

HARYANA FINANCIAL CORPORATION CHANDIGARH (INDIA)

TURNAROUND STRATEGY

Presentation by :

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1. INTRODUCTION

In order to provide medium and long term credit to industrial undertakings which fell outside the normal activities of commercial banks, a central industrial finance corporation was set up in India under the Industrial Finance Corporation Act, 1948. The State Governments also wished that similar Corporations should also be setup in the States to supplement the work of the Industrial Finance Corporation. Accordingly the State Financial Corporation Act, 1951 was enacted for this purpose to enable the State governments to establish a financial corporation for the State. As per this act, the Financial Corporation may carry on and transact the kind of business of mainly granting loan to industrial concerns repayable within a period not exceeding 20 years.

2. Establishment of Haryana Financial Corporation (HFC)

As a result of reorganization, two separate States namely Haryana and Himachal Pradesh were carved out of the erstwhile State of Punjab. Accordingly, Haryana Financial Corporation was incorporated and carved out of erstwhile Punjab Financial Corporation on 1st of April, 1967.

3. Limit of Accommodation

The Corporation can grant financial assistance upto 1.10 million US \$ in case of company and upto 0.44 million US \$ in other cases.

4. Tenure of loan

Normally the loan of the Corporation are repayable within a period of eight years with gestation period of one and a half year.

5. Rate of Interest

Presently the Corporation charge interest @10.5% p.a. on quarterly basis. However, a rebate of 1% on the above interest is allowed to borrowers on payment of loan installments on due date. Hence effective rate of interest to regular borrowers is 9.5% p.a.

6. Business Transacted

Haryana Financial Corporation has so far sanctioned loans worth 576.65 million US \$ to 19000 units and has disbursed 358.59 million US \$ to 16000 units. Principal loans outstanding as on 31st October, 2006 are to the tune of 55.91 million US \$.

7. Sources of funds.

The main source of funds for the Corporation are share capital contribution (mainly from the State Government of Haryana), internal cash accruals, refinance from Small Industries Development of India, by way of issue of bonds and loans from Banks/financial institution of State Government.

8. Working Results

The Corporation has been earning profits since its inception except some operational losses in the last 3-4 years. However, with the introduction of prudential norms and health codewise asset classifications and making provisioning against Non Performing Assets (NPAs), the Corporation has accumulated losses to the tune of 35.54 million US \$ as on 31st March, 2006. Working result of the Corporation for the last five years and part of current financial year are as under:-

	(Amount in million US \$)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (Upto Oct.06)
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Sanctions	30.33	19.97	7.68	11.39	17.22	14.32
Disbursements	15.85	15.63	6.81	5.94	8.89	5.29
Recoveries	34.26	32.72	37.59	31.27	26.72	12.67
Income :-						
Interest	13.89	13.76	12.34	10.72	8.95	
Other Income	0.59	0.28	0.25	0.57	0.79	
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Total Income	14.48	14.04	12.59	11.29	9.74	
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Expenditure:-						
Interest & Other Fin.Exp.	13.86	12.76	10.54	8.49	6.93	
Salaries & Allowances	1.39	1.33	1.35	1.78	1.55	
Other Expenses	0.43	0.40	0.41	0.37	0.52	
Operating Profits/(-)Loss	-1.51	-0.64	0.13	0.33	0.45	
Provision for NPAs/Taxes	6.72	3.15	0.97	5.36	-2.18	
Net Profit/(-)Loss	-8.24	-3.80	-0.84	- 5.03	2.63	

Figures as at the end of the year

	(Amount in million US \$)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
						(Upto oct.06)
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Share Capital	6.82	6.81	6.81	6.81	7.47	7.76
(of which State Govt.)	5.57	5.57	5.57	5.57	6.23	6.52
Reserves	3.63	3.64	3.64	3.64	3.64	
Accumulated Losses	28.60	32.36	33.17	38.17	35.54	
Capital Adequacy (%age)	-16.31	-21.32	-28.36	-33.39	-33.24	
Loans outstanding (Prin.)	105.99	102.29	85.56	71.77	63.60	59.91
of which :-						
Standard	37.54	38.62	27.44	16.63	16.05	
NPAs	68.45	63.67	58.12	55.13	47.55	
Numbers of accounts	4344	4004	3504	3042	2544	
Borrowings	105.58	101.33	86.81	69.06	55.37	50.94
Premature payment of	0.66	3.21	7.03	12.69	16.50	18.93
high cost Borrowings						
Average cost of borrowings-%	12.61	12.29	11.16	10.85	10.09	8.90
					(as on	(as on
					31.3.06)	31.10.06)

9. Obstacles and Issues

With the opening up of global economy and various policy decisions relating to liberalization of economy in the past decade, SSI sector had to face adverse impact. As a result of this, financial health of almost all the State Financial Corporation (SFCs) in India including of HFC (who were catering to this sector) has gone precariously bad. Further, the commercial banks, who were primarily extending financial assistance to industrial sector against working capital only have started extending term loans coming in direct competition with the financial institutions. The commercial banks are having easy access to cheaper source of funds hence, are in a position to offer credit at comparatively lower rate of interest whereas the financial

institutions like HFC are at disadvantage in this regard and have to make borrowings at much higher rates resulting into losing sizeable business to commercial banks. Even the existing borrowers of the financial institutions have switched over to the commercial banks by prematurely adjusting their loans. As a result of this, the income generating asset base of most of the State Financial Corporations including of HFC has depleted in the last decade resulting into lower interest income, mounting NPAs and accumulated losses, negative capital adequacy ratio and depletion of net worth.

10. TURN AROUND STRATEGY

In view of the above, the HFC has contemplated to adopt multi pronged strategy to sustain its viability as under:-

A Reduction in Cost of Borrowings

The Corporation envisaged to restructure its borrowings portfolio to reduce the cost of borrowings. As a step in this direction, the Corporation was able to get its refinance portfolio of about 22.03 million US \$ restructured by reduction in interest rate by 2%. Simultaneously, the Corporation started making premature payment of high cost borrowings out of its internal accruals besides raising fresh funds at current interest rate. The Corporation has been able to make premature payments of high cost borrowings to the tune of about 55.07 million US \$ during the last 3-4 years. As a result of this the cost of borrowings has been reduced by about 3.50% which is presently at 8.90% p.a..

B Reduction in NPAs

Besides taking various recovery action, the Corporation introduced new settlement schemes during the last 2-3 years to maximize recovery from its overdues and to reduce its NPAs and provisioning there against, to put the Corporation on revival path. During the last FY 2005-06, the Corporation was able to settle the cases for 13.45 million US \$ resulting in reduction in NPAs by 7.71 million US \$. Similarly, during the part of the current financial year from 1st April, 2006 to 31st October, 2006, the Corporation has settled cases for 1.98 million US \$. This has lead to writing back of provisioning to the tune of 2.19 million US \$ during financial year 2005-06 and 2.21 million US \$ during the period 01st April 2006 to 31st October, 2006.

C Increase in Quality Asset Base

In order to increase the income of the Corporation, which is mainly on account of interest on loans, the Corporation has been vigorously making efforts to build up its depleted asset base by adding quality loans. For this, the Corporation has been organizing Customers' Meets regularly for direct interaction with the entrepreneurs and various Industrial Associations, time bound quick disposal of loan proposal, financing only in Industrial Estates developed by State Government Agencies and simplifying disbursement procedures.

D Support from the State Government

The State Government of Haryana is the major stake holder in the Corporation. It holds equity to the extent of about 84% of the Corporation. Besides various initiatives taken by the Corporation as stated above, the Corporation is also getting adequate support from the State Government. The State Government is adequately

contributing towards share capital of the Corporation during the last two years, has issued guarantees on behalf of the Corporation to enable it to raise loans from bank and refinance from Small Development Bank of India at a cheaper rate. The State Government is also extending adequate support for recovery of over dues of the Corporation through State Agencies.

E Refinance from SIDBI

The other major stake holder of the Corporation is Industrial Development Bank of India (IDBI) holding share capital of about 13% which is to be transferred to Small Industries Development Bank of India (SIDBI). Besides the share capital, SIDBI is the major source provider to the Corporation in the shape of refinance. SIDBI has re-structured its refinance portfolio of about 22.03 million US \$ and has reduced interest on the same by 2% p.a. w.e.f. 1st April, 2003. Besides this, SIDBI is providing fresh refinance to the Corporation at a cheaper rate of interest @ 7.50% p.a. against loans disbursed by the Corporation under SME sector.

11. RESULTS

The strategies adopted by the Corporation as discussed above have started yielding positive results. During the last three years the Corporation has again started earning operating profit and have started writing back provisions for NPAs from the last year leading to reduction in accumulated losses.

(Currency exchange rate has been taken at 1 US \$ = 45.40 Indian Rupee)