

# A Study on Performance of State Financial Corporation

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**Abstract – A Central Industrial Finance corporation was set up under the Industrial Finance Corporations Act, 1948 in order to provide medium and long term credit to industrial undertakings which fall outside normal activities of commercial banks. The State governments expressed their desire that similar corporations be set up in States to supplement the work of the Industrial Financial Corporation. State governments also expressed that the State Corporations be established under a special statute in order to make it possible to incorporate in the constitutions necessary provisions in regard to majority control by the government, guaranteed by the State government in regard to the payment principal. In order to implement the views expressed by the State governments the State Financial Corporation bill was introduced in the Parliament.**

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## INTRODUCTION

State Financial Corporation Bill having been passed by both the Houses of Parliament received the assent of the President on 31st October, 1951. It came on the Statute Book as THE STATE FINANCIAL CORPORATIONS ACT, 1951 (63 OF 1951). "Financial Corporation" means a Financial Corporation established under Section 3 and includes a Joint Financial Corporation established under Section 3A.

The State Financial Corporations (SFCs) are state level financial institutions playing an important role in the development of small and medium enterprises, in their respective states in tandem with the national priorities. There are 18 SFC's in the country of which 17 were set up under the State Financial Corporations Act 1951 and Tamilnadu Corporation Ltd. had been set up under the companies Act, in 1949 i.e. before the enactment of the SFC's Act. They aim at wider dispersion of small and medium units within each state. The role envisaged for them is not only of sending financial aid to development banks. They meet term credit needs of all such above mentioned units. The type of assistance provided by them is generally similar to those of IFCI, IDBI, ICICI etc.

The main objectives of SFC's are to catalyze investment, generate employment and to broaden the ownership base of industries. The financial assistance includes term loan, direct subscription to equity, seed, special capital. A State Financial Corporation operates a number of schemes of Refinance and Equity Type

Assistance on behalf of IDBI, SIDBI. Besides they also have schemes for artisans and special target groups such as SC/ST, Woman, EX-Service men, physically handicapped etc. in tandem with the changing environment. They are expanding the scope of their activities and coverage of their assistance.

The SFCs under the dynamic leadership of SIDBI have provided unstinted support to the small-scale industries in their creation and growth. The small-scale industry sector, in turn, has made significant contributions towards building a strong and stable national economy. This sector constitutes 95 percent of total industrial units, producing a wide range of more than 7500 products, accounts for almost 40 percent of output in manufacturing sector and 35 percent of total exports. The SSI sector acts as a nursery for promoting entrepreneurial talent and as a catalyst in industrial growth through a wide network of more than 3 million units in the country. At present, the SSI sector is one of the largest employers in the country providing direct employment to an estimated over 17 millions persons. Had it not been for the help of SFC's the SSI sector would not have been able to achieve its present heights.

## HARYANA FINANCIAL CORPORATION

Haryana Financial Corporation is one of the most important financial institutions in the State of Haryana. HFC came into existence on 1<sup>st</sup> April 1967 as State Financial Corporation. HFC is set up by the State Government of Haryana under the State Financial

Corporation's Act, 1951. The companies Act, 1956 is not applicable to the Corporation. Accordingly, the recommendations of the Securities and Exchange board of India (SEBI) on Corporate Governance as per clause 49 of the listing agreement is applicable to the limited extent, being a listed company. HFC is an autonomous body and it has been established to help the Industrialists to establish their industries in the State of Haryana. HFC meets the credits needs of small, medium scale industrial units by advancing term loans. The loans are advanced primarily for acquiring fixed assets such as land, building, plant & machinery etc.

### **PUNJAB FINANCIAL CORPORATION**

Punjab Financial Corporation a premier leading institution of Punjab is a body incorporated under the State Financial Corporations Act 1951. The Corporation came into existence on 1st February, 1953. To perform the role of a Development Bank in the State of Punjab, Corporation was established with an objective of granting loans for the establishment of new industrial concerns, modernization, expansion/diversification of existing activities etc. The Corporation has played significant role in bringing about decentralized economic development, development of backward regions and also reduction in regional imbalances in the State. The Corporation also played a magnificent role for the promotion of small and tiny units in the state and creates self-employment opportunity for young entrepreneurs.

### **DELHI FINANCIAL CORPORATION**

Delhi Financial Corporation has established in April, 1967 under the State Financial Corporation's Act 1951. The DFC is engaged in promoting, financing and developing small-scale industries and service enterprises in Delhi & Chandigarh. Over the years the Corporation has played a critical role in promoting first generation entrepreneurs, besides fulfilling socio economic and legations like employment generation and alleviation of poverty. The share capital of the Corporation is subscribed by Govt. of Delhi, Chandigarh Administration and the Industrial Development Bank of India. The Corporation offers financial assistance to different sectors including medical, health and other allied activities. Loans are made available not only to set up new units but also for expansion, modernization diversification, for snifing of industrial units from non-confirming to confirming areas and for change of commercial vehicles.

### **REVIEW OF LITERATURE**

The purpose of literature review is not simply to

describe or summaries the literature in the field. The literature review is an active process of construction of the research problem. It involves defining and problematising the field within which one will situate our own research. A literature review involves providing a rationale for our selection of literature, drawing points of comparison or conflict between texts, and providing critical commentary on the selected literature.

State Financial Corporations are an important area of finance and research in the past as well as in the present. Empirical studies have been conducted covering the performance evaluation and role of financial institutions and development banks. Important findings of some of the studies conducted in the past having hearing on the discussion of the performance appraisal and role of the financial corporations under study have been reported below.

**Jain (1956)** in his study looked at the total performance of various institutional financing agencies, using secondary data only. The study reveals that the assistance to small scale industrial sector has been grossly inadequate. Secondly, the agencies have developed a preference of investing their funds in the medium and large scale units and the bigger ones among the small scale units.

**Agarwal, B.R. (1966)**, in his study on "Industrial Finance in Rajasthan" examined the role of Rajasthan Financial Corporation in extending financial assistance to the industries in the state. He pointed out that the rejection rate of loan application was very high because of procedural difficulties, and instance on 50 per cent of security margins.

### **RESEARCH DESIGN**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The study under consideration has been conducted to examine the comparative performance of the HFC, PFC and DFC. This study is essentially exploratory in nature. It is exploratory in the sense that it explores the comparability of the performances of the financial corporations. Exploratory research helps determine the best research design, data collection method and selection of subjects. To enrich the research objectives the following research design has been used.

### **NEED OF THE STUDY**

The HFC, PFC and DFC have contributed to the industrialization of the States in terms of Industrial

production, diversification of the industrial structure, regional dispersal of industries, industrialization of the backward areas and employment generation etc. It is observed that HFC, PFC and DFC have a considerable importance in the States for industrial development. The finance provided by the HFC, PFC and DFC, if properly used, brings about prosperity in the States otherwise its diversion results in the disaster of the States. Therefore, it will be an interesting and important study to evaluate the HFC, PFC and DFC's impact on industrial development in Haryana, Punjab and Delhi with a view to ascertaining whether it has fulfilled its desired objectives. This is the objective of the present study and on the basis of this study we would attempt to draw relevant conclusions and make some useful suggestions to revitalize these corporations and to revamp it as a useful instrument in the future for industrial development of Haryana, Punjab and Delhi.

### **SCOPE OF THE STUDY**

SFCs have been playing an important role in developing small-scale and medium scale industries in India. At present there are 18 SFCs operating in India. Out of 18 SFCs Haryana, Punjab and Delhi Financial Corporations have been selected for study. These three SFCs are at present in different states of financial health. The present research has been carried out by studying the working results of these three SFCs over a period of 10 years (2000-01 to 2009-10). A time frame of ten years considered adequate to throw light on the comparative performance of these corporations. Further, due to liberalization and financial sector reforms introduced in the country during the last decade of the millennium, many dynamic changes have occurred. Therefore the study has also reflected the impact of these changes on the working of these Corporations.

### **OBJECTIVES OF THE STUDY**

Obviously, the main objective of the study is to comparative evaluation of the performances of HFC, PFC and DFC. This study intends to achieve the objectives stated below:

1. To study the schemes launched by these financial corporations.
2. To study the NPAs of HFC, PFC and DFC and suggest measures of reducing them.
3. To analyze the comparative performance of HFC, PFC and DFC in terms of loans sanctions and disbursements.

4. To find out conclusions and make useful suggestions.

### **RESEARCH METHODOLOGY**

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/techniques but also the methodology. Since the prime objective of the study is to comparative evaluation of performances of HFC, PFC and DFC and exploratory research design has been adopted. Only secondary sources of data have been used for the study such as annual reports of these corporations, SFC's Act, 1951, Journals and Newspapers etc. To fulfill the objectives of the present study following research methodology has been used.

#### **a) Selection of SFCs for the Study**

As stated in the "Need of the Study" and "Scope of the Study", three SFCs namely HFC, PFC and DFC operating in Northern India have been selected for the purpose of study.

#### **b) Collection of Data**

The study under consideration is based on secondary data. The main sources of the secondary data are published annual reports, journals, Newspapers, SFC's Act, 1951 and other printed literature of these institutions. Further data from annual reports of SIDBI and IDBI, has been also collected to enrich the study.

#### **c) Statistical Analysis**

The collected data has been analyzed in the form of simple statistical tables. Uses of sample techniques like percentages, simple growth rate, compound annual growth rate and correlation-analysis have been used. More advance statistical technique such as t-test has also been used to enrich the results.

##### **i) Percentages**

A percent is a ratio whose second term is 100. Percent means parts per hundred. The word percent comes from the Latin phrase *per centum*, which means per hundred. In mathematics, we use the symbol % for percent. Percentages have been used to measure the share of disbursements to sanctions, total sanctions and sanctions to specific categories like small-scale sector, share of NPAs to gross advances, share of

recovery to outstanding loans etc.

## ii) Simple Growth Rate

$$g = \frac{P_n - P_o}{P_o} \times 100$$

Where

g = growth rate

P<sub>n</sub> = value of current year

P<sub>o</sub> = value of previous year

## iii) Coefficient of Correlation

Karl Pearson's Coefficient of Correlation has been used to study the correlation between sanctions, disbursements and sanctions/disbursements to specified categories like small-scale sector, economically weaker sections, etc., by applying the following formula

$$r = \frac{\sum xy}{N\sigma_x\sigma_y}$$

Where

r = Coefficient of Correlation

$$X = (X - \bar{X}); \quad Y = (Y - \bar{Y})$$

X = standard deviation of series x

Y = standard deviation of series y

N = Number of pairs of observation

## iv) t-test

t-test has also been applied to test the significance of coefficient of correlation. The 't' value for r is =

$$t = \frac{r * \sqrt{N-2}}{\sqrt{1-r^2}}$$

N-2 gives the degree of freedom.

The computed value of "t" compared with its table value at 5 percent level of significance for N-2 degrees of freedom. If computed value of "t" found greater than the table value, the correlation considered to be significant.

## LIMITATIONS OF THE STUDY

Every possible effort has been made by the researcher to complete the present research work in all aspects. But there are some limitations of the study under consideration which are as follows:

- 1) The data has been collected and analyzed for the last ten years, though the SFCs have been in operation for the last 50 years.
- 2) The data used in the study has been derived from financial statements of respective financial corporations; therefore the inherent limitations of the financial statement are present in the study.
- 3) The staff of the Corporations did not want to disclose all the required information due to legal provisions. Therefore, in such cases the researcher was unable to analysis the performance more accurately.
- 4) The data has been collected from three SFCs out of 18 SFCs operating in India.

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