

CHAPTER - III

**WORKING OF KARNATAKA STATE
FINANCIAL CORPORATION**



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CHAPTER - III

WORKING OF KARNATAKA STATE FINANCIAL CORPORATION

3.1 SCOPE OF KARNATAKA STATE FINANCIAL CORPORATION:

The Karnataka State Financial Corporation (KSFC) has been established to help entrepreneurs to set up new industries and undertake programmes of modernisation, renovation, expansion and diversification. The definition of 'industrial concerns' include public limited companies, private limited companies, partnership and proprietary concerns.

According to Section 2(c) of the State Financial Corporations Act, 1951 (as amended upto 1962), the Karnataka State Financial Corporation can assist an industrial concern engaged, or to be engaged, in any of the following activities:

- (a) Manufacture, preservation or processing of goods;
- (b) Mining;
- (c) Hotel industry;
- (d) Road transport;
- (e) Generation or distribution of electricity or any other form of power;
- (f) Development of any area of land as an industrial estate;
- (g) Fishing or providing shore facilities for fishing;
- (h) Providing special or technical knowledge or other services for the promotion of industrial growth.

The processing of goods, however, includes any art or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electric or any other like operation.

3.2 OPERATIONAL POLICIES OF KARNATAKA STATE FINANCIAL CORPORATION:

The State Financial Corporations Act lays down general rules for the operations of the Corporation. In the following paragraph, we shall discuss the broad functions of the operational policies of the Karnataka State Financial Corporation.

3.2.1 Policy on size of assistance:

The medium loan can be sanctioned by the Corporations to the following categories:

- (i) Proprietorship/Hindu joint family/Partnership concerns
- Rs.30.0 lakhs.
- (ii) Private limited companies/Public limited companies
- Rs.60.0 lakhs.
- (iii) Registered cooperative societies
- Rs.60.0 lakhs.

3.2.2 Policy on duration of assistance:

The State Financial Corporations are authorized to lend upto a period of 20 years and underwrite shares and debentures, subject to their disposal in the market within seven

years. However, they have made it a policy to provide loans for periods upto 12 years, with suitable initial grace periods.¹

3.2.3 Policy on nature of industrial projects to be assisted:

The Corporations provide assistance mainly to small-scale units, which are mostly registered as partnership or proprietary concerns. The projects organized as private and public limited companies and registered cooperative societies are also provided assistance.

3.2.4 Policy on security and margin:

The Karnataka State Financial Corporation generally provides secured loans, which are normally secured by way of legal mortgage of fixed assets. A mortgage executed in favour of the Corporation includes plant and machinery installed over and above the assets already acquired as on the date of the execution of the deed. Forty percent margin is generally maintained on the loans. The Corporation shows considerable flexibility in operating this norm. For example, the margin requirement for small units is reduced to around 25 percent. Relaxations are also made for projects coming up in less developed regions.

3.2.5 Interest rate policy:

The rate of interest charged by the Corporation

varies depending on the location, the size and type of industry and special concessions available to certain categories of entrepreneurs, etc. The prevailing rate of interest ranges from 9.50% to 15.0% per annum. However, concessional rate of interest is charged, if the unit is located in any of the eleven districts of the State classified as industrially backward.

Further, the rate of interest is reduced by 1% in respect of the loans sanctioned to the entrepreneurs belonging to scheduled castes and scheduled tribes and other backward classes.

3.2.6 Policy on assistance to technician entrepreneurs:

In pursuance of the government policies to encourage self-employment, the Karnataka State Financial Corporation introduced special schemes in which provision for concessional financing to technician-entrepreneurs is made. The financial assistance under this scheme upto Rs.7.50 lakhs is given on very liberal terms in so far as the margin requirements, the rate of interest and the moratorium on repayment are concerned. Generally, graduates or diploma-holders and certified technicians and/or those having adequate experience in the line are eligible for the financial assistance under the scheme.

3.3 KARNATAKA STATE FINANCIAL CORPORATION SCHEMES OF FINANCIAL ASSISTANCE TO INDUSTRIES:

The Karnataka State Financial Corporation is financing the industries through the following schemes of assistance.

(1) Technicians - Scheme:

This scheme is primarily meant to assist the technically qualified persons or experienced engineering graduates, diploma holders, trade certificate holders, professionals who are having experience in trade, managerial and production institutions, or those who have technical experience; particularly, unemployed technical persons are eligible to be considered under this scheme. The maximum amount of loan assistance is Rs.7.50 lakhs. Financial assistance would be extended on soft terms, including soft loans and central and state subsidy in respect of projects set up in the notified backward districts.

(2) Seed Capital Scheme:

This scheme is intended to induce and encourage technically or professionally qualified or those who possess relevant experience with entrepreneurial traits but lack financial resources for setting up small and medium scale industrial units, which are eligible for assistance from the Industrial Development Bank. The industrial units assisted by the Corporation by sanctioning term loans are only eligible

for the facility. Financial assistance upto Rs.15.0 lakhs per project can be sanctioned. Assistance under the scheme is interest-free, however, a marginal service charge of 1% per annum will be charged.

3. Special Capital Scheme:

This scheme is meant to assist financially weak entrepreneurs along with term loan. Preference is given to units set up by (a) technocrat entrepreneurs, (b) craftsmen, (c) artisans, (d) other persons, with sufficient practical experience or skill in the proposed line of manufacture, though not technically qualified. Assistance under this scheme is available upto Rs.4.00 lakhs. Rate of interest on soft loans will be only 1% per annum. A three year moratorium will be given from the date of first disbursement of loan for repayment of the principal.

4. Composite Loan Scheme:

This scheme is essentially designed to meet the complete financial requirement of both equipment finance and working capital of artisans, village and cottage industries in the tiny sector. The maximum amount of loan available under this scheme is Rs.50,000. KSFC will finance 100% of the requirement. Construction of shed/building will be considered for assistance under this scheme, subject to a maximum of Rs.10,000.

5. Scheme for Educated Unemployed:

Persons who have passed SSLC or Diploma or ITI certificate holders who have undergone EDP or apprenticeship or having experience and unemployed may establish their own industry for self-employment purpose under tiny and small-scale sector with financial assistance from KSFC under concessional terms. Assistance upto Rs.2.0 lakhs is available for acquiring land, building, plant and machinery with a margin of 10%. However, in case of backward areas, assistance will be provided on soft-terms including soft loan and subsidy.

6. Scheme for Disabled Entrepreneurs:

For rehabilitation of disabled persons, who intend to establish, rural, cottage or small units, financial assistance upto 100% is available under extremely economical terms on the lines of composite loan scheme. Under this scheme, blind, deaf and orthopaedically handicapped persons are eligible for assistance towards plant, machinery and working capital upto Rs.50,000. The State Government is providing 20% subsidy. However, subsidy is available for loans upto Rs.25,000 only.

7. Hotel Industry Scheme:

The Corporation provides financial assistance for establishing hotels to cater to the needs of tourists, as certified by the Tourism Development Corporation. The proposed hotel projects must be of atleast 2-star category

and should have boarding, lodging and restaurant facilities and should have been planned on modern lines. Minimum financial assistance that can be considered for hotel projects is Rs.2.0 lakhs in case of new hotels and Rs.1.00 lakh for modernisation of existing hotels.

8. Scheme for Transport Industry:

Under this scheme, the Corporation provides financial assistance for the purchase of trucks, tippers, taxis, three-wheelers, cars, autorickshaws and fishing trawlers. The loan is available for the purchase of new vehicles. Preference will be shown to the applicants with experience in the line and those having regular transport contract or inter-State permits. Applications for assistance from the owners of more than 6 vehicles are not considered in view of the policy to assist only the smaller entrepreneurs engaged in transport operations.

9. Modernization Scheme:

Units in tiny, small-scale and small and medium units which are in existence atleast for a period of five years and who intend to modernize are eligible for assistance. Modernization may include replacement or renovation of plant and machinery or acquisition of balancing equipment for fuller and more effective utilization of the installed capacity.

10. Equipment Finance Scheme:

Term loan assistance under this scheme is available

for acquisition of original equipments/capital goods (both indigenous and imported) to the existing industrial units, with good performance record for expansion, diversification, modernization, balancing, etc. The unit should be in existence for atleast four years and regular in the repayment to the financial institutions.

11. Finance for Quality Control Equipment:

Term loan is available at concessional rate of interest to new as well as existing SSI units for acquiring quality control equipments upto Rs.7.50 lakhs with 100% finance. These equipments should provide facilities comprising of testing and quality evaluation of raw materials and other inputs as well as finished products.

12. Scheme for Women Entrepreneurs:

Woman entrepreneurs who propose to establish and manage cottage, rural, tiny and SSI units are eligible for term loan assistance under the scheme. The objective of this scheme is to encourage woman entrepreneurs to establish their own projects in the small scale sector, a special scheme has been formulated to provide financial assistance. The Corporation provides financial assistance to woman entrepreneurs with liberal terms and at reduced rate of interest to women havingg business acumen and entrepreneurial traits for establishing their own industrial units.

13. Finance to Electro-medical Equipments:

The Corporation is providing financial assistance for acquiring X-ray and other electro-medical equipments required by the medical practitioners/hospitals. Medical practitioners with relevant qualifications in the field such as general medicine, dentistry, radiology, etc., are eligible for assistance under this scheme. Assistance is also available to private hospitals. Minimum margin of 25% will be retained against the security of the fixed assets. The repayment of the loan is generally 6-8 years with a moratorium of 1 to 1½ years.

14. Scheme for Rehabilitation of Sick Units:

All units of tiny, SSI and medium sector, which have gone sick and fall within the purview of the definition of the IDBI and capable of being revived within a reasonable period of time are eligible for assistance under the scheme. Assistance under the scheme would carry concessional interest of 11% per annum, irrespective of the location of the unit.

15. Finance for Generators:

Small and medium scale industrial units intending to generate power for their captive use are eligible for term loan assistance from the Corporation for acquiring diesel generators. Margin retained will be as low as 10%, 3% rebate in interest for prompt repayment is the special feature of the scheme. Subsidy is also available from the State Government

for the purchase of generators.

16. Finance for Hospital/Nursing Homes:

Hospitals and Nursing Homes with 20 or more but less than 50 beds are eligible for financial assistance upto Rs.60.0 lakhs. The project must be backed up by expert service of post-graduate doctors. A security margin of 25% to 30% is retained against the fixed assets created out of the term loan. Repayment period will not normally exceed 8 years excluding moratorium.

17. Finance to Ex-Servicemen:

Under this scheme, ex-servicemen can set up small industrial units, transport and eligible service industrial units, hotel projects and tourism-related activities upto a maximum term loan of Rs.9.0 lakhs (projects costing upto Rs.12.0 lakhs). Maximum soft seed capital of Rs.1.80 lakhs per project at 1% interest is also available.

18. Scheme for Research and Development:

Under this scheme, a maximum term loan of Rs.7.50 lakhs is available for advancement in technologies of products/processes having commercial applications and for adopting imported technology. Development of indigenous technologies generally not yet exploited on a commercial scale anywhere in the country will also be considered for assistance.

19. Finance for Computerization in Industries:

To accelerate the business of the existing good industrial units, KSFC provides a maximum term loan of Rs.5.0 lakhs per unit for the purchase of computers. The main objective of the scheme is to further strengthen the existing good industrial units to improve their business performance by installing computers.

20. Single Window Scheme:

New tiny and small units whose project cost (excluding working capital margin) does not exceed Rs.5.0 lakhs and the total working capital requirement at the normal level of operation is upto Rs.2.50 lakhs will be eligible for both term loan and working capital assistance. A maximum term loan of Rs.3.75 lakhs and the working capital of Rs.1.875 lakhs will be available per project.

21. Mahila Udyam Nidhi Scheme:

Under this scheme, equity type of assistance along with term loan is being provided to first generation woman entrepreneurs to set up new SSI units. The project cost (including working capital margin) should not exceed Rs.10.0 lakhs. Woman entrepreneurs who want to avail assistance under the scheme should possess necessary managerial and/or technical skill to run the unit and they should be the chief promotor of the proposed unit. Equity assistance will be provided by way of soft loan at 1% interest charge per

annum upto a maximum of 15% of the project cost to meet the gap in the equity.

22. Finance to Tourism-related Facilities:

Tourism-related facilities such as setting up of amusement-parks, cultural and convention centres, restaurants, travel and transport and tourist service agencies are eligible for financial assistance upto Rs.60.0 lakhs. The rate of interest under the scheme ranges between 13.50% to 15.00%.

23. General Schemes:

In addition to the above special schemes, the Corporation is extending term loan facility for setting up of tiny, small-scale, ancillary and medium scale units. The assistance is provided upto Rs.60.0 lakhs with a normal security margin of 25-30% for new units and for expansion, diversification, modernization, rehabilitation of the existing units.

24. SC/ST Entrepreneurs Assistance Scheme:

Under this Scheme, the eligibility criteria is that the entrepreneur should belong to SC/ST as declared by the Government of India, preferably SSLC or diploma-holder having 2 years practical experience in any industrial activity. The age-limit under this Scheme is 45 years. The maximum amount under this scheme is available upto Rs.1.0 lakh and minimum margin 5% to 15% to be provided by the borrower. The rate of interest under this scheme is 13½% per annum.

The loan under this scheme is granted for the period of 10 years. The moratorium period for this scheme is one year for interest and 2 years for the principal amount. The special feature of this scheme is that this scheme is formulated as a part of 20-Point Programme of the Central Government.

3.4 CRITERIA ADOPTED FOR GRANT OF FINANCIAL ASSISTANCE:

In scrutinizing the loan applications, due consideration is given to several factors such as entrepreneur's background, ability and experience, technical skill, feasibility of the project with particular reference to the availability of raw materials, prospects for market and profitability. Projects located in backward areas, projects with large employment potential, projects with export potential, with defence-orientation and/or the projects which produce goods that are import-substitutes are given preference. Karnataka State Financial Corporation does not encourage certain types of industries which are banned by the Government, when no refinance is available from the IDBI, which are included in the 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.

3.4.1 Forms of loan application:

Six types of loan application forms have been prescribed and the charges for separate forms are as follows:

<u>Application form</u>	<u>Loan Amount (Rs.in lakhs)</u>	<u>Price of the application form Rs.</u>
'A'	Below Rs.1.00	10
'B'	Between Rs.1.00 & Rs.5.00	15
'C'	More than Rs.5.00	25
'D'	Applications for Hotel industry and industrial sheds	25
'T'	Transport industry	15
	Form for additional loan	10

A set of 5 application forms can be had from the Corporation by paying the prescribed application fee by a demand-draft drawn in favour of the Corporation or by cash. Duly filled up application, in quadruplicate, must be submitted with all the required enclosures and the prescribed application fee.

No processing fee is charged for loans upto Rs.10,000/-. For loans above Rs.10,000/- and upto Rs.40,000/- the fee will be Rs.100/-. For loans above Rs.40,000/- and upto Rs.2.0 lakhs, the processing fee will be 1/4% of the loan amount. For loans above Rs.2.0 lakhs and upto Rs.60.0 lakhs, the fee will be 1/2% of the loan amount applied for. Application fee is not charged for soft loans/seed capital loans.

3.4.2 Time taken by the Corporation to sanction loans:

The time taken by the Corporation to sanction loan assistance will largely depend on whether the applicant has furnished complete and precise information. It has been found by experience that scrutiny of the title of the properties proposed to be offered as security, especially land, takes a lot of time if the relevant documents are not made available or if the title is defective in law. Normally, the Corporation takes about one month for sanctioning small loans and a little longer for larger loan amounts. If the project is well conceived and well prepared, the time taken should be even shorter.

3.4.3 Power to sanction loan:

Loans upto Rs.8.0 lakhs will be disbursed at the concerned branch office where the loan is sanctioned. In respect of loans exceeding Rs.8.0 lakhs and upto Rs.15.0 lakhs, sanctioned by the head-office, will be disbursed at the concerned branch office. Loans above Rs.15.0 lakhs and upto Rs.60.0 lakhs will be disbursed by the head-office.

3.4.4 Important terms and conditions for considering loan proposals:

(i) Rate of Interest : The rate of interest charged by the Corporation varies depending on the location, the size and

and the type of industry and also the special concessions available to the certain categories of entrepreneurs, etc. The prevailing rate of interest ranges from 9.50% to 15% per annum. However, concessional rate of interest is charged, if the unit is located in any of the eleven districts of the State classified as 'industrially backward'.

Further, the rate of interest is reduced by 1% in respect of the loans sanctioned to the entrepreneurs belonging to the Scheduled Caste and Scheduled Tribes and Other Backward Classes.

(ii) Security Margin: The security margin is the difference between the value of the assets offered as security and the amount of the loan sanctioned against the secured assets.

The security margin normally retained by the Corporation under various schemes are as below:

<u>Scheme</u>	<u>Percentage of security margin</u>
1. Technician's Scheme & Educated Unemployed's Scheme	10
2. Small scale industry	25
3. Medium scale industry	25 to 30
4. Hotel Industry	
(a) Bangalore metropolis	40
(b) Bangalore Rural & other Forward Districts	35
(c) Backward Districts	30
5. Transport Industry	
(a) Single vehicle operators	20
(b) Small road-transport operators	25
6. Industrial estates	40

It should be noted that the security margin has reference to the value of the fixed-assets (land, building, and machinery) offered as security in the project and not to the cost of the project.

The Corporation does not accept a charge on floating assets such as stock-in-trade, finished goods, raw materials, etc., which are usually offered as security for raising the working capital loans from the commercial banks.

(iii) Commitment charges: If the loanee concern fails to complete all the formalities and draw the instalments according to the schedule of draw prescribed at the time of sanction, a commitment charge at 1% will be levied on the undrawn amount. This rate is reduced to 1/2% on Rupee loans in respect of the projects coming up in the industrially backward districts. In the event of failure to draw any part of the loan within 6 months from the date of communication of sanction, the loan is liable to be cancelled.

(iv) Repayment period of loan: Repayment of loan advanced is generally spread over a period of 5-8 years. Amortization period of loan (i.e. period of repayment) and the number of instalments are based on estimated cash generation and profitability in the proposed industry. A moratorium (for the repayment) of instalments of the principal ranging from 12 months to 24 months is allowed from the date of first

release of the loan amount. During this period, only the interest is to be paid quarterly. Instalments are fixed and the repayment schedule drawn up depending on the requirements and nature of each case.

(v) Recalling the Loan in full: The entire loan may be recalled in case of:

- (1) Misuse of funds;
- (2) Misapplication of funds;
- (3) Proved misrepresentation for obtaining loan assistance;
- (4) Undue delay in the implementation of the project;
- (5) A deliberate default in repayment of dues;
- (6) Failure to properly maintain and safeguard the secured property;
- (7) Breach of the agreement entered into at the time of sanction of loan.

3.5 ORGANIZATIONAL SET UP AND MANAGEMENT OF KARNATAKA STATE FINANCIAL CORPORATION:

"Organization is the pattern of ways in which large numbers of people, too many to have to intimate face-to-face contact with all others, and engaged in a complexity of tasks, relate themselves to each other in the conscious, systematic establishment and accomplishment of mutually agreed purposes."²

"Organization is the process of identifying and of grouping the work to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives."³

"Organization is more than a chart; it is the mechanism through which management directs, co-ordinates and controls the business. It is indeed the foundation of management. If the organization plan is ill-designed, if it is merely a makeshift arrangement. Then management is rendered difficult and ineffective. If, on the other hand, it is logical, clear-cut and streamlined to meet present-day requirements, then the first requisite of the sound management has been achieved".⁴ Organization is a marked 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 portions which can be used as a management tool for the most effective pursuit of the goals of an enterprise. Organization is a coordinative and unifying and concerns itself with a well-planned division of the numerous functions and the devolutions of duties and responsibilities in the individual executive and subordinate officials supported by a rigid system of supervision and coordinated control in order to ensure the effective execution of the plans as formulated by those in the administrative authority.

Organization, in its simplest sense, means a term of human association for the attainment of common objectives. Since ages and in every walk of life, organization has been playing a very vital role. Organized thoughts have always been the basis of organized activities. An industrial organization also denotes a type of associationship of persons in relationship to some economic activities. Obviously, the better the organization, fuller would be the achievement of the common objectives and similarly, loose organization of an enterprise implies an unhappy, better say dangerous, state of affairs. Good management, therefore, always concentrates on organizing and directing the cooperative efforts of the human beings, so as to achieve the best possible results.

The Organization Chart of the Karnataka State Financial Corporation (on the following page) represents the organizational chain of the Corporation at its head-office at Bangalore and comes down at the authority and the responsibility level upto the branch manager.

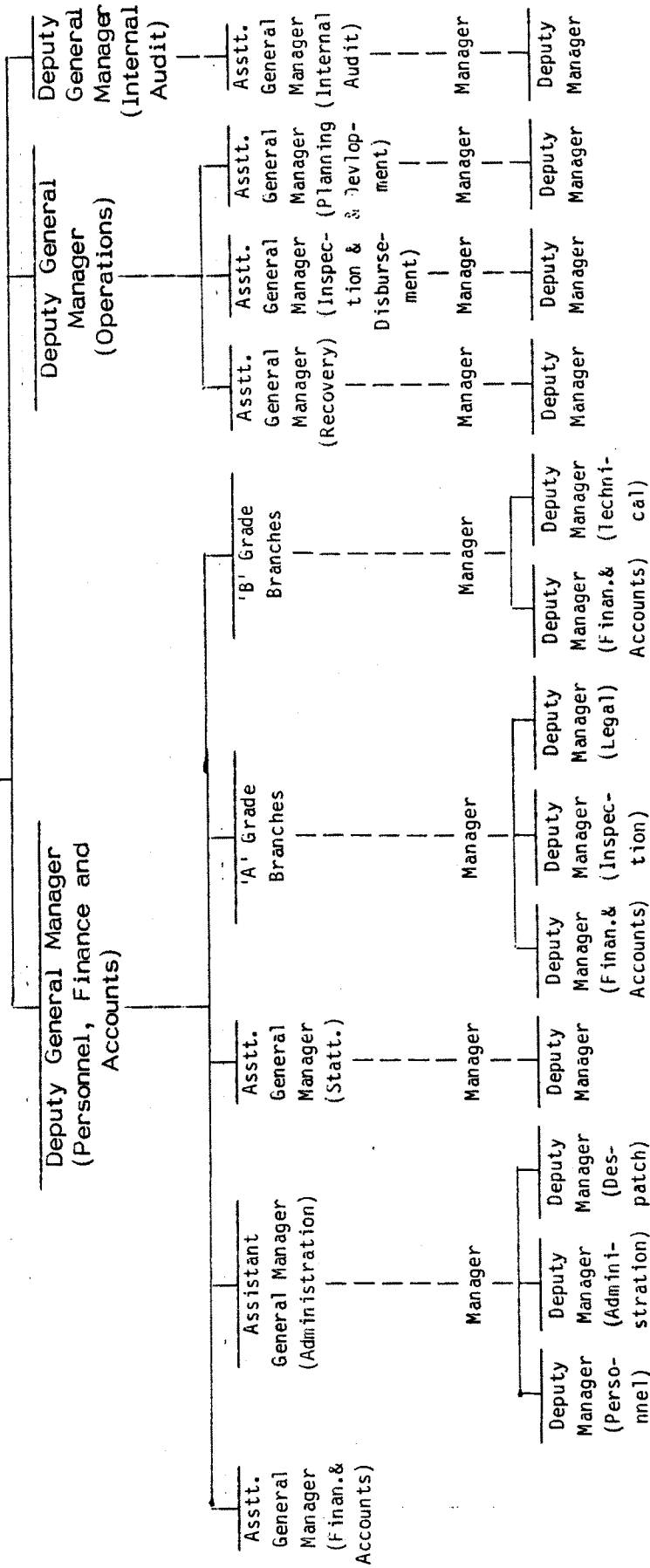
The proposal is that the State Financial Corporations should no longer be regarded as tiny tots but adults, which should be entrusted with responsible work in a big way. The proposal has already been made for the Managing Director to be the Chairman of the Corporation on the pattern that prevails in all the financial institutions in India and abroad.

**ORGANIZATION CHART
OF
KARNATAKA STATE FINANCIAL CORPORATION**

BOARD OF DIRECTORS

CHAIRMAN

MANAGING DIRECTOR



Managing Director:

The Managing Director exercises all the powers and discharges all the functions which may be exercised or discharged by the Corporation. He looks after all business affairs of the Corporation and the day-to-day administration of the Corporation with the help of the administrative officers represented in the organization chart.

Deputy General Manager:

There are totally three Deputy General Managers; one looks after personnel, finance and accounts; another one is in charge of operations of recovery, inspection, disbursement, planning and development; and the last one is in charge of internal audit. Each one is treated as a head of his department and is held totally responsible for the functions of his department

Assistant General Managers help their respective heads of department. In each department, there are three sections in the charge of an Assistant General Manager. In the third department, there are only two sections. Regional Manager is held responsible for discharging the functions of his section. The Assistant General Managers help the Deputy General Managers to discharge their functions. These Assistant General Managers of each section are linked in one and same regarding their posts. Each branch works under the control of a Branch Manager supported by Junior

Officers, Assistants, Typists and Peons.

Deputy-Manager:

Deputy Managers assist the Managers of their respective departments. In the total number of branches, there are six Managers, who are assisted by eight Deputy Managers, i.e. three Deputy Managers in administration, while statistics, recovery, inspection, disbursement, planning and development, internal audit are headed by one each Deputy Manager. These Deputy Managers are assisted by the officers, clerks, typists and peons.

Branch Manager:

The Branch Office of the Corporation works independently with the coordination with the head-office and within the policies framed by the Corporation. There are two types of branches, viz. 'A' Grade and 'B' Grade. In an 'A' Grade Branch Office, the Branch Manager is in charge of his branch assisted by three Deputy Managers. In a 'B' Grade Branch Office, the Branch Manager is in charge of his branch assisted by two Deputy Managers.

**3.6 OVERALL OPERATIONS OF THE KARNATAKA
STATE FINANCIAL CORPORATION:**

The overall operations of the Corporation during the period of three years from 1986-87 to 1988-89 can be seen from the following Table.

Table 3.1

Overall Operations of Karnataka State
Financial Corporation

(Rs. in crores)

Particulars	1988-89	1987-88	1986-87	As on 31.3.1989
Paid-up Capital at the end of the year	34.70	24.70	10.00	34.70
Gross Sanctions:				
(a) Number	6372*	5053	4910	35,812
(b) Amount	148.32*	125.54	111.79	882.57
Effective Sanctions	140.49	124.61	110.36	734.45
Assistance to SSI	106.72	92.43	87.90	513.42
Loans disbursed	124.60	104.79	89.87	622.45
Loans outstanding	401.35	329.41	213.03	401.35
Recovery of dues	92.88	75.48	60.89	-
Overdues at the end of	66.36	53.66	39.73	-
Percentage of the over- dues to the loans outstanding	16.50	16.29	15.10	-
Total income	43.70	34.26	28.83	-
Total expenditure	35.00	29.90	22.54	-
Profit-before-tax	8.64	4.36	6.29	-
Profit-after-taxation				
Transfer to reserve for bad and doubtful debts	5.79	2.65	4.40	-
Reserves				
(a) Revenue Fund Section 35(1)	0.50	0.01	1.55	-
(b) Special Reserve for for purpose of Sec.36 (i)(viii) of the Income-tax Act, 1961	3.50	2.01	2.52	-

*includes Bridge-loan sanctions to 194 cases
amounting to Rs.3.66 crores.

Source: KSFC's Annual Report 1988-89, p.6.

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3. Ibid., p.123.
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