



## NOTICE

Notice under Regulation no. 23 of General Regulations of the Corporation is hereby given that the 50<sup>th</sup> Annual General Meeting of the shareholders of the Corporation will be held on **Thursday, the 2<sup>nd</sup> December, 2010 at 4.00 P.M. in the office of the Chairman at Head Office at Udyog Bhavan, Block No. 10, 1<sup>st</sup> 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 31<sup>st</sup> March, 2010 along with Auditor's Report thereon and the report of the Board of Directors.
- (ii) To appoint M/s. Mahendra N Shah & Co. Chartered Accountants, Ahmedabad 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 50<sup>th</sup> 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 30.11.2010 to 02.12.2010 (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 : 18-10-2010

**(ARVIND AGARWAL)**  
MANAGING DIRECTOR

## DIRECTOR'S REPORT

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**To the Members,**

**Your Directors present the 50th Annual Report of the Corporation together with the audited statements of Accounts for the year ended 31st March 2010.**

### **1.0 Economy :**

The Indian Economy has been able to recover faster than its peers due to the combined and timely efforts of Government of India and Reserve Bank of India. The GDP growth in Financial Year 2009-10 is expected to be between 7.2% and 7.5% as against 6.7% for the financial year 2008-09. As per RBI's Annual Monetary and Credit policy announced on 20th April 2010, Indian economy is expected to grow by 8% in 2010-11. The sustained growth may as well be attributed to dynamic commercial sector, active capital market, acceleration in GDP growth, turnaround in exports, strong recovery in industrial production especially in manufacturing, services sectors, revival of stock market activities, revival in capital inflows and indications of positive corporate sales leading to signs of improved profitability and credit growth. In a nut-shell, the year 2009-10 is characterized by soft interest rate scenario, abundant liquidity but rising inflationary pressure. The challenge before Indian economy is thus to adopt such policy measures which would strike a balance between controlling rising inflation and maintaining growth with stability.

### **2.0 Operational Results/Financial Highlights :**

Corporation continued to stop lending and disbursement, which were its main business activities. Corporation made concerted efforts to dispose off units under possession. During the year under report, an amount of Rs. 11.29 crore was realized from sale of units/assets as against the realized amount of Rs.24.82 crore during 2008-09.

Corporation once again introduced a 'One Time Settlement Scheme' during the year for accelerated recovery of over dues from its loanees. During the year, an amount of Rs.21.69 crore was realized under the OTS Scheme. During the year under review, as against the total income of Rs.55.45 crore, the total expenditure was Rs.184.83 crore resulting into a net loss of Rs.129.38 crore. The accumulated loss as on balance sheet date is of Rs.1548.58 crore.

### **3.0 Resources/Financial Restructuring :**

State Government has continued to extend financial support to the Corporation. During the year under report, State Government provided an assistance of Rs.20.00 crore which was utilised for repayment of dues of Bonds guaranteed by the State Government. The outstanding Government guaranteed bonds as on 31/03/2010 was Rs.18.98 crore as against Rs.60.14 crore during the last year.

### **4.0 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. 7.91 lacs has been recovered by the Corporation during the year under NHFDC scheme.

## 5.0 Recovery :

During the year 2009-10, Corporation recovered an amount of Rs. 35.22 crores as against Rs.75.13 crores during FY 2008-09.

## 6.0 Staff Strength :

The total staff strength as on 31/03/2010 is as under :

1.	Grade 'A' Officers	14
2.	Grade 'B' officers	141
3.	Grade 'C' employees	30
	<b>Total</b>	<b>185</b>

## 7.0 Audit :

The Corporation re-appointed M/s. R S Patel & Company, Chartered Accountants, Ahmedabad as Statutory Auditors in the Annual General Meeting held on 22/01/2010, as per the recommendation of RBI under the provisions of Section 37 (I) of the SFC Act, 1951 to conduct audit of the Books of Accounts of the Corporation for Financial Year 2009-10. The audit of the accounts was completed for the year by them.

## 8.0 Board of Directors :

During the financial year, the nomination of Smt. Gauri Kumar, IAS, was withdrawn by the Government of Gujarat on 02/04/2009 and in her place Shri M Sahu, IAS, Principal Secretary, Industries & Mines Department, Government of Gujarat was nominated. SIDBI vide letter dated 09/07/2009 appointed Shri M Sahu, IAS, as Chairman of the Corporation. Government of Gujarat also withdrawn the nomination of Shri G P Joshi, IAS, from the Board of the Corporation vide notification dated 02/04/2009 and in his place, Shri C L Meena, IAS, Principal Secretary (Expenditure), Finance Department, Government of Gujarat, was nominated.

## 9.00 Corporate Governance

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Management Discussion and Analysis, Corporate Governance Report and certificate regarding compliance of conditions of Corporate Governance are made a part of this Annual Report.

## 10.0 Directors' Responsibility Statement

To the best of their knowledge and belief and according to the information and explanations obtained by them, your Directors make the following statement in terms of Section 217 (2AA) of the Companies Act, 1956 :

1. That in the preparation of the annual accounts for the year ended 31st March 2010, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any.

2. That such accounting policies as mentioned in Schedule 16 of the Annual Accounts have been selected and applied consistently and judgments and estimates that are reasonable and prudent are made so as to give a true and fair view of the state of affairs of the Corporation at the end of the financial year ended 31st March 2010 and of the loss of the Corporation for that year.
3. That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act 1956 for safeguarding the assets of the Corporation and for preventing and detecting fraud and other irregularities.
4. That the annual accounts for the year ended 31st March 2010 has been prepared on a going concern basis.

#### **11.0 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 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, Smt. Gauri Kumar, IAS and also outgoing Director Shri G P Joshi, 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 : 28-07-2010

Sd/-  
**(Arvind Agarwal)**  
Managing Director



## **ADDENDUM TO THE DIRECTORS' REPORT**

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### **EXPLANATORY NOTES OF THE BOARD ON QUALIFICATIONS/OBSERVATIONS OF STATUTORY AUDITORS**

#### **Point No. V**

Interest provision of Rs.13.46 lakh on PSB bonds IV has not been made due to the fact that all bondholders, except three, have agreed for restructuring and such agreed bondholders have been paid installments regularly in accordance with the agreement. Since these bonds have already matured and three bondholders have not agreed for restructuring, provision could not be made.

#### **Point No. VI**

##### **Reconciliation of General Ledgers and Sub-ledgers**

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. VII & VIII**

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. For gratuity, Corporation is operating a Group Gratuity Scheme with LIC and contribution made to the scheme is charged to Profit & Loss Account. In case of any shortfall, the same is met in the year of occurrence and charged to Profit & Loss Account. Thus actuarial valuation as per project unit credit method is not adopted. In case of leave encashment also, Corporation adopts the method of charging to Profit & Loss Account in the year of occurrence.

#### **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, outdated unrepairable computers where the gain hardly makes any difference and required lengthy calculation. The gain or loss is recognized and suitable adjustments are made in the respective accounts.

#### **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 years have passed. However, Corporation has made total provision on investment keeping aside a token value of Rs.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. Further, Regulation 58 (iv) empowers the Corporation to retain the dividend. Since there is a specific provision, unpaid dividend cannot be transferred to Investor Education & Protection Fund.

## **Loan and Advances & NPA Provision**

Corporation has more than 5000 units under doubtful category scattered in State of Gujarat where valuation of each unit is not feasible. Moreover, Corporation has already made 99.55% provision under doubtful category. As a prevailing practice, Corporation gets valuation done from outside valuers for those units which are under possession of the Corporation.



## **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

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**(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 Banks 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.35.22 crores during the year.

**(3) Opportunities & Threats :**

In the prevailing scenario, the Corporation is unable to raise resources at competitive rates due to various limitations. The only sources 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) Financial Performance :**

**Share Capital**

The share capital of your Corporation comprises of equity shares of Rs.10/- each. Your Corporation's shares are listed with National and Mumbai Stock Exchanges.

**Long term borrowings**

Your Corporation has restructured long term borrowings in tune with the recommendation of Task Force constituted by Government of Gujarat. Government guaranteed bonds having face value of Rs.41.16 crore were repaid during the year leaving a balance of

Rs.18.98 crore to be repaid as against Rs.60.14 crore during the last year. Corporation also repaid Priority Sector Bonds (Non-guaranteed) worth Rs.3.93 crore during the year. The outstanding Priority Sector Bonds on balance sheet date was Rs.5.02 crore as against Rs.8.95 crore during the last year

The dues payable to Government of Gujarat under Soft Loan portfolio is Rs. 612.17 crore as on 31/03/2010 as against Rs.592.17 crore during last year.

### Financial Results

(Rs. in lakh)

Particulars	Year ended 31/03/2010	Year ended 31/03/2009
Total Income	4740.88	8898.77
Interest expenses	16144.02	13505.14
Other expenses	2310.93	7151.29
Loss before depreciation & tax	13714.07	11757.66
Depreciation	28.15	35.27
Loss after depreciation & tax	13742.22	11792.93
Profit on sale of assets	803.96	00
Net loss after extra ordinary item	12938.26	11792.93
Balance carried over to balance sheet	154858.06	141919.80

### (7) Cautionary Statements :

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 developments.





## REPORT ON CORPORATE GOVERNANCE FOR THE YEAR 09-10

### 1. PHILOSOPHY ON CODE OF GOVERNANCE

Gujarat State Financial Corporation believes that sound ethical practices, transparency in operations and timely disclosures go a long way in enhancing long-term shareholder value while safeguarding the interest of all the stakeholders. The policies, procedures and practices that are installed in the organization ensure fairness, courtesy and dignity in all transactions within and outside the Corporation with customers, employees, investors, competitors, the Government and the society.

### 2. BOARD OF DIRECTORS

#### Composition of Board

The constitution of Board of Directors is governed by the provisions of Section 10 of the State Financial Corporations Act, 1951. As on March 31, 2010, the Board of the Corporation consists of five Directors viz., Chairman nominated as Director by Govt. of Gujarat and appointed as Chairman by SIDBI, Managing Director, a Director nominated by the Government of Gujarat and two representatives of Small Industries Development Bank of India.

#### A. Attendance of each Director at the Board meetings and the last AGM

Sr. No.	Name of Director	No. of meetings			No. of other companies BODS/Board/Committee where he is a member/ Director/Chairman
		Held during the tenure	Attended	Attendance at the AGM held on 22-1-2010	
1	Smt. Gauri Kumar, IAS (From 22-5-08 to 1-4-09) Chairperson	0	0	NA	05
2	Shri M Sahu, IAS, as Director (From 2-4-09) & as Chairman (From 9-7-09)	4	4	Present	02
3	Shri Arvind Agarwal, IAS Managing Director (From 7.5.2007)	4	4	Present	14
4	Shri G P Joshi, IAS (from 21-5-08 to 1-4-09)	0	0	NA	07
5	Shri C L Meena, IAS (From 2-4-09)	4	1	Present	10
6	Shri Harsh Kaul, Director (Since 10.4.07)	4	2	Present	02
7	Shri D Ghosh, Director (From 19-12-08)	4	3	Present	02

Shri M Sahu, IAS, Principal Secretary, Industries & Mines Department, Government of Gujarat, was nominated as a Director on the Board of the Corporation on 2-4-2009 in place of Smt. Gauri Kumar, IAS. SIDBI vide letter dated 9th July, 2009 nominated Shri M Sahu, IAS, Director, as Chairman of the Corporation.

Govt. of Gujarat also nominated Shri C.L.Meena, IAS, Principal Secretary (Expenditure), Finance Department, vide letter dated 2-4-2009 on the Board of the Corporation in place of Shri G P Joshi, IAS

Subsequent to the year under reference, SIDBI vide letters dated 10-6-2010, nominated Sarvashri K C Bhanoo and R.D.'Silva as its nominees on the Board of the Corporation replacing Sarvashri Harsh Kaul and D Ghosh.

Shri K.C. Bhanoo, an Arts Graduate, is a Banker by profession and he has 23 years of experience in Development Banking in various capacities. At present, he is working as General Manager with SDBI at its Ahmedabad office. Shri Bhanoo is a Nominee Director on the Boards of Friends of Women's Worlds Banking and Gujarat Industrial and Technical Consultancy Organisation. He is also a nominee on the GVFL Investment Board.

Shri R. D. Silva, is a Science Graduate from Mumbai University. He has 32 years of experience in Development Banking in various capacities. He at present holds the position of Deputy General Manager with SIDBI at its Ahmedabad office. He holds no other Directorship.

#### **A. Board Meetings**

During 2009-10, Board of Directors met four times on 6th June, 09, 30th September, 2009, 22nd January, 2010 and 30th March, 2010.

#### **B. Code of Conduct**

The Board had approved a Code of Conduct for Directors and Senior Management Personnel of the Corporation. The code has been displayed on Corporation's website viz. [gsfc.gujarat.gov.in](http://gsfc.gujarat.gov.in). The Board members and Senior Management Personnel have affirmed compliance with the aforesaid code. A declaration to this effect signed by the Managing Director is annexed to this Report.

#### **C. CEO/CFO Certification**

The Certificate in compliance with Clause 49(V) of the Listing Agreement issued by the Managing Director and General Manager on the accounts of the Corporation for the year 2009-10, as required under the Corporate Governance guidelines, was placed before the Board of Directors and taken on record.

#### **D. Compliance Report**

Corporation has complied with mandatory requirements, except minimum required meetings of Audit Committee, on the Corporate Governance Guidelines as per Clause 49 of the Listing Agreement.