

53rd

Annual Report
.....
2013



GUJARAT STATE FINANCIAL CORPORATION
GANDHINAGAR



BOARD OF DIRECTORS

(As on 25th July, 2013)

CHAIRMAN

SHRI M. SAHU, IAS

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

DIRECTORS

MISS S. APARNA, IAS

(Nominated by State Government)

SHRI K. C. BHANOO

(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, Sector-11, 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 53rd Annual General Meeting of the shareholders of the Corporation will be held on **Friday, the 13th December, 2013 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, 2013 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 53rd 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 11.12.2013 to 13.12.2013 (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 : 05-10-2013

(ARVIND AGARWAL)
MANAGING DIRECTOR



DIRECTOR'S REPORT

To the Members,

Your Directors present the 53rd Annual Report of the Corporation together with the audited statements of Accounts for the year ended 31st March 2013.

1.0 Economy :

Fiscal 2013 has been a challenging year for the Indian economy. During the FY 2012-13, both domestic and global factors affected growth of Indian economy. Moderation in GDP growth, high inflation and fiscal deficit as well as widening Current Account Deficit were the major concerns of the economy. Macro-economic climate showed a downward trend. While India's recent slowdown is partly rooted in external causes, domestic causes are also important. The strong post financial crisis stimulus led to stronger growth in previous years. The slowdown, especially in 2012-13, has been across the board, with no sector of the economy unaffected. Wholesale price index (WPI) inflation has declined and stayed within 4 to 5% but Consumer Price Indices (CPI) remained elevated at close to double digits during the year. The economic growth during FY 2012-13 has come down to 5% from 6.2% in the FY 2011-12. The softening global commodity prices, improved economic conditions in the US, pickup in Indian export prospects and good monsoon augur well for Indian economy and are expected to contribute positively to better numbers this current fiscal.

2.0 Operational Results/Financial Highlights :

Corporation's main source of income is recovery from dues. During the year under reference, the total income, including exceptional item, stood at ₹ 64.44 crore compared to ₹ 56.71 crore during the previous year 2011-12. The total expenditure for the period under reference came to ₹ 177.61 crore as against ₹ 265.63 crore in 2011-12. Loss of the Corporation for the year under reference stood at ₹ 113.16 crore while that of the previous year was ₹ 208.92 crore. The accumulated loss of the Corporation as on 31st March, 2013 stood at ₹ 2027.13 crore.

Corporation redeemed the last trench of bonds guaranteed by the State Government totaling face value of ₹ 1.25 crore while that of Public Sector Bonds amounting to ₹ 1.10 crore. There are no guaranteed or un-guaranteed bonds outstanding as on date of report.

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 not availed of loan from Government of Gujarat.

4.0 Recovery :

Corporation has put in place strong systems for resolution and recovery of non-performing loans. The One Time Settlement schemes for term loans and BIFR cases were operative upto 30th September, 2012. As a result of concerted efforts, Corporation recovered an amount of ₹ 34.55 crore during the year 2012-13 as against ₹ 31.69 crore recovered during FY 2011-12.



5.0 Human Resource :

In order to boost the morale of the staff, promotions to ten officers/employees to the next higher cadres have been granted in FY 2012-13. The process of upliftment of human resources through imparting training to appropriate employees has also been undertaken. During the year under reference, 15 staff of various cadres has been nominated for external training programs at the institutions of national repute. Severance of 29 personnel took place during the year under reference due to retirement etc. The total staff strength as on 31/03/2013 is as under :

1.	Grade 'A' Officers	11
2.	Grade 'B' officers	74
3.	Grade 'C' employees	21
Total		106

Out of 106 employees, 35 staff is on deputation/loan service to other offices of the Government.

6.0 Auditors :

The statutory audit was carried out by M/s. Mahendra N. Shah & Co., Chartered Accountants, Ahmedabad. Their report is being annexed and forms part of this report. The statutory auditors will retire at the ensuing Annual General Meeting. As recommended by RBI under the provisions of Section 37 (1) of the SFCs Act, 1951, followed by recommendation by the Audit Committee, the Board has proposed the re-appointment of M/s. Mahendra N Shah & Co., Chartered Accountants, as statutory auditors for financial year 2013-14. Their re-appointment is being placed before the shareholders for approval.

7.0 Board of Directors :

The following changes have taken place in the Board of Directors of the Corporation during the year ended 31st March, 2013:

SIDBI, vide its letter dated 7.8.2012, withdrawn the nomination of Shri R. D.Silva as Director on the Board of the Corporation and further informed vide letter dated 21.8.2012 that they have decided to appoint only one nominee on the Board of the Corporation for the present.

Government of Gujarat in Finance Department vide Notification dated 3rd October, 2012, withdrawn the nomination of Shri D. N. Pandey, IAS on the Board of the Corporation and nominated Miss. S. Aparna, IAS, Commissioner (Bureau of Public Enterprises) & Principal Secretary, Finance Department, in his place.

The Board places on record its gratitude for the valuable contribution rendered by Shri R. D. Silva and Shri D. N. Pandey, IAS, during their tenure of office as Directors on the Board.

As per Clause 49 of the Listing Agreement, brief resume of the Director, who has been nominated by Government of Gujarat during the period under reference, is furnished in the Corporate Governance Report attached to this Directors' Report.



8.0 Corporate Governance :

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 in compliance of Clause 49 of the Listing Agreement with Stock Exchanges.

9.0 Directors' Responsibility Statement :

The Directors, based on the representations received from the Accounts Department, hereby confirm that :

1. in the preparation of the annual accounts for the year ended 31st March 2013, 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 2013 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 2013 has been prepared on a going concern basis.

10.0 Acknowledgement :

The Board of Directors is pleased to place on record its gratitude to the Government of Gujarat for continuous support. The Board takes this opportunity to thank the Industries & Mines Department and Finance Department of Government of Gujarat for their timely help, support and guidance. The Board gratefully acknowledges the assistance and support provided by RBI, SIDBI and its Ahmedabad office to the Corporation. The Board also acknowledges with thanks the commercial banks for their support and co-operation.

The Board is also pleased to place on record its gratitude to the Members for their continued support and confidence. The Board also appreciates the dedicated efforts made by the employees of the Corporation at all levels during the year.

For and on behalf of the Board

Place : Gandhinagar

Date : 25/07/2013

(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)

Regarding dues payable to Government of Gujarat, Corporation has been availing assistance by way of loan from Government of Gujarat till 2011-12 to repay Government guaranteed obligations. Corporation is not generating adequate funds to meet with all liabilities. Due to weak financial condition, default in dues payable to Government of Gujarat has taken place.

Point No. (V) Reconciliation of General Ledgers and Sub-ledgers

In some loan accounts, credit balances are shown since long. Reconciliation of most of the accounts have already been undertaken with both the General Ledger and Subsidiary Ledgers. The difference during the year under reference has reduced. Since reconciliation of accounts has been undertaken as an ongoing process, the difference will be set right in due course.

POINT NO. (VI) FIXED ASSETS

Corporation has already entrusted the work of physical verification of fixed assets and preparation of Fixed Assets Register to a professional firm of Chartered Accountants. The work is in progress and will be completed in the current year 2013-14.

POINT NO. (VII) 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. (VIII) UNCLAIMED/UNPAID DIVIDEND

The provisions of SFCs Act, 1951 are applicable to the Corporation instead of Companies Act, 1956. 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, it is not considered necessary to transfer unpaid dividend to Investor Education & Protection Fund.

POINT NO. (IX) LOAN & ADVANCES AND NPA PROVISION

Corporation has 5659 units/accounts as on 31.3.2013 under doubtful category scattered all over the State of Gujarat where valuation of each unit is not feasible. Moreover, Corporation has already made provision for 99.50% of the loan assets. Since 100% provision is made against doubtful assets, the difference between General Ledger and Subsidiary Leger may not have much impact on provision made.





MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(1) Term Lending Institutions :

The Micro, Small and Medium Enterprises (MSMEs) play an essential role in the overall industrial economy of the country. The MSME sector not only plays a critical role in providing employment opportunities at a comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. In order to provide financial assistance to entrepreneurs who set up industrial units in MSME sector and for balanced regional growth, State Financial Corporations were set up at State levels in fifties. Though the SFCs contributed significantly to value addition, employment generation and overall growth and development of India's economy, its fortunes have declined due to liberalization of economy and financial sector reforms. Banks and NBFCs, hitherto reluctant to extend financial assistance to the sector, have vigorously lined up for garnering business with attractive terms. Availability of cheap funds also helped them to extend financial assistance at competitive rates. Most SFCs could not withstand competition from banks and NBFCs. On the other hand, SFCs avenues to get funds at competitive rates diminished affecting adversely its operations. As a result of combined adverse factors, SFCs are either compelled to withdraw from operational activities or diversify into new areas of business.

(2) Corporation's Performance :

Corporation could not withstand competition and found it difficult to carry on its operations. Due to adverse factors distressing its operations, Corporation was compelled to discontinue main operations of sanction and disbursement since 2001. The asset quality has also declined significantly. As on date of report, Corporation's NPA stood at 99.5%. In spite of difficult circumstances, the recovery made by the Corporation registered a modest increase of 9% over the previous year and stood at ₹ 34.55 crore as against ₹ 31.69 crore during 2011-12.

(3) Opportunities & Threats :

The MSME sector has been accorded high priority by banks and financial institutions for term lending. MSMEs have outperformed IIP and GDP growth rates in the recent years. Though there is potential to serve the sector from close quarters by SFCs, due to adverse financial position and its inability to raise funds, Corporation's activities are limited to recovery of dues only.

(4) Internal control system and their adequacy :

The Corporation has proper and adequate system of internal controls proportionate to its size and business. The regular internal audit of the Corporation is carried out by an external firm of Chartered Accountants to ensure that the systems are adequate. 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, 2013, the Corporation has 106 employees on its pay-roll. 15 officials of the Corporation were nominated to various external training programs and promotions to 11 staff were granted in Class “A” cadres during the year. Industrial relations continued to be cordial and harmonious.

(6) Financial Performance :

Share Capital

The share capital of the Corporation comprises of equity shares of ₹ 10/- each of different categories in line with provisions Section 4(3) and 4-A of the SFCs Act, 1951. The paid-up equity capital of the Corporation consists of 8,91,14,000 equity shares of ₹ 10/- each out of which 1,43,03,600 Class “d” equity shares issued to the general public are listed with National and Bombay Stock Exchanges.

Long term borrowings

Government guaranteed bonds having face value of ₹ 1.25 crore were repaid during the year. Corporation also repaid Priority Sector Bonds (Non-guaranteed) worth ₹ 1.10 crore in the same period. No PSB/SLR bonds remain to be redeemed as on 31.3.2013. During the year under reference, Corporation has not availed soft loan from Government of Gujarat. The principal dues payable to Government of Gujarat under Soft Loan portfolio remained same at ₹ 621.37 crore as on 31/03/2013.

Financial Results

(₹ in Crore)

Particulars	Year ended 31/03/2013	Year ended 31/03/2012
Total Income	64.44	56.71
Interest expenses	145.71	220.42
Other expenses	31.70	44.79
Loss before depreciation & tax	113.36	208.51
Depreciation	0.20	0.17
Loss before tax	113.16	208.68
Tax (of previous years)	0	0.24
Loss after depreciation & tax	113.16	208.92
Balance carried over to balance sheet	2027.13	1913.97

(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.

