

CHAPTER : 2

HISTORICAL DEVELOPMENT OF MAHARASHTRA STATE FINANCIAL CORPORATION AND ITS FUNCTIONS AND OBJECTIVES :

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CHAPTER : 2

" HISTORICAL DEVELOPMENT OF MAHARASHTRA STATE FINANCIAL CORPORATION AND ITS FUNCTIONS AND OBJECTIVES "

2.1 INTRODUCTION :

This chapter deals with the origin of Maharashtra State Financial Corporation and its existence i.e. Transformation of Bombay State Financial Corporation into M.S.F.C. in 1962.

The chapter has also dealt with the objectives of M.S.F.C., functions and scope of business of the Maharashtra State Financial Corporation and services rendered by the corporation. This chapter also highlighted on the historical development of corporation and organisational set-up along with working procedure of the M.S.F.C. The analytical study of M.S.F.C. from 1983-84 to 1987-88 is considered.

2.2 BOMBAY STATE FINANCIAL CORPORATION :

Before M.S.F.C. came into existence, Bombay State Financial Corporation holding the business as a State Financial corporation. It was established on 31st December 53, prior to this only two State Financial Corporation in the country, they are Punjab State Financial Corporation and Kerala State Financial Corporation which were established in 1953.

Because of limited scope of financial activities of

the Industrial Finance Corporation, the small and medium scale industries were neglected, that this corporation provides much preference to Public Limited Companies and Registered Co-operative societies only. Owing to this fact the Government of India passed the 'State Financial Corporation Bill' which came into force from 1st August, 1952.

The Bombay State Financial Corporation was third State Financial Corporation in the country started formally on 21st December, 1953. At the beginning corporation was started in a small premises with share capital of Rs. 1 crores and Reserves of Rs. 1,000 only and sanctions of Rs. 68 lakhs and Rs. 30 lakhs of disbursements, at the time of handing over the business to Maharashtra State Finance Corporation on 14th August, 1962, by the provisions of the 'Bombay Re-organisations Act, 1960'.

2.3 MAHARASHTRA STATE FINANCIAL CORPORATION :

History and Development :

As stated earlier, the M.S.F.C. on 14th August, 1962 took over the business from Bombay State Financial Corporation, covering all the Twenty Six Districts of the Maharashtra State. Corporation extends its jurisdiction to Goa, Daman and Diu, by an agreement dated on 18 July, 1964 between the Government of Maharashtra and the Administration of Union Territories of Goa, Daman and Diu, by setting its

branch at Panjim in August 1964.

Government of Maharashtra nominated Shri P. V. Kanji as a Chairman of Reconstitution of the Corporation. The Corporation raised its Capital from initial Rs. 2 crores upto Rs. 25 crores at the end of March 1962.

Corporation sanctioned Rs. 736.14 Crores and disbursed Rs. 489.11 crores in 1987-88 as compare to total sanctioned Rs. 206.39 lakhs and disbursements of Rs. 1.11 crores in 1962, shows the working progress of the corporation since its inception.

Maharashtra State Financial Corporation :

Regional and Branch Offices :

The Head Office of M.S.F.C. situated at Bombay. The Corporation opened its branches at Aurangabad in 1964, Miraj and Panjim in 1964 respectively.

In 1970, corporation opened its Regional Office at Kolhapur, Pune and Nagpur for the efficient working of the corporation. Panjim Branch Office converted into Regional Office in 1977 and at the same time Nasik Regional Office was started.

Following is the Chart indicates the Regions and Districts covered by each Office in Maharashtra.

MBFC's REGIONAL OFFICES AND DISTRICTS COVERED BY THEM

REGIONAL OFFICE AT

Bombay	Thane	Navik	Poona	Kolhapur	Nagpur	Amaravati	Aurangabad	Os.
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DISTRICTS COVERED BY EACH REGIONAL OFFICE

Orwator Bombay	Thane	Male	Poona	Kolhapur	Shandara	Amaravati	Aurangabad	Os.
Rajgad	Dahanu	Jalgaon	A.Nagar	Sangli	Vardha	Ahola	Gannasbad	Sindhadurg.
Ratnagiri Div	Navik	Solapur	Setara	Nagpur	Buldhana	Parbhani	-----	
				Chandrapur	Yotmal	Beed		
				Gadchiroli				

From 1977 to the end of March 1988 the Corporation extend its Regional Offices upto nine and branch Offices and field offices upto 34. The corporation has totally 1,071 employees at the end of March 1988.

Upto the end of March 1988 the Corporation succeeded in maintaining the level of progress attained on the fronts of sanctions and disbursements in the previous years, helping the overall development of all sectors of economy by implementing new schemes such as, Research and Development and financing on priority basis to export oriented & import substitute industries, indicates the developmental efforts of Maharashtra State Financial Corporation.

Also, corporation contributing for purchasing of shares of the industries promoting the new entrepreneurs.

2.4 Objectives of M.S.F.C. :

The M.S.F.C. set up to assist industrial development and attempt to diversify the structure of Banking development to be able to cope with the requirements of small and medium scale industries, in accordance with the policy of the Government of Maharashtra and Government of Goa and Administration of Daman and Diu.

The main objectives is to promote more industries in backward and developing areas of Maharashtra, Goa and Union Territory of Daman and Diu.

When commercial banks fail to provide financial assistance in desired amount in backward areas and to small & medium scale industries, corporation in that case, is the major source before the industries. Because, commercial Banks, still short of the total requirement of private industrial sector.

2.5 FUNCTIONS OF M.S.F.C. :

The State Financial Corporation perform only the financial functions of a development bank. They are not empowered to promote projects. SFC's Act is also silent on the provision of development services. The functions are differ from one State Financial Corporation to another. The financial functions are discussed below :

- (a) It provides loans and advances. These loans must, however, be repayable within a period of Twenty years. The loans are provided for acquisition of fixed assets. Preference will be given to Small Industrial concerns for granting the loan. The upper limit for financial assistance is Rs. 10 lakhs though minimum limit not prescribed in the Act.
- (b) State Financial corporation are also empowered to underwrite public issues of capital made by the industrial concerns.
- (c) Corporation also authorised to subscribe directly to the preference shares, bonds, and debentures of industrial concerns subject to their being disposed off in the market within seven years.

- (d) Provision of Foreign Exchange loans under the 'World Bank Scheme'.
- (e) Corporation also participate in the Equity Share Capital of the Small Scale Industries coming up in backward areas.
- (f) Corporation have also taken advantage of the Credit Guarantee Scheme of the Government of India (implemented by Reserve Bank of India) under which loans are granted to Small Scale Industries. These loans are guaranteed by the Reserve Bank.
- (g) 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 of advances to or subscribing for debenture issues of industrial concerns.

The corporation can not grant assistance to those industrial units whose paid up capital and free resources together exceeds Rs. 1 crores.

2.6 SCOPE OF BUSINESS :

With the changing level of economic development in the State and the changing economic context, object of corporation will have to undergo changes, therefore, their scope of operations will be adapted to the altered economic, social and cultural conditions.

The Corporation finances mainly for promoting entre-

preneurs to set-up new industries in backward areas, to undertake programme of expansion and modification. Corporation finances to proprietary, partnership and private limited companies, H.U.F. as well, besides public limited companies and co-operatives.

Corporation provide assistance to industrial concerns engaged or existing in the following activities :

1. Mining,
2. Manufacturing, preservation or processing of goods
3. Road Transport,
4. Hotel Industry,
5. Generation or Distribution of Electricity or any other form of power,
6. Providing Technical Assistance for the promotion of Industrial Growth,
7. Developing an Industrial Estate,
8. Fishing or providing shore facilities for fishing or manufacture thereof,
9. Assembling, Repairing or packing of any article with the help of machinery or power are eligible for financial assistance,
10. Doctors, Medical Practitioners,
11. Technicians,
12. Ex-serviceman, ST/SC
13. Educated Employees.

The Corporation assisted by Medium and Short term loans to small scale industries. The corporation defines the meaning of small scale industrial unit as 'Any industrial unit with total capital investment in fixed assets upto Rs. 35 lakhs and Rs. 45 lakhs for Ancillaries'.

2.7 OPERATIONAL POLICIES OF M.S.F.C.

State Financial Corporation Act, 1951 lays down the general rules for the operations of the corporation, the respective State Governments, have adopted in their own ways for their corporations, but normally all State Financial Corporation have adopted common rules of 'Term Financing' is normally one year to ten years. In some cases it exceeds upto ten years also. The terms and conditions for financial assistance are some time differs from one corporation to another. Security is the most important factor which SFC consider while lending. It consists of a charge on the fixed assets of the applicant.

The term loans are extended for investment in fixed assets only.

Operational policies of Maharashtra State Financial Corporation are stated below :

- (a) Corporation Grants Loans to -
- Limited companies upto Rs. 60 lakhs,
 - Registered Co-operative societies upto Rs. 30 lakhs.

- Proprietary and partnership firms upto Rs. 30 lakhs,
- Minimum Assistance Rs. 10,000/-.

(b) Nature of Industries to be Assisted :

M.S.F.C. given emphasis to industries based on chemicals, Agriculture and Machine making. Assistance is provided to Small and Medium Scale Units organised as proprietary or partnership concerns as well as provide & Public Limited Companies and Registered Co-operative societies.

(c) Form of Assistance :

Corporation is empowered to grant loans and underwrite issues, However, as the 'Underhand policy' the corporation concentrates on lending business and does very small amount of underwriting, because, securities of Small Concerns have little market involving large risks.

(d) Period of Assistance :

The Corporation is authorised to lend a period of twenty years but, in practice it is to lend upto Twelve years, with initial grace periods. Corporation underwrites the share and debenture subject to their disposal in the market within seven years.

(e) Margin and Security :

Corporation provides assistance which is secured by way of mortgage of Fixed Assets. 40% contribute on

on of the promoter is required for financial assistance, in case of Small Scale Unit it is reduced upto 25%. Relaxation and concessions are available for industries in Backward Areas. Different SFC's charge interest at different rates.

2.8 SERVICES RENDERED BY M.S.F.C.

The Corporation provides following services :

1. The corporation grants term loans upto Rs. 60 lakhs to limited companies and Registered co-operative societies and Rs. 30 lakhs to partnership and proprietary firms.
2. The Corporation also finances to projects with large Capital outlay (total project cost upto Rs. 3 crores) in participation with SICOM/ All India Financial Institutions/Commercial Banks etc. However, in such cases, assistance from the Corporation is limited to Rs. 60 lakhs.
3. Assistance is provided as a Seed Capital Assistance to new generation entrepreneurs, who possess necessary skill or practical experience, but lack of requisite of funds to meet the gap in the DER (Debt Equity Ratio) or promoter's contribution. The seed capital assistance is given to bridge the gap subject to a maximum limit of Rs. 4 lakhs or 20% of the cost of the project, whichever is lower, at 1% interest per annum. If the requirement of seed capital exceeds Rs. 4 lakhs the same is covered by IDBI seed capital scheme. Assistance may be in the form of soft loan or equity. In the case of Private Limited

companies, it may be by way of equity/soft loan or redeemable cumulative preference shares.

2.9 ORGANISATIONAL SET-UP AND MANAGEMENT OF M.S.F.C.:

"organisation is an essential function management. It consists of delegation of authorities, division of work among the people and co-ordination and control of the activities to achievement of common goals and objectives".

The various schemes formulated by an enterprise can be best implemented only if by optimum utilisation of available resources and neatly arrange the frame work of positions at various levels of management.

"While deciding organisation structure, organiser should take into account the humanistic view and also mechanistic view". Organisation should be so structured that the individuals derive maximum satisfaction while striving for accomplishment of activities and objectives of the enterprise.

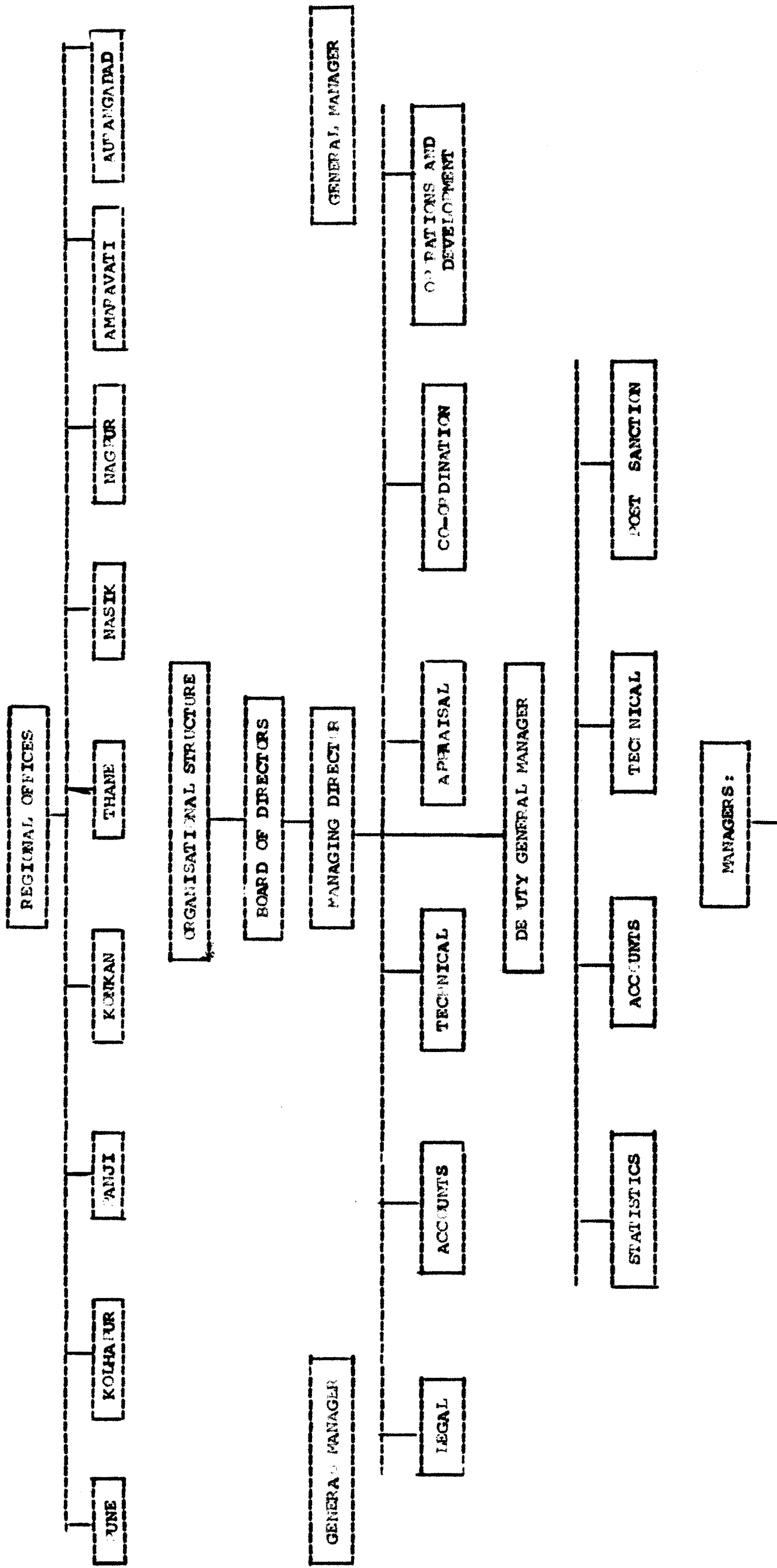
The M.S.F.C. with decentralised organisation has got Thirty branches including Nine Regional Offices all over the Maharashtra, Goa, Daman and Diu except Gadchiroli and Osmanabad District headquarters.

Chart : 2.1

The above chart indicate the organisation chain of the corporation as its, Head Quarter at Bombay and the

CHART NO. 2.1

THE FOLLOWING ORGANISATIONAL CHART SHOWS THE DIVERSIFICATION OF RESPONSIBILITY AND REGIONAL OFFICES



PERFORMANCE

ADMINISTRATION

LEGAL

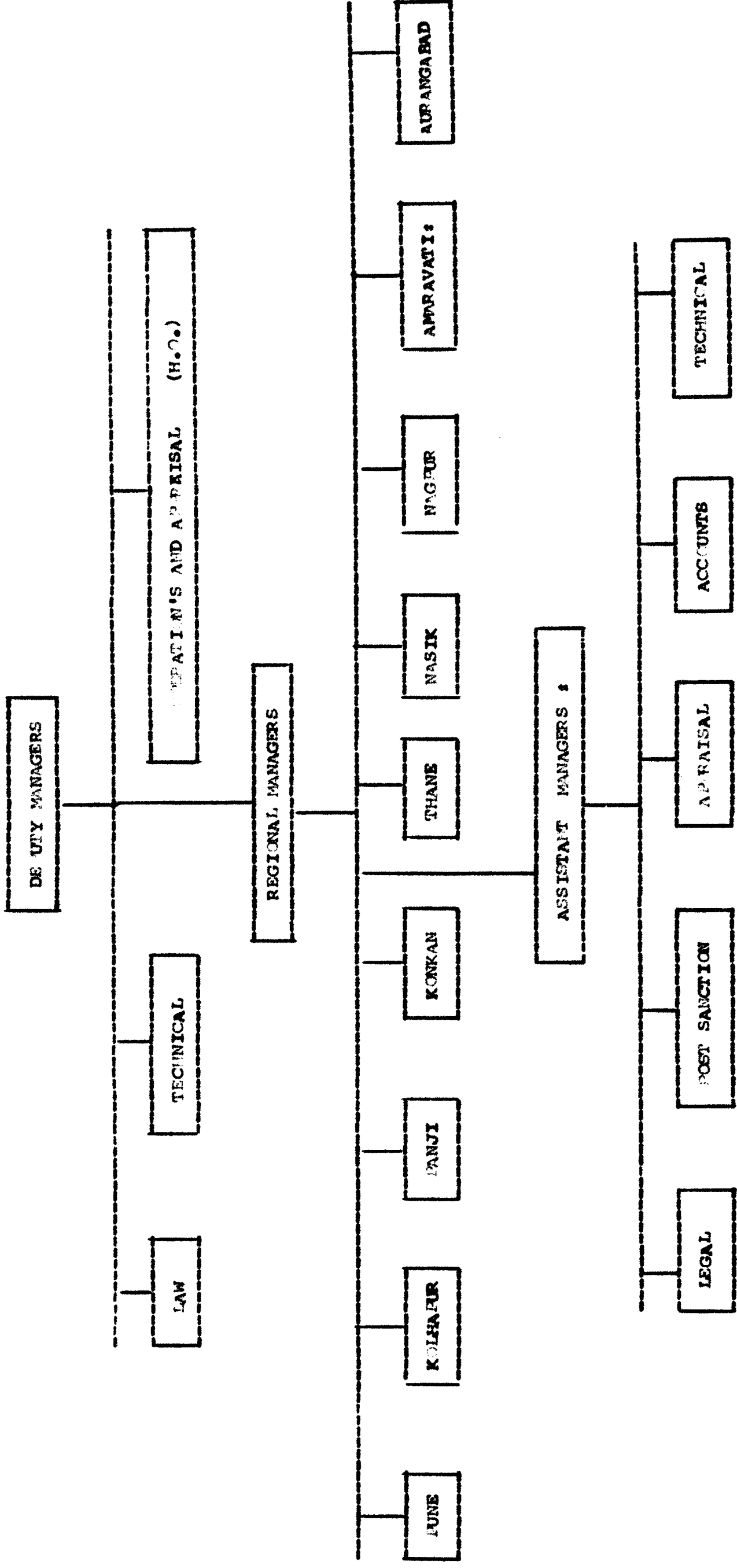
LEGAL

POST SANCTION

APPRAISAL

AUDIT

RECOVERY



JUNIOR OFFICERS

authoring and responsibility level of each individual.

Managing Director :

The Managing Director exercises all the powers & discharges all the functions which may be exercised/discharged by the Corporation. He looks after the business activities and administration of the corporation alongwith administrative staff.

General Manager :

There are totally six General Managers carries out the work of accounts, legal matters, technical, appraisal, co-ordination. The head of each department heald totally responsible for the function's carried out by his department.

Deputy General Managers and deputy managers assist to their respective General Managers of the departments. There are nine regional managers, one for each region. Assistant Regional Managers help their respective regional managers. Assistant Regional Managers and Branch managers at each branch office. Each Branch carries out his work under the control of branch manager and Jr. Officers Assistants alongwith typist and peons.

Management of the M.S.F.C. :

The Management of the Corporation vests in the hands of Board of Directors. Board of Directors with the assis-

tance of executive committee and a Managing Director carries out general superintendance, direction and managerial work. The Directors are empowered to formulate policies, discharge all the functions and exercise the powers vested in it. In the manner and way which is most suitable but within the boundaries of the 'State Financial Corporation Act, 1951'.

The Chairman, nominated by the Government of Maharashtra with the consultation with Reserve Bank of India.

The classification of the Board of Directors are given in the following chart.

Structure of Board of Directors :

There are twelve directors including one chairman.

1. Chairman - Nominated by the Government of Maharashtra.
2. One Director nominated by Government of Goa, Daman and Diu.
3. Two Directors nominated by Government of Maharashtra.
4. One Director nominated by Reserve Bank of India.
5. Two Directors nominated by Industrial Development Bank of India.
6. One Director elected to represent Scheduled Banks,
7. one Director elected to represent Insurance companies (including LIC) Investment Trusts and other Financial Institutions.
8. One Director elected to represent co-operative Banks.

- 25.
9. One Director elected to represent share holders referred in clause (d) of Sub-section (3) of section 4 of the State Financial corporation Act.
 10. One Managing Director appointed by Government of Maharashtra.

2.10 CAPITAL STRUCTURE OF M.S.F.C. :

We now here providing details regarding the capital Structure of the M.S.F.C.

At the beginning of the year (1987-88) the paid-up Share Capital of the Corporation was Rs. 1,000 lakhs, including of Special Class of Share Capital of Rs.120 lakhs.

During the year, the Corporation has received contributions towards proposed issue of Share Capital aggregating to Rs. 6,11,50 which is explained as under :

(a)	Government of Maharashtra	Rs. 170.00 lakhs
(b)	Industrial Development Bank of India	Rs. 416.50 lakhs
(c)	Government of Goa, Daman & Diu	Rs. 25.00 lakhs
	Total	Rs. 611.50 lakhs

The Convertible loans accepted by by Corporation on 31st March 1988 which stands at Rs. 1,519.30 lakhs.

The holdings of various share holders as classified under according to sub-section (3) of section 4 of

the SFC's Act, 1951, as on 31st March 1988 are given below
in chart No. 2.2

Chart No.2.2 : CAPITAL STRUCTURE OF M.S.F.C.

PARTICULARS	SHARE HOLDER	NO.OF SHARES	AMOUNT OF HOLDING	PERCENTAGE OF HOLDING
a) i) Government of Maharashtra	1	4,02,187	4,02,18,700	40.22
ii) Government of Goa, Daman & Diu	1	80,438	80,43,800	8.05
b) Reserve Bank of India	-	-	-	-
ba)Development Bank	1	4,58,134	4,58,13,500	45.81
c) Scheduled Banks Insurance comp- anies, Investment Trusts, co-opera- tive Banks and other financial institutions	69	56,545	56,54,500	5.65
d) Parties other than - (a), (b), (ba) & (c) above	123	2,696	2,69,500	0.27
Total	195	10,00,000	10,00,00,000	100.00

2.11 10 YEARS GROWTH OF MAHARASHTRA STATE FINANCIAL CORP N.

Since inception M.S.F.C. increases his working capacity and area throughout Maharashtra. For the purpose of comparison between two periods researcher has took the period from 1979 to 1988 and 1983 to 1985, for the purpose of study, researcher studied the period after 1983 onwards upto 1988.

It will be seen from the Chart No.233, that, the amount of average sanctions is increased since 1979 upto 1988 @ Rs. 44,205. In 1979, sanctions are Rs. 21,898 and it was increased upto Rs. 73,613 in 1988. It shows a steady growth of sanctions.

The average amount disbursed from 1979 upto 1988 was Rs. 29,919. The rate of amount disbursed was also show slow and steady as compare to rate of sanctions. The amount sanctioned is not wholly disbursed.

The average rate of sanctions during each year since 1979 upto 1988 is Rs. 5,498 and average rate of disbursement during each year is Rs. 3,720 which are much slower. But the average rate of collection of principle amount and interest was Rs. 3,347 which is much better and growing rate.

Share Capital of the corporation is not increased after 1981 which is Rs. 1,000.00 lakhs

The average rate of outstandings is Rs. 4,469 which is little higher than the rate of recoveries.

M. .F.C. creates the employment in Maharashtra to 1067 employers upto 1988 since inception.

There is a decrease in the number of offices working in Maharashtra. In 1979, there are 31 offices representing M.S.F.C. in 1985 and it has been increased upto 33 but 3 offices are closed down in 1986 due to various reasons which are not explained by the Corporation.

Researcher concludes that, the business of M.S.F.C. fluctuates in each year after 1979 in respect of sanctions and disbursements of loans.

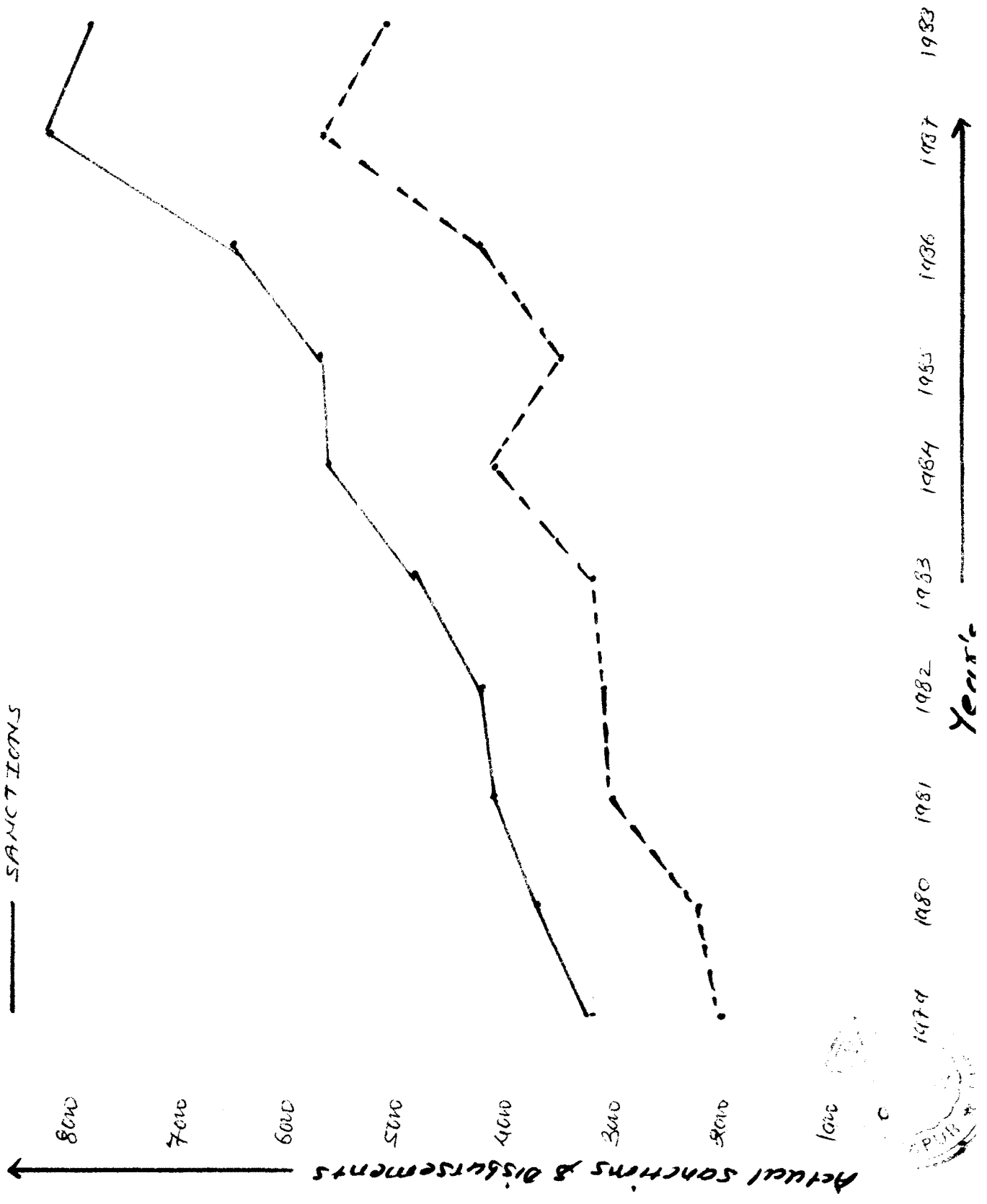
It has seen from the Chart, that, the Share capital of the Corporation is much higher than the other State Financial corporation, which is at present is Rs. 1000.00 lakhs and assistance is not better in accordance with the requirement of loans.

For the purpose of comparison of M.S.F.C., the working of other state financial corporations are also given in Chart No.2.2 from 1975-76 upto 1985-86. Comparison is also made with past performances of various SFC's with the rate of 1975.76. The figures shown in brackets shows the average rate of increase compare to last year's value.

X AXIS = RCM = ONE PERCENT
 Y AXIS = RCM = ONE THOUSAND

Ten years growth of MSFC

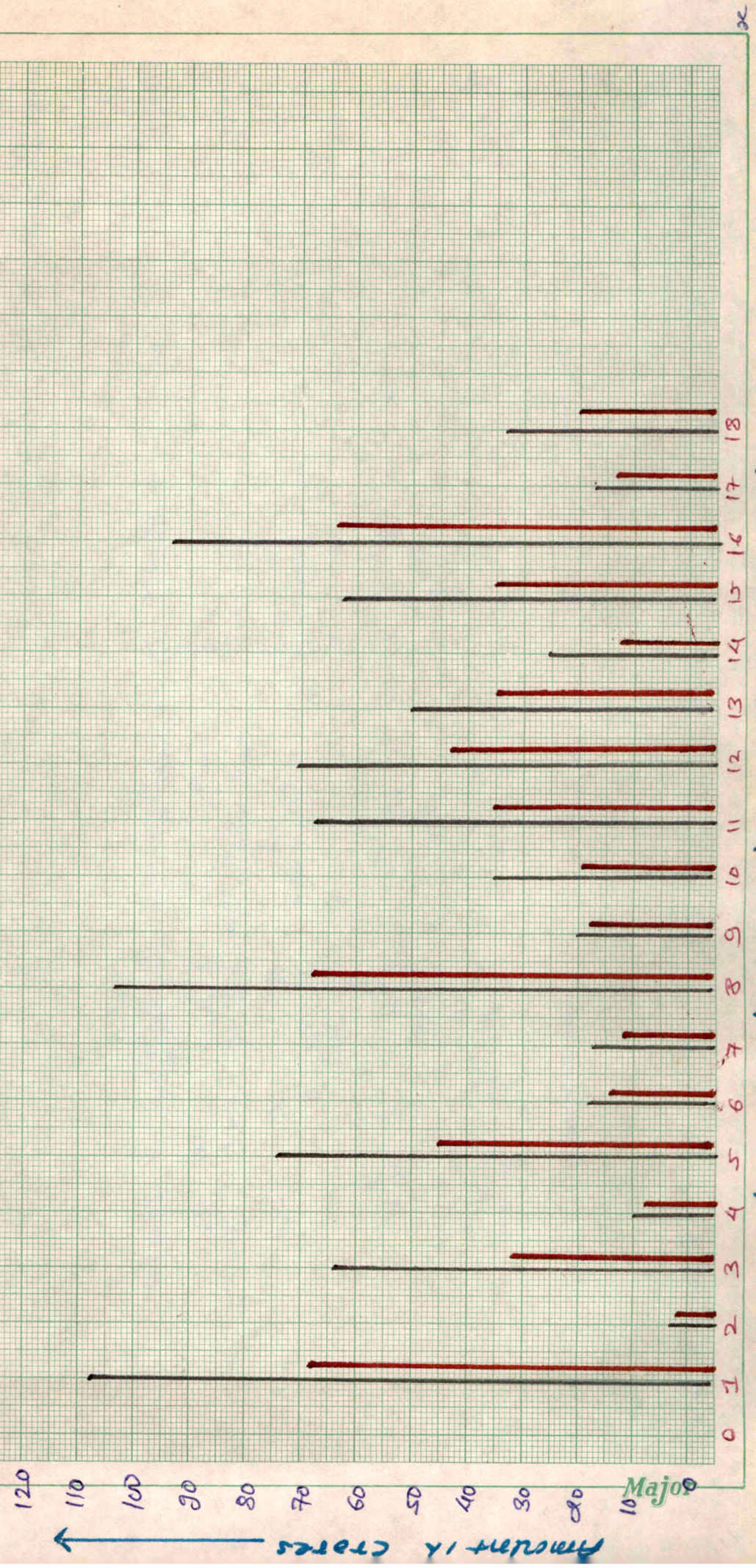
- - - DISBURSEMENTS
 — SANCTIONS



SCALE
 X axis = 1 CM = 1 SFC
 Y axis = 1 CM = 1000

Sanctions & Disbursements of each SFC in the year 1985-86

DISBURSEMENT
 SANCTIONS



SFC's according to serial numbers

Amount in Crores

Majors

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