

CHAPTER : 6

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CHAPTER : 6

SUMMARY, FINDINGS AND SUGGESTIONS :

The following is the brief review of the main contents of this study report along with finding and followed by suggestions :

6.1 THE MSFC - SUMMARY :

The MSFC is transformed from the previous 'Bombay State Finance Corporation' which was established in 1953 MSF starts functioning on 14th August, 1962.

This corporation made a small beginning in 1962 with sanctions of Rs. 206.39 lakhs and disbursement of Rs. 165.40 lakhs, while in 1987-88 it has disbursed Rs. 407.85 lakhs.

The corporation has attained the highest position among all the state financial corporation in India. This corporation implements various types of financial schemes through its nine regional offices and twenty branches. The corporation had jurisdiction not only for Maharashtra State but it extends upto Union Territories of Goa, Daman and Diu.

The corporation has introduced a number of financial schemes to assist all types of industries. While implementing schemes, the corporation keep eye on the balanced regional development to same extent, self employment, employment in backward areas and promotion and

adoption of modern technology for increasing productivity. Concessions are given to the entrepreneurs from backward areas and SC/ST entrepreneurs.

The MSFC Kolhapur branch has been financing to the medium and long term financial requirements of the small scale industrial units in the district with the help of various financial schemes.

The Kolhapur branch has made all the efforts in the development of small scale sector in Kolhapur by identifying the needs of new and existing entrepreneurs.

The period from 1962-63 to 1987-88 is considered to evaluate the financing by Kolhapur branch in general and the period from 1983-84 to 1987-88 is studied to evaluate the role of Branch in particular.

There are many fluctuations has taken place in actual sanctions and disbursement of loan amount due to the entrepreneurs are not aware of the financial scheme implemented by the Branch. But in recent years, most of the entrepreneurs are took the advantage of these schemes and started their own units.

Kolhapur branch is compared with other two branches of M.S.F.C. in the Kolhapur Region, these are Sangli and Satara. Kolhapur stands first in sanctioning the loan amount while sangli stands second and Satara ranks third.

Since inception Kolhapur claims 46.75% of the total sanction amount and 48.03% of the total disbursed amount in the Kolhapur Region. There are 2557 number of units are assisted by the corporation upto 1988 which was 1/2 of the total units assisted in the Region.

There is a wide gap between the sanctions and disbursement made by the corporation due to non-compliance of terms and conditions, margin money and guaranters etc.

M.S.F.C., Kolhapur branch has taken great deal of efforts in preventing industrial sickness, re-settlement of existing units by refinancing. It is due to frequent visits of the technical officers, watch or the attain of the industrial unit and strict recoveries etc.

Inspite of these efforts if the sympotumps of sickness are seen, the corporation branch has taken lead in sorting them out.

6.2 FINDINGS :

Summary of amount disbursed in Maharashtra state and in Kolhapur.

On account of various measures taken by the State Government of Maharashtra and schemes of various types, implemented by the M.S.F.C., the Kolhapur Region is benefited in several ways.

Table no. 6.1 shows that the share of the Kolhapur in financial assistance provided by the M.S.F.C. in terms of actual disbursements 53.36% in 1983-84 to 51.32 % in 1987-88 in terms of number of units assisted and from 42.85% in 1983-84 to 47.32% in 1987-88 in terms of the amount actually disbursed by the corporation.

Though in 1986-87, the highest number of units are assisted , i.e. 61.05%. In 1987-88 the most amount is disbursed out of total sanctions i.e. 47.32%.

Chart No. 6.1

(Rs. in lakhs)

SUMMARY OF AMOUNT DISBURSED IN MAHARASHTRA STATE AND IN KOLHAPUR.

Sr. No.	Year	Maharashtra No. of units	Amt. di- sbursed	Kolhapur No. of units	Amt. dis- bursed	% share of kolhapur No. of units	Amt. dis- bursed
1.	83-84	431	370.77	230	158.89	53.36	42.85
2.	84-85	450	459.65	218	168.08	48.44	36.57
3.	85-86	233	499.35	93	134.64	39.91	26.95
4.	86-87	172	576.58	105	250.18	61.05	43.39
5.	1987-88	152	407.85	78	193.01	51.32	47.32

Source : 1. Office records, MSFC, Kolhapur Branch/
Regional Office

2. MSFC, Annual Reports 1983-84, to 1987-88.

PROFIT SHARE OF KOLHAPUR INAYUNT DISBURSED TO SAJ UNITS (Rs. in Lakhs)

SCALE

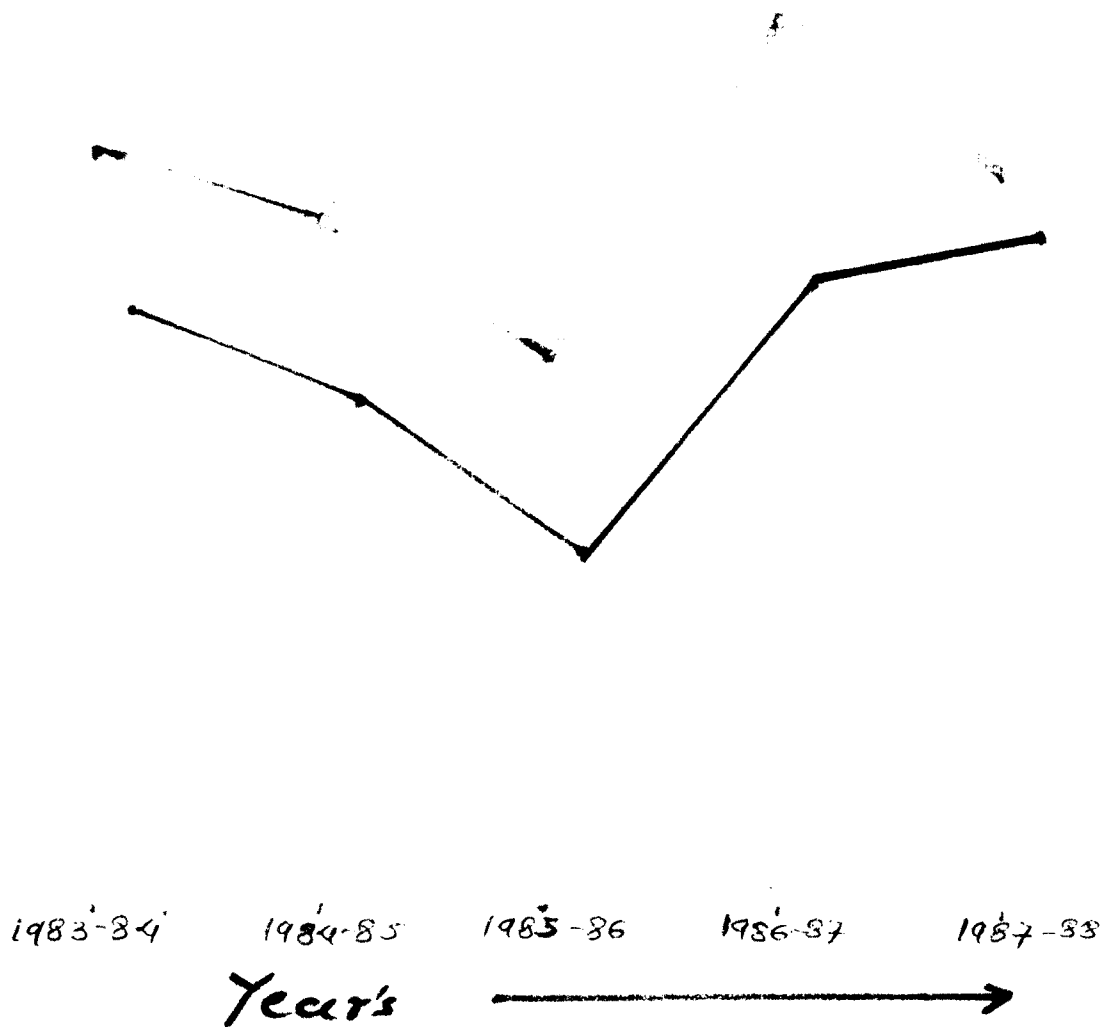
X axis = 4cm = 1 Year

Y axis = 2cm = 10 units

& 10 Lakhs

NO. of units

AMT. Disbursed.



6.3 CALCULATION, CORRELATION, COEFFICIENT

To exists the relationship between the amount sanctioned and the amount disbursed to the Small Scale Unit in Kolhapur Karl Pearson's coefficient of correlation method is adopted. Thus, it can be possible to us to remove the guest work from decisions while estimating the relationship between the variable. It is considered that the sanctions and disbursements in Kolhapur district, it will be seen that there is negative correlation amount of disbursement is not in accordance with the total amount sanctioned in each year. Only in 1986-87, there is a positive correlation that the total amount of Rs. 355.22 lakhs is sanctioned and of which Rs. 250.18 are disbursed.

The correlation coefficient stand for Kolhapur district is 0.35.

The correlation coefficient for Sangli and Satara districts were 0.54 and 0.36 respectively. That means there is a high correlation in Sangli and Satara district compare to Kolhapur in sanctions, and disbursement. Though these districts are not well developed or industrialised as such as Kolhapur is developed in recent years. Though it is clear from it, that the preference will be more given to the Satara and Sangli. Also, in average sanction Kolhapurs share is 66.78% in comparison with Sangli's 72.37% and Satara's 69.74% which is less

than the minimum requirement of Kolhapur.

The correlation coefficient is also compared for Kolhapur for last 13 years (1970-71 to 1981-82) which is 0.83 which is positive one or there is a high correlation. This is because after 1975-76 upto 1981-82, corporation released most of the amount as a disbursement against the total sanctions.

To conclude, this is one of the vital drawback of the corporation that the corporation is not able to disburse the whole amount which is sanctioned in that year.

So, performance will be given to the Small Scale Sectors in Kolhapur to reduce the unemployment to assist the existing industries and to overcome from the problem of overdues etc.

c. ntd...

REGRESSION COEFFICIENT OF SANCTIONS & DISBURSEMENTS FOR SATARA FROM 1983-84 TO 1987-88

Sr. No.	X	Y	$X - \bar{X} = X$	$Y - \bar{Y} = Y$	XY	X^2	Y^2	
1.	195.59	83.56	8.08	-47.22	-381.53	65.29	2229.73	
2.	190.59	141.38	3.08	10.60	32.64	9.49	112.36	
3.	264.48	153.88	76.97	23.10	1778.00	5924.38	533.61	
4.	174.80	168.32	-12.71	37.54	-477.13	161.54	1409.25	
5.	110.12	106.77	-75.39	-24.01	1810.11	5683.65	576.48	
ΣX =					ΣY =	ΣXY =	ΣX ² =	ΣY ² =
937.58					653.91	2762.10	11844.35	4861.43

SATARA

$$\bar{x} = \frac{937.58}{5} = 187.51$$

$$\bar{y} = \frac{653.91}{5} = 130.78$$

$$\Sigma = \frac{\Sigma EXY}{}$$

$$\Sigma EX^2 \times EY^2$$

$$\Sigma = \frac{2762.10}{}$$

$$11844.35 \times 4861.43$$

$$\Sigma = \frac{2762.10}{}$$

$$5758 \ 0478$$

$$\Sigma = \frac{2762.10}{7588.16}$$

$$\Sigma = \frac{0.36}{}$$

COEFFICIENT OF SANCTIONS & DISBURSEMENTS FOR SAIGH FOR PERIOD 83-84 to 87-88

Sl. NO.	X	Y	$X - \bar{X} = X$	$Y - \bar{Y} = Y$	XY	X^2	Y^2
1.	195.41	123.32	- 9.62	-20.05	192.88	92.54	402.00
2.	272.06	100.19	67.03	1.02	121.99	4493.02	3.31
3.	211.03	209.03	6.00	60.66	363.96	36.06	3679.64
4.	236.08	151.60	31.05	3.23	100.29	964.10	10.43
5.	110.56	102.72	-94.47	-45.65	4312.55	8924.58	2083.92

	$\Sigma X =$	$\Sigma Y =$			$\Sigma XY =$	ΣX^2	ΣY^2
	1025.14	741.86			5091.67	14510.24	5179.30

contd.

SANGLI

$$\bar{X} = \frac{1025.14}{5} =$$

$$\bar{Y} = \frac{741.86}{5} = 148.37$$

$$205.03,$$

$$r = \frac{EXY}{EX^2 \times EY^2}$$

$$r = \frac{5091.67}{14510.24 \times 6179.30}$$

$$r = \frac{5091.67}{8966 \times 3126}$$

$$r = \frac{5091.67}{9469.06}$$

$$r = \frac{5091.67}{9469.06}$$

$$r = \frac{5091.67}{9469.06}$$

$$r = \frac{5091.67}{9469.06}$$

$$r = \frac{0.54}{9469.06}$$

Chart No. 6.2

CORRELATION COEFFICIENT OF SANCTIONS & DISBURSEMENTS FOR KOIHANUR FOR THE PERIOD 1983-84 TO 1987-88

Sr. No.	Sanctions	Disbursement	$X - \bar{X} = \lambda$	$Y - \bar{Y} = \gamma$	$\lambda \gamma$	X^2	Y^2
1.	235.26	158.89	-33.11	-20.56	680.74	1096.27	422.71
2.	232.29	168.03	-36.02	-11.37	409.55	1297.44	129.28
3.	325.79	134.64	57.48	-44.81	-2575.63	3303.95	2007.94
4.	355.22	250.18	-86.92	-79.99	6147.14	7553.35	5002.73
5.	193.01	185.44	-75.30	5.99	-451.04	5670.89	35.88
EX=1341.57		EX=897.23	-	-	EXY= 4210.71	EX ² = 19921.10	EY ² = 7598.54

contd...

Chart 6.2

KOLHAPUR

$$\bar{X} = \frac{EX}{N} = \frac{1341.57}{5} = 268.31, \quad \bar{Y} = \frac{EY}{N} = \frac{897.23}{5} = 179.45$$

$$\Sigma = \frac{EXY}{5}$$

$$EX^2 \times EY^2$$

$$\Sigma = \frac{4210.71}{5}$$

$$18921.10 \times 7598.54$$

$$\Sigma = \frac{4210.71}{13755 \times 87.17}$$

$$\Sigma = \frac{4210.71}{11990.23}$$

$$\Sigma = \frac{4210.71}{5}$$

$$11990.23$$

$$\Sigma = \frac{0.35}{5}$$

6.4 REGRESSION ANALYSIS/REGRESSION FORECASTING

After calculating correlation coefficient, it is necessary to predict the future trend regarding the sanctions and disbursements amount of the corporation for Kolhapur.

For this purpose Regression forecasting/analysis is made to know the future trend and forecasting is made for next five years (i.e. from 1988-89 to 1992-93).

In the first instance regression coefficient is calculated for five years under study (i.e. from 1983-84 to 1987-88) Factor 'X' stands for number of years and 'Y' stands for total sanctions in each year.

Regression equation 'X' on Y is set and calculated, in the same way regression equation 'Y' on 'X' is set and calculated, the calculations are made on the separate page.

After the solution of each equation regression forecasting is made for the given value of X i.e. Regression equation 'X' on Y, when X = 6, 7, 8, 9 and 10.

The results are shown for each year which were

(Rs.in lakhs)

For 1988-89	=	Y	=	267.91
1989-90	=	Y	=	267.88
1990-91	=	Y	=	267.85

contd..



$$1991-92 = Y = 267.82$$

$$1992-93 = Y = 267.79$$

respectively.

The solution is stated below

Chart No. 6.4 REGRESSION ANALYSIS

X	X- \bar{X}	X ²	Y	X- \bar{Y}	Y ²	XY
1	-2	4	235	- 33	1089	66
2	-1	1	232	- 36	1296	36
3	0	0	325	57	3249	0
4	1	1	355	87	7569	87
5	2	4	193	- 75	5625	-150
EX =	E \bar{X} =	E X^2 =	EY =	E \bar{Y} =	E Y^2 =	E XY =
15	0	10	1340	0	18828	+ 39

Regression equation of x on Y

$$X - \bar{X} = r \frac{6 X}{6 Y} = (Y - \bar{Y})$$

$$r = \frac{6 X}{6 Y} = \frac{E XY }{E Y^2 } = \frac{39}{18828} = + .002$$

$$x = \frac{15}{5} = 3, \quad Y = \frac{1340}{5} = 268$$

Hence, $X - 3 = 0.002 (Y - 268)$

$$X - 3 = 0.002 Y + 0.54$$

$$X = 0.002 Y + 3.54$$

or $X = 3.54 + 0.002 Y$

Regression equation Y on X

$$Y - \bar{Y} = r = \frac{\sum Y}{\sum X} = (X - \bar{X})$$

$$r = \frac{\sum Y}{\sum X} = \frac{\sum XY}{\sum X^2} = \frac{39}{1340} = .03$$

$$Y - 268 = .03 (X-3)$$

$$Y - 268 = .03 X + .09$$

$$Y = .03X + 268.09$$

$$\text{or } Y = 268.09 - 0.03x$$

Regression forecasting made for next five years :

Method = Regression equation X on Y

For 1988-89 When X = 6

$$Y = 268.09 - 0.03 X$$

$$Y = 268.09 - 0.03 \times 6$$

$$Y = 268.09 - 0.$$

$$Y = 267.91 \text{ lakhs}$$

For 1989-90 When X = 7

$$Y = 268.09 - 0.03 X$$

$$Y = 268.09 - 0.03 \times 7$$

$$Y = 268.09 - 0.21$$

$$Y = \text{Rs.}267.88 \text{ lakhs}$$

For 1990-91 When X = 8

$$Y = 268.09 - 0.03 X$$

$$Y = 268.09 - 0.03 \times 8$$

$$Y = 268.09 - 0.24$$

$$Y = 267.85 \text{ lakhs}$$

For 1991-92 when X = 9

$$Y = 268.09 - 0.03 X$$

$$Y = 268.09 - 0.03 \times 9$$

$$Y = 268.09 \times 0.27$$

$$Y = 267.82 \text{ lakhs}$$

For 1992-93 When X = 10

$$Y = 268.09 - 0.03 X$$

$$Y = 268.09 - 0.03 \times 10$$

$$Y = 268.09 - 0.30$$

$$Y = \text{Rs.}267.79 \text{ lakhs}$$

Source : 1. Statistics by S.R. Gupta

2. H.S.F.C. Chart, in Kolhapur Office.

6.5 DIVERSIFIED FINANCING :

Whether the MSFC, Kolhapur, branch has made diversified financing, it can be observed by the Table No.6.5. The Table shows that while financing to 10 sampled units the branch has financed to six types of industrial units.

The branch seems to be in favour of metal industry, printing and allied industry and textile industry as it has financed six such units out of ten.

Much of the share of disbursed amount goes to metal and metal product industry, it stand for 67.03%.

Chart No. 6.5

INDUSTRY WISE CLASSIFICATION OF FINANCIAL ASSISTANCE
RECEIVED BY THE UNITS FROM THE KOLHAPUR REGIONAL OFFICE
(BRANCH OFFICE, KOLHAPUR CITY) DURING THE YEAR 1987-88.

(Amt.in lakhs)

Sr. Type of No. of Amount % share of
No. Industry units received Amt. received

1.	Manufacturing of textiles	2	4.35	12.31
2.	Printing, publish- ing and allied industries	2	1.20	3.40
3.	Basic metal industries	2	21.94	62.08
4.	Manufacturing of metal products except machinery	2	1.75	4.95
5.	Manufacturing of tiles, cement, products etc.	1	4.50	12.73
6.	Miscellaneous manufacturing industries	1	1.60	4.53
	Total	10	35.34	100.00

Source : Questionnaire.

Chart No. 6.6

PERIODWISE CLASSIFICATION OF SAMPLE UNITS FINANCED BY
THE MSFC, KOIHA PUR BRANCH :

(Rs. in lakhs)

Time lag	Units	Amount disbursed
1 to 3 years	...	-
3 to 5 years	...	4.75
5 to 7 years	...	5.90
7 to 10 years	...	24.69
Above 10 years	...	-
	Total	35.34

Source : Questionnaire.

6.6 PERIODWISE CLASSIFICATION :

The corporation aims that to financing to small scale industries as well as medium scale industries also. Either this objective is fulfilled or not, can be observed from the Table No.

cont^d.

6.7 INDEX OF RECOVERIES :

The progress of recoveries of principal loan amount alongwith interest thereon can be observed from the Chart No. 6.7. For the purpose of calculating indices 75-76 year was taken as base year.

It is seen from the chart, that corporation has been able to achieve a record performance in respect of recovering the principal amount and interest with increasing rate.

The trend of recoveries was increasing regularly, the highest amount was recovered in 1987-88, which is Rs. 55.75 lakhs and index of that year is 650.52. It means M.C.F.C. working effectively on recovery front. This helps corporation to run their business effectively through any channel of its financial schemes.

There are some borrowers who are unable to repay the instalments of the corporation according schedule laid down by the corporation, taking into account this reality, the progress of recoveries shows the optimum utilisation of man power of the corporation.

contd.

Chart No. 6.7

(Rs.in lakhs)

FIXED BASE INDEX NUMBER OF RECOVERIES -- TAKING 1975-76 :

Year	Amount Recovered	Index of recoveries (1975-76=100)
1975-76	8.57	100.00
1976-77	10.57	123.34
1977-78	12.23	142.71
1978-79	15.53	181.21
1979-80	17.54	204.67
1980-81	21.41	249.82
1981-82	27.89	325.44
1982-83	27.46	320.42
1983-84	33.47	390.55
1984-85	39.60	462.08
1985-86	44.50	519.25
1986-87	51.59	601.98
1987-88	55.75	605.52

Source 1) Amount of recoveries are collected from
M.S.F.C. Kolhapur branch office.

2) Statistical methods by S.P.Gupta.

6.8 CRITERIA ADOPTED FOR GRANT OF FINANCIAL ASSISTANCE :

In scrutinising loan applications due consideration given to several factors such as entrepreneurs background, ability and experience technical skill, feasibility of project with particular reference to availability of raw material, prospectus for market and profitability; Project located in backward areas, project with large employment potential with export potential, with defence orientation and/or which produce goods, which are import substitutes are given preference. Maharashtra State Financial corporation does not encourage certain types of industries which are banned by the Government where no refinance is available from IDBI, which are included in low priority list of the corporation. The prospective entrepreneurs are, therefore, advised to ensure in advance from the concerned officers of the corporation, whether the industry proposed to be set-up is eligible for assistance or not.

Forms of loan application :

Prospective entrepreneurs should apply directly to the corporation in the prescribed forms available at any of the Maharashtra State Financial Corporations Offices. Separate application forms are prescribed for :

1. Loans under composite loan scheme ,
2. Transport loan scheme,
3. Loans upto Rs. 2 lakhs and
4. Loans exceeding Rs. 2 lakhs upto Rs. 30 lakhs

The loan application forms duly filled-in, should be submitted to the respective branch/regional office of the corporation along with the prescribed processing fees.

Time taken for processing of Loan Applications :

The entrepreneurs are advised to fill in the application properly and furnish requisite information mentioned in the application forms in all respects alongwith the necessary documents while submitting the loan application to the corporation.

In order to enable the corporation to process the loan application expeditiously, the entrepreneurs are advised to execute that relevant information on the various aspects of the projects covering managerial aspects, technical feasibility, financial and economic viability is furnished. Most of the above points on which information in detail is required to be given by the applicants have been covered in the loan application form.

If the application is complete in all respects it is possible for the corporation to sanction the loan within 3 months. M.S.F.C. is endeavouring to sanction the loans upto Rs. 2 lakhs within a period of less than two

months and loans above Rs. 2 lakhs are sanctioned within a period of three or four months.

Power to sanction loans :

Maharashtra State Financial Corporation has delegated powers to sanction the loans to the following authorities :

1. Branch Manager	upto Rs. 50,000/-.
2. Regional Manager	Upto Rs. 2 lakhs.
3. Managing Director	Above Rs. 2 lakhs and Upto Rs. 3 lakhs
4. Executive Committee	Above Rs. 3 lakhs and Upto Rs. 10 lakhs
5. Board of Directors	Above Rs. 10 lakhs and upto Rs. 30 lakhs

Important Terms and Conditions for considering loan proposals :

Promoters contribution :

As per the norms laid down by the corporation, the entire promoters are required to bring in the promoters contribution by way of capital in the projects as shown below :

1. Project promoted by the technician entrepreneurs
= 15 %.
2. Project coming up in specified backward areas
= 17 %.

3. Projects coming up in non-backward areas = 20%.

Debt Equity Ratio :

In case of small scale units debt equity ratio is insisted at 3:1. However, in the case of medium scale industries DER to be maintained is 2:1. For the purpose of computing debt equity ratio, " equity includes, share capital, free reserve control subsidy and seed capital 'Debt' includes deferred payments, unsecured loans, fixed deposits and term loans etc.

Margin :

Loans to small scale units are normally granted on 25% to 30% margin on security and in other cases, the margin ranges from 30% to 50% depending upon various financial aspects of the project. In the case of special schemes operated by the corporation for technician entrepreneurs, scheduled caste and scheduled tribes entrepreneurs, ex-serviceman the margin is reduced to 15%.

Security for Loans :

Maharashtra State Financial Corporation advances loans against the security of the fixed assets proposed to be acquired out of the financial assistance extended by the corporation. The charge of MSFC on the fixed assets will always be the first charge which is created by executing hypothecation and/or mortgage deed in favour of the corporation. In addition to the security of

the fixed assets personal guarantees of promoters/directors/major share holders is also insisted.

Repayment period of loans :

The repayment period of loan is normally to Ten years with a moratorium for the first one or two years. The repayment period is fixed on the basis of the profitability estimated and availability of cash accruals. The loan is usually repayable by half yearly instalments and the first instalment towards repayment of principal commences at the end of the second year of the first disbursement of the loan.

Disbursement of loan :

After sanction of loan by the appropriate sanctioning authority a regular letter of sanction is issued. The letter of sanction incorporate all the terms and conditions on which the loan is sanction.

The application is required to convey his unconditional acceptance of the terms and conditions of the sanctioned loan within 15 days. Thereafter, the applicant is required to contact the legal department of the corporation and complete legal formalities in respect of title investigation, execution of mortgage deed or hypothecation, personal guarantees etc. The applicant also be required to obtain Income-tax Clearance certificate under section 230-A of Income-tax Act, for registering the mortgage deed. On the completion of the legal formalities and on compliance of conditions precedent to disbu-

rsment of loans, thex disbursement is effected progressively depending on the acquisition of fixed assets and on the basis of valuation report of chartered accountants certificate furnished by the applicant.

Rigid Attitude :

The machinery state financial corporation is yet to develop a growth oriented approach which is expected from a development banks engaged in the promotion of industries in backward region. Since inception of the corporation 2557 are sanctioned out of total of 4802. It stand for 53.25% which shows better progress.

But if we consider the sanctions and disbursements it claims 46.75% and 48-05% of total sanctions and disbursements.

Some of the above applications are rejected due to rigid attitude of the corporation delays in supplying required papers, and poor presentation of some schemes. The corporation should make arrangements for assistance in drafting schemes for new industrial units or expansion of the existing ones rather than to the easy way of rejected proposals.

Inordinate delays in sanctions :

Inordinate delays in sanctions and disbursements have been reported by majority of the entrepreneurs, even those units whose application forms are found in order are not sanctioned loan before five to six months. It may be pointed out in this regard that undue delay

kills the enthusiasm of the entrepreneur and some applicants do not feel like having loans when they are sanctioned in their favour. It is therefore, in the fitness of things that sanctions and disbursement of assistance should be made within the shortest possible time. This is more warranted in backward areas where entrepreneurs is still in the stage of infancy.

Another cause of delay is the time taken for verification of titles and legal documentation. But today Maharashtra state financial corporation reduce this time lag that corporation decided to accept legal fee from parties before loan is sanctioned.

6.9 DIFFICULTIES OF BORROWERS :

When ten borrowers of the corporation are interviewed it came to know some difficulties faced by these borrowers while taking assistance from the corporation.

They select Maharashtra State Financial Corporation for availment of financial assistance due to some facilities available from the corporation, such as low rate of interest, period of loan, subsidy, technical assistance and amount of loan etc.

Even though the above mentioned facilities are available from the corporation to the applicant, these applicants have faced some difficult problems while availing the loan from the corporation which are discussed below :

1. **Rate of interest** - Borrowers want to bring down the rate of interest upto 9% from 13 1/2% p.a. due to high cost of margin left with the borrowers is not sufficient for both payment of instalments and interest thereon.
2. **Period of moratorium** - The corporation allows period for moratorium which ranges normally between two months and five years. Although, the period granted for moratorium is sufficient, due to critical market conditions and competition the borrowers want it to be increased further more.
3. **Repayment schedule** - while sanctioning the loan, repayment schedule is determined by the corporation. In consultation with the borrowers. But in actual practice when the payment of bills held up due to some reasons, the borrower is unable to make repayments as per schedule or some times the earnings to the enterprise do not accrue as correctly as anticipated by the borrowers.
4. **Margin money** - The corporation requires margin money from the borrowers ranging from 5% to 50% . No doubt there are schemes of finance with out margin money but on an average the borrowers feel that the requirement of margin money is to be reduced to 10% to 15% only.
5. **Compliance of various documents** - It is necessary for borrower to submit various types of documents while application of finance. Accordingly to some borrowers it is not possible for them to submit all the required documents if stipulated time or at the time of

bringing the application. Some of the documents are not much necessary while applying for finance and these documents can be provided to the corporation after sanctioning the application also.

6. Guarantors - Borrowers is required to give such guarantors who are invariably Income-tax payers and give sufficient security. It is not possible for the new entrepreneurs.

7. Working capital requirement - The corporation does not advances loans for working capital requirement which is necessary for the new entrepreneurs to stabilise the market or for day-to-day workings.

Documents to be provided to the M.C.F.C. for availing disbursement :

The loans are sanctioned subject to a number of terms and conditions laid down by the corporation, to become eligible for disbursement. Though the conditions are large in number, most of them are of general nature and only few are required to be specifically complied with by production of documents. These are briefly as under :

1. SSI Registration certificate in case of SSI units.
2. Sanction letter in respect of power from M.S.E.B.
3. Permission from Maharashtra Water pollution board whenever such condition is stipulated.

4. Three copies of the building plans duly approved by appropriate authorities in the case, these are not submitted while submitting the loan application.
5. Three copies of dist. of plan and machinery (existing as well as proposed, to be acquired) giving details such as name of the suppliers, estimated cost whether new or second hand or fabricated etc.
6. Chartered Accountants certificate in respect of capital and borrowings, in the prescribed format of the corporation, Annexure 'A'.
7. Chartered Accountants certificate in respect of expenditure incurred for acquisition of costs like land, building, and machinery in the prescribed format.
8. Proforma invoice from suppliers of the machinery where the concern desires M.S.F.C. to make direct payment to the machinery suppliers on his behalf.
9. Bank advice along with the copy of the bill in respect of machinery when payment is desired to be effected through bank.
10. Insurance policy for the full value of the assets covering such risks as may be decided by the corporation from any of the nationalised insurance companies. The policy should be drawn jointly in the names of the MSFC and the loanee concern. The

insurance policy should be deposited with MSFC before availing the disbursement of the loan.

11. A letter of authority in the prescribed format from the loanee concerns in favour of the corporation authorising the Bankers to pay directly to MSFC the instalments of interest, principal and other dues payable to MSFC in case of their respective due dates as per the advices received from MSFC till the entire loan is repaid.

There are some other difficulties which were stated below after sanctioning due loan to the borrower.

M.S.F.C. stipulates several covenants while granting financial assistance according to which the loanee concerns are restricted or prohibited from doing certain things during the currency of the loan without prior written approval of the corporation which are :

1. Not to take any trading activity,
2. Not to raise public deposits/unsecured loans carrying interest,
3. Not to change any interest on the capital contribution by the partners.
4. Not to lend and/or invest funds in any other companies,
5. Not to transfer the shares held by the Directors,
6. Not to undertake any new scheme or any expansion.
7. Not to let out or give on lease or live and licence basis whole

licence basis whole or any portion of land or premises to any one.

8. Not to take hundi borrowings.

Out of the above scheme terms and conditions laid down by the corporation some are essential for the security purposes. But some terms are difficult to follow, such as non participation in trading activities, not to raise deposits from public; or investing the funds. These terms restricts the progress or development of a new undertakings.

According to the borrowers these terms should be relaxed to some extent, that they are able to develop their unit and compare with others in market.

The data collected and analysed in the foregoing pages enables us to arrive at certain conclusions which when implemented by the MSFC will help the long way. in increasing the efficiency of the working of M.S.F.C.

On the basis of sample survey, discussion with official staff of the branch, the important findings of the study are shown below :

1. About 50% of the respondents get the MSFC should not insist upon, completion and submission of too many documents at the time of submitting application for loans to the MSFC.

It will be most convenient, i.e. M.S.F.C. will give a check list of all the documents record from the entrepreneurs which will enable to approach the MSFC with preparation right from initial stages.

2. It is found that the procedure followed by the legal section of the Br. appears to be amercous. Borrowers from outside the MIDC area are asked to submit the record and due land for last 25 years.

3. It is also found that the branch imposes commitment charges on the amount of loan sanctioned, but the amount not availed of by the borrower within a stipulated time. Irregular supply of machinery or equipments from supplier, causes to suffer to borrower and in addition he has to pay the commitment charges, which is write brande wome .

4. The research and Development activities have been considered to be the soul of modern industrial devp. On which depends the rate of growth as well as the level of industrialisation.,

It was a contineous process and hence any financial assitance may once will not be it position to bring the required results.

5. It is also found that applicant have to submit various types of documents, papers, like wise and certificate with given period which not apposible within given for a which not possible. It comes to daughter in some sanctioning process.

6. It is found that the corporation provides mon-natorum for principal amount and only of interest in res ect of specific schemes only.

7. It is faced that till due rate of interest charged by the branch, is very low compaled to part-icularases andco-operative basis.

6.10 RECOVERY PROBLEMS FOR M.S.F.C. AND SOME REMEDIAL MEASURES

When there is a monetary transaction, problems regarding recovery of the money are bound to exist.

One of the most difficult problem faced by the corporation is recovery of the loans sanctioned by them to various categories of borrowers. The incidence of default (non-recovery of dues has been rising rapidly)

The factors responsible for non-recovery of loans are basically -

1. Lack of proper project planning or pre-sanct-ion appraisal.
2. Non-availability of short supply of basic inputs.
3. Lack of support from Government Agencies.
4. Inadequate organisational set-up.
5. pertaining business morality & integrity.

Following are some of the steps which if initiated by the corporation, would help to improve the loan recovery position :

1. Identification of Right borrower and proper appraisal of project. Corporation should be careful in selecting prospective borrowers and should not be found credit worthy based on market efforts. It should also be ensured, that the borrowers possess necessary technical and managerial expertise to successfully run the enterprise. The quantum of instalments should be in the quantum of instalments should be in time with the help of expected income and should not moreover) exceeded 50% of the 12 month period should be softlined the it takes care or means guarantors to the finance (1/2) which could ultimately help in recovering the dues.
3. Strengthening organisation by appointment staff so look after recovery.
4. Motivating the staff and introducing incentives, corporation like a some from the incentives, corporation think of some incentive schemes for the staff and introducing incentives corporation think of some incentives schedules for the staff who do not give and good , operation think and some incentives schemes for the staff two also good job is recovery of dues.

6.10 RECOVERY PROBLEMS OF MSFC.

It is to the credit of this Regional Branch, Kolhapur that the overdues percentage ranges between 75% to 90% only due to sound repayment policy practised by the regional branch. Since 1983, every year this Regional branch has financed more than 187 small scale units averagely. If the comparison is made between the percentage of overdues and the number of units financed, the may conclude that it is negligible and so the corporation branch is very efficient and alert as long as the recovery is concerned.

Following are some secretes of success of MSFC's recovery policy :

1. The Branch from the very biginning till the unit starts Production and even after the production actually starts, the branch keeps a close watch over the unit and make suggestions wherever required.
2. So many times, the industrial concerns to whom the small scale unit supply their finished products, unable to make the payment of bills due to unavailability of funds, unit becomes sick.

To solve this problem, the Branch Manager himself appealed the large scale industries to pay or sanction their bills.

3. The Branch makes hard efforts to prevent an unit becoming sick. The reasons are quickly founds and remedies are suggested and action was taken.
4. Corporation does not provide working capital to the entrepreneurs, but corporation requested to the local nationalised banks to advance for working capital requirements.

6.11 SUGGESTIONS

The Maharashtra State Financial Corporation :

In this paragraph the defaults of the corporation are discussed and some remedial measures are suggested to apply for the operations of the corporation while granting assistance.

1. On account of stringent rules for realising funds a wide gap exists in sanctions and disbursement of funds. It is therefore advised to follow the pattern of Assam Financial Corporation where even advance payment to suppliers is made by the corporation.
2. Resource based industries have not received due attention. The corporation should try to assist in the development of these industries.
3. The performance of the Maharashtra State Financial Corporation Kolhapur branch is not better if number of units assisted and amount disbursed is taken

into consideration. The situation is not satisfactory if the quantum of assistance to small scale units is taken into account.

4. To arrest the increasing trend of defaults, attractive rebates should be allowed on prompt payment of instalments. Repayment should be scheduled as per repaying capacity of the borrowers.
5. In order to minimise delays in sanction and disbursement of loans, the corporation should take initiative in the establishment of an independent technical agency. The corporation should also strengthen its technical cell.
6. The expenditure of publicity ranks is low compared to other state financial corporations.

It should give wider publicity to its scheme, especially in backward areas.
7. The number of sanctions are increased in each year but actual disbursement is not made in same number. The corporation should have to trace the problems of new entrepreneurs.
8. Some times corporation adopts rigid attitude in regard to collateral security. In some cases, it has mortgaged current assets like debtors. Thus collateral rules of the corporation need to be liberalised. It should grant loans against assets

- purchased with the assistance of the corporation.
9. The corporation is to play a crucial role in the seventh five year plan in accelerating the pace of industrialisation. In order to meet this challenge, the corporation should strengthen its financial and manpower resource.
 10. To concentrate at higher rate for the creation of employment potentialities which are the crucial problem before the nation.
 11. The delays in sanctioning procedure can be avoided by adopting such realistic approaches while considering legal documents. This work can be provided to professional advocate by charging some fees to the respective applicant.
 12. To avoid delays in collection of various types of documents, licences, certificates etc. the branch if possible reduce the number of such documents.
 13. It is much difficult to new entrepreneurs in small scale sector, to provide guaranters who are income-tax payers and can provide sufficient security. Hence, the branch should not insist upon the provision of guaranters who are Income-tax payers.
 14. It is possible for the branch to increase his business by changing the rates of interest according to the slabs of loan amount. Such as loan upto

1. 1 lakhs lowest rate of interest, loan above 1 lakhs and upto 2 lakhs medium rate of interest & above 2 lakhs upto 5 lakhs at higher rate of interest compared to other two slabs of loan amount.
15. MSFC should make efforts to recover on their own rather than depending upon willingness of the borrowers to pay that most of the borrowers repay bank loans regularly.

PROBLEMS OF SMALL SCALE INDUSTRIES IN GENERAL :

Small scale industrial units creates employment opportunities, they save the most vital foreign exchange, these industries are export oriented industries, Government provides many types of a facilities to this sector for the development of backward areas, subsidies are available in loan assistance, so small scale industries to-day becomes a backbone for a developing country like India.

But to-day it is not easy to establish a new industrial unit to the entrepreneurs due to some problems which are discussed below :

1. The problem of raw material is the most pressing for the small scale sector. It is available at higher rates than the large scale sector, it is suggested that rate of raw material should be

supplied as per requirements of the small scale units at competitive prices.

2. Erratic supply of power quite often disturbs the working of small scale units. This should be minimised as it causes to machinery and man power.
3. Lack of standardisation and weaker sales organisation are the main working marketing constraints in the small scale units. To enable the units to have their products tested and certified, the Government should establish quality test houses. In order to improve their competitive base and resources, joint marketing programme should be undertaken.
4. Lack of consultancy services is also a cause for slow growth of small scale industries. The need for such services arises because small scale units are not in a position to employ whole time consultants.
5. The problem of finance is most acute in the small scale units as they do not have any resource to the capital market.
6. A number of units in this sector operate with obsolete machinery which affect their productivity.
7. The small scale industrial units also suffers from transport bottlenecks, labour troubles and non-

- availability of land in big cities like Kolhapur.
8. The provisions for development of small scale industries in the State Plans has been utterly discouraging.
 9. Some of the small scale units do not disclose full information about their working operations. The institutional agencies are advised to collect such information from the entrepreneurs. An independent technical agency may be established in the state/city with the collaboration of all financial institutions for this purpose.
 10. A two tier co-ordination committee at the state & district level should be established to review and advise on the flow of credit to these small scale industrial units.
 11. Proper utilisation of credit necessitates co-ordination among various departments such as electricity board, municipal corporation, industries department, revenue department etc.
 12. There is a growing tendency of deliberate defaults on the part of some entrepreneurs. The state Government and the federation of Associations of small scale industries in Maharashtra should assist the corporation in recovering its dues.
 13. Problem of finance - Finance is a powerful develop-

ment tool which greases the productive channels of industry and stimulates their smooth operation. It is regarded as a universal lubricant which keeps the enterprise dynamic develops products, keep men and machines at work, encourage management to make progress and creates value. The availability of money and credit permits entrepreneurs to gain control of the real resources which enable them to engage in industry by producing and distributing products. No business enterprise can reach its full potential of growth and success without adequate finance.

The shortage of finance affects the ability of the units to install modern machinery and tools, to maintain well organised and fully equipped factories, to stock or to buy or sale their finished products. In brief, every kind of problem whether of raw material, power, transport or marketing faced by an entrepreneur in its ultimate analysis turns to be a problem of finance.

Shortage of finance is a major impediment to the establishment and growth of small independent manufacturing enterprises.

These small scale units have a weak capital structure. The institutional agencies which serve as reservoirs of public funds of the community take them as poor risk and have little appreciation for the difficulties encountered by them in rising finance.

The foregoing account of the operations of the state financial corporation peters out the SFCs have emerged as a very important source of corporate financing and Maharashtra State Financial Corporation playing prominent role.

However, MSFC have, contrary to our expectations functioned excessively as lending institution and abstained from providing venture capital. All loans and no equity finance will put greater burden of debt servicing on borrowers, more so as they happen to be in the small range. This also means that borrowers have to look elsewhere for equity financing, adding to them cost and toils and troubles.

The problem of rising funds from the market which smaller units generally face due to their limited access to capital market, remains unsolved. If the interest of the small scale sector, it would be advisable for the MSFC to undertake underwriting activity on a large scale and sponsor issues of smaller units.

An encouraging operating feature of the corporation is that they have provided two thirds of their assistance to small scale units which was expected of them. Further more, in tune with the Government policy, corporation have been paying special attention to the small industrial units of the backward areas and have

to spread a little less than half of their assistance for them.

The corporations difficulties have aggravated because of uncertainty as to the life and continuing capacity of small units which are dominated by personal factor. Personal changes in the small units may affect adversely the continuity of efficient management.

The MFECs existing resources are too limited to cater to the growing needs of up and coming burgeoning number of small units. Corporation are finding it difficult to raise additional resources to meet the growing needs of smaller enterprises. As a matter of fact, corporations have not made aggressive efforts to mop up resources from the public. It would therefore, be in fitness of things if they offer to the public attractive deposit schemes and short term bonds of small denomination carrying attractive terms. This will help the corporation in surmounting their resource problems.

Corporation are yet to undertake development functions. For this purpose corporation will have to hasten their upgradation and staff training programmes to overcome the shortage of technical, financial, management and marketing expertise.

Further more, repayments are not properly linked with progressive cash generation and no realistic debt

service coverage ratio could be worked out. Faulty appraisals have led corporation to faulty judgements, creating a spectrum of rising overdues which obstruct the return flow of funds.

There is a major operational problem of corporation. The relatively high magnitude of overdues is associated with a rising level of outstanding loans. In the absence of a detailed investigation into the working of the units, it is not possible for corporation to ascertain whether the defaults are due to genuine reasons or are wilful. In this connection, it may be pointed out that because of low rates of interest charged by the corporation compared to banks, which are 3 to 4 per cent above those of corporation, the borrowers as a class have a tendency to repay bank dues and run into defaults with MSFC. No scheme has so far been devised by the corporation either to stipulate higher penalty fees for arrears or to stipulate higher rate of interest as a normal one and allow substantial rebate for timely repayment of instalments. Such measure is urgently called for.

Organisational set-up of the corporation should be strengthened. Experienced and qualified persons from different walks of life should be drawn so that corporation can effectively perform new developmental acti-

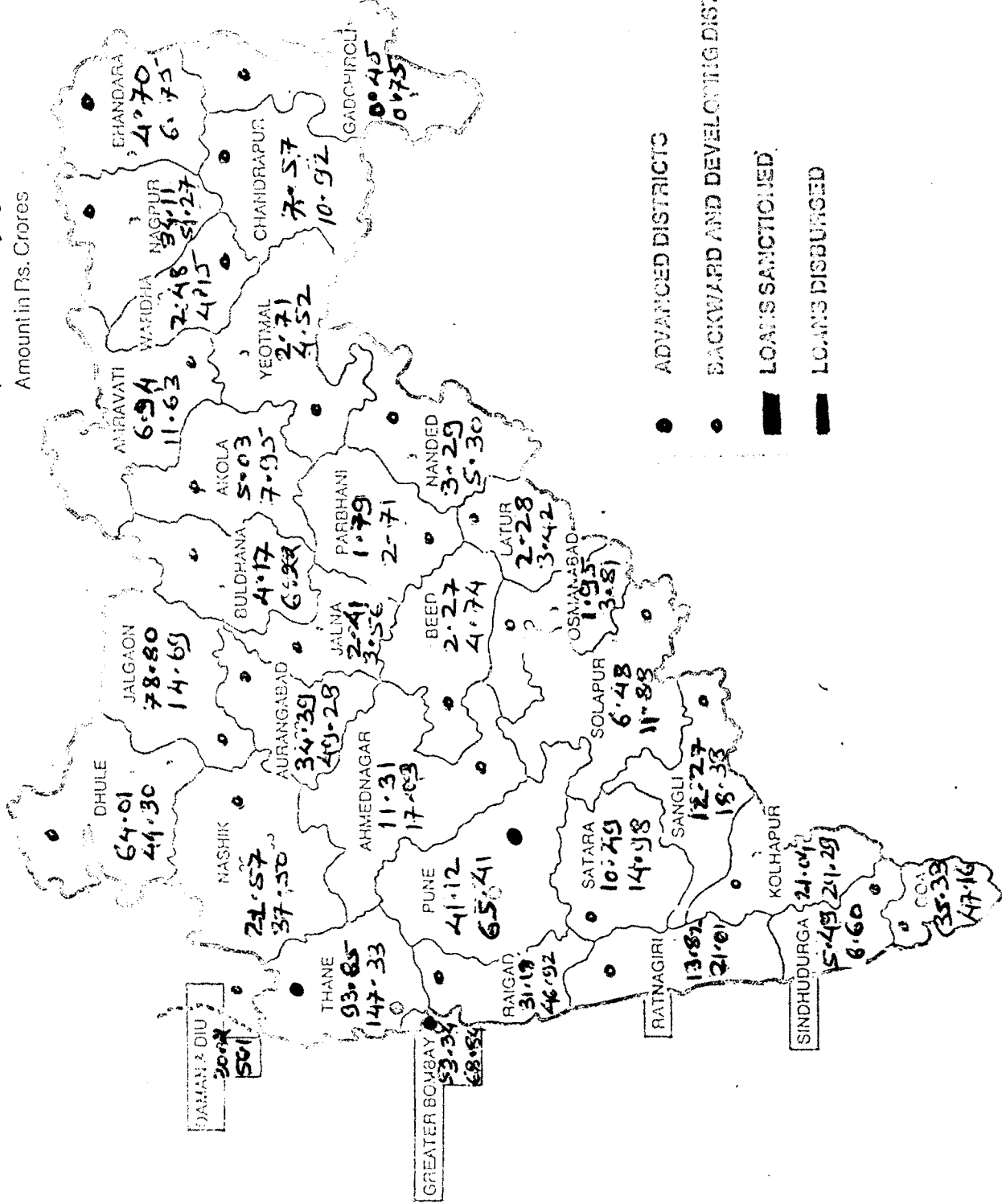
vities including industrial potential surveys, preparation of feasibility studies, managerial and marketing assistance, identification and training of entrepreneurs and assisting them in getting governmental clearance, licences etc.

The top level management also needs to be recognised so as to include professional experts entrepreneurs, bankers, agriculturists, technocrats and financial experts.

DISTRICTWISE SANCTIONS & DISBURSEMENTS SINCE INCEPTION

(1962-63 to 1987-88)

Amount in Rs. Crores



● ADVANCED DISTRICTS

○ BACKWARD AND DEVELOPING DISTRICTS

■ LOANS SANCTIONED

- - - LOANS DISBURSED

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