstanding against that concern in respect of such arrangements is more than twenty lakhs of rupees in the case of a public limited company, or a Co-operative Society, and ten lakhs of rupees in any other case.

The Industrial Finance Corporation of India is authorised to guarantee loans (i) raised by industrial concerns which are repayable within a period not exceeding twenty-five years, and are floated in the public market, and, (ii) loans raised by industrial concerns from scheduled banks or State Co-operative Banks.

It may also guarantee deferred payments due from any industrial concern (i) in connection with its import of capital goods from outside India; or (ii) in connection with its purchase of capital goods within India.

The guarantee of payment for the import of capital
goods from outside India, shall not be given without the prior approval of the Central Government.

With the prior approval of the Central Government, the IFC may guarantee loans raised from, or credit arrangements made with, any bank or financial institution in any country outside India by industrial concerns in foreign currency.

The IFC may underwrite the issue of stock, shares, bonds or debentures by industrial concerns.

It may act as agent for the Central Government or, with its approval, for the International Bank for Reconstruction and Development in the transaction of any business with an industrial concern in respect of loans or advances granted, or debentures subscribed, by either of them.

It may subscribe to the stock or shares of any industrial concern. For all the services mentioned above, it will receive such commission as may be agreed upon.

The IFC may retain as part of its assets any stock, shares, bonds or debentures which it may have to take up in fulfilment of its underwriting liabilities. They will be disposed of as early as practicable; but
in no case, they can be retained beyond a period of seven years from the date of such acquisition, except with the permission of the Development Bank.

It may grant loans or advances to, or subscribe to debentures of, industrial concerns, repayable within a period not exceeding twenty-five years from the date on which they are granted or subscribed to, as the case may be.

It may acquire, with the approval of the Development Bank, the undertaking including the business, assets and liabilities of any institution the principal object of which is the promotion or development of industry in India, or the grant of financial assistance for such promotion or development.

The Industrial Finance Corporation of India, however, will not give any of the accommodation mentioned above, unless it is secured by a sufficient pledge, mortgage, hypothecation or assignment of Government or other securities, stocks, shares or secured debentures, bullion, movable or immovable property or other tangible assets in the manner prescribed by regulations or unless it is guaranteed as to the repayment of principal and the payment of interest by the Central Government, State Government, a
scheduled bank or a State Co-operative Bank.

The IFC shall not enter into any arrangement with a single industrial concern for an amount exceeding two crores of rupees in the aggregate, without the prior approval of the Development Bank.