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Management and Organisation of HFC in Banking Sectors in India

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Abstract: The Corporation grants loans upto Rs. 500.00 lacs in case of private limited/ public limited companies and Rs. 200.00 lacs in case of sole proprietary/ partnership concerns. The Corporation also extends loans in joints participation with HSIDC. The existing units can avail loan to the extent of Rs. 500.00 lacs from the Corporation for expansion/ modernisation of the units and for setting up new units. 0.20% of the loan applied for is charged as processing fee by the Corporation and is deposited along with the loan application. Further, in case loan proposal has been accepted and appraisal initiated, the processing charges are not refundable. However, if the application is withdrawn after the acceptance of case but before starting the appraisal, the processing charges are refundable after retaining service tax and a minimum of Rs. 5,000/- or processing fee deposited whichever is lower. After the sanction of loan, upfront fee @ 0.50% of the loan amount is collected/ deducted before release of first installment of loan. The objective of charging upfront fee is to meet the commitment cost of funds during disbursement stage. Service tax & surcharge as applicable on the processing fee and upfront fee is borne by the borrower.
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Introduction:

HFC has set for itself vast and far reaching objectives. In order to achieve these objectives, systematic and efficient organisational set up becomes a necessity. This demands definite allocation of decision-making authority, delegation of responsibility and division of labour, that is, coordination without losing the advantages of decentralisation.

HFC has been organised on the basis of decentralisation of authority through branch network. The management and organisation of the HFC are under direct supervision of the IDBI, RBI and state government according to SFCs Act, 1951. In terms of the SFCs Act 1951, the state government, RBI and IDBI through mutual consultation, shape the overall policy and functioning of the Corporation. HFC has a Board of Directors, a Managing Director and an Executive Committee under section 9,10 and 18 of the SFC Act, 1951. Executive Committee consists one Chairman and five other members. The Managing Director of HFC is the Chairman of Executive Committee. An advisory committee can also be appointed to help Corporation but HFC has no such advisory committee, however the RBI and IDBI guide its operational policies through periodical inspections, instructions and conferences.

Board of Directors of HFC

Nominating or Appointing Authority	No of Directors (Appointed or Nominated)
1. Nominated by the State Govt. in terms of section 10 (b) of SFCs Act and appointed as Chairman by SIDBI in terms of sub-section (1) of section 15 of SFCs Act.	1 (Chairman)
2. Nominated by the State Govt. in terms of section 10 (b) of SFCs Act	1 (Director)
3. Co-opted by the Board in terms of Section (10e) (iv) of SFCs Act	2 (Director)
4. Nominated by SIDBI in terms of Section 10 (C) of SFCs Act	2 (Director)
5. Representing shareholders referred to clause (C) of sub-section (3) of section 4 of SFCs Act.	2(Director)

6. Representing shareholders referred to in clause (d) Of sub-section (3) of section 4 of SFCs Act	2 (Director)
7. Appointed by the state Govt. in terms of 8. sub-section (1) of Section 17 of SFCs Act	1 (Director)

The Financial Structure Of Hfc

Financial resources are the life blood of any business concern or financial and development institution. Despite the availability of managerial skill, technical feasibility, reputation and various other aspects required for the successful working of an undertaking, non-availability of adequate financial resources shall render the whole process quite meaningless. An adequate generation of funds is, what is required for the smooth functioning of any concern especially one which is dealing with the development and financial aspect of Industrialisation. In this context, a study of the financial resources of the HFC is necessary.

The sources of finance of the Corporation can be broadly classified as under: -

i) Share capital
ii) Profit
iii) Recovery of loan
iv) Loans from State Government
v) Refinance from SIDBI
vi) Refinance from IDBI
vii) Loans or borrowing from commercial banks, insurance companies, investment trusts and other financial institutions.

Scope and Objectives of HFC

The HFC provides financial assistance to such industrial concerns which are located/ proposed to be located anywhere in the State of Haryana. According to section 2 (c) of the SFC Act. 1951, the SFCs can assist an industrial concern engaged, or to engaged in any of the following activities: -

A. Manufacturing, preservation or processing of goods.
B. Mining
C. Hotel Industry.
D. Road Transport
E. Generation or distribution of electricity or any other form of power.
F. Development of any area of land as an industrial estate.
G. Providing special or technical knowledge or other services for the promotion of industrial growth.

The loans are advanced primarily for acquiring fixed assets such as land, building, plant and machinery etc.

Functions of HFC

The HFC is permitted to provide assistance to industrial concerns by:

(i) Granting loans and advances or subscribing to the debentures of industrial concerns.
(ii) Guaranteeing the loan raised by industrial concerns on such terms and conditions as may be mutually agreed upon.
(iii) Guaranteeing deferred payments of any industrial concern which purchases capital goods within India.
(iv) Underwriting the issue of stocks, bonds or debentures of industrial concerns.
(v) Providing foreign exchange loans under the World Bank scheme.
(vi) Participating in equity capital of the small-scale industrial units located in backward areas.
(vii) Providing for discounting of bills of exchange.

Eligibility Criteria

Only such companies, whose aggregate paid up capital and free reserves do not exceed RS. 10.00 crores are eligible for financial assistance from the Corporation.

Maximum Loan Amounts

The Corporation grants loans upto Rs. 500.00 lacs in case of private limited/ public limited companies and Rs. 200.00 lacs in case of sole proprietary/ partnership concerns. The Corporation also extends loans in joints participation with HSIDC. The existing units can avail loan to the extent of Rs. 500.00 lacs from the Corporation for expansion/ modernisation of the units and for setting up new units.

Guidelines For Sanction of Loans

Processing Fee

1. 0.20% of the loan applied for is charged as processing fee by the Corporation and is deposited along with the loan application. Further, in case loan proposal has been accepted and appraisal initiated, the processing charges are not refundable. However, if the application is withdrawn after the acceptance of case but before starting the appraisal, the processing charges are refundable after retaining service tax and a minimum of Rs. 5,000/- or processing fee deposited whichever is lower.

2. After the sanction of loan, upfront fee @ 0.50% of the loan amount is collected/ deducted before release of first installment of loan. The objective of charging upfront fee is to meet the commitment cost of funds during disbursement stage.

3. Service tax & surcharge as applicable on the processing fee and upfront fee is borne by the

borrower.

4. Besides this, the imprest money as under is charged towards misc. expenses which is deposited before release of first installment of loan:

a) For loan amount upto Rs. 150.00 lacs Rs. 25,000/-

b) For loan amount above Rs. 150.00 lacs Rs. 35,000/-

Any unspent amount in the imprest account is credited to the parly's loan account.

Debt Equity Ratio

Maximum debt equity ratio is as under:

Small Scale Units 2:1

Medium Scale Units 2:1

While computing debt equity ratio, the Corporation takes into account the paid up capital of the company plus free reserves minus fictitious assets and accumulated losses. The preference share capital which is redeemable after 12 years is also accounted for towards equity. All borrowings which are repayable after a period of one year are taken towards debt. The debt equity ratio norms are subject to change from time to time at the discretion of the Corporation.

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