

52nd

Annual Report
.....
2012



**GUJARAT STATE
FINANCIAL CORPORATION**
GANDHINAGAR



BOARD OF DIRECTORS

(As on 3rd August, 2012)

CHAIRMAN

SHRI M. SAHU, IAS

(Nominated as Director by Government of Gujarat & appointed as
Chairman by SIDBI)

SHRI D N PANDEY, IAS, Director

(Nominated by Government of Gujarat)

SHRI K C BHANOO, Director

(Nominated by SIDBI)

Shri R. D' SILVA, Director

(Nominated by SIDBI)

MANAGING DIRECTOR

SHRI ARVIND AGARWAL, IAS

SECRETARY (BOARD)

SHRI RAVEENDRAN 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 52nd Annual General Meeting of the shareholders of the Corporation will be held on **Thursday, the 8th November, 2012 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 Statement of Profit and Loss and Balance Sheet of the Corporation for the year ended 31st March, 2012 along with Auditor's Report thereon and the report of the Board of Directors.
- (ii) To reappoint 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 52nd 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 06.11.2012 to 08.11.2012 (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 : 17-09-2012

(ARVIND AGARWAL)
MANAGING DIRECTOR



DIRECTOR'S REPORT

To the Members,

Your Directors present the 52nd Annual Report of the Corporation together with the audited statements of Accounts for the year ended 31st March 2012.

1.0 Economy :

The developments over the last year in major economies of the world have not been encouraging. The global economy witnessed fresh spells of crisis during 2011-12 with domestic business and consumer confidence dampening on the back of deepening sovereign debt crisis in Europe. The crisis percolated into Indian economy and growth in India is moderating more than expected earlier. The inflation, though moderated in last quarter, remained sticky and stood at 6.9% in March 2012. Average inflation for fiscal 2012 was 8.8% as compared to 9.5% in fiscal 2011. During April-March 2011-12, Index of Industrial Production (IIP) growth was 2.8% as compared to 8.2% during April-March 2010-11. The Indian economy saw moderation in economic activity during fiscal 2012, following domestic macroeconomic conditions of high interest rates and slowdown in investments. The overall growth of GDP at factor cost at constant prices, as per Advanced Estimates, is estimated at 6.9% in 2011-12 as compared to the revised growth of 8.4% during 2010-11. The growth in real GDP is placed at 6.1% in the third quarter of 2011-12. Weakening industrial growth and global economic situation has adversely affected the growth of Indian economy.

2.0 Operational Results/Financial Highlights :

Since last more than one decade, Corporation is solely concentrating on recovery of dues. In order to boost recovery, Corporation has extended the validity of various One Time Settlement schemes upto 31.3.2012. During the year under reference, aggregate recovery of the Corporation stood at ₹ 31.69 crore as against ₹ 38.35 crore during the last financial year 2010-11.

During the year under report, the total income of the Corporation including exceptional items stood at ₹ 56.71 crore as against ₹ 64.21 crore during the last year. The total expenditure for the period under reference came to ₹ 265.63 crore whereas the same for the last year was ₹ 221.12 crore. Corporation recorded a net loss of ₹ 208.92 crore during the year under report as against ₹ 156.91 crore in the previous year. The accumulated loss of the Corporation as on 31st March, 2012 stood at ₹ 1913.97 crore.

Corporation redeemed bonds guaranteed by the State Government totaling face value of ₹ 2.95 crore during the year under report besides meeting liability of Public Sector Bonds amounting to ₹ 1.92 crore. The outstanding Government guaranteed bonds as on 31/03/2012 stood at ₹ 1.25 crore as against ₹ 4.20 crore at the end of previous year.

3.0 Resources :

Corporation is receiving active support of Government of Gujarat by way of budgetary allocation of funds to meet its liabilities. During the year under report, Corporation has received loan of ₹ 4.20 crore from Government of Gujarat.



4.0 Recovery :

During the year 2011-12, total recovery of the Corporation amounted to ₹ 31.69 crore as against ₹ 38.35 crore during FY 2010-11.

5.0 Human Resource :

During the year under reference, keeping in pace with the requirement, Corporation attempted to recast the organization structure. Under the organization structure approved and implemented during the year, the Regional Office is manned by an officer who has been designated functionally as Regional Manager inspite of the cadre in which he belongs supported by ministerial staff designated functionally. As for Head Office, the number of departments has been pruned down to six by way of merger of various departments. Each restructured department at Head Office is headed by an officer known as “Executive Officer” supported by Junior Executive Officer and other ministerial staff. There was an attrition of 5 personnel during the year due to retirement, resignation etc. The total staff strength as on 31/03/2012 is as under:

1.	Grade ‘A’ Officers	08
2.	Grade ‘B’ officers	95
3.	Grade ‘C’ employees	26
Total		129

Out of 129 employees, 45 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 51st Annual General Meeting, M/s. Mahendra N Shah & Co., Chartered Accountants, Ahmedabad, were re-appointed as Statutory Auditors to conduct audit of the Books of Accounts of the Corporation for FY 2011-12. They, being eligible, have given their consent to continue to act as Auditors of the Corporation for FY 2012-13. RBI has also confirmed their eligibility for re-appointment. Members are requested to consider their re-appointment as Statutory Auditors of the Corporation for the current year 2012-13.

7.0 Board of Directors :

During the course of the financial year 2011-12, Shri DN Pandey, IAS, Commissioner (Public Sector Enterprises) & Ex-officio Secretary, Finance Department, Govt. of Gujarat was nominated on the Board of the Corporation with effect from 17.9.2011 in place of Shri CL Meena, IAS.

The Board of Directors places on record their appreciation and thanks for the valuable services rendered by Shri CL Meena, IAS, during his tenure as Director of the Corporation.



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 :

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, the Board of Directors, based on the representations received from the Accounts Department, hereby confirms that :

1. In the preparation of the annual accounts for the year ended 31st March 2012, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any.
2. Such accounting policies as mentioned in Note 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 2012 and of the loss of the Corporation for that year.
3. 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. The annual accounts for the year ended 31st March 2012 has been prepared on a going concern basis.

10.0 Acknowledgement :

The Board of Directors gratefully acknowledge the valuable advice and support extended by various Ministries of the Government of Gujarat, particularly the Finance Department and Industries & Mines Department and Small Industries Development Bank of India and its office at Ahmedabad. 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 : 03/08/2012

(Arvind Agarwal)
Managing Director





ADDENDUM TO THE DIRECTOR'S REPORT

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

Point No. (IV)

There are two bondholders in the category of Non-guaranteed Bonds who have not responded to the proposal of the Corporation to restructure the debts. They have already shown willingness to settle the dues and the accounts will be settled in the current year 2012-13. Thus, the default has not been recognized.

As regards dues payable to Government of Gujarat, Corporation has been getting assistance by way of loan from Government of Gujarat till the year under reference to repay Government guaranteed obligations. The financial position of the Corporation was not adequate to meet with the fund requirements. Under the circumstances, default in dues payable to Government of Gujarat has taken place.

Point No. (V)

Interest provision of ₹ 12,65,000/- on PSB bonds IV has not been made due to the fact that no interest is payable after the original date of maturity of the bonds. Since these bonds have already been matured and bondholders who have not agreed for restructuring in the past have now come forward for settlement, interest 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.

POINT NO. (VII) 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 irreparable 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.

POINT NO. (VIII) 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 provision for diminution in value on investment keeping aside a token value of ₹ 1/- in abeyance.



POINT NO. (IX) 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.

POINT NO. (X) LOAN & ADVANCES AND 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 and Union Territory of Dadra & Nagar Haveli. 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 concentrating on recovery of dues. Corporation has recovered an aggregate amount of ₹ 31.69 crore during the year as against ₹ 38.35 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, 2012, the Corporation has 129 employees on its pay-roll. The Corporation has maintained cordial relationship with the employees throughout.

(6) Financial Performance :

Share Capital :

The share capital of the Corporation comprises of equity shares of ₹ 10/- each of different categories as enshrined in Section 4(3) of the SFCs Act, 1951. 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 Mumbai Stock Exchanges.

Long term borrowings :

Government guaranteed bonds having face value of ₹ 2.95 crore were repaid during the year leaving a balance of ₹ 1.25 crore to be repaid as against ₹ 4.20 crore during the last year. Corporation also repaid Priority Sector Bonds (Non-guaranteed) worth ₹ 1.92 crore