

51st

Annual Report 2011



GUJARAT STATE FINANCIAL CORPORATION
GANDHINAGAR



BOARD OF DIRECTORS

(As on 12th September, 2011)

CHAIRMAN

SHRI M. SAHU, IAS

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

SHRI C. L. MEENA, IAS, Director

(Nominated by State Government)

SHRI K. C. BHANOO, Director

(Nominated by SIDBI)

Shri R. D'SILVA, Director

(Nominated by SIDBI)

MANAGING DIRECTOR

SHRI ARVIND AGARWAL, IAS

DEPUTY MANAGER & SECRETARY (BOARD)

SHRI P.V.R. NAIR

AUDITORS

M/S. MAHENDRA N. SHAH & CO.

CHARTERED ACCOUNTANTS,

AHMEDABAD

HEAD OFFICE

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

Gandhinagar – 382 017

REGIONAL OFFICES

Ahmedabad, Surat, Rajkot



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NOTICE

Notice under Regulation No. 23 of General Regulations of the Corporation is hereby given that the 51st Annual General Meeting of the shareholders of the Corporation will be held on **Friday, the 30th December, 2011 at 4.00 P.M. in the office of the Chairman 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, 2011 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 51st 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 28.12.2011 to 30.12.2011 (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 : 09-11-2011

(ARVIND AGARWAL)
MANAGING DIRECTOR



DIRECTOR'S REPORT

To the Members,

Your Directors present the 51st Annual Report of the Corporation together with the audited statements of Accounts for the year ended 31st March 2011.

1.0 Economy :

From a macro-economic perspective, the year 2010-11 was a year of great contrasts. While the global economic recovery advanced, it remained uneven between advanced nations and emerging markets. However, India continued to provide platform in the world economy throughout the year. The Gross Domestic Product (GDP) of India is estimated to have grown at 8.6% in 2010-11 in real terms. In 2010-11, agriculture is estimated to have grown at 5.4% and services at 9.6%. All three sectors have contributed to the consolidation of growth. More importantly, the economy has shown remarkable resilience to both external and domestic shocks. Notwithstanding a good growth tempo, domestic inflation remains a cause of concern. Inflation, fueled by rise in price of primary articles, is expected to drag down overall economic growth. Anti-inflationary stance resulted in Reserve Bank of India taking a number of corrective measures during the year. However, inflation is expected to moderate slowly but remain above the comfort level during 2011-12.

2.0 Operational Results/Financial Highlights :

As informed to members earlier, Corporation has discontinued its main business of extending financial assistance to industrial concerns since August 2001. The source of income is, therefore, reduced to recovery of dues only and Corporation has deployed its entire machinery in that direction. In order to reduce the inventory, Corporation continued to make vigorous efforts to dispose off the assets taken over by it. During the year under report, an amount of ₹ 12.84 crore was realized from sale of units/assets as against ₹ 11.29 crore during 2009-10.

Corporation continued to operate 'One Time Settlement Scheme' during the year for accelerating recovery of dues from its loanees. During the year, an amount of ₹ 22.66 crore was recovered under the scheme.

During the year under report, the total income of the Corporation including extra-ordinary item stood at ₹ 64.21 crore and the total expenditure was to the tune of ₹ 221.13 crore resulting into a net loss of ₹ 156.91 crore. The corresponding figures for the last year were ₹ 55.45 crore, ₹ 184.83 crore and ₹ 129.38 crore respectively. The accumulated loss as on balance sheet date is of ₹ 1705.49 crore.

3.0 Resources/Financial Restructuring :

State Government has continued to extend financial support to the Corporation. During the year under report, Corporation has received assistance by way of loan of ₹ 5.00 crore from Government of Gujarat, which was utilized for repayment and premature redemption of bonds guaranteed by the State Government. The outstanding Government guaranteed bonds as on 31/03/2011 was ₹ 4.20 crore as against ₹ 18.98 crore at the end of previous year.



4.0 Recovery :

During the year 2009-10, total recovery of the Corporation amounted to ₹ 38.35 crore as against ₹ 35.22 crore during FY 2009-10.

5.0 Staff Strength :

The total staff strength as on 31/03/2011 is as under :

1.	Grade 'A' Officers	09
2.	Grade 'B' officers	99
3.	Grade 'C' employees	26
	Total	134

Of the above, 48 staff are on deputation/loan service to other offices of the Government.

6.0 Audit :

As recommended by RBI under the provisions of Section 37 (I) of the SFCs Act, 1951 and approved by the members in the 50th Annual General Meeting, the Corporation appointed M/s. Mahendra N Shah & Co., Chartered Accountants, Ahmedabad, as Statutory Auditors to conduct audit of the Books of Accounts of the Corporation for FY 2010-11. They, being eligible, have given their consent to continue to act as Auditors of the Corporation for FY 2011-12. RBI has also confirmed their eligibility for re-appointment. Members are requested to consider their re-appointment as Auditors of the Corporation for the current year 2011-12.

7.0 Board of Directors :

During the year under reference, nominations of S/Shri Harsh Kaul and D Ghosh as Directors were withdrawn by SIDBI vide letters dated 10.6.2010 and in their places, S/Shri KC Bhanoo and R. D'Silva were nominated.

The Board welcomes the nominee Directors. Board noted the contributions made by the outgoing Directors during their tenure and placed on record its highest appreciation for their services.

8.0 Corporate Governance :

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

9.0 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 2011, 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 2011 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 2011 has been prepared on a going concern basis.

10.0 Acknowledgement :

The Board of Directors acknowledge with thanks the guidance and help extended by various Ministries of the Government of Gujarat, particularly the Finance Department and Industries & Mines Department. The Board is grateful to Small Industries Development Bank of India and its office at Ahmedabad for their advise, support and guidance. The Board thanks various Banks for extending their support and co-operation.

Your Directors also convey their gratitude to the shareholders of the Corporation for the confidence reposed by them in the Corporation. The Board also commends the hard work and dedicated efforts put in by the employees of the Corporation.

For and on behalf of the Board

Place : Gandhinagar
Date : 12.9.2011

(Arvind Agarwal)
Managing Director





ADDENDUM TO THE DIRECTOR'S REPORT

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

Point No. V

Interest provision of ₹ 12.65 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 bondholders who have not agreed for restructuring are being persuaded for accepting the restructuring, provision has not been 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.

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

The note itself is self-explanatory of the action taken by the Corporation.

INVESTMENT

The securities under question are acquired long back. Some companies are not in existence. The shares are not tradable in the open market. Under these circumstances, Corporation could not dispose off the securities though more than 7 years have passed. However, Corporation has made total provision for diminution in value on investment keeping aside a token value of ₹ 1/- in abeyance.

UNCLAIMED/UNPAID DIVIDEND

The provisions 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 under the governing regulations framed under the applicable Act, unpaid dividend has not been 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 provision for 99.55% of the loan assets classified as 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

(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, SFCs could not withstand the competition due to operational limitations. Therefore, the Corporation has been compelled to discontinue its traditional business of term lending since last one decade and hence the performance of Gujarat State Financial Corporation has been adversely affected.

(2) Corporation's Performance :

Due to discontinuance of sanction and disbursement, Corporation is solely dependent upon recovery of dues. Corporation has recovered an aggregate amount of ₹ 38.35 crore during the year as against ₹ 35.22 crore during the previous year.

(3) Opportunities & Threats :

The Corporation could not raise resources at competitive rates due to various limitations. The only source of fund is recovery of dues. In the present circumstances, 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 firm of Chartered Accountants 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 :

As on 31st March, 2011, the Corporation has 134 employees on its pay-roll. The Corporation has maintained cordial relationship with the employees throughout.

(6) Financial Performance :

Share Capital

The share capital of your Corporation comprises of equity shares of ₹ 10/- each of different categories as enshrined in Section 4(3) of the SFCs Act, 1951. Your Corporation's shares issued by prospectus to general public in February, 1997, consisting 1,43,03,600 Class "d" equity shares are listed with National and Bombay Stock Exchanges.

Long term borrowings

Government guaranteed bonds having face value of ₹ 14.78 crore were repaid during the year leaving a balance of ₹ 4.20 crore to be repaid as against ₹ 18.98 crore during the last year. Corporation also repaid Priority Sector Bonds (Non-guaranteed) worth



₹ 2.00 crore during the year. The outstanding Priority Sector Bonds on balance sheet date was ₹ 3.02 crore as against ₹ 5.02 crore during the last year

The principal dues payable to Government of Gujarat under Soft Loan portfolio is ₹ 617.17 crore as on 31/03/2011 as against ₹ 612.17 crore during the last year.

Financial Results :

(₹ in lakh)

Particulars	Year ended 31/03/2011	Year ended 31/03/2010
Total Income	5874.34	4740.88
Interest expenses	18724.78	16144.02
Other expenses	3364.81	2310.93
Loss before depreciation & tax	16215.25	13714.07
Depreciation	23.15	28.15
Loss after depreciation	16238.40	13742.22
Profit on sale of assets	547.04	803.96
Net loss after extra ordinary item	15691.35	12938.26
Balance carried over to balance sheet	170549.41	154858.06

(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.

