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FINDINGS

RECOMMENDATIONS/SUGGESTIONS

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THE ROLE OF SFCs IN THE INDUSTRIAL GROWTH OF THE STATES WITH SPECIAL REFERENCE OF DELHI FINANCIAL CORPORATION

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ABSTRACT

In any of the developing and/or developed country, financing and industrial growth/development are one of the most important segment which are overall responsible for the growth of the country and its states and so on closely inter-linked, as without adequate financing, organizations are not in position to take a single decision with pragmatic approach. Financial needs are main source for every developing activity of the organization and as such require on every step. In India, there are various financial institutions at nation and state level to provide financial assistance to the different category Industries and for their different financial needs. State Financial Corporations (SFCs) are state level financial institutions established under State Financial Corporation Act, 1951 and their activities are confined within the territory of the state. SFCs mainly established to provide financial and other assistances to those Entrepreneurs/organizations, which falls under the purview of SFCs, as it has salient features, different to the other financial institutions. The main object of SFCs are to provide assistance to micro, small and medium enterprises (MSMEs) and not to large scale industries, as it falls out of the purview of financing these segment of entrepreneurs. At present, there are 18 State Financial Corporations (SFCs), in India and they are playing very pivotal and active role for the industrial growth/development of the state. SFCs offer various types of financial assistance under its different schemes, so that each and every organization can have financial assistance, as per their specific needs and requirements. SFCs provide loan to Prop/Partnership firms, Private Limited/ Public Limited companies/Co-operative Societies and Trusts.

KEYWORDS

SFCs, industrial growth/development, MSMEs, finance, and financial schemes.

INTRODUCTION

To provide medium and long-term credit to industrial units, Industrial financial Corporation of India (IFCI) was set up under the Industrial Finance Corporation Act, 1948. The object was mainly to provide the credit to those undertakings, which fall outside the normal banking activity. The state governments also expressed their desire to set up similar corporations in the state to supplement/replace the activities of the industrial financial corporation. The main objective of state governments are to provide financial assistance to small and medium scale industries within the state but outside the activities of central financial corporation. The State Financial Corporation Bill passed by the both houses of parliament, received the concurrence of the President on 31st October, 1951. It came on the statute book as "The State Financial Corporation Act, 1951." The State Financial Corporation Act, 1951 empowered the each state and union territory to establish state financial corporation with a view to provide financial assistance to small and medium scale industries. The area of operation of each state financial corporation (SFC) is within the state in which it has been established, but in some exceptional cases, the activities may be extended to neighboring states or union territory, if there are no state financial corporation in the state. For example, Maharashtra State Financial Corporation's activities extended to Goa, Daman & Diu). Similarly, Delhi Financial Corporation, on re-organization of erstwhile Punjab Financial Corporation (PFC), which was divided into four SFCs in 1967, was established. Though Punjab Financial Corporation also has its own office in Chandigarh. SFCs provide loan to Prop/Partnership firms, Private Limited/ Public Limited companies/Co-operative Societies and Trusts. But loan given is to maximum up to 20 years. Besides providing the loan to small and medium scale organization SFCs also engaged in the various activities to assist the entrepreneurs to undertake the programme of diversification, expansion, modernization etc. currently it also offering various facilities like a) Consultancy, b) Merchant Banking, c) Equipment Leasing, d) Debenture trust ship etc. It acts as an agent of state government, central government, SIDBI and any other financial institution if it becomes necessary. At present, there are 18 State Financial Corporations in India. Out of these 17 were set up under State Financial Corporations Act (SFCs), 1951. The Tamil Nadu Industrial Investment Corporation Ltd established in 1949 under the companies act as Madras Industrial Investment Corporation, also functions as SFCs. Industrial development and SFCs are very close to each other and SFCs are playing an important role for overall industrial development of the state and country as well.

LITERATURE REVIEW

Few literatures in relation to industrial growth/development and finance are reviewed, which are as under:

Upadhyaya.K.K (1980) in his study explains the sources of finance for small scale, medium scale and also Large-scale enterprises. Study also provides financial spectrum for industrial sector as a whole. PATEL.G. S (1996) in his doctoral thesis emphasizes the progress made by the commercial banks in the various components of the priority sector lending i.e. agriculture, small scale industries and other priority sector advances comprised of rural artisans, transport operators, education etc. Desai, Vasanta (2000) in his study explains financial inadequacy is one of the most important causes, leading to sickness of small-scale units. He also mentioned that bank should provide expertise in guiding small entrepreneurs in their financial management problems and offer preventive assistance to them in case where sickness is anticipated. Raje, Vasandhara (2000) Reported that credit is an essential input for the working of small-scale sectors. Delay or inadequate supply of credit seriously affects growth of small-scale sectors. Therefore, timely and adequate availability of credit is crucial for setting up and expansion of existing SSI units. Uma, S (2001) in her doctoral thesis assess the extent and purpose of credit channeled to priority sector and specially to small scale industries and she also assess the prospects of priority sector lending in the light of the new economic policy. H.S. Parekh (2004), in his study examine the role of financial institutions and state agencies in extending credit to small scale units and pin points their attitude of indifference in catering to the needs of the tiny units. He was the view that financial assistance has to attain their lending policies in consonance with the need of the small sector in general and smaller among the small-scale units in particular. Srinivas. Y (2005) in his study explains without adequate bank finance, SMEs cannot acquire or absorb new technologies or can they expand to compete in global markets or even strike business linkages with larger firms. At the same time, banks cannot consider the financing of SMEs as a viable option unless their priorities are addressed by SMEs. SMEs should be assisted largely by public initiatives involving participation of the banking industry. Basu.S.K (2007) tries to analyses the role and problems of small-scale industries. He emphasizes their importance in the economic development and their financial problems and also the role of state financial corporation in helping them. Inigo, R.M (2008) in his research work reveals the various role-played by the Bank to financing the small-scale industries in Sivnaganga district of Tamilnadu. Pooja (2009) in her study explain inadequate and delayed supply of credit continues to be the main problem faced by the small and medium enterprises. The problem is more acute in case of micro enterprises. A study conducted by Chakrabarty. K. C. (2010) States that with increasing competition, introduction of new products and stringent regulatory environment, the role of banks needs to change from mere lenders to partners in business. There is a need for greater participation of banks in the affairs of their constituents by convergence of credit services and non-credit services. The banks should not only provide differentiated products for MSMEs, but also provide counseling & guidance to new and established businesses, extending marketing support etc. Similarly, the Government and other institutions entrusted with development of the MSMEs sector need to focus providing an enabling environment, infrastructure and forward & backward linkages so that the credit function being discharged by the banks is adequately supplemented by their non-credit functions.

OBJECTIVES OF STUDY

The objective of study is to find out the role played by state financial corporations in the industrial growth of states with special reference of Delhi Financial Corporation.

DATABASE AND RESEARCH METHODOLOGY

Data are mostly collected through desk research of online resources, research papers, conference documents and other publications. Data from various annual reports of Delhi Financial Corporation and from Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 also has been utilised. Data from various State Financial Corporations have been also used. The data have been compiled from three types of sources: published documents and reports, the World Wide Web and statistical agencies. All data sources are listed at the end of this note and Web links are provided wherever possible. Simple statistical tools have been used for analyzing data.

STATE FINANCIAL CORPORATION AND INDUSTRY

At present, there are 18 State Financial Corporations (SFCs) in India and they are very actively playing various roles for industrial growth/development of the country and states as well. More or less every state have its own state financial corporation for the development of state industries. Beside the above, the following state's State Industrial Development Corporation (SIDCs) also act as a State Financial Corporation (SFCs) for providing assistance to small and medium scale enterprises and act as a promotional agencies for this sector. The name of state and union territory where these SIDCs are working as a SFCs are: Andaman & Nicobar, Arunachal Pradesh, Daman & Diu and Dadra & Nagar Haveli, Goa, Manipur, Maghalaya, Mizoram, Nagaland, Tripura, Pondicherry, and Sikkim.

THE FOLLOWING MAIN FUNCTIONS ARE PERFORMED BY SFCs FOR INDUSTRIAL GROWTH/DEVELOPMENT IN THE STATES

- Loans and advances: SFCs Grants loans and/or advances to industrial concern for its commercial activities, including commercial vehicles, repayable within a period not exceeding twenty years.
- Guarantee Providing: SFCs provide guarantee for loans raised by industrial units from commercial banks and state cooperative banks and also for deferred payments in cases where industrial units have purchased capital goods on a deferred payment basis or for taking any other loans.
- Underwriting of securities: For properly financial assistance, it underwrites the shares, bonds and debentures of industrial concerns.
- Subscription of securities: It also subscribes shares, bonds and debentures of industrial concerns for providing long-term finance.
- Different types of loan with matching the industrial needs: SFC's provide different types of loans and it includes loans to industrial units for the purchase of different fixed assets (Land, Building and Machinery). In some exceptional cases, SFC's also provide loans for working capital requirements in addition with loans for fixed capital.
- Providing assistance of foreign currencies: SFC's provide loans in foreign currency for the import of machinery and technical know-how, under the IDA (International development association) and World Bank tie up if the industrial unit so needed. But SFC's are prohibited from subscribing directly to the shares or stock of any company having limited liability.

Beside these, SFCs also play various functions as per the needs of industrial units with a view to overall industrial growth/development of the state.

FINANCIAL ASSISTANCE TO INDUSTRIAL UNITS

The SFCs are engaged in the industrial growth/development of the country by providing different types of financial and non-financial assistances to industries. The share of different categories of Institutions in the development of Financing Disbursals from 2003-04, has been shown in Table No.1 and share of Government and RBI in total liabilities of different DFIs in percentage is shown in Table No.2. The share of different categories of Institutions clearly indicates that SIDBI/SFCs/SIDCs are playing an active role for the industrial growth/development of the state and country as well.

TABLE NO. 1: SHARES OF DIFFERENT CATEGORIES OF INSTITUTIONS IN DEVELOPMENT FINANCING DISBURSALS

Year	All India FIs	SIDBI/SFCs/ SIDCs	Special purpose	Venture	Investments	Total
2003-2004	17.4	17.05	7.6	1.2	56.3	100.00
2004-2005	29.02	28.8	0.3	0.0	41.7	100.00
2005-2006	0.9	43.0	0.4	0.0	55.7	100.00
2006-2007	1.4	26.5	0.3	0.0	71.8	100.00
2007-2008	5.0	32.8	0.4	0.0	61.8	100.00
2008-2009	3.5	30.0	0.3	0.0	66.1	100.00
2009-2010	6.6	34.7	0.3	0.0	58.4	100.00
2010-2011	9.6	44.2	0.4	0.1	45.7	100.00
2011-2012	5.7	41.7	0.6	0.3	51.8	100.00
2012-2013	1.7	45.5	0.4	0.3	52.1	100.00

Source: RBI (2013), Table 83

TABLE NO. 2: SHARE OF GOVERNMENT AND RBI IN TOTAL LIABILITIES OF DIFFERENT DFIs (Percentage)

Share of Government and RBI in Total liabilities of different DFIs (Percentage)				
Name of the Institutions	1965	1971	1975	1980
IFCI	36.75	40.84	25.20	6.00
ICICI	42.65	20.81	8.75	1.12
IDBI	82.08	80.57	71.75	47.61
IRCI			43.48	49.43
SFCs	14.63	22.09	28.78	37.54

Source: RBI quoted in Kumar (2013)

DELHI FINANCIAL CORPORATION (DFC)

Delhi Financial Corporation (DFC) was established in April 1967 under State Financial Corporation's Act 1951 on re-organization of erstwhile Punjab Financial Corporation (PFC), which was divided into four SFCs in 1967 i.e. Delhi Financial Corporation (For NCT of Delhi & UT of Chandigarh), Punjab Financial Corporation (For Punjab), Haryana Financial Corporation (For Haryana) and Himachal Pradesh Financial Corporation (For Himachal Pradesh). The main objective of the Corporation is financing of loans for establishing and running micro, small and medium scale industries' service sector industries commercial/ transport sector in NCT of Delhi and UT of Chandigarh. DFC has been playing vital role in promotion and development of MSMEs and service sector. The Corporation extends financial assistance for Restaurants/ Hotels, Amusement parks & other tourism related activities, Construction of Commercial complexes/ multiplexes, Hospitals/ Nursing homes/ Clinics/ Diagnostic centres, commercial vehicles etc. as specified under SFC's Act, 1951 or any other activity approved by SIDBI/State Govt. The Corporation can extend financial assistance upto Rs. 10.00 crore for companies & co-operative societies and Rs. 4.00 crore to Proprietorship and Partnership firm. However, the limit of assistance can be doubled with the prior approval of the Small Industrial Development Bank of India. It allows longer repayment period as compared to other financial institutions.

TABLE NO. 3: FINANCIAL STATUS OF DFC

FINANCIAL STATUS (Rs. in lacs)							
	2010-2011	2011 - 2012	2012- 2013	2013- 2014	2014-2015	2015-2016	
Paid-up Capital	2611.75	2617.75	2623.75	2629.75	2635.75	2641.75	
Reserves	.4541.08	4624.95	4699.21	4679.90	4499.25	4778.75	
Borrowing	8118.51	11935.67	9008.91	5698.83	5133.33	4699.99	
Gross Sanctions (Cumulative)	132968.64	138016.77	138994.11	139713.63	145785.89	142032.78	
Net Effective Sanctions (Cumulative)	91983.63	94084.48	94666.40	94523.25	100284.71	96697.19	
Disbursement (Cumulative)	78050.37	84094.07	84976.37	85641.58	86555.92	90578.10	
Loans Outstanding	14732.19	18234.42	16216.11	13481.95	11050.98	11955.21	
Gross Income	1468.34	2351.79	2230.75	1898.88	1699.85	1925.84	
Profit before Tax	239.52	430.30	302.65	920.09	123.66	429.52	

PERFORMANCE FOR LAST 6 YEARS AT A GLANCE (Rs. in Crore)							
Sanction	125.97	50.48	97.73	71.95	607.22	231.91	
Disbursement	86.55	60.44	88.30	66.52	91.43	493.65	
Recovery	37.90	46.47	492.22	507.85	437.04	524.02	

TABLE NO 4: APPLICABLE INTEREST RATE AT DIFFERENT YEARS *

Sl.No.	Category	Refinance rate w.e.f. 08.09.2003	Gross rate w.e.f 08.09.2003	Effective rate on prompt payment	Intt. Rate effective from 01.04.2004	Intt. Rate effective from 05.04.2007	Intt. Rate effective from 05.04.2007
1	For loans upto Rs.50,000/-	8.25%	11.25%	10.75%	9.50%	10.50%	11.5%
2	For loans above Rs.0.50 lakhs and upto Rs.2.00 lakhs	8.75%	11.75%	11.25%	10.00%	11%	12.5%
3	For loans above Rs.2.00 lakh and upto Rs.25.00 lakhs	9.75%	12.75% for those meeting rating parameters and 13.25% for new Units and others	12.25% for those meeting rating parameters and 12.75 % for new Units and others	11.00%	12%	12.5% (In all loan cases above Rs.2.00 lakhs)
4	For loans above Rs.25.00 lakhs and upto Rs.100.00 lakhs	10.25%	13.25% for those meeting rating parameters and 13.75% for new Units and others	12.75% for those meeting rating parameters and 13.25% for new Units and others	1)10.50% (loan above Rs.25 lakhs and upto Rs.50.lakhs) 2)10.25% (loan above Rs.50 lakhs and upto Rs.100 lakhs)	1)11.50% or above as per risk perception (loan above Rs.25 lakhs and upto Rs.50.lakhs) 2)11.25% (loan above Rs.50 lakhs and upto Rs.100 lakhs)	
5	For loans above Rs.100.00 lakhs	--	13.00% for those meeting rating parameters and 13.50% for new Units and others	12.50% for those meeting rating parameters and 13.00% for new Units and others	10% or above as per risk perception	11% or above as per risk perception	
6	For loans under scheme for TDMF and ISO-9000 schemes: i)Loans upto Rs.50,000/- ii)For loan above Rs.50,000/- to Rs.2.00 lakhs iii)For loans above Rs.2.00 lakhs	i)8.25% ii)8.75% iii)9.50%	i)11.25% ii)11.50% iii)11.50%	i)10.75% ii)10.75% iii)11.00%	i)9.25% ii)10% iii)0.50%	i)10.25% ii)11% iii)11.50%	

*Conditions apply

The interest rate from 01.08.2008 and till June,2017 has been between 12% to 13.5% per annum with rebate of 0.75% was applicable to the borrowers, who have been rated amongst the top three credit rating given by CRISIL/ICRA/SMERA/CARE/TITTC and the credit rating given by the agency is valid on the date of receipt of loan application. Besides this, the rebate was also accorded to the existing Borrowers of the Corporation, who have been standard assets during the last three years (for cases covered under transport and assets-based financing schemes). In addition to this, rebate has also been accorded to the past clients of the Corporation, whose loan remained standard during the tenure of loan (for cases covered under transport and assets based financing scheme).

The reason of change of rate of interest in the Corporation has been due to change of interest in the refinance availed by the SIDBI and other lending agencies.

TABLE NO. 5: BUSINESS OPERATION (Rs. in lakhs)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Sanction	5048.13	977.34	719.52	6072.26	2319.15
Disbursement	6043.70	882.30	665.21	914.34	4936.52
Recovery	4647.00	4922.23	5078.57	4370.48	5240.21
O/s.Loans and Advances	18262.63	16216.11	12628.81	10217.54	11291.80
Reserves	4624.93	4699.20	4679.90	4499.24	4778.75

The above table gives the comparative picture of the performance of the DFC in all the key areas of Sanction, Disbursement and Recoveries over the past five years. The fluctuation in Sanction and disbursement in the DFC, has been due to various constraints, the Corporation has to face. Delhi being facing of limitation of space for expending of industrial area and more concerned with improvement of environment of the state were few major hurdles, where legged behind the Corporation from the Sanction and Disbursement in few years. Due to augmentation of various schemes of GNCT of Delhi, in which various industries, which were responsible for creating hazardous outflow in the residential areas, as per the orders of the NGT, were relocated in the Industrial area and accordingly few Industrial area were developed and new plots were allotted to them, in Bawana Part-I, Part-II, Narela, Sanjay Gandhi Transport Nagar, PVC Market, Issue of New Permit to TSRs/E-Rickshaw, replacement of Buses with CNG, allotment of shops by Delhi Agriculture Marketing Board etc. The Corporation grabbed business due to its salient features of loan scheme and found lucrative by its customer, comparative to the other lending institutions. The State Financial Corporations, having the main work to finance and providing consultation to house hold, small and medium entrepreneurs, have capacity to expend leaps and bounds, subject to continuation of various schemes by the state governments and time to time providing of financial package for bailing out to few of the sick SFCs.

CONCLUSION

The Industrial growth/development and State Financial Corporations are very close to each other; SFCs, by and large, in the industry are playing a very important and vital role for country's overall industrial growth/development. In the changing scenario SFCs also changed their policies, various loans schemes with commensurate to the existing fund requirement of various entrepreneurs. All 18 State Financial Corporations are very energetic and aware about industrial needs, though their loan sanction/disbursement amount gradually decreasing year by year. This is mainly due to high NPA and competition with other financial institutions but overall it can clearly say that they are very aware about industrial needs and their roles also easily understandable by seeing their loan sanctions and disbursement patterns and various schemes for industries. Even this has also been noted that SIDBI, which at present is the main source of making available fund to all SFCs for further distribution of loans to various stake holders, puts restrictions for making available to certain categories entrepreneurs. SFCs are no longer free to make available loan to all the borrowers and/or to the borrowers, to those SFCs think may be given loans. DFC one of the leading financial corporation in India is very active to provide various types of financial assistances to state industries. It also specially give attentions to MSMEs sectors and there are various attractive schemes for MSMEs sectors. The performance level of DFC is growing and far better amongst overall SFCs. During last 57 years DFC is playing an active role for growth/development of various type of industries.

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