

CHAPTER

V

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Problems and Future Prospects:

5.1 Introduction:

The Maharashtra State Financial Corporation, Regional office, Kolhapur was formed on the basis of State financial Acts. Although it is true that the MSFC came into existence from 1962, it has got a deep rooted history of the former Bombay State Financial Corporation from which the MSFC has taken over the business in 1962. the Bombay Reorganization Act 1960 made the corporation to hand over the business of MSFC which came into being on 14th August, 1962.

The corporation is highly decentralized organization and has a wide network of offices in all the districts of Maharashtra (Except Gadchiroli) and Goa. There are nine regional offices of MSFC in Maharashtra. One of them was situated in Kolhapur. Under the Kolhapur Regional office there are three districts i.e. Kolhapur, Sangli and Satara.

The main function of the MSFC is to meet the term loan requirements of the small and medium scale industries for acquisition of fixed assets like land and building, plant and machinery, equipments etc. The loan is given for setting up new industrial units as well as for expansion and modernization of the existing units.

The corporation gives the loans and advances to the borrowers and when they did not repay the loan then the problem of recovery arises. When these borrowers were unable to repay the loan then the main problem of recovery arises and MSFC starts the recovery procedures. There is large number of persons or applicants of MSFC which

were taking loan from MSFC but could not repay it to MSFC. And then recovery is the main object of MSFC was started. The data of the defaulters in this case is very important. But the defaulters are not willing to give the particulars data of their loan account of MSFC, Kolhapur regional office. Even the MSFC regional office, Kolhapur also refused to provide the names and addresses of the borrowers, so the analysis and interpretation of data is very difficult. It is to be decided to data a sample at least 25 defaulters. The names and addresses of the borrowers are ascertained by going around the Kolhapur, Sangli and Satara towns.

So, the researcher has taken only 25 defaulters of the recovery procedure and this data are analyzed and interpreted and pointed out the defaulters. This data is collected from sample size of the borrowers by personal interview.

(This Questionnaire schedule is attached at the end of this chapter)

5.2 Sample size:

For purpose of sample survey totally 51 defaulters from Kolhapur region during the last two years i.e. 2003-04 and 2004-05 out of which 25 defaulters are selected for the purpose of interview.

5.1* Education wise classification of defaulting firm’s proprietors

Sr. No	Level of Education	Number of defaulters Units
1	Illiterate	Nil
2	Primary Education	02
3	Secondary Education	06
4	Higher Secondary	09
5	College Level	05
6	University Level	03
Total		25

Nine defaulters completed their higher secondary education, out of twenty five defaulters; five have completed college level education. Three of them have university degree; six of them have education up to primary level. It is surprising that all the 25 defaulters were literate. The number of illiterate defaulters is zero.

5.2 Classification according to Time lag between sanction and first disbursement by MSFC, Kolhapur Region

Sr. No.	Time lag	No. of units
1	Up to 3 months	12
2	3 to 6 months	04
3	6 to 9 months	03
4	9 to 12 months	04
5	12 months and above	02
Total		25

After sanction, large defaulters (i.e. 12) received amount within three months. Four defaulters got between three to six months and nine to twelve months. Three defaulters from six to nine months and two got their sanctioned amount after twelve months from MSFC.

5.3 Classification according to borrowings by the proprietor from MSFC after sanctioning the loan to the project

Sr. No.	Borrowings	No. of units
1	2 times	02
2	3 times	09
3	4 times	06
4	5 times	08
5	Above 5 times	--
	Total	25

Nine defaulters take three times borrowing facility, eight defaulters take five times borrowing, six of them take four time borrowings and two defaulters take two times borrowing out of 25 defaulters.

5.4 Industry wise classification of financial assistance received by the defaulters/units from Kolhapur Regional office

Sr. No.	Type of Industry	No. of units
1	Manufacturing of machinery except electric machinery	5
2	Manufacturing of non-metallic & mineral products	5
3	Food manufacturing Industries	2
4	Basic Metal Industries	
5	Manufacturing of metal products	3
6	Printing and Publishing and allied industries	3
7	Consultation services/Doctors	1
8	Hotel Industries	2
9	Manufacturing of chemical products	1
10	Manufacturing of textiles	3
Total		25

Above table shows the industry wise distribution of financial assistance received by the units selected for the studies. Manufacturing of machinery and non metallic products units are five each. Food manufacturing and hotel industries are two each. Manufacturing of metal products, printing and textiles are three units each. Consultation and chemical products unit was one each selected for the studies.

5.5 Classification of units according to amount received as a loan from the MSFC

Sr. No.	Type of Industry	No. of units
1	Up to Rs. 1000000	13
2	1000001 to 2000000	07
3	2000001 to 3000000	01
4	3000001 to 4000000	01
5	4000001 to 5000000	01
6	5000001 and above	02
Total		25

Above table shows classification of units according to amount received as a loan from MSFC. There are large number of units i.e. thirteen receive amount below 10 lakhs, and in between 10 lakhs to 20 lakhs there are seven units. There are only two units who have received amount above 50 lakhs.

5.6 Classifications according to unit's proprietor having another source of income

Sr. No.	Name of business/Income	No. of units
1	Agriculture	19
2	Side business	01
3	Industry	03
4	Other	02
Total		25

There is large number of units owners having income from agriculture. Nineteen proprietors getting income from agriculture. Then three proprietors having their own industries one have their side business and two proprietors having another source of income.

5.7 Classification according to project cost of units which acquired loans from MSFC

Sr. No.	Project cost	No. of units
1	Up to 500000	01
2	500001 to1000000	10
3	1000001 to 2000000	05
4	2000001 to 3000000	04
5	3000001 to 4000000	00
6	4000001 and above	05
Total		25

Above table shows classification according to project cost of units. Large number of units having their project cost in between 5 to 10 lakhs. There are 10 unit’s project costs in between 5 to 10 lakhs. Five units each in between 10 to 20 lakhs and above 40 lakhs.

5.8 Classification of units according to constitutions

Sr. No.	Project cost	No. of units
1	Public Limited companies	0
2	Registered Cooperative Societies	0
3	Private Limited Companies	02
4	Partnership concerns	12
5	Proprietary concerns	11
Total		25

There are large numbers of partnership concerns as well as Proprietary concerns taking loan from MSFC. Above table shows that there are twelve partnership concerns, eleven proprietary concerns and two private limited companies who take loans from MSFC.

5.9 Classification according to the unit’s proprietor possesses fixed assets like land & building and other assets

Sr. No.	Fixed Assets	No. of units
1	Land	0
2	Building/own house	08
3	Both	17
4	Other	0
Total		25

Large number of people who acquire loan from MSFC having their own assets like land, building or own house. There are seventeen unit’s proprietor having his own house and land.

5.10 Classification according to scheme of MSFC which taken by defaulters

Sr. No.	Scheme	No. of units
1	General Loan Scheme	14
2	Hotel Loan Scheme	02
3	Doctors loan scheme	01
4	Technology Upgradation fund scheme	08
Total		25

According to above table there are large amount of loan disbursed for general loan scheme by MSFC. Two for hotel loan scheme and eight for technology up gradation fund scheme.



5.11 Classification according to repayment period of loan by units

Sr. No.	Repayment period	No. of units
1	Below 3 years	01
2	3 to 5 years	07
3	5 to 9 years	09
4	10 years and above	08
Total		25

MSFC generally gives term loans. The period of term loans usually large, i.e. above 10 years. There is nine unit's loan repayment schedule in between five to nine years. There are eight units having loan repayment being 10 years and above.

**5.12 Classification according to rate of interest charged by MSFC
to the selected units**

Sr. No.	Rate of Interest	No. of units
1	Below 10%	0
2	10% to 12%	05
3	13% to 15%	17
4	Above 15%	03
Total		25

MSFC’s rate of interest is very high.. The rate of interest was largely in the range of 13% to 15%. There are seventeen units in this range. In the range of 10% to 12% there are five units. Remaining three units paid higher rate of interest i.e. above.

5.13 Classification according to the time lag between the application and Documents submitted to MSFC and sanction of loan

Sr. No.	Time lag	No. of units
1	One Month	10
2	Two Months	10
3	Three Months	02
4	Four Months	--
5	Five Months	02
6	Six Months	01
Total		25

Above table shows time lag between applications submitted and sanctioned of loan. There are ten units having their loan sanctioned within one month. Within two months sanctioned of loan, there are also ten units. .MSFC sanctioned loans within two months in case of three units and within five months in case of same number of units i.e. two units. Whereas, there is only one unit whose loan has been sanctioned within six months

5.14 Classification according to the defaulter’s statement about reason of becoming defaulter of MSFC

Sr. No.	Reason of becoming Defaulter	No. of units
1	Failure of project	09
2	Insufficient income	12
3	Unsuitable repayment schedule	02
4	Over expectations	02
5	Mismanagement	00
6	Over ambition	00
Total		25

Nine defaulters accept that they started the project earlier and became unsuccessful due to weak economical position or any other reason. Twelve defaulters having insufficient income and that is why they became defaulter of MSFC. Two defaulters opposite to the repayment schedule of MSFC. Remaining two accept that their over expectations are the main reasons for becoming the defaulter.

5.15 Classification according to defaulter’s statement about rate of interest, high, low and reasonable

Sr. No.	Opinion about rate of interest	No. of units
1	High	23
2	Lower	--
3	Reasonable/proper	02
Total		25

Large numbers of defaulters state that MSFC charges higher rate of interest. There are twenty three units are of the opinion that the rate of interest is higher than other banks.

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5.16 Table showing Brief History of Twenty Five Defaulters- institutions

Sr. No.	Name of the defaulter firm	Amount Sanctioned	Actual Received	Amount actually recovered	% of Recovery	Decision taken by MSFC/ Stage
1	Prasad Engineers	6.00	6.00	4.00	67	Notice, reminder
2	Gandhali Graphics	15.00	15.00	12.00	80	Notice
3	Munj Brothers	5.00	5.00	2.50	50	Notice through court
4	Varsha Plast	15.00	15.00	13.00	87	Notice, reminder through court
5	Bachulkar Engineers	20.00	20.00	17.00	85	Notice
6	Perfect Building Products	20.00	20.00	10.00	50	Court matter
7	Desai Machin tools	6.00	6.00	2.00	33	Notice through court
8	Mitrata Offset	12.00	12.00	5.00	42	Notice, reminder
9	Athle Hospitals	6.00	6.00	5.00	83	Reminder
10	Bahar Battaries	4.00	4.00	3.00	75	Notice
11	Anand offset	4.00	4.00	0.25	6.25	Possession
12	Standard Refridgeration	4.00	4.00	3.50	87.5	Notice, reminder
13	Arti Graphics	50.00	50.00	3.00	6	Possession
14	Ravisruti Recording Studio	6.00	6.00	5.00	83	Possession

15	Shrikrupa Plastic works	5.00	5.00	2.00	40	Notice through court
16	MMS Engineers Workers	10.00	10.00	5.00	50	Possession
17	Ravindra Oil Mills	6.00	6.00	4.00	67	Notice
18	Navratna Dhaba	4.00	4.00	0.50	12.50	Notice through court
19	Patil Chemical Industries	40.00	40.00	14.00	35	OTS #
20	Prakash Offset	16.00	16.00	3.00	18.75	OTS #
21	Digvijay Fabrics	60.00	60.00	15.00	25	Possession
22	Sneha Textiles	25.00	25.00	10.00	40	Possession
23	Bhoir Hotel	70.00	70.00	20.00	29	Possession
24	Amit Weaving Mills	7.40	7.40	3.00	41	OTS #
25	Sun Fabrics	20.00	20.00	18.00	90	OTS #

OTS = One time Settlement.

One time settlement is a scheme launched by MSFC for the defaulters. In this scheme MSFC offers to the defaulter for one single payment for his dues instead of installments unpaid by them. Above table shows four defaulters accept this scheme of MSFC.

5.17 Classification according to number of installments of loan paid to MSFC by the defaulters

Sr. No.	Number of installments	No. of units
1	Below 10 installments	09
2	10 to 15 installments	09
3	15 to 20 installments	02
4	20 to 25 installments	04
5	25 to 30 installments	01
6	30 & above	--
Total		25

There are nine defaulters who pay their number of installments below ten. And also nine defaulters pay their number of installments in between ten to fifteen. Four defaulters paid twenty to twenty five installments of repayment to MSFC.

5.18 Table showing the Average rate of recovery of loans by MSFC

Sr. No.	Name of the defaulter firm	Actual % of amount recovered by MSFC
1	Prasad Engineers	67
2	Gandhali Graphics	80
3	Munj Brothers	50
4	Varsha Plast	87
5	Bachulkar Engineers	85
6	Perfect Building Products	50
7	Desai Machin tools	33
8	Mitrata Offset	42
9	Athle Hospitals	83
10	Bahar Battaries	75
11	Anand offset	6.25
12	Standard Refridgeration	87.5
13	Arti Graphics	6
14	Ravisruti Recording Studio	83
15	Shrikrupa Plastic works	40
16	MMS Engineers Workers	50
17	Ravindra Oil Mills	67
18	Navratna Dhaba	12.50
19	Patil Chemical Industries	35
20	Prakash Offset	18.75
21	Digvijay Fabrics	25

5.19 Table showing loan amount wise classification of defaulters

Sr. No.	Loan Amount in Rs.	No. of defaulters/ units
1	Below Rs. 500000	04
2	500000 to 1000000	09
3	1000001 to 2000000	07
4	2000001 to 4000000	01
5	4000001 to 6000000	02
6	6000001 and above	02
Total		25

Large number of defaulters i.e. nine having loan taken between five and ten lakhs, four defaulters have taken loan below five lakhs. Seven defaulters are between ten to twenty lakhs, one defaulter is between twenty to forty lakhs and two defaulters are between forty to sixty lakhs. Further, two defaulters have taken above sixty lakhs from MSFC as loan.

5.20 Table showing the sample size selected for study of defaulters

Total Number of defaulters	Sample size selected, number of defaulters
51	25

The total number of defaulters between the year 2003-04 and 2004-05 (two years Period) were fifty one. Out of these, twenty five defaulters (50%) were selected for study.

5.21 Table showing classification of joining with the MSFC of defaulters year wise

Sr. No.	Year of joining to MSFC Or in relation with MSFC	No. of defaulters/ units
1	Before 2000	09
2	2000	11
3	2001	03
4	2002	02
5	2003	--
6	2004	Nil
7.	2005	Nil
Total		25

Nine defaulters came into relation with MSFC before the year 2000. Eleven defaulters joined in year 2000. Three defaulters in year 2001 and remaining two joined in the year 2002.

5.22 Table showing classification according to monthly net income from other than business earned by defaulters

Sr. No.	Monthly Income	No. of defaulters/ units
1	Below 20000	04
2	20001 to 40000	13
3	40001 to 50000	03
4	50001 to 70000	02
5	70001 to 100000	03
6	Above 100000	--
Total		25

Four defaulters get income below twenty thousand other than their business. Thirteen defaulters get income between twenty thousand one to forty thousand. Three of them are in the range of forty thousand one to fifty thousand. Out of twenty five defaulters, two get income between fifty thousand one to seventy thousand. And three get between seventy thousand one to one lakh.

5.4 Observations:

1. While taking finance from MSFC 80% of defaulters agreed that for sanctioning the loan from MSFC, there are large number of documents were required.
2. The period for sanction the loan is very large. Therefore, 64% of the defaulter state that for sanction the loan MSFC takes more time which is not required. Because of delay in sanctioning the loan, it may discourage to the loan applicant.
3. From the defaulter no one could make a schedule for repayment of loan to MSFC. They depend up on the MSFC for making timely installments to the MSFC.
4. After taking loan from MSFC first three or four installments repaid by defaulter regularly, but after that due to certain reason they could not pay their debts and became defaulter. Cause of non payment of installment was largely low productivity unselling of finished goods, failure of project etc.
5. 90% of the defaulters state that the rate of interest charged by MSFC was very high, therefore, they could not pay higher rate of interest and installments.
6. Around 40% applicants came from villages or from rural area for getting loan from MSFC. In these people we saw lack of professional attitude because they have agriculture background. Nineteen defaulters have their own agriculture land. Some of them have no knowledge of handling project and that is why they could not manage properly their project and became defaulter.

7. Around 2/3 defaulters, while taking loan from MSFC mortgage their land and taking loan. After became a defaulter MSFC get possession of their land through court, or get forfeiture of their project.

8. Twelve defaulters were started partnership firm from taking loan of MSFC. In partnership, all the partners are not same kind in nature. One lazy partner may damage the entire partnership firm. There is one of the drawback or demerit of partnership business. This kind of reason also affected for become a defaulter.

9. MSFC giving loan for purchasing of fixed assets only and not for requirement of working capital of business. All of the defaulters state that, for the requirements of working capital also MSFC should give loan for needy projects.

10. Nine defaulters completed their higher secondary education, out of twenty five defaulters; five have completed college level education. Three of them have university degree; six of them have education up to secondary level. And two of them completed their education up to primary level. It is surprising that all the 25 defaulters were literate. The number of illiterate defaulters is zero.