



47th

Annual Report
2007



**GUJARAT STATE
FINANCIAL CORPORATION**



BOARD OF DIRECTORS

(As on 31st August, 2007)

CHAIRPERSON

MS. S. K. SEKHON, IAS

(Nominated as Director by State Government & appointed as
Chairperson by SIDBI)

SHRI A. K. JOTI, IAS, Director

(Nominated by State Government)

SHRI HARSH KAUL,

(Nominated by SIDBI)

SHRI U. J. LALWANI

(Nominated by SIDBI)

MANAGING DIRECTOR

SHRI ARVIND AGARWAL, IAS

SHRI S. D. LAHIRI

SECRETARY (BOARD) AND GENERAL MANAGER (I/C)

AUDITORS

SHRI R. S. PATEL & Co.

CHARTERED ACCOUNTANTS,
AHMEDABAD.

HEAD OFFICE

Udyog Bhavan, Block No. 10, 1st Floor, GH-4,
Gandhinagar-382 017.

REGIONAL OFFICES

Ahmedabad, Vadodara, Surat, Rajkot,
Bhavnagar, Mehsana, Valsad.



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NOTICE

Notice under Regulation no. 23 of General Regulations of the Corporation is hereby given that the 47th Annual General Meeting of the shareholders of the Corporation will be held on **Friday, the 23rd November, 2007 at 4.00 PM at Dr. Baba Saheb Ambedkar Bhavan, Near Gram Technology Institute, Sector 12, Gandhinagar 382016** to transact the following business:

- (i) To receive, consider and adopt the Profit and Loss Account and Balance Sheet of the Corporation for the year ended 31st March, 2007 along with Auditor's Report thereon and the report of the Board of Directors.
- (ii) To re-appoint M/s. R.S. Patel & Co., Chartered Accountants, 901, Popular House, Near Income Tax Office, Ahmedabad-380009 as Auditors of the Corporation to hold office from the conclusion of this Annual General Meeting till the conclusion of next Annual General Meeting as recommended by RBI and to fix their remuneration.

Note :

1. A shareholder shall be entitled for one vote for each share held by him for the whole period of six months prior to the date of 47th Annual General Meeting.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Corporation.
3. The instrument(s) appointing proxy, if any, shall be delivered at the Head Office of the Corporation not less than seven clear days before the date fixed for the meeting.
4. Pursuant to Regulation 12 of the GSFC General Regulations, the Register of Members and Share Transfer Books will remain closed from 21.11.2007 to 23.11.2007 (both days inclusive).
5. Shareholders desirous of having any information are requested to send their queries to the Corporation at least seven days before the date of the meeting so that the requisite information is made available at the meeting.
6. Shareholders are requested to bring their copies of Annual Report to the Annual General Meeting.

By order of the Board of Directors,

Place : Gandhinagar
Date : 15.10.2007

Sd/-
(ARVIND AGARWAL)
MANAGING DIRECTOR



DIRECTOR'S REPORT

The Board of Directors of the Corporation have great pleasure in presenting 47th Annual Report of the Corporation alongwith the audited accounts for the year ended 31.03.2007.

1.00 Economy :

Indian economy has recorded growth of 9.4% Gross Domestic Products (GDP) in 2006-07, in comparison to 8.4 of previous year. The slow growth rate in farm sector has been cited as one of the discouraging factor in the GDP. The growth of farm sector is 2.7% during 2006-07 in comparison to 3.9% during FY 05-06. The growth of manufacturing sector was 11.10% during 06-07 in comparison to 8.00% growth in FY 05-06, which has contributed significantly in GDP.

2.00 Gujarat Economy :

Gujarat continued to witness impressive industrial development. The state received acknowledgements of 8329 nos. of Industrial Entrepreneurs Memorandum filed till January 2007 with estimated investment of Rs. 3,83,284 crore. The cumulative number of registered Small Scale Industrial units have crossed the figure of 3,10,000 at the end of 2006. In order to attract more investment, "Vibrant Gujarat Global Investors Summit" was organized in January, 2007 at Ahmedabad. In all, 363 MOUs have been signed with proposed total investment of Rs. 4,62,000 crore.

3.00 Operational Results/Financial Highlights :

Corporation has discontinued lending and disbursement, which were its main business activities. The Task Force appointed by Government of Gujarat for financial restructuring of GSFC has suggested to reduce the overall administrative expenditure. In view of this, GSFC has taken several steps for reduction of expenditure. It is expected that the reduction in the coming financial year would be approximately 34%. The administrative expenditure was Rs. 15.12 crore during 2005-06, which has reduced to Rs. 9.91 crore during 2006-07.

Corporation made concerted efforts to dispose off units under possession. During the year under report, 229 units were disposed off and realised an amount of Rs. 47.44 crore as against 228 units disposed off and realisation of Rs. 40.39 crores during 2005-06.

During the year, Corporation has incurred loss of Rs. 311.64 crore as against Rs. 12.00 crore in previous year. The main reasons for increase in loss are :

1. Reduction in interest income from Rs. 71.14 crore to Rs. 28.32 crore as the interest income of last year includes interest income of Rs. 21.83 crore earned from Pipavav cases.
2. Last year Corporation saved interest cost of Rs. 111.17 crore by restructuring debt of SIDBI and other non-guaranteed debts.
3. Due to change in provisioning of NPA as per SIDBI/RBI guidelines additional provision of Rs. 229.21 crore is made in current year as against Rs. 69.74 crore in previous year.
4. Interest on borrowing increased from Rs. 73.17 crore to Rs. 87.79 crore in current year.



4.00 Resources/Financial Restructuring :

State Government has continued their financial support and provided assistance of Rs. 124.17 crore to repay government guaranteed Bonds.

Out of Rs. 124.17 crore, Rs. 120.00 crore were used for repayment of dues of SIDBI as second instalment of settled amount and Rs. 4.17 crore to other institutions for Government guaranteed priority sector bonds.

5.00 Scheme for physically handicapped :

Corporation has discontinued functioning as Channelising Agency of the NHFDC, Faridabad since November 2006. During the period April-November 2006, Corporation has sanctioned Rs. 4.20 lacs and disbursed Rs. 9.67 lacs to 16 units and 31 units respectively, under the Scheme.

6.00 Recovery :

During the year 2006-07 Corporation recovered Rs. 78.00 crore as against Rs. 162.00 crore (including Rs. 54.95 crore from Pipavav units) during FY 2005-06.

7.00 Staff Strength :

The total staff strength as on 31.03.07 is as under :

1.	Grade "A" Officers	53
2.	Grade "B" Officers	314
3.	Grade "C" Employees	66
	TOTAL	433

8.00 Audit :

The Corporation appointed M/s. R. S. Patel & Company, Chartered Accountants, Ahmedabad as Statutory Auditors in the Annual General Meeting of the shareholders held on 31.07.2006, as per the recommendation of RBI under the provisions of Section 37(1) of the SFC Act, 1951 to conduct audit of the Books of Accounts of the Corporation for FY 2006-07. The audit of the accounts was completed for the year by them.

9.00 Board of Directors :

(1) CHAIRPERSON/CHAIRMAN :

Sr. No.	Name of Chairman/Chairperson	Period
1.	Smt. Nethra Shenoy, IAS	Upto 30.09.06
2.	Shri D. Rajgopalan, IAS	01.10.06 to 14.01.07
3.	Ms. Swatantra K. Sekhon, IAS	From 15.01.07 onwards



(2) MANAGING DIRECTOR :

Sr. No.	Name of Managing Director	Period
1.	Shri P. V. Trivedi, IAS	Upto 31.01.07
2.	Shri G. C. Murmu, IAS	From 01.02.07 onwards

(3) **Directors** : Shri A. K. Joti, IAS nominated by Government of Gujarat continued as Director of the Corporation during the year.

11.00 Acknowledgement :

The Board is grateful to the Government of India, Government of Gujarat and Small Industries Development Bank of India for their advise, support and guidance. The Board thanks GIIC, GIDC, DICs and various Banks for extending their support and co-operation.

The Board thanks Industries Department and Finance Department of Government of Gujarat for their valuable guidance and support. The Board is obliged to the shareholders of the Corporation for reposing confidence and supporting the Corporation.

Board also takes on record the services, guidance and support by outgoing Managing Director Shri P. V. Trivedi, IAS.

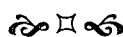
The Board conveys its appreciations to all employees of the Corporation for their performance during the year and calls upon similar performance in the current year.

For and on behalf of the Board

Sd/-

(ARVIND AGARWAL)
MANAGING DIRECTOR

Place : Gandhinagar
Date : 09-08-2007





ADDENDUM TO THE DIRECTORS' REPORT

EXPLANATORY NOTES OF THE BOARD ON QUALIFICATIONS/OBSERVATIONS OF STATUTORY AUDITORS.

Audit Report Point No. III

Prior period items are accounted for by the Corporation in the Profit & Loss Appropriation Account so that the Profit & Loss Account would indicate the exact position for the current financial year from the operations of the Corporation.

Point No. VI

The Auditors have not given specific comment about the areas or aspect where the internal control system of the Corporation is inadequate and requires to be strengthened. It is, therefore, not possible to give a specific reply to these observations of the auditors. However, in respect of internal control, the Corporation has a well laid down policy and procedure in the form of guidelines and circulars and the system provides for in-built checks and balances of the transactions. The transactions are also periodically reviewed at various levels so that chances of errors and frauds are minimized. For internal audit, the Corporation has also appointed a firm of Chartered Accountants and the scope of internal audit covers checking of transactions on regular basis. Review of internal control, system and procedures - now the system of pre-audit of expenditure is also introduced. The internal auditors have also been requested to conduct system-based audit in the Corporation to further strengthen the system & procedures.

Point No. VII

Interest provision on PSB bonds III, IV & V has not been made as per the contractual rates since the Corporation has moved a financial restructuring programme with these bond holders where the repayment is adjusted against the principal amount as a part of the total package.

Point No. VIII

Some credit balances have come because of loanes are paying in advance. Reconciliation is an ongoing exercise and most of the accounts have already been reconciled with the general ledger. Since the amount under review is insignificant compared to the total asset block, it hardly makes any difference in the provisions.

Point No. X

The Corporation is adopting and complying with accounting standards as per ICAI to a great extent. However, due to existing policy, procedure and system, Corporation could not comply with cent percent. However, efforts in this regard is continuing to comply with accounting standards as per ICAI

Point No. XI : Provision for Leave Encashment payable on retirement

As a prevalling practice, Corporation is not making provision for Leave Encashment payable on retirement.

FIXED ASSETS

Corporation provides depreciation as per the provisions of Income Tax Act. Corporation has decided to calculate profit or loss on the assets sold where the nature of assets are significant unlike table and chairs where the gain hardly makes any difference and requires lengthy calculations.



GSFC TOWER AT SURAT

Corporation is reviewing the legal administrative and accounting treatment of Surat Tower. As soon as this is accomplished, necessary accounting entries will be passed.

INVESTMENT

The securities under question are not tradable in the open market and hence are not disposed off, though more than 7 year has passed. However, Corporation has made total provision on investment keeping aside a token value of Re. 1/- in abeyance.

UNCLAIMED/UNPAID DIVIDEND

Corporation has utilized the unclaimed dividend on partly paid shares since provision of SFCs Act are applicable to the Corporation instead of Companies Act.

Loan and Advances & NPA Provision:

Corporation has more than 4000 units under doubtful category scattered in State of Gujarat where valuation of each unit is not feasible. Moreover, Corporation has already made 95% provision under doubtful category. As a prevailing practice, Corporation gets valuation done from outside valuers for those unit which are under possession of the Corporation.





MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(1) Term Lending Institutions :

GSFC is established as a State level development financial institution to provide a comprehensive array of financial services to entrepreneurs who set up industrial units in Small Scale Sector in the State of Gujarat. Due to financial sector reforms, the traditional areas have been entered into by new entrants like Bank and NBFCs who have access to cheap funds. SFCs could not withstand the competition from these institutions due to operational limitations. Therefore, the performance of State Financial Corporations is adversely affected in terms of volume of business and profitability during the year under report.

(2) Corporation's performance :

Due to discontinuance of sanction and disbursement, deregulation of industrial sectors and dereservation of more SSI items, Corporation is solely dependent on recovery of dues. Corporation has recovered Rs. 77.78 crore during the year.

(3) Opportunities & Threats :

In the prevailing scenario, Corporation is unable to raise resources at competitive rates due to various limitations. The only source of finance is recovery proceeds. Corporation endeavoured for restructuring debts which yielded good results. Corporation does not envisage extending financial assistance in the near future.

(4) Internal Control Systems and their adequacy :

The Corporation has proper and adequate system of internal controls proportionate to its size and business. The Corporation engaged an external Chartered Accountants firm for internal audit. The internal control system of the Corporation is designed to ensure that the financial and other records are reliable for preparing financial statements and other data and for maintaining accountability of assets.

(5) Human Resources :

The Corporation continues its efforts to reduce the administrative burden and at the same time motivate the existing staff and get support from them to discharge their responsibilities.

(6) Cautionary Statement :

The Management Discussion and Analysis Report may contain certain statements that might be considered forward looking. These statements are subject to certain risks and uncertainties. Actual results may differ materially from those expressed in the statements as important factors could influence the Corporation's operations such as Government policies and economic development.

