CHAPTER VII

RESOURCE POSITION OF SIDICO

The resources of the Corporation is depended on the Share Capital and loans from the IDBI, SIDBI and the State Government. The sources can be divided into two categories viz. external and internal. The former consists of Paid-up Share Capital, borrowings, grants etc., while the latter constitutes plough-back, repayment by the borrowers, interest and dividend received and disinvestment.

This chapter explore various sources of fund contributed in the Resource -mix with the objective to assess the weightage of fund component since incorporation of the Corporation.

SHARE CAPITAL

The Share Capital of the Corporation form an integral part of the fund and help mobilising more funds from other institutions. The share capital of the Corporation is on regular accretion annually on matching basis by the State Government and the IDBI. The fund so raised in the form of accretion in Share Capital tend to get blocked in equity investments in assisted and promoted concerns.

The Corporation started functioning with an authorised capital of Rs.100.0 lakhs and paid up capital of Rs.8.3 lakhs. It accumulated paid up capital of Rs.69.3 lakhs till 1982-83. The amount was provided by the State Government. The reason behind the non-availability of IDBI's contribution in Share Capital was due to limited activities of the Corporation. Moreover, the refinance

by the IDBI since 1979-80 attributed the delay in the procurement of share capital from the IDBI.To strengthen the equity base. first contribution of Rs.60.0 lakhs received during 1983-84. The Corporation registered highest growth of 118.8 percent in share capital during 1983-84, because of IDBI's contribution. In the following years, the averaqe growth in share capital stood at 25.0 percent. The State Government is a constant contributor of share capital. But, the IDBI discontinued the contribution of share capital since 1991-92. The reason ascribed to the non-repayment of the loan by the Corporation. However, in continuation of the contribution of Share Capital, the State Government has provided Rs.240.0 lakhs since 1991-92 till March, 1995. In total, till March, 1995, the Corporation had share capital of Rs.1,043.3 lakhs, where the contribution by the State Government was Rs.656.5 lakhs and by the IDBI was Rs.386.8 lakhs.[1]

Pursuant to the increase in share capital, the Corporation changed the limit of its authorised capital four times. Table-VII.1 exhibited that highest increase took place during 1985-88, where it rose from Rs.400.0 lakhs to Rs.1,000.0 lakhs registering a phenomenal growth of 2.5 times. The rate of growth inlater years is more due to acceleration of activities.

BORROWINGS

The borrowings of the Corporation are in the form of refinance from the IDBI and now SIDBI. Besides, State Government also contributed some soft loans and grants to the Corporation.

Till March, 1995, the Corporation received refinance from the IDBI and SIDBI to the tune of Rs.1,747.4 lakhs. The amount

outstanding to these institutions was Rs.993.7 lakhs i.e. 56.9 percent of the borrowings is unpaid till March, 1995. The State Government adhered Rs.204.6 lakhs as grants and soft loans, till March 1995. The Corporation repaid a meagre of Rs.1.7 lakhs to the Government till that period. The Corporation received borrowings in the form of refinance from the IDBI during 1979-80. The first refinance amounted to Rs.12.6 lakhs.[2]

There are two types of refinance by the IDBI. These are Automatic Refinance Scheme (ARS) and Normal Refinance Scheme (NRS). Automatic Refinance Scheme covers all projects upto Rs.7.5 lakhs except hotels. For ARS no project report need to be sent to the SIDBI for approval. All other schemes outside the ARS comes under NRS.[3]

Normally, refinance facilities are available in respect of term loan granted to industrial concerns for financing acquisition of fixed assets, either for setting up a new project or for expansion or modernisation of an existing unit. The minimum period for loans eligible for refinance is three years. The maximum period in respect of loans given by the Corporation is upto ten years. Till 31st March, 1983, the Corporation was getting refinance to the extent of 90.0 percent of the eligible loan i.e., term loan. Since 1983-84, the Corporation was allowed refinance to the extent of 100.0 percent as a special incentive for all industries located in 'No Industry District'.[4]

During 1985-86, IDBI reduced refinance limit to 85.0 percent of the loan to SSI units and Single Road Transport Operators (SRTOs) under the Normal Refinance Scheme as compared to 90.0 percent received previously; 75.0 percent of loans to medium

sized units and hotels as against 90.0 percent earlier. Again within two years, changes were made in the refinance rate structure : for Composite Loan, SRTOs loan and other industrial loan upto Rs.7.5 lakhs, the refinance made available was 100.0 percent and for hotels and industrial loans above Rs.7.5 lakhs, refinance was to the extent of 90.0 percent.[5]

During 1991-92, limit of the schemes for refinance enhanced from Rs.7.5 lakhs to Rs.10.0 lakhs and more.[6]

Since 1992-93, the rate of refinance was brought down to 55.0 percent.[7] The refinance repayments were delinked to recovery from the ultimate borrowers.

In case of Seed Capital assistance provided for only two cases, the refinance was to the extent of 100.0 percent by the IDBI.[8]

In the process of refinance, the schedule for repayment is synchronized with the schedule for repayment of the corresponding loan and all repayments received from the borrowing concerns passed over the IDBI except in cases where partial refinance has been granted. The schedule for repayment of refinance as per agreement between the SIDICO and the IDBI is prepared on the line of repayment schedule made by the SIDICO with its constituents.

The application for refinance is made by the Corporation soon after the sanction of the loan but not later than one year from the date of first disbursal of loan by them. The subsequent instalments are drawn by exchange of letters at the time of disbursement of the instalment to the concerns.

In practice, the Corporation's refinance deal is fluctuating in nature. This is obvious, as the requirement of refinance depend on sanctions and disbursement, repayment of loan by the loanees and repayment to the IDBI.

As evident from Table-VII.2, during the first five years from 1981-86 on the average, refinance availed by the Corporation amounted to Rs.55.7 lakhs. In the last five years, during 1988-93, the average refinance amounted to Rs.189.4 lakhs, i.e., more than 3 times increase between 1981-86 and 1988-93.

NEW DEBT INSTRUMENT

Besides IDBI's regular financing system, another Special Loan was provided by the IDBI. The scheme was New Debt Instrument (NDI) Scheme for supplementing resources of SFCs and SIDCs as a special loan repayable in 4 equal annual instalments after an initial moratorium of 4 years. The loan was of 11.0 percent interest per annum and the ceiling was 10.0 percent of the projected disbursement of the term loan. During 1987-88, the Corporation availed for the first time a sum of Rs.35.0 lakhs. Since then the Corporation has not taken any further amount under the scheme.[9]

In addition to equity and borrowings, the Corporation generates its own fund through reserves and recoveries.

RESERVES

The State Financial Corporation Act, 1951, prescribes the creation of General and Special reserves. Further, the financial Corporation must create a reserve fund before any other

appropriation. The rate of such reserve is left to the discretion of the Corporation. As SIDICO is not governed either by the SFC Act or Companies Act, 1956, thus the Corporation has discretionary power regarding the creation of reserve fund and declaration of dividend.

The Corporation has generated a satisfactory surplus. The percentage of general reserve to paid-up Capital as indicated in Table-VII.3 shows the reserve position of the Corporation. It ploughed back reserves to raise financial resources. The creation of General Reserve is dependent upon the quantum of available free profit. Thus, the more amount of General reserve, the better the financial position of the Corporation.

Till 1989, the average annual General reserve was 4.3 percent. However, on an average, percentage of General reserve compared to paid up capital stood as high as 13.3 percent. No dividend has, so far, been declared by the Corporation. Dividend accruing to the State Government and the IDBI has been retained as General reserve. However, no guidance till exists for the utilization of money from the said fund and does not reveal to what extent it has helped development and expansion of business and generation of additional flow of income.

On an annual observation, the year 1982-83 accounted for the largest amount of reserve creation for which the cumulative general reserve as percentage of paid up capital stood a record high.

The Corporation incurs sustained losses since 1990-91. The main reason was the change in accounting system from accrual

to cash basis since 1989-90. To neutralize the losses, the State Government provided grants in the form of reserve which is accounted as Rs.60.7 lakhs till 1994-95.[10] Such incentives, however, could not meliorate the reserve generation capacity of the Corporation.

REPAYMENT BY UNITS

Recovery of loan is as important as providing loan itself to any financial institution. Poor recovery affects adversely the future planning of the financial institutions and thereby responsibilities and it also chokes the credit plan which in turn may impede the development programme of industries. Therefore, prompt recovery of loan is one of the essential factor for the success of operations of the Corporation.

The Corporation's recovery performance over the year is not satisfactory. It is gauged further from Table-VII.4, that the recovery of principal amount to total demand of Principal is dwindling for the last few years. The recovery from the unit was only one-fourth of the amount disbursed to those units. Till March, 1995, total repayment made by the units amounted to Rs.617.7 lakhs. Till March, 1995, the Corporation repaid the refinance received, to the IDBI and SIDBI worth Rs.753.7 lakhs. Thus, deficit arose persistantly resulting the discontinuation of refinance since 1993-94.

The ever-falling trend in recovery causes concern to the Corporation. This has to be revamped for sustenance and growth. In recent years, poor recovery performance led to poor repayment to the refinance by the IDBI. This, again compels the IDBI to

discontinue matching grant and refinance in previous tune. Thus, recovery constraints caused a vicious cycle or debt-trap to the Corporation.

It is observed that the resource position of the Corporation has been crunched over the years. Especially, the Corporation had no dearth of fund till contribution in Share Capital and refinance from IDBI continued. At that time, the top officials of the Corporation opined in favour of the new applicant. They wanted to invest in projects to mobilise more funds. Suddenly, the position changed. This is because investment by the Corporation in a big project proved bad. The Corporation was used as an institution to channelise political mandate. Loanees were not dealt with properly. All these factors dwindled resource position resulting default in the repayment of refinance to the IDBI and SIDBI.

Lack of Professionalism and judicious use of resources of the Corporation was largely due to interference by the ruling party of the State. Often, viable projects were not given proper attention due to some unknown reason. However, interference by the representative of People in getting any work done from any institution directly or indirectly controlled by the Government, is a common phenomenon in our country. To some extent honest endeavour by the politicians might prove well but mostly such act admonish morale of majority people. In recent years i.e., 1992-93, the then Government granted soft loan of Rs.2.0 crore to Sikkim Vanaspati Limited, a sick and non-viable project. The amount was provided to businessman to enter into partnership with the Corporation to make Vanaspati Limited Operative.

The resource position of the Corporation is mainly contributed by the IDBI and SIDBI in the form of refinance. The State Government confine its activity mainly in the contribution of Share Capital. Thus the main stack in total resources was of IDBI's. Obviously, IDBI is in commanding position. IDBI formulate policies in consultation with the Central Government and RBI and communicate to the primary lending institutions and respective State Governments. The State Government cannot change but adjust the position as per IDBI's guidelines.

In Sikkim, the State Government allocate resources to the SIDICO through plan expenditure. It segregates annual contribution from Annual Plan Outlay on the head of SIDICO.

Sikkim contemplates a development expenditure for the Eighth Five Year Plan in the order of Rs.550.0 crores. The approved annual plan outlay in 1994-95 is Rs.135.0 crores. The annual budget of Sikkim for 1994-95[11] shows an estimated expenditure of Rs.299.9 crores which is 8.6 percent more than the previous year level. The revenue receipt in the budget estimated at Rs.263.7 crores in 1994-95. The total internal revenue of the State Government amounts to Rs.58.1 crores, which is only 38.7 percent of total non-plan expenditure of the State Government. The major sources of collection of revenue are

(a) income tax under state law 7.9 percent;

(b) State excise 15.5 percent; and

(c) Sales Tax 6.9 percent.

Out of every three rupees collected as tax revenue, two rupees come from State's Share in centrally collected taxes and one rupee from the taxes collected by the State. In the revenue

receipt of Rs.263.7 crores, non-tax revenue occupied 11.7 percent and Grants-in-Aid by the Central Government accounted 47.8 percent. It is clear that of the total budgetary provision of Rs; 301.0 crores for 1994-95, total plan and non-plan expenditure amounted to Rs.285.0 crores. Besides, about 47.8 percent of the total revenue receipt of the budget is provided by the Central Government as grant-in-aid.[12]

The infusion in share capital is being done by the State Government alone since 1991-92 as the IDBI stopped contributing share capital since then. This obviously squeezed the source to some extent. The internal generation and ploughing back of profits were also not possible due to sustained loss since 1989-90 with the inception of cash basis of accounting. Thus the Corporation's dependence in other sources increased gradually. The repayment of loans by the borrowers has not at all been encouraging. Increased reliance is, therefore, being placed on refinance through the IDBI. Borrowings however is costlier than internal-generation.

Borrowings by way of refinance may be as and when required by the Corporation and hence the said amount need not be kept idle in the hand of the Corporation. In case of deposit, the amount may not come as and when it is required. Till recently borrowing by way of refinance was cheaper than public deposit. The IDBI used to give refinance for this region at the rate of 11.00 to 13.5 percent for various ceiling. The IDBI is of the opinion that in view of weak financial position of most of the SIDCs, the Corporation should raise its fund through share capital.

REFERENCES :

1. Vide, Appendix No.1.

2. SIDICO, Annual Report, 1979-80, p.6.

3. SIDICO, Annual Report, 1985-86, p.5.

4. SIDICO, Annual Report, 1984-85, p.2.

5. SIDICO, Annual Report, 1987-88, pp. 7-8, Annual Report, 1985-86, op.cit.

6. SIDICO, Annual Report, 1991-92, p.8.

7. SIDICO, Annual Report, 1992-93, p.7.

8. SIDICO, Annual Report, 1985-86, p.3.

9. SIDICO, Annual Report, 1987-88, p.8.

10. SIDICO, Annual Report, 1994-95, p.13.

11. Government of Sikkim, Annual Budget, 1994-95, pp. 2-8.

12. Ibid.

Table VII.1

CHANGES IN AUTHORISED CAPITAL

(in lakhs)

Year	Authorised Capital
1977-78	100.0
1983-84	200.0
1985-86	400.0
1987-88	1000.0
1992-93	1500.0

Source : Annual Reports, 1977-93, SIDICO.

Table VII.2

BORROWINGS, REPAYMENT AND OUTSTANDING OF SIDICO

(Rs. in Lakhs)

Year ending 31st March	IDBI and SIDBI			State Government	
	Amount Received	Repaid	% of Repayment to Amt. Received	Amount Received	Repaid
1978	-	-	-	4.6	-
1979	-	-	-	-	0.3
1980	12.6	-	-	-	0.3
1981	20.2	0.9	4.4	-	0.3
1982	8.0	3.8	47.5	-	0.3
1983	44.0	5.4	12.3	-	-
1984	23.8	11.5	48.3	-	-
1985	70.5	18.8	26.7	-	-
1986	132.3	32.9	24.9	-	-
1987	157.9	43.6	27.6	-	0.4
1988	330.8	51.1	15.4	-	-
1989	145.3	87.8	60.4	-	-
1990	242.3	104.4	43.1	-	-
1991	213.5	128.7	60.3	-	-
1992	272.5	166.1	60.9	-	-
1993	73.7	73.4	99.6	200.0	-
1994	-	2.1	-	-	-
1995	-	23.2	-	-	-
TOTAL	1747.4	753.7	43.1	204.6	1.6

Source : Annual Report, 1995, SIDICO, p.28.

Table VII.3

RESERVE POSITION OF THE SIDICO

(Rs. in Lakhs)

Year Ended 31st March	General Reserve	Cumulative	% of Cumulative General Reserve to Paid-up Capital
1978	0.3	0.3	3.3
1979	0.9	1.2	7.5
1980	2.0	3.2	10.2
1981	2.4	5.6	13.4
1982	2.9	8.5	16.5
1983	14.0	22.5	32.4
1984	3.4	25.9	17.1
1985	3.5	29.4	15.4
1986	3.9	33.3	12.9
1987	4.7	38.0	12.2
1988	5.7	43.7	10.0
1989	7.9	51.6	9.6
1990	(-) 2.5	49.1	-
1991	(-)64.2	-	-

Source : Annual Reports, 1977-91, SIDICO.

Table VII.4

REPAYMENT OF LOAN BY ASSISTED UNITS

(Rs. in Lakhs)

Year ending 31st March	Term Loan	Bridge Loan and Soft Loan	Total
1978	N.A.	N.A.	N.A.
1979	N.A.	N.A.	N.A.
1980	0.1	-	0.1
1981	0.1	-	0.1
1982	2.3	-	2.3
1983	5.2	3.1	8.3
1984	8.0	5.4	13.4
1985	11.9	6.2	18.1
1986	11.1	2.0	13.1
1987	23.3	32.0	55.3
1988	36.5	26.7	63.2
1989	46.0	12.6	58.6
1990	73.1	43.7	116.8
1991	59.3	-	59.3
1992	56.6	-	56.6
1993	46.4	0.4	46.8
1994	53.2	-	53.2
1995	46.1	-	46.1
TOTAL	485.4	132.3	617.6

Note : N.A. signifies data not available.

Source : Annual Report, 1995, SIDICO,