

# CHAPTER

## II

## **CHAPTER II**

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### **PROFILE OF M.S.F.C.**

#### **2.1 Introduction:**

The second chapter has discussed the origin of Bombay State Financial Corporation and its transformation into MSFC in 1962. The chapter has also dealt with the objectives of MSFC and its functions, operational policies.

The chapter gives a brief view of the historical development of MSFC. The organizational set up of the corporation is also discussed in brief.

#### **2.2 Bombay State Financial Corporation:**

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. Therefore, a brief account of the Bombay State Financial Corporation becomes necessary.

Since, the industrial Finance Corporation had limited its scope of activities in financing to public limited companies and registered co-operative societies only; the small and medium scale industries were neglected. Owing the fact, the government of India passed the “State Financial Corporations” bill which came into force from 1<sup>st</sup> August 1952.

The Bombay State Financial Corporation was inaugurated formally on 21<sup>st</sup> December 1953 at the hands of the Chief Minister of Government of Bombay Shri. Morarjibhai R. Desai. It was the third State Financial Corporation established in the country.

Although, the Bombay State Financial Corporation established in the country, a small premises with where capital of Rs. One crore and reserves of Rs. 1000 only, and sanctions of Rs. 68 lakhs to 31 applications and Rs. 30 lakhs disbursements, at the time of handing over the business to MSFC it had sanctioned Rs.716 lakhs and disbursed Rs. 391 lakhs since its inception.

The Bombay Reorganization Act 1960 made the corporation to hand over the business to MSFC which came into being on Tuesday the 14<sup>th</sup> August, 1962.

### **2.3 Maharashtra State Financial Corporation:**

As stated earlier, the Maharashtra State Financial Corporation, on 14<sup>th</sup> August, 1962 took over from Bombay State Financial Corporation covering all the 26 districts of Maharashtra. But by an agreement dated 18-7-1964 between the Government of Maharashtra and administration of the union territories of Goa, Daman, Diu, the corporation extended its jurisdiction of Goa, Daman and Diu. The corporation in August, 1964 set up its branch office at Panjim, to cater the needs of the union territories.

#### **Chairman:**

On reconstitution of the corporation the Government of Maharashtra nominated Shri. Purushottam Kanji as chairman of the- corporation, who had been on the same position since inception. But after two years on -15-8-1964 he relinquished the chairmanship.

Thereafter the Government nominated Shri. B.D. Garware a noted industrialist as chairman of the corporation. He continued his chairmanship for over 13 years till 1977. Under his able leadership the corporation earned the name as the foremost State Financial

Corporation of the country. He relinquished his post on 23-9-1977. The Government then nominated Shri. Homi J. H. Taleyarkhan as the chairman and administrator of proven ability and dynamism.

**Managing Director:**

Shri P.S. Mokashi an experienced banker and retired officer of Reserve Bank of India, was appointed as the first managing director of the corporation after reconstitution. On his retirement in 1968 the post of managing director was brought on Maharashtra cadre of the Indian administrative service. Incidentally, the post has been held by senior officers of the rank of secretary to state government.

**2.4 Historical Development of MSFC:**

MSFC which was taken over from its predecessor Bombay S.F.C.. started its operation on 14<sup>th</sup> August, 1962 with a capital of Rs. 2 crores. The corporation has adopted the watchword “Arthmula Kriyasiddhi” which means for fulfilling any kind of activity finance is the basic and foremost requirement.

On taking over the business from Bombay S.F.C. the MSFC noticed imperfect procedures of sections and disbursements resulting into delay. Hence, the corporation took a few important steps to avoid delay in sanction and disbursement of loan proposal, viz-

- 1) Appointment of advocates at district level,
- 2) Appointment of architects at district level and accepting valuation report of the government civil engineers.

The corporation opened three branches each in Aurangabad (1963), Miraj (1964) and Panjim as a step to avoid delay in sanction- disbursement process.

During the period from 1962 to 1968 the MSFC sanctioned Rs. 2245.62 lakhs and disbursed Rs 1725.77 lakhs. After 1968, the corporation undertook expansion programme of offices and staff. The corporation also shifted the operational emphasis from industries in metropolitan areas to industries in backward areas. The small industries were given much weightage. For decentralization of authority, in 1970 the corporation opened regional offices in Bombay, Poona, Nagpur, Aurangabad and Kolhapur. In 1977, the corporation converted the branch office at Panjim into Regional office and opened Regional office at Nasik to serve industries coming up in Nasik, Dhulia, and Jalgaon districts.

<b>Sr. No.</b>	<b>Regional Office</b>	<b>Districts Covered</b>
1	Bombay	Greater Bombay, Raigad, Ratnagiri,
2	Thane	Thane Daman Diu
3	Nasik	Dhule, Jalgaon, Nasik
4	Poona	Poona, Ahmednagar, Solapur
5	Nagpur	Bhandara, Chandrapur, Gadchiroli, Vardha, and Nagpur.
6	Kolhapur	Kolhapur, Sangli, Satara.
7	Amarawati	Amarawati, Akola, Buldhana, Yawatmal
8	Aurangabad	Aurangabad, Beed, Latur, Osmanabad, Nanded, Jalna, Parbhani
9	Goa	Goa, Sindhudurga.

Thus, by improving the procedure and establishing regional and branch offices in various districts the corporation, during 1969 to 1976 sanctioned Rs. 2723.25 lakhs and disbursed Rs. 1891.92 lakhs. At the end of 1976 the corporation had six regional offices. During the year 1973, the International Development Agency of the World Bank had sanctioned to IDBI a loan of Rs. 25 millions for on lending through state financial

corporations. The MSFC was the first SFC to avail itself of the said facility and accounted for the largest share of utilization (21 percent).

During the period from 1982 to the end of March 1992 the corporation increased its regional offices up to nine and branch offices and field offices up to twenty three. The corporation has totally 977 employees and the number of accounts increased up to 16353 at the end of March 1993.

MSFC gives financial assistance in the form of loans on easy terms of interest and sufficient time for recovery to small entrepreneurs in particular for acquiring fixed assets like land, construction of factory buildings and for plant and machinery.

MSFC has been highly decentralized organization of its kind in the country. The MSFC board is composed of highly professional personnel which includes Director, Chairman and Managing Director representatives of the Reserve Bank of India, the International banks, the IDBI, Insurance Companies, Co-operative Banks and of shareholders.

The MSFC is an autonomous body but it functions in full co-operation with the state Government and Industrial Development Bank of India.

## **2.5 A) Objectives of MSFC:**

The state financial corporation set up in various states as regional institutions represent an attempt to diversify the structure of development banking in the country to be able to cope with the requirements of small and medium scale industrial enterprises.

The MSFC has been set up to assist Industrial Development by catering to the financial needs of the small scale and medium types industries in accordance with the industrial policy of Government of Maharashtra.

For the diversification of the structure of the development banking in the country of the state financial corporation were set up in various states. “The State Financial Corporation prompts the industrial development of the state”

MSFC operates in Maharashtra state from 1963 and in the union territory of Goa, Daman and Diu, since 1964. The main objective of MSFC is to promote more and more industries in backward and developing areas of Maharashtra state and in the union territory of Goa, Daman and Diu.

### **B) Functions of MSFC:**

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, equipment etc. The loans are given for setting up new industrial units as well as for expansion and modernization of the existing units. Following is the list of specific functions of MSFC:

1. The corporation can undertake a function of a guaranteeing for industrial loans raised and repayable within 20 years.
2. MSFC grants loans or subscribe to the debentures issues of industrial establishment repayable within 20 years.
3. The corporation can grant foreign loans under World Bank scheme.
4. The corporation can guarantee differed payments of capital goods purchased in India.
5. The corporation may act as an agent of the central and state government. The Industrial Finance Corporation of India or any other financial institution for grant advance to or subscribing for debentures issues of the industrial enterprises.

### **2.6 A) Services rendered by MSFC:**

The corporation finance projects with large capital outlay (Rs. 5 crores) in participation with SICOM, All Indian Financial Institutions, and Commercial Banks etc. However, in such cases assistance from the corporation is limited to Rs.90 lakhs.

The corporation provided seed capital assistance mainly to the new/first generation entrepreneurs who possess necessary skill or practical experience but lack of requisite funds to meet gap in the DER and or promoters contribution. The seed capital assistance is given to bridge the gap in expected promoters' contribution. If the requirement of seed capital exceeds Rs 4 lakhs, the same is covered by IDBI seed capital scheme. The assistance may be in the form of soft loan or equity. The seed capital assistance is also given for expansion, modernization and diversification.

In the case of private limited companies it may be way of equity/ soft loan or reclaimable cumulative preference shares. Whenever, government seed capital is available through Regional Development Corporation, MSFC does not grant seed capital.

The corporation grants term loans up to Rs. 90 lakhs to limited companies and registered co-operative societies and Rs. 60 lakhs to proprietary and partnership firms.

The MSFC operates a special scheme called Mahila Udyam Nidhi (MUN) scheme with a view to encourage women entrepreneurs to establish their own projects. The MUN (Mahila Udaym Nidhi) scheme provides for seed capital at concessional rates to women entrepreneurs along with the term loan assistance to acquire fixed assets such as land, building, plant and machinery.

#### **B) Management of the Organization:**

The general superintendence, direct and management of the affairs and business of the financial corporation vests in the Board of Directors which with the assistance of the Executive Committee and a Managing Director, exercises all the powers and discharges all the functions which may be exercised or discharged by the financial corporation. Regarding the composition of the board of directors the State Financial Corporation Act 1951 gives details as to how they are either elected or nominated.



The Managing Director is appointed by the state government in consultation with the Reserve Bank of India.

The Managing Director looks after all the business and day to day administration of the corporation. He is assisted in his functions by Deputy Chief Executive Officer which post has been created very recently and by five officers of the rank of Secretary.

**A) Secretary (corporation):**

This secretary deals with all establishment matters including registry and records. In addition, he deals with sections relating to post sanction scrutiny of applications above Rs. 2 lakhs, Refinance and Credit Guarantee Scheme and, Insurance.

This secretary is overall incharge of the meeting of the Board of Directors and Executive Committee (Agency and Corporation). The minutes of both the meeting (Board of Directors and Executive Committee) are recorded by the secretary, and then circulated to the members with the approval of the Dy. Chief Executive Officer and the Managing Director. The secretary is assisted in his functions by one Assistant Secretary who looks after establishment matters and by another Asstt. Secretary for the other subjects referred to above.

**B) Secretary (Law)**

He attends to all legal matters and is assisted by one law officer and one Asstt. Secretary. For recovery of delayed dues, there is a separate section in charge of Asstt. Secretary.

**C) Secretary (Accounts):**

He is entrusted with all work relating to maintenance of accounts of the corporation and he is assisted in his functions by one Assistant Secretary.

**D) Secretary (O&M):** This officer looks after a part of the establishment matters and undertakes detailed inspection of all regional offices, branch offices and sub-offices.

**E) Technical Officer:** This officer is incharge of the technical wing. He is assisted by one Assistant Technical Officer. The technical wing carries out inspection of machinery. It prepares feasibility reports in respects of schemes up to Rs. 2 lakhs. The wing also assists new enterprises in preparing their schemes in giving them advice from time to time in respect of technical viability of the project. One technical inspector is posted at each of the regional offices of the corporation to carry out some of the above functions.

**Internal Audit:**

The corporation has created two posts of internal auditors, one for the current audit of central office and the Bombay regional office and the other for the remaining regions.

There are 13 sections in the central office each incharge of a Senior Inspector.

1. General Administration Section
2. Registry.
3. Legal section
4. Recovery section
5. Accounts section
6. Post Sanction section
7. Statistics
8. Inspection wing
9. Insurance wing
10. Refinance and Guarantee
11. Technical wing
12. Appraisal section
13. Development and Promotion.

### **Working of Regional Offices of MSFC:**

For the smooth and efficient working of the corporation there is decentralization of responsibility and authority fixed by the corporation as a policy matter of the central office. Following is the procedure set up by the corporation for availing the finance from the corporation.

The branch managers were empowered to sanction loans up to Rs. 50000 formerly. The regional managers are authorized to sanction loans up to Rs. 10 lakhs and disburse loans up to 30 lakhs at any given time without making reference to the head office.

Further, the branch managers usually process applications for loans up to Rs. 10 lakhs and the regional managers can process the applications up to a maximum limit of irrespective of Rs. 90 lakhs. The regional offices are also empowered to complete legal formalities and to disburse the sanctioned loan in all cases. As such, most of the important work relating to processing of loan applications sanction of loans, post sanction follow up matters, maintenance of loan accounts recovery of dues, etc. is decentralized and being dealt with at the regional office level itself.

### **Financial assistance to Small Scale Sector:**

Promotion of small scale industries continues to be the main local point and a major share in the total financial assistance extended by the corporation is directed towards small scale units of out of the total loans sanctioned since inception, 30911 loans i.e. 95% were units in the small scale sector. Assistance to small scale sector during the year 1988-89 shows an increase both in number of amount and also in terms of the percentage share of the small sector in the total sanctions accorded. In the year 1988-89 the financial assistance to the small scale sector amounted to Rs. 62.48 crores in the 1106 cases. This shows an increase of 6.4% amount wise and 2.8% number wise over the previous year. The share of

S.S.I sector has improved from 74.7%, 77.8% amount wise and from 92.7% to 94.4% number wise.

## **2.6 Scope of MSFC business:**

The corporation finance mainly for helping entrepreneurs to set up new industries undertake programmes of modernization, renovation, expansion and diversification activities of the small scale industries for medium and long term requirement. The corporation applies criterion of capital investment in fixed assets while identifying an audit whether it is small or medium scale industrial unit. The corporation defines a small scale industry as any industrial unit with total capital investment in fixed assts up to Rs. 35 and 45 lakhs for ancillaries.

In terms of SFC's Act, the concern which are engaged in or to be engaged in manufacture, preservation, processing of goods, mining, hotel industry, transport of passengers or goods by road or water, maintenance, repairs, testing or servicing of machinery of any description or vehicles or packing of any article with the aid of machinery and power are eligible for financial assistance from corporation. Development of mines, development of any process or product where research is undertaken are also eligible for assistance from the corporation. Industrial concerns whose constitution is proprietary, partnership, Hindu Undivided Family/private or public limited companies, registered co-operative society and trusts are eligible to get financial assistance from the corporation.

Loan only for working capital and repayment of old debts whether from bank or private party are not considered. The financial assistance also available for-

Medical Practitioners scheme (Electro medical Equipment).

Small nursing house scheme, Professionals, Nursing home scheme, Restaurants.

DER Norms:- As per latest guidelines of IDBI/ SIDBI the debt equity norms laid down in most of the schemes is 2:1.

## **2.7 Capital Structure of MSFC:**

The MSFC has been set up under the Act of Parliament entitled the 'State Financial Act 1951' to assist the industrial development by catering to the medium and small scale industries in accordance with the industrial policy of the government. The MSFC's operation in Maharashtra started from 1963 and in the union territory of Goa, Daman and Diu since 1964.

Primarily, an authorized share capital of the corporation was fixed at Rs. 10 crores. In the year 1980-81 the paid up capital of the corporation has crossed the limit of authorized capital of Rs. 10 crores and is felt necessary to increase and authorized capital of the corporation, subsequently the amendment in State Financial Corporation Act 1951 was made and the authorized capital of the corporation was increased from 10 crores to 50 crores. IDBI has permitted to SFC to accept loans which will be converted into share capital as soon as the requisite amendment is made to SFC Act 1951.

During the year 1992-93, the corporation has accepted convertible loans aggregating Rs. 18700000 as under-

1. Government of Maharashtra: 18400000
2. Government of Goa, Daman, Diu: 300000

Thus, convertible loans accepted by the corporation on 31<sup>st</sup> March, 1992 were amounted to Rs. 7998000. These loans will be converted into share capital during next ten years as per schedule drawn by IDBI. The holding of various share holders are classified under the sub section (3) of the section (4) of the SFC Act as on 31st March, 1992 was as under:-

Category	Name of Shareholder	No. of Shareholder	No. of Shares	No. of holders	Percentage
A	i. Govt. of Maharashtra	1	2109187	2109187	43.78
	ii. Govt. Goa, Daman, Diu	1	269938	269938	5.60
B	i. R.B.I.	-			
	ii. Development Banks	1	2379135	2379135	49.39
C	Scheduled Banks, Insurance Companies, Investment Trusts, Co-operative banks, other financial institutions	69	65545	56545	1.17
D	Parties other than above	126	2695	2695	0.06
	<b>TOTAL</b>	198	4826500	48817500	100.00

(Face value of each share is Rs. 100)

Above table shows that the major share in share holding is of development banks i.e. 49.39%. It follows government of Maharashtra 43.73 and on the third place in share holding stands government of Goa, Daman and Diu which holds 5.60% share capital of MSFC.

## **2.10 Organizational set-up and management of MSFC:**

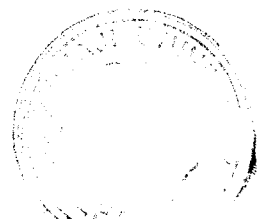
Organization is the execution structure of business. It is a basic framework within which the executives decision making occur. In a static sense an organization is a structure manned by group of individuals who are working together towards a common goal. In a dynamic sense Organization is a process of welding together a framework of position which can be used as management tool for the most effective pursuit of the goals of an enterprise.

“Organization as a structure is the particular system of arrangements the pattern of network of relations between the various positions, while deciding organization structure organizer should take into account the mechanistic view and humanistic work”.

“Organization is to consider it as an essential function of management Organization can be considered as consisting of division work among the people and co-ordination of their activities towards some common goals and objectives”.

“Organization means the determination and assignment of duties to people and also the establishment and maintenance of authority relationships among these grouped activities”

Organization should be so structured that personal encounters minimum of the obstacles and the individuals derive maximum satisfaction while striving for accomplishment of departmental or enterprise activities and objectives within the environment furnished by it. There must be sound Organization e.g. optimum use of human efforts co-ordination scope for training and developing managers departmentation and decentralization, delegation and the span of the control should be observed very clearly.



According to Lois Allen, Management and sound Organization is indispensable because it-

Facilitates administration

Makes growth and diversification possible through specialization and better use of personnel and systematic efforts.

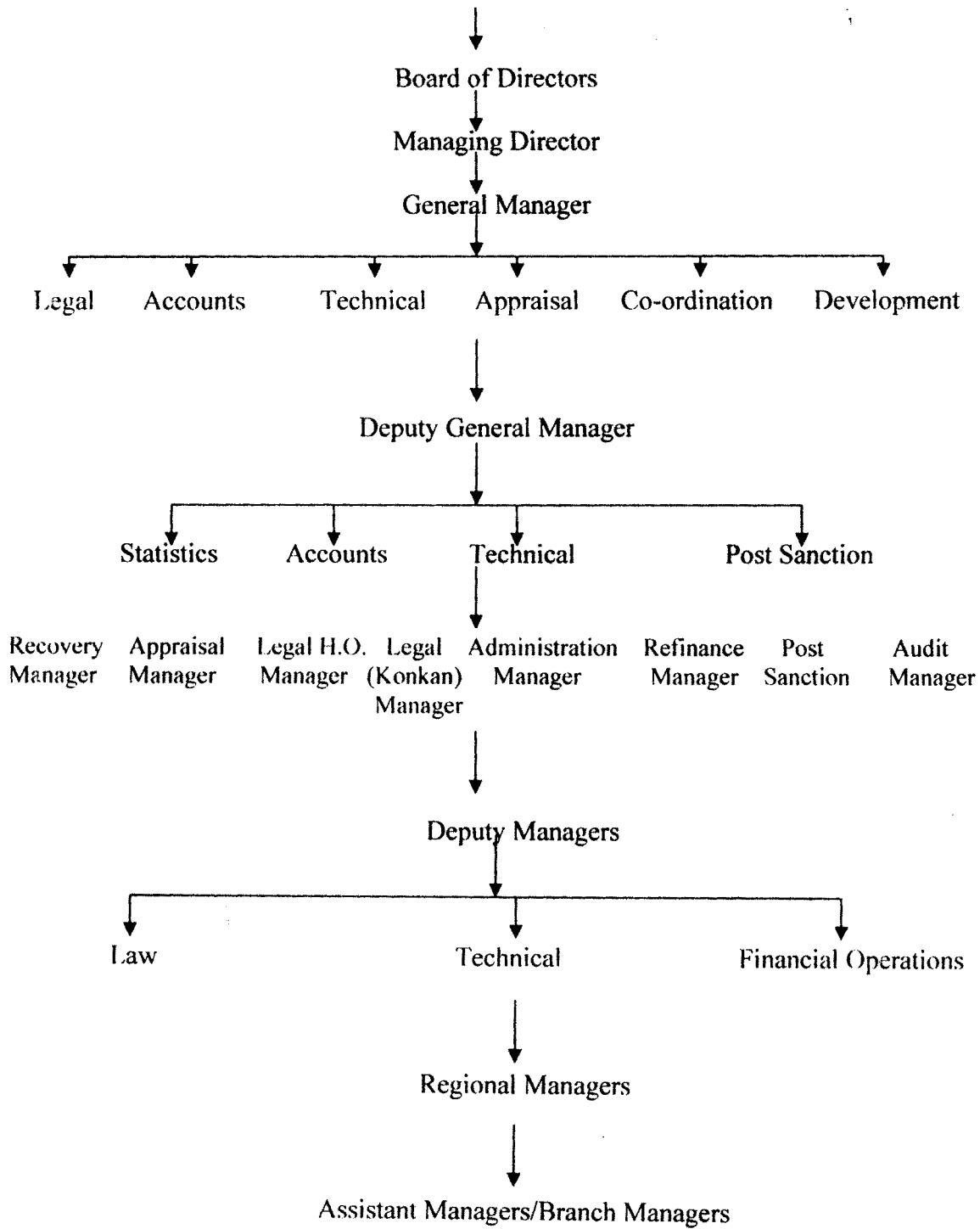
Provides for optimum use of technological improvements.

Encourages good human relations.

Stimulates independent creative thinking and initiative through well defined areas of work.

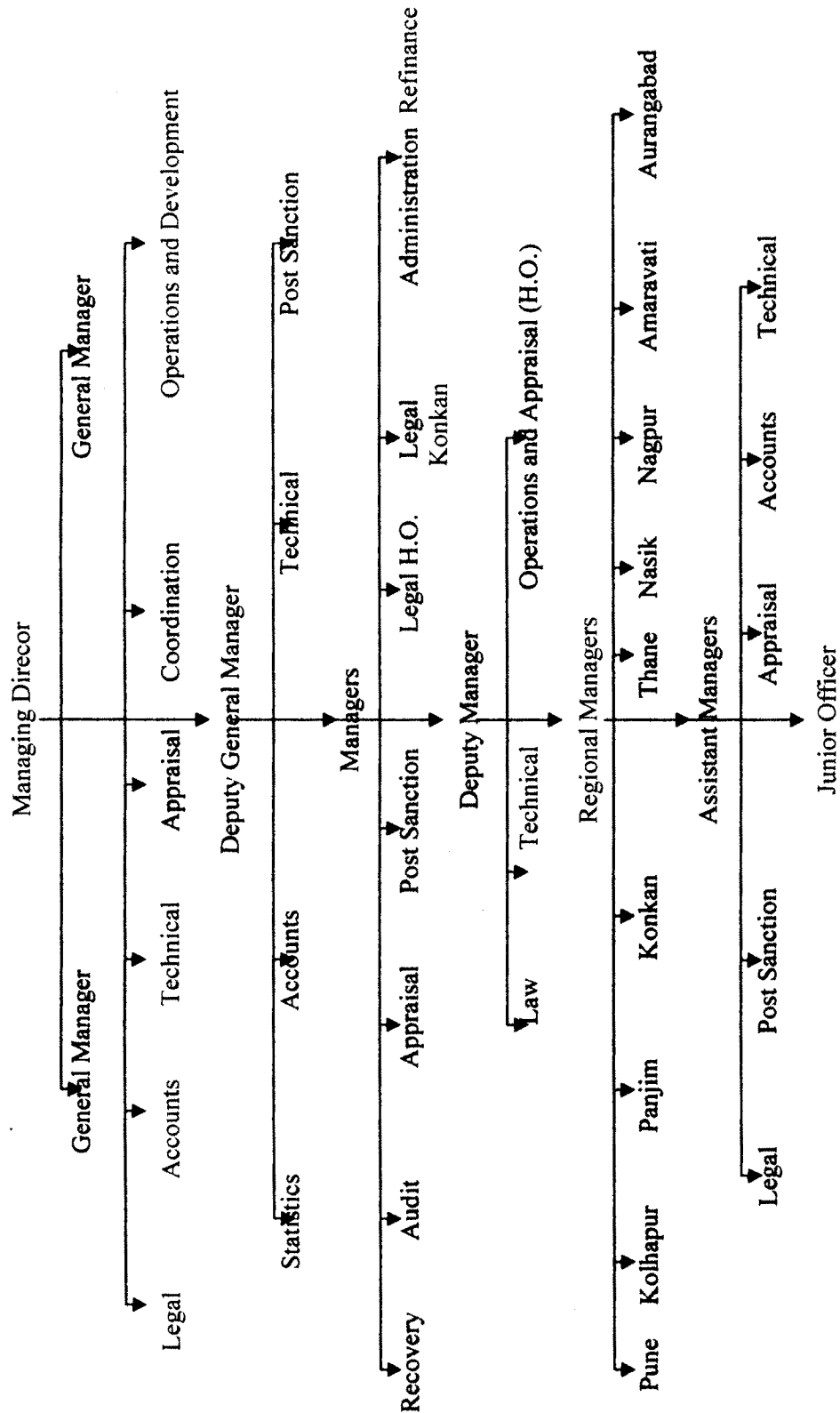


**ORGANISATION CHART**

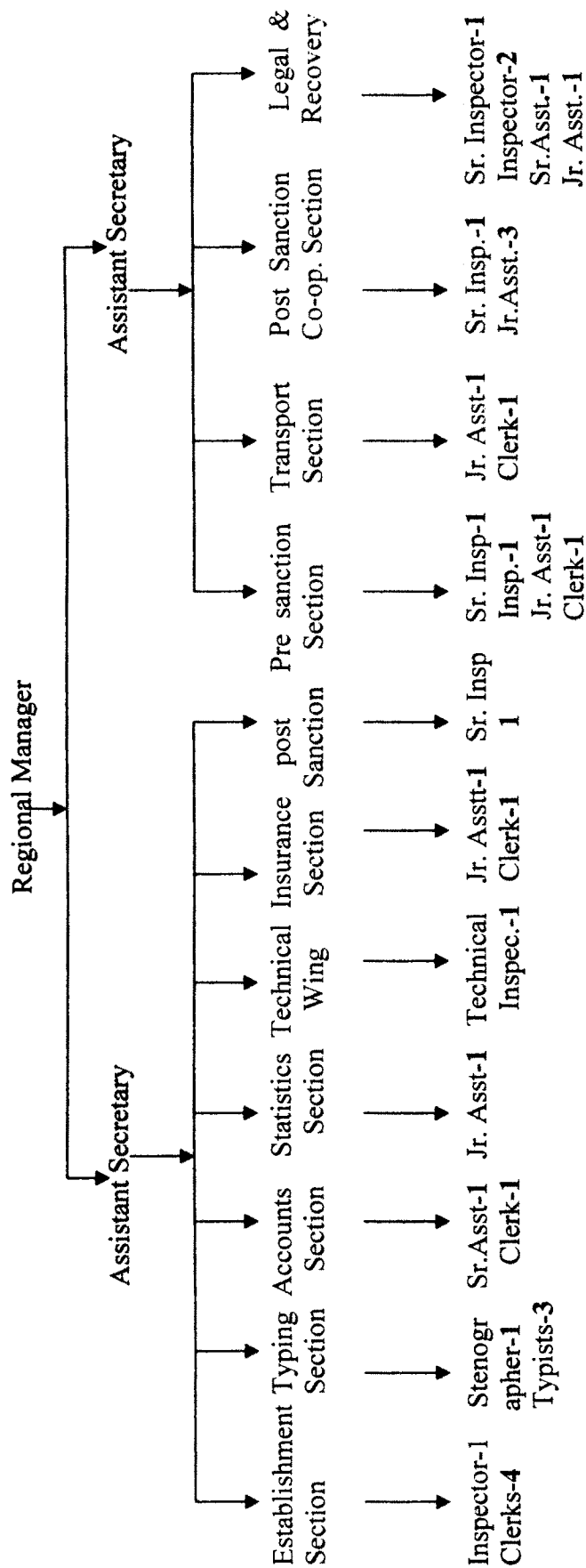


## MSFC REGIONAL OFFICE AT KOLHAPUR

The following organizational chart shows the diversification of responsibilities and clarity of rules in the organization



# ORGANISATIONAL CHART OF THE REGIONAL OFFICE



## SUMMARY:

Regional Manager-	1	Clerks -	8
Assistant Secretary-	2	Stenographer-	1
Senior Inspector-	4	Typists-	3
Inspectors-	5		
Technical Inspectors-	1		
Senior Assistants-	2		
Junior Assistants-	9		
		<b>TOTAL STAFF:-</b>	<b>36</b>

### **MSFC Regional office at Kolhapur:**

The MSFC operates from its head office in Bombay and the Regional office situated all over Maharashtra. The Bombay office consists of top management including the chairman, nominee directors managing director. General managers of various sections are assisted by Deputy General Managers. The managers of different departments are responsible for the smooth functioning of their activities. The regional managers are in charge of a particular region and report to the head office.

### **MSFC Regional office at Kolhapur:**

The regional office at Kolhapur comprises of the regional manager, deputy regional manager, assistant manager and junior officers. They are assisted by junior officers, clerical staff. The office is divided into five sections

- 1) Technical
- 2) Project appraisal
- 3) Legal
- 4) Post sanction
- 5) Accounts section

### **Working of various sections of Kolhapur regional office:**

#### **1) The Technical section:**

The technical section of MSFC's Kolhapur regional office consists of an assistant manager and two junior officers followed by clerical assistance. The main task of the assistant manager and his officers is to scrutinize the applications received for technical viability. This is done under the ten heads. They are follows-

1. Licenses, permits, certificated etc.
2. Location
3. land
4. Building

5. Raw materials
6. Manufacturing process
7. Machinery
8. Product
9. Technical feasibility
10. Marketability

The technical section begins with the processing of a project application and thus comes first in the processing machinery. The viability of the project is analyzed from its technical information giving weightage to the technical background and ability of the applicants. Necessary, suggestion, improvements and estimates are given to them. Then, the project is forwarded to “project appraisal Section”

## **2) Project appraisal Section:**

Project Appraisal Section is concerned with the assessment of the application with a view to arrive at the financial viability of the project. Once this is done the project that has already been technically verified can be accepted.

## **3) Legal Section:**

Legal section looks into the legal matters concerning the disbursement and repayment of loans. This section consists of an assistant manager and four junior officers.

## **4) Post sanction section:**

Post sanction section looks after the matters that arise after the loan is sanctioned. It ensures that the unit works desirably and that payments are in order. Regular visits followed by reports ensure a close watch on the operational details of the unit. Any change in the ownership, assets and suppliers is taken into consideration. Payment is made as under the loan scheme and a holiday from interest payment as follows. Recovery notices are sent when the unit fails to individual. this section consists

at least four junior officers under each of above manager. This is very essential due to a lot of inspection tours are involved and appearances/ presences in court are common there should be a closer co-ordination between the legal section and post sanction section.

#### **5) Accounts Section:**

Accounts section consists of an assistant manager assisted by two junior officers and five assistants. This section keeps an account of the interest accumulated on the loan granted. For this the interest and the principal is not merged. It is a lengthy and complicated method where willful defaulters create problems. It acts as pay its interest. So a close co-ordination with the legal section is a must. Tenders are invited by this section when the unit is taken over and the machinery disposed off to the highest bidder. It co-ordinates with the accounts section posting, revision and giving interest payment notices to the concerns.

### **2.10 Location and Brief History of MSFC Regional Office- Kolhapur:**

Kolhapur district is situated at the banks of river and Panchangaga. It is located between 15 and 17 north latitude and 73 and 14 east latitude. It is surrounded by Satara district in North and Belgum district in Karnataka state in the South and East. Kolhapur is the gateway of Konakn. Area of Kolhapur district is 7692 square Kilometers. It's population, according to 2001 census was 3515000.

It comprised of 12 tahasils and 1908 villages. Kolhapur town is famous for the temple of Goddess 'Mahalaxmi/ Ambabai' which has made a place of pilgrim not only for the Kolhapur but also for all over the country.

The Maharashtra State Finance Corporation- Regional Office Kolhapur is located in the heart of Kolhapur city. This regional office is situated near the collector office and on the assembly road in Kolhapur. This area is crowded by various small and medium size of business and government offices, transport working and transport shops, furniture

houses, colour shops and other attractive commercial shops. There are very conducive circumstances for development in Kolhapur district.

According to the progress of financial corporation in Kolhapur location, surrounding and area of Kolhapur town introduced as well market, commercial business and banking centre. For this historical and basic point of view Kolhapur town is always in a position of an advanced town of co-operative mind and kind of people.