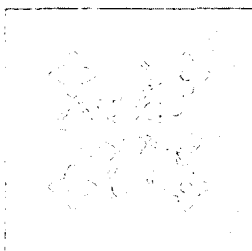


48th

Annual Report 2008



**GUJARAT STATE
FINANCIAL CORPORATION
GANDHINAGAR**





BOARD OF DIRECTORS

(As on 31st August, 2008)

CHAIRPERSON

SMT. GAURI KUMAR, IAS

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

SHRI G. P. JOSHI, IAS, Director

(Nominated by State Government)

SHRI HARSH KAUL,

(Nominated by SIDBI)

SHRI U. R. TATA

(Nominated by SIDBI)

MANAGING DIRECTOR

SHRI ARVIND AGARWAL, IAS

DEPUTY MANAGER & SECRETARY (BOARD)

SHRI P. V. R. NAIR

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.



CONTENTS

Sr. No.		Page
1.	Notice	01
2.	Director's Report	02
3.	Management Discussion & Analysis Report	07
4.	Report on Corporate Governance	08
5.	Auditor's Report	15
6.	Balance Sheet	19
7.	Profit & Loss Account	20
8.	Cash Flow Statement	22
9.	Performance of the Corporation at a glance during last decade	41
10.	Attendance Slip/Proxy Form	45

Report  junction.com



NOTICE

Notice under Regulation no. 23 of General Regulations of the Corporation is hereby given that the 48th Annual General Meeting of the shareholders of the Corporation will be held on **Friday, the 23rd January, 2009 at 4.00 P.M. in the office of the Chairperson at Head Office at Udyog Bhavan, Block No. 10, 1st Floor, Sector-11, Gandhinagar-382 017** 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, 2008 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 48th 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 21.01.2009 to 23.01.2009 (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 : 12.12.2008

Sd/-
(ARVIND AGARWAL)
MANAGING DIRECTOR



DIRECTOR'S REPORT

The Board of Directors of the Corporation have great pleasure in presenting 48th Annual Report of the Corporation alongwith the audited accounts for the year ended 31/03/2008.

1.00 Economy :

Many challenges face Indian industry in the current macro-economic environment. India's heady growth story of the last five years was somewhat subdued this year, eventhough GDP growth was still 9.1 % in comparison to 9.4% of previous year. The global economic environment was also shaken. Oil prices continued spiraling and food prices soared. It was indeed a difficult year for the Indian economy.

Indian industry's performance swung substantially each month, led by decline in growth of consumer goods segment. Fortunately, the services sector has continued its momentum as the growth driver for the economy and has truly emerged as a power house, stabilizing growth even as the industry and agriculture sectors faltered.

2.00 Gujarat Economy :

Gujarat continued to witness impressive industrial development. The state received acknowledgements of 8710 nos. of Industrial Entrepreneurs Memorandum (IEM) filed till March 2008 with estimated investment of Rs.5,04,297 crores. The cumulative number of registered Small Scale Industrial units have reached the figure of 3,26,525 at the end of the year 2007. In order to attract more investment, "Vibrant Gujarat Global Investors Summit" was organized in January 2007 at Ahmedabad, wherein 363 MOUs have been signed with proposed total investment of Rs.4,62,000 crores.

3.00 Operational Results/Financial Highlights :

Corporation continued to stop lending and disbursement, which were its main business activities. The Task Force appointed by Government of Gujarat for financial restructuring of GSFC suggested to reduce the overall administrative expenditure. Accordingly, GSFC has taken several steps for reduction of expenditure. It is expected that the reduction in the coming financial year would be approximately 17%. The administrative expenditure was Rs.9.91 crores during 2006-07, which has gone down to Rs.8.26 crores during 2007-08.

Corporation made concerted efforts to dispose off units under possession. During the year under report, 223 units were disposed off and an amount of Rs.35.40 crores was realized as against 229 units disposed off and realized amount of Rs.47.44 crores during 2006-07.

Corporation also introduced a scheme of 'One Time Settlement' during the year for the dues of its term loanees with a view to maximize the recovery and minimize the number of accounts with the Corporation. During the year, an amount of Rs.41.41 crores was realized under the OTS Scheme and 436 units have taken the advantage of this scheme.

4.00 Resources/Financial Restructuring :

State Government has continued its financial support and provided an assistance of Rs.120.00 crores, which was used for repayment of dues of SIDBI as third instalment of settlement amount.

In view of the decision of The Task Force constituted for financial restructuring of GSFC, in its meeting held on 13/03/2008, Corporation settled its dues with Indian Bank at 60% principal outstanding without accrued/accumulated interest and paid Rs.9.62 crores. Thus, Corporation



saved Rs.6.38 crores towards principal and Rs.9.98 crores towards interest. Apart from the above, Corporation has also settled with Union Bank of India at 50% principal outstanding without accrued/accumulated interest and saved Rs.2.50 crores towards principal.

Corporation has also settled with Bombay Mercantile Bank, State Bank of Saurashtra and Agrimore EGF at 60% of principal outstanding payable in 5 equal yearly instalments. Accordingly, Corporation paid Rs.1.93 crore and thus saved Rs.8.96 crores towards principal for all above three Bondholders.

5.00 Scheme for Physically Handicapped

Corporation has discontinued functioning as a channelising agency of the NHFDC, Faridabad since November 2006 and therefore, no amount was sanctioned and disbursed during the year. However, an amount of Rs.24.48 lacs has been recovered by the Corporation during the year under NHFDC scheme.

6.00 Recovery :

During the year 2007-08, Corporation recovered an amount of Rs.98.44 crores (including sale of guest house for Rs.25.00 lacs and society shares for Rs.250.00 lacs) as against Rs.78.00 crores during FY 2006-07.

7.00 Staff Strength :

The total staff strength as on 31/03/2008 is as under :

1.	Grade 'A' officers	52
2.	Grade 'B' officers	311
3.	Grade 'C' employees	66
	TOTAL	429

8.00 Audit :

The Corporation re-appointed M/s. R S Patel & Company, Chartered Accountants, Ahmedabad as Statutory Auditors in the Annual General Meeting of the shareholders held on 23/11/2007, as per the recommendation of RBI under the provisions of Section 37 (I) of the SFCs Act, 1951 to conduct audit of the Books of Accounts of the Corporation for FY 2007-08. 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	Ms. Swatantra K Sekhon, IAS	15/01/07 to 26/09/07
2	Shri D. Rajagopalan, IAS	From 15/10/07 onwards



(2) Managing Director

Sr. No.	Name of Managing Director	Period
1	Shri G. C. Murmu, IAS	Up to 06/05/07
2	Shri Arvind Agarwal, IAS	From 07/05/07 onwards

- (3) **Directors :** Shri A. K. Joti, IAS nominated by Government of Gujarat continued as Director of the Corporation during the year. Shri U J Lalwani, nominated by SIDBI, as Director of the Corporation was withdrawn by SIDBI on 14/09/2007 and Shri U R Tata was nominated in his place.

10.00 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 GLIC, GIDC, DICs and various Banks for extending their support and co-operation.

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

Board also takes on record the commendable services rendered by outgoing Chairperson Ms. Swatantra K Sekhon, IAS and also outgoing Managing Director Shri G. C. Murmu, IAS.

The Board conveys its appreciation 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

Place : Gandhinagar
Date : 22-09-2008

Sd/-
(ARVIND AGARWAL)
MANAGING DIRECTOR





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 this observation 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 has 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 and no interest is paid to the Bond holder..

Point No. VIII

Some credit balances have come because of loanees 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 accounting standards as per ICAI to a great extent. However, due to existing policy, procedure and system, Corporation could not comply cent percent. However, efforts in this regard is continuing to comply accounting standards as per ICAI.

Point No. XI & XII :

Corporation is traditionally adopting the practice of making actual payment at the time of retirement of employees and debiting the actual amount to the Profit & Loss Account in the year in which liability arises.



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 98% 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 Corporation 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 upon recovery of dues. Corporation has recovered Rs.98.44 crores 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 endeavored for restructuring debts which yielded good results. Corporation does not envisage extending financial assistance in the near future.

(4) Internal control system 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.

