

Credit Guarantee Fund Trust for Small Industries

**Registered Office :**

**12th Floor, Nariman Bhavan,**  
227, Vinay K. Shah Marg, Nariman Point,  
Mumbai - 400 021

5th Annual Report  
2004 - 05

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Credit Guarantee Fund Trust for Small Industries  
12<sup>th</sup> Floor, Nariman Bhavan,  
227, Vinay K. Shah Marg,  
Nariman Point,  
Mumbai-400 021

December 14, 2005

The Additional Secy. & Development Commissioner (SSI)  
Ministry of SSI, Govt. of India,  
Office of the Development Commissioner (SSI),  
Nirman Bhavan, 7th Floor, 'A' Wing,  
Maulana Azad Road,  
New Delhi -110 011

The Chairman & Managing Director  
Small Industries Development Bank of India  
SIDBI Tower  
15, Ashok Marg  
Lucknow - 226 001

Dear Sirs,

In terms of Clause 14.2 of the Declaration of Trust executed by the Government of India and Small Industries Development Bank of India, the Settlers, I forward herewith the following documents :

- 1) A copy of audited accounts of the Trust for the year ended March 31, 2005, together with Auditors' Report, and
- 2) A copy of the report on the working of Credit Guarantee Fund Trust for Small Industries for the period ended March 31, 2005.

Yours faithfully,

Sd/-  
**(S.L. Choudhury)**  
Chief Executive Officer

**BOARD OF TRUSTEES**

**Board of Trustees**  
(as on November 25, 2005)

<b>Shri N. Balasubramanian</b> Chairman & Managing Director Small Industries Development Bank of India	<b>Chairman</b> (ex-officio)
<b>Shri Satyananda Mishra</b> Additional Secretary and Development Commissioner (SSI) Ministry of SSI, Government of India	<b>Vice Chairman</b> (ex-officio)
<b>Shri A.K. Purwar</b> Chairman Indian Banks' Association	<b>Member</b> (ex-officio)
<b>Shri S.L. Choudhury</b> Chief Executive Officer Credit Guarantee Fund Trust for Small Industries	<b>Member Secretary</b>

MEMBER LENDING INSTITUTIONS OF CGTSI  
(as on March 31, 2005)

(A) SCHEDULED COMMERCIAL BANKS

(i) PUBLIC SECTOR BANKS

- |                          |                               |
|--------------------------|-------------------------------|
| 1) Allahabad Bank        | 11) Indian Overseas Bank      |
| 2) Andhra Bank           | 12) Oriental Bank of Commerce |
| 3) Bank of Baroda        | 13) Punjab & Sind Bank        |
| 4) Bank of India         | 14) Punjab National Bank      |
| 5) Bank of Maharashtra   | 15) Syndicate Bank            |
| 6) Canara Bank           | 16) UCO Bank                  |
| 7) Central Bank of India | 17) Union Bank of India       |
| 8) Corporation Bank      | 18) United Bank of India      |
| 9) Dena Bank             | 19) Vijaya Bank               |
| 10) Indian Bank          |                               |

(ii) SBI AND ITS ASSOCIATE BANKS

- |                                   |                             |
|-----------------------------------|-----------------------------|
| 1) State Bank of India            | 5) State Bank of Mysore     |
| 2) State Bank of Bikaner & Jaipur | 6) State Bank of Patiala    |
| 3) State Bank of Hyderabad        | 7) State Bank of Travancore |
| 4) State Bank of Indore           | 8) State Bank of Surashtra  |

(iii) PRIVATE SECTOR BANKS

- |                                  |                                 |
|----------------------------------|---------------------------------|
| 1) HDFC Bank Ltd.                | 7) The South Indian Bank Ltd.   |
| 2) ICICI Bank Ltd.               | 8) The United Western Bank Ltd. |
| 3) IDBI Bank Ltd.                | 9) UTI Bank Ltd.                |
| 4) IndusInd Bank Ltd.            | 10) ING Vysya Bank Ltd.         |
| 5) The Bank of Rajasthan Ltd.    | 11) The Nainital Bank Ltd.      |
| 6) The Jammu & Kashmir Bank Ltd. |                                 |

(B) REGIONAL RURAL BANKS

- |   |   |
|---|---|
| 1) Prathama Bank, UP                            | 5) Godavari Grameena Bank, AP                       |
| 2) Sabarkantha-Gandhinagar Gramin Bank, Gujarat | 6) Shivalik Kshetriya Gramin Bank, Punjab           |
| 3) Sri Saraswathi Grameena Bank, AP             | 7) Jamuna Gramin Bank, U.P.                         |
| 4) Howrah Grameen Bank, WB                      | 8) Kapurthala-Ferozpur Kshetrya Gramin Bank, Punjab |

(C) OTHER INSTITUTIONS

- |   |   |
|---|---|
| 1) National Small Industries Corporation Ltd.         | 3) Small Industries Development Bank of India |
| 2) North Eastern Development Finance Corporation Ltd, |   |

**REPORT ON THE WORKING OF THE  
CREDIT GUARANTEE FUND TRUST FOR SMALL INDUSTRIES  
FOR THE YEAR ENDED MARCH 31, 2005**

**Introduction**

- 1.1 The Central Statistical Organisation (CSO) has estimated real GDP growth at 6.9 per cent in 2004-05, down from 8.5 per cent (revised estimates) in 2003-04. Macroeconomic performance in 2004-05 turned out to be stronger than anticipated. Although beset by an uneven and deficient South-West monsoon, below normal North-East monsoon and the base effect of a seven-year peak growth of 9.6 per cent achieved in 2003-04, real GDP originating from 'agricultural and allied activities' rose by 1.1 per cent in 2004-05. The industrial recovery firmed up and broadened during the year, led by manufacturing and 'electricity, gas and water supply', considerably mitigating the setback to agriculture. Real GDP originating from services continued to sustain the robust growth recorded in 2003-04.
- 1.2 A significant feature of the macroeconomic developments in 2004-05 was the resurgence of the industrial sector, propelled by buoyant exports and a brightening of the domestic investment climate in an environment of rising business optimism and consumer confidence. Industry contributed 26 per cent to overall growth of the economy, up from 17 per cent in 2003-04, in spite of a secular decline in its share in GDP. 'Agriculture and allied activities', on the other hand, exhibited considerable volatility in terms of contribution to real GDP growth. In 2004-05, 'agriculture and allied activities' contributed 3 per cent of real GDP growth as against 24 per cent in 2003-04.
- 1.3 The industrial recovery that has set in during the second half of 2003-04 firmed up further in 2004-05, driven mainly by the manufacturing sector. As in 2003-04, surging exports provided a stimulus to manufacturing activity, benefiting from the environment of accelerating industrial activity in other parts of the world. The noteworthy feature of the industrial performance of 2004-05 was the significant improvement in domestic demand that provided a boost to a number of manufacturing industries.
- 1.4 According to the CSO's advance estimates, the upturn in the growth of value-added originating in industry, which occurred in the fourth quarter of 2003-04, was sustained through the third quarter of 2004-05. This was strongly correlated with the index of industrial production (IIP) which rose sharply between May and October 2004 before losing some momentum thereafter. The CSO placed the growth of real GDP originating in manufacturing at 8.9 per cent for 2004-05 as against 6.9 per cent in the preceding year.
- 1.5 Within the 17 major groups of the manufacturing sector, four groups, viz., 'machinery and equipment other than transport equipment', 'other manufacturing industries', 'textile products (including wearing apparel)' and 'chemical and chemical products except products of petroleum, coal' - constituting 28.7 per cent of the IIP - registered growth in the range of 15-20 per cent (up to February). The high growth in 'machinery and equipment other than transport equipment' was reflective of the expansion of capacity and the improved industrial investment. The surge in the growth of 'basic chemicals and chemical products' drew strength from the overall improved demand from other industries. These two industry groups together contributed 64.1 per cent of the growth in the manufacturing sector. Ten industry groups achieved positive growth but less than the growth of the manufacturing sector. On the other hand, two industry groups recorded decline in output, viz., 'food products' and 'wood and wood products, furniture and fixtures'.
- 1.6 India has been consolidating its position as a world leader in software and Information Technology (IT) services. According to the National Association of Software and Services Companies (NASSCOM), the Indian software industry is expected to raise its export revenues by 35 per cent during 2004-05 to US \$ 17.3 billion, reflecting the increasing returns to knowledge advantage. The financial services sector including banks, insurance companies and securities firms

account for the largest share of India's software and IT services exports at 37 per cent during 2003-04, followed by the telecommunication and the manufacturing sectors.

- 1.7 The small-scale sector has been exposed to intensifying competition during the decade since 1991. It has been confronted with an increasingly competitive environment due to liberalisation of the investment regime in the 1990s, favouring foreign direct investment (FDI) at the inter-national level; the formation of the World Trade Organisation (WTO) in 1995, forcing its member-countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports, and domestic economic reforms.
- 1.8 The cumulative impact of all these developments is a remarkable transformation of the economic environment in which small industry operates. In order to compete effectively the small industry needs to overcome the problems presented by technological obsolescence, lack of adequate infrastructure and lack of adequate and timely finance. Post-1991, the SSIs have almost always outperformed the industry. But the nature and sustainability of such successes over the long haul have evoked debates. Political will and determination, technological modernisation, marketing with a focus on exports, adequate fulfilment of credit needs by streamlined policy framework, provision of institutional and infrastructural support are needed for SMEs to move up the value chain.
- 1.9 The increase in the competitiveness of small industry will also be determined by the availability and quantum of finance. The demand for finance, implicit as well as explicit, from small industry will be substantial considering its size, structure, growth pattern, need for restructuring and technology development. Particularly, the investment demand for finance from small industry will increase considerably due to technology upgradation and modernisation, expansion (of efficient ones), quality improvement, R and D and technological innovations, and environment-related investments (industry specific).
- 1.10 A comprehensive strategy and collaborative efforts by the government, private and non-formal sector are necessary to realise Tenth

Plan (TP) objectives of 8 per cent GDP growth, 10 per cent industrial growth and one million jobs a year. The total requirement of funds projected by the Working Group on SSIs for the Tenth Plan, assuming a 12% rate of growth, is Rs.63,357 crores for long term credit and Rs.1,22,942 crores for working capital funds. This must be compared with the actual flow of credit of Rs. 38,000 crores for long term funds and projected amount of Rs.64,177 crores towards working capital at the end of the 9th Plan.

- 1.11 The Working Group on Flow of Credit to SSI Sector (Ganguly Committee) in its recent report submitted to RBI has identified that in an environment of high economic growth, the priority sector lending is an attractive growth opportunity for banks and FIs. Slowing down of off-take of credit by the large corporates due to opening up of new sources for accessing finance by them and stagnation of credit demand by retail business, makes financing the priority sector an opportunity to expand banks' business profitably.
- 1.12 Surveys of business confidence indicate that this upbeat sentiment is shared by corporate India. The Business Confidence Index (BCI) of the National Council of Applied Economic Research (NCAER) showed an improvement for January 2005 to 142.5 from 136.0 reported in the previous round of the survey in October 2004. According to the Reserve Bank's Industrial Outlook Survey, the Business Expectations Index for January-March 2005 stood at 122.5 points, registering a rise of 0.4 per cent over the previous quarter. The Confederation of Indian Industry's Business Outlook Survey for October 2004-March 2005 points to improved capacity utilisation and higher capital investment. The Dun & Bradstreet's Business Optimism Index for the fourth quarter of 2004-05 recorded an increase of 28.4 per cent over the previous quarter. The positive outlook for the industrial sector is an indication of expanding activity and confidence and augurs well for sustaining the recent acceleration of industrial growth.
- 1.13 CGTSI strives to move ahead in close cooperation with its member lending institutions (MLIs) comprising banks and other financial institutions to fulfill its mandate of augmenting the credit flow to the SSI by offering innovative and customized guarantee products to the MLIs.

### Corpus Fund of CGTSI

- 2 The initial corpus of Trust of Rs.125 crore contributed by settlors, GOI and SIDBI, in the ratio of 4:1 in August 2000 has since been enhanced to Rs. 932 crore as at March 31, 2005. During FY 2004-05, CGTSI received corpus contribution of Rs. 261 crore from its settlors.

### Member Lending Institutions

- 3 As on March 31, 2005, 49 eligible lending institutions comprising 27 Public Sector Banks, 11 Private Sector Banks, 8 Regional Rural Banks and 3 other Institutions viz. NSIC, NEDFI and SIDBI have become Member Lending Institutions (MLIs) of CGTSI for extending the collateral free credit facility to the viable SSI / SSSBE (IR) units and participating in the guarantee scheme. During the period under review, State Bank of Saurashtra, ING Vysya Bank, Jamuna Grameen Bank, UP, Kapurthala – Ferozpur Kshetriya Grameen Bank, Punjab, became MLIs. During the year, public sector bank viz., State Bank of Bikaner & Jaipur, private sector banks viz., the Jammu & Kashmir Bank Ltd. and Nainital Bank Ltd. started availment of guarantee cover.

### Technology Based Transactions

- 4 The work relating to second phase of software development, awarded to Satyam Computer Services Ltd., has been completed. The software has been implemented from April 1, 2005. It is expected that it would enable CGTSI to seamlessly integrate all its operation modules, enhancing the capability of the system to perform additional functions like on-line submission of periodic information, settlement of claims, operations under Mutual Credit Guarantee Scheme, etc.

### Modifications to the Credit Guarantee Scheme

- 5 Based on feedback and suggestions received from the MLIs as well as other stakeholders, the following modifications / relaxations in the scheme were introduced during the year.
- 5.1 Allowing MLIs to take need-based collateral security/third party guarantee from the existing borrowers already covered under CGS for the additional loan / credit facility sanctioned by them. This modification would ensure that the borrowers' credit needs beyond the CGS ceiling of Rs.25 lakh are also

met by the MLIs without the guarantee being withdrawn by CGTSI, as per earlier guidelines.

- 5.2 Making Non-fund based working capital as eligible under the Scheme.
- 5.3 Allowing the inclusion of interest component on term loan (upto the date of classification of the A/c. as NPA) under "Amount in default" for the purpose of lodging of guarantee claim.
- 5.4 In respect of borrower already covered under the Scheme for working capital facilities, the guarantee fee for additional working capital facilities extended shall be levied on pro-rata basis for the remaining number of years in the block of 5 year period, considering any part period in the year, as full year.
- 5.5 Charging of Annual Service Fee (ASF) @ 0.75% p.a. on the amount of credit facility extended by the MLI, against erstwhile linking of ASF @ 1% p.a. to the outstanding balance of the borrower as on March 31, every year.
- 5.6 Relaxation in the stipulation that written permission from CGTSI needs to be obtained before MLI can enter into (i) any compromise or arrangement with the borrower covered under CGS and/ or (ii) before the MLI can create any charge on the security of the borrower covered under CGS. The provision has been replaced by a requirement to intimate in writing to CGTSI before entering into any compromise or arrangement which may have the effect of discharge or waiver of personal guarantee(s) or security in the first case; in the second case the MLI should ensure by way of a stipulation in an agreement with the borrower or otherwise, that it shall not create any charge on the security of the borrower covered under CGS without intimating the Trust.
- 5.7 The guarantee fee and / or annual service fee once paid by the lending institution to the Trust were non-refundable. This stipulation has been relaxed in certain cases as mentioned below.
- (i) excess remittance
- (ii) remittance made more than once against the same credit application



- (iii) guarantee fee & / or annual service fee not due
- (iv) guarantee fee paid in advance but application not approved for guarantee cover under the scheme, etc.

information about policy changes in CGS, progress made in operations and other related updates. The newsletter has been well received and has generated good interest amongst stakeholders.

#### Awareness Programmes

- 6.1 During the year CGTSI continued to follow the strategy of creating awareness about the scheme amongst SSI entrepreneurs and member banks/ institutions. In order to create awareness amongst the banks and other stakeholders, 146 Interactive seminars/ workshops-cum-training programmes as well as interface with industry associations have been conducted successfully by CGTSI at various centers across the country for the benefit of operating staff of the MLIs. In consultation with some banks, resource persons have been trained to enable them to train other officers from their bank. At the Industry Associations' Meets, CGTSI has requested them to publicise CGS through the channels available with them.
- 6.2 Updated information on the functioning of CGTSI has been posted on the Trust's website and mails received from existing / prospective SSI entrepreneurs are being attended to promptly. CGTSI would continue to give importance to such awareness programmes.
- 6.3 A Link Officer in every SISI office, identified by the Ministry of SSI, with a view to using SISI network for scheme promotion and greater awareness creation through all possible channels, were trained by CGTSI during FY 2003-04. These officers have in turn started the work of creating awareness about the scheme which has created an impact. To familiarize these Link Officers with the features and operations of CGS, workshops would be conducted from time to time in different parts of the country. Besides, CGTSI has been disseminating information on the Scheme through the network of SIDBI offices in various State / District level meetings.
- 6.4 CGTSI has published 3 issues of its newsletter 'Credit Link' and distributed it amongst SSI industry associations, Member Lending Institutions of CGTSI, Government agencies / departments, etc. The newsletter aims at giving wider publicity to the CGS through various available channels. It gives

#### Performance of Scheme

- 7.1 49 MLIs were registered with CGTSI as on March 31, 2005 including 38 scheduled commercial banks, 8 Regional Rural Banks and 3 institutions.
- 7.2 During FY 2004-05, 30 scheduled commercial banks, SIDBI and NSIC availed of the guarantee facility in respect of their collateral-free/third party guarantee-free credits to SSI units. Particulars of MLI-wise guarantees approved by CGTSI as on March 31, 2005 are given in **Annexure I**.
- 7.3 As on March 31, 2005, 24321 projects were approved for guarantee cover as against 14805 projects approved as on March 31, 2004, registering a growth of 64%. The aggregate loan amount for which approval for guarantee cover were granted stood at Rs.538.63 crore 154% higher than the corresponding figure for March 31, 2004. The units assisted under the Credit Guarantee Scheme are expected to generate employment for 1,00,658 persons, turnover and exports of Rs. 4,440 crore and Rs.139 crore, respectively.
- 7.4 As on March 31, 2005, the top five MLIs which provided credit under credit guarantee scheme were Canara Bank (Rs.94.01 crore), State Bank of India (Rs. 84.96 crore), Union Bank of India (Rs.50.34 crore), UCO Bank (Rs.42.71 crore) and Punjab National Bank (Rs.31.54 crore).
- 7.5 The distribution of units covered under the scheme expanded to 34 States/ Union Territories (UTs). State-wise cumulative coverage of units under the Credit Guarantee Scheme as on March 31, 2005, is given in **Annexure II**. Among the states Uttar Pradesh lodged the maximum number of applications (6744 accounts). It was followed by Kerala (4150 accounts), Karnataka (1674 accounts), Tamil Nadu (1563 accounts) and West Bengal (1458 accounts). Amount-wise, Karnataka (Rs.76.53 crore) topped the list, followed by Tamil Nadu (Rs.70.96 crore), Uttar Pradesh (Rs.48.37 crore), Kerala (Rs.47.44 crore) and Jharkhand (Rs.43.07 crore).

7.6 The industry-wise assistance made available by MLIs under the guarantee scheme, as on March 31, 2005, is given in **Annexure III**. Food products units received maximum coverage both with regard to number of accounts as well as highest amount of assistance covered under the Credit Guarantee Scheme (2263 accounts, Guarantee approved for Rs.50.27 crore) followed by metal products (1169 accounts, Guarantee approved for Rs.41.78 crore), basic metal industries (657 accounts, Guarantee approved for Rs.35.44 crore), textile products (1968 accounts, Guarantee approved for Rs.34.06 crore), paper and printing (547 accounts, Guarantee approved for Rs.26.49 crore).

7.7 Of the 24321 units covered under the scheme for Rs.538.63 crore, 18129 units (75 per cent) pertained to the category having credit component of up to Rs.1 lakh; 3472 units (14 per cent) having credit component in the range of Rs. 1 - 5 lakh, 1265 units (5.2 per cent) having credit component in the range of Rs. 5 -10 lakh, 553 units (2.2 per cent) having credit component in the range of Rs. 10-15 lakh, 332 units (1.3 per cent) were having credit component in the range of Rs. 15 - 20 lakh and 570 units (2.3 per cent) were having credit component in the range of Rs. 20 - 25 lakh. Amount-wise, 30 per cent of guarantee cover was for loans below Rs.5 lakh, 19 per cent of the guarantee cover was extended to loans between Rs.5 lakh and 10 lakh, 25 per cent of the guarantee cover was extended to loans between Rs.10 lakh and Rs.20 lakh, whereas 26% of the total guarantee cover was extended to cases where loan amount lay between Rs. 20-25 lakh. Slab-wise analysis of credit proposals approved under guarantee scheme is given in **Annexure IV**.

#### Auditors

- 8.1 M/s. Khandelwal Jain & Co., Mumbai, a firm of Chartered Accountants, has been appointed as internal auditors of CGTSI, for the FY 2004-05. The Auditors have undertaken a comprehensive review of the entire computer systems as also financial audit covering revenue expenses, investment and revenue income.
- 8.2 As recommended by the Comptroller and Auditor General of India, the Board appointed M/s. H.C.Gupta & Co., Mumbai, a firm of

Chartered Accountants, as Statutory Auditors of CGTSI for the FY 2004-05.

#### Tax Exemption to CGTSI

- 9 As per the provisions of the Finance Bill introduced by the then Hon'ble Finance Minister on February 28, 2002 and passed by the Parliament, under sub-section 23EB U/S 10 of Income Tax Act, 1961, the income of CGTSI was exempted from tax payment for a period of 5 years commencing from the Financial Year 2001-02 (Assessment Year 2002-03).

#### Accounts

- 10.1 Income and Expenditure Account for the year ended March 31, 2005 and Balance Sheet as at March 31, 2005, together with the Auditors' Report are attached. During the FY 2004-05, the Trust earned income of Rs.7653 lakh, comprising mainly guarantee fee (Rs.658 lakh), annual service fee (Rs.205 lakh), and interest earned on investments (Rs.6790 lakh). Trust had incurred Rs.187 lakh towards various operational and administrative expenditures mainly comprising rent (Rs.32 lakh), advertisement and publicity expenses (Rs.2.54 lakh), IT services / web-hosting charges (Rs.9 lakh), salary (Rs.34 lakh), service charge to SIDBI (Rs.16 lakh), NAC meeting expenses / traveling expenses (Rs.10 lakh) and claims paid (Rs.51 lakh). The provision for claims has been made at Rs.4771 lakh. The excess of income over expenditure was Rs.2695 lakh. The Trust follows accrual system of accounting in respect of its income and expenditure effective FY 2001-02. Liability of the Trust in respect of a guaranteed account begins only on issue of guarantee, which depends on the actual receipt of guarantee fee in respect of the account approved for guarantee cover. Keeping this in view, RSM & Co., the then internal auditors of the Trust had advised to reckon guarantee fee on cash basis. Hence, since FY 2002-03, Trust has reckoned the income of guarantee fee on cash basis.

- 10.2 The total investment of the Trust as at March 31, 2005 stood at Rs.1017.73 crore as against Rs.707.42 crore as at the end of the previous year. The Trust is contingently liable in respect of the guarantee cover issued by it. During the year ended March 31, 2005, guarantee cover issued by the Trust was for Rs.251.83 crore, taking the cumulative

guarantee issued to Rs. 418.91 crore as on March 31, 2005.

#### Progress of Mutual Credit Guarantee Scheme

11. Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP) formally launched MCGS on December 18, 2003, at International Symposium of Women Entrepreneurs on Innovation and Best Practices organised by ALEAP at Hyderabad. A tripartite agreement has been entered into by ALEAP Credit Guarantee Association (ACGA), Andhra Bank and CGTSI on January 12, 2005. It is expected that cases will be forwarded by ACGA to Andhra Bank for financial assistance under its guarantee cover.

#### Interface

- 12.1 The National Advisory Committee (NAC) constituted in May 2001 with representatives from GOI, SIDBI, RBI, IBA, Banks, Experts / Professionals, SSI Entrepreneurs, and SSI Industry Associations had so far held three meetings. The NAC has been reconstituted in May 2003 and CGTSI places on record the valuable services rendered by the retired members.
- 12.2 With a view to building mutually beneficial relationship between CGTSI and its MLIs, an IBA Review Forum was constituted

comprising members nominated from Allahabad Bank, Central Bank of India, Punjab National Bank, State Bank of India and Vijaya Bank. The IBA forum has met twice so far and pursuant to deliberations at IBA Review Forum, some of the modifications have been carried out by CGTSI in the operational aspects of the credit guarantee scheme.

#### Management & Organisation

- 13.1 The Board of Trustees comprise Chairman & Managing Director of SIDBI as ex-officio Chairman, Additional Secretary & Development Commissioner (SSI) of GOI as ex-officio Vice-Chairman, Chairman IBA as ex-officio member and Chief Executive Officer of CGTSI as Member Secretary. During FY 2004-05, four meetings of the Board were held.
- 13.2 CGTSI appreciates on record the support and cooperation received from Ministry of SSI, Office of DC (SSI), GoI, SIDBI, RBI, IBA, MLIs of CGTSI, and SSI Industry Associations.
- 13.3 As on March 31, 2005, eight officers including the CEO were on deputation with CGTSI from SIDBI. The Board appreciates the contribution made by them in operationalising the guarantee scheme effectively.

Credit Guarantee Fund Trust for Small Industries

For and on behalf of the Board of Trustees

Place : New Delhi  
Date : November 25, 2005

(N.Balasubramanian)  
Chairman

## ANNEXURE-I

MLI wise Guarantees Approved under CGS  
as on March 31, 2005 (Cumulative)

Sr. No.	MLI	No. of Units	Loan Amount (Rs. in Lakh)
1	Allahabad Bank	380	905.64
2	Andhra Bank	132	362.30
3	Bank of Baroda	243	1875.60
4	Bank of India	1099	2776.76
5	Bank of Maharashtra	104	209.65
6	Canara Bank	4845	9400.59
7	Central Bank of India	669	2965.05
8	Corporation Bank	63	299.31
9	Dena Bank	277	759.96
10	Indian Bank	198	753.07
11	Indian Overseas Bank	303	803.79
12	NSIC	179	1491.08
13	Oriental Bank of Commerce	48	457.30
14	Punjab & Sind Bank	88	132.57
15	Punjab National Bank	5720	3153.81
16	Small Industries Development Bank of India	124	2469.39
17	State Bank of Bikaner & Jaipur	57	27.90
18	State Bank of Hyderabad	16	176.35
19	State Bank of India	4139	8496.00
20	State Bank of Indore	51	144.49
21	State Bank of Mysore	72	526.35
22	State Bank of Patiala	142	144.68
23	State Bank of Travancore	1292	1356.55
24	Syndicate Bank	189	1359.42
25	The Jammu & Kashmir Bank Ltd	255	115.32
26	The Nainital Bank Ltd.	4	30.41
27	The United Western Bank Ltd.	69	425.73
28	UCO Bank	745	4271.15
29	Union Bank of India	2247	5034.34
30	United Bank of India	510	2438.18
31	UTI Bank Ltd.	4	70.00
32	Vijaya Bank	57	430.11
	<b>Total</b>	<b>24321</b>	<b>53862.85</b>

## ANNEXURE - II

State-wise Guarantees Approved under CGS  
as on March 31, 2005 (Cumulative)

Sr. No.	State	No. of Units	Loan Amount (Rs. in Lakh)
1	Andaman & Nicobar	8	7.69
2	Andhra Pradesh	900	2,153.35
3	Arunachal Pradesh	2	1.90
4	Assam	262	897.97
5	Bihar	1053	955.49
6	Chandigarh	26	205.69
7	Chhattisgarh	321	1,826.01
8	Dadra & Nagar Haveli	7	35.00
9	Daman & Diu	7	105.25
10	Delhi	100	876.21
11	Goa	38	163.64
12	Gujarat	319	1,489.73
13	Haryana	379	1,221.78
14	Himachal Pradesh	428	738.22
15	Jammu & Kashmir	424	292.77
16	Jharkhand	718	4,307.43
17	Karnataka	1674	7,653.41
18	Kerala	4150	4,743.53
19	Madhya Pradesh	1186	3,557.19
20	Maharashtra	599	3,858.12
21	Manipur	29	36.66
22	Meghalaya	9	78.25
23	Mizoram	1	8.00
24	Nagaland	9	80.88
25	Orissa	805	1,243.78
26	Pondicherry	14	178.00
27	Punjab	564	897.14
28	Rajasthan	451	771.70
29	Sikkim	24	81.33
30	Tamil Nadu	1563	7,096.03
31	Tripura	10	40.32
32	Uttar Pradesh	6744	4,836.59
33	Uttaranchal	39	210.79
34	West Bengal	1458	3,213.00
	<b>Total</b>	<b>24321</b>	<b>53862.85</b>

## ANNEXURE - III

Industry-wise Guarantees approved under CGS  
as on March 31, 2005 (Cumulative)

Sr. No.	Industry	No. of Units	Loan amount (Rs. lakh)
1	Basic Metal Industries	657	3,543.90
2	Beverages, Tobacco Etc.	39	52.47
3	Chemicals Etc.	212	1,412.02
4	Electrical Machinery	378	1,331.53
5	Food Products	2263	5,027.48
6	Information Technology	423	1,607.24
7	Jute Textiles	79	84.44
8	Leather And Fur Products	274	379.19
9	Metal Products	1169	4,178.09
10	Non-Metallic Products	449	1,899.47
11	Other Manufacturing	12143	23,967.94
12	Paper And Printing	547	2,648.97
13	Repairing Services	847	559.12
14	Repairing Services Except Capital Goods	1	0.67
15	Services(Industry Related)	425	1,837.08
16	Textile Products	1968	3,405.71
17	Wood Furniture	1767	1,629.30
18	Wool, Silk Etc.	680	298.23
	<b>Total</b>	<b>24321</b>	<b>53,862.85</b>

## ANNEXURE - IV

Slab-wise analysis of credit proposals approved  
under CGS as on March 31, 2005 (Cumulative)

Sr. No.	Range (Rs.)	No. of Units	Guarantee Cover Approved (Rs. in Lakh)
1	Upto 1,00,000	18129	6,660.27
2	100,001 to 500,000	3472	9,742.43
3	500,001 to 10,00,000	1265	10,177.69
4	10,00,001 to 15,00,000	553	7,422.70
5	15,00,001 to 20,00,000	332	6,088.65
6	20,00,001 to 25,00,000	570	13,771.11
	<b>Total</b>	<b>24321</b>	<b>53,862.85</b>

## AUDITOR'S REPORT

To,  
The Board of Trustees  
**Credit Guarantee Fund Trust For Small Industries**

We have audited the attached Balance Sheet of Credit Guarantee Fund Trust For Small Industries as at March 31, 2005 and also the Income and Expenditure Account for the year ended on that date annexed thereto:

These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the accounting standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis.

We report that:

- 1) Sundry Account of Rs 25,00,480 has been shown as a Current Liability. We are of the opinion that the Enterprise has no liability to repay the same as there is no present obligation to refund the same. Further there is no probable outflow of resources & there is no reliable estimate as prescribed under AS 29. Accordingly this should be treated as income instead of 'Current Liability'. Hence the income is understated to the extent of Rs 25,00,480.
- 2) The reconciliation of total number of guaranteed accounts as on March 31, 2005 vis-à-vis the number of accounts as on March 31, 2004 could not be considered for scrutiny as it was informed by the Trust that the figures are dynamic. Further a few of the existing guaranteed accounts are closed by the Trust on the insistence of the MLI's themselves or due to non-remittance of Annual Service Fee etc. Hence it is not possible for us to verify the same.
- 3) Cash Flow statements are not prepared by the trust.
- 4) The method of computation of accrued interest on Fixed deposits has been changed from annualized basis to compounding on quarterly basis as applicable, due to which the profit is overstated to the extent of Rs 3.59 crores. The effect of change in the method of computation of Annual service fee cannot be quantified due to lack of information received from the MLI's.

**Subject to the above we report that:**

- a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- b) In our opinion, proper books of accounts as required by law, have been kept by the Trust so far as it appears from our examination of the books.
- c) The Balance Sheet and Income and Expenditure dealt with by this report are in agreement with the books of accounts.
- d) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with notes thereon, give true and fair view.
  - i) In the case of Balance Sheet, of the state of affairs of the Trust as at March 31, 2005; and
  - ii) In the case of the Income and Expenditure Account, of the surplus of the Trust for the year ended on that date.

**For H.C Gupta & Co.**  
Chartered Accountants

Place : New Delhi  
Date : November 25, 2005

**T.H. Gupta**  
(Partner)



**BALANCE SHEET  
AS AT MARCH 31, 2005**

Particulars	Schedules	As on 31.03.2005 (Rs.)	As on 31.03.2004 (Rs.)
<b>Sources of Funds</b>			
Corpus Fund	1	9,315,562,500	6,708,537,500
Reserves & Surplus	2	901,999,876	632,538,423
Current Liabilities & Provisions	3	921,637,955	441,997,005
<b>Total</b>		<b>11,139,200,331</b>	<b>7,783,072,928</b>
<b>Application of Funds</b>			
Investments	4	10,177,321,057	7,074,160,000
<b>Current Assets, Loans &amp; Advances</b>			
Cash in hand		4,686	4,784
Bank Balance	5	1,242,224	213,017
Accrued Income	6	958,357,176	707,948,119
Receivables	7	2,270,188	747,008
Advances for Expenses		5,000	0
Significant Accounting Policies & Notes to Accounts	A		
<b>Total</b>		<b>11,139,200,331</b>	<b>7,783,072,928</b>

As per our Report of even date attached

**For H.C. Gupta & Co.**  
Chartered Accountants

On behalf of the Board of Trustees

**(T.H.Gupta)**  
Partner

**(N.Balasubramanian)**  
Chairman

Place : New Delhi  
Date : November 25, 2005

**(Satyananda Mishra)**  
Vice Chairman

**(S.L.Choudhury)**  
Member Secretary

**INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED MARCH 31, 2005**

Particulars	Schedules	Amount (Rs.) 2004-05	Amount (Rs.) 2003-04
<b>INCOME</b>			
Interest on Investments		678,975,188	482,547,553
Guarantee Commission		65,784,611	23,302,623
Annual Service Fee		20,480,852	8,753,932
Interest on Advance Tax Refund		0	153,830
Miscellaneous Receipts		9,358	0
Brokerage & Commission		0	2,700,000
Penal interest income		27,413	0
		<u>765,277,422</u>	<u>517,457,938</u>
<b>EXPENDITURE</b>			
Operating and other Administrative Expenses	8	18,715,969	21,853,917
<b>EXCESS OF INCOME OVER EXPENDITURE</b>		<b>746,561,453</b>	<b>495,604,021</b>
Provisions for Guarantee claims		477,100,000	200,000,000
<b>Excess of Income over Expenditure</b>		<b>269,461,453</b>	<b>295,604,021</b>
<b>Carried to Balance sheet</b>			

As per our Report of even date attached

For H.C. Gupta & Co.  
Chartered Accountants

On behalf of the Board of Trustees

(T.H. Gupta)  
Partner

(N.Balasubramanian)  
Chairman

Place : New Delhi  
Date : November 25, 2005

(Satyananda Mishra)  
Vice Chairman

(S.L.Choudhury)  
Member Secretary

**SCHEDULES FORMING PART OF THE BALANCE SHEET  
AND INCOME AND EXPENDITURE ACCOUNT**

Schedule : A

**Significant Accounting Policies and Notes to Accounts**

**A) ACCOUNTING POLICIES**

**1. Accounting Conventions**

The accompanying financial statements have been prepared keeping in view the generally accepted accounting principles.

**2. Recognition of Income and Expenditure**

The Trust follows the cash basis of accounting in respect of Guarantee Commission and accrual basis for Annual Service Fee and Investment Income. Till FY 2003-04, interest accrued on FD was calculated on annualized basis. From current FY 2004-05 the Trust has adopted the policy of compounding of interest on a quarterly basis on fixed deposits as applicable, wherever the banks were doing the same on these Fixed Deposits. Due to this change, there has been an additional accrued income of Rs.3.59 crore on FDs.

**3. Investments**

Investments have been stated at cost.

**4. Taxations**

The income of the Trust is exempt from Income Tax for 5 previous years relevant to the Assessment Years commencing from April 1, 2002 and ending on March 31, 2007. Accordingly, no provision for income tax has been made during the year ended March 31, 2005.

**5. Contingent Liabilities**

No provision is made for liabilities that are contingent in nature but, if material, the same are disclosed by way of notes to the accounts.

**B) NOTES TO ACCOUNTS :**

1. The total claims received by the Trust from MLIs upto March 31, 2005 are 172 for the aggregate claim amount of Rs.221,48,019 against which the Trust had settled claims against 49 units for the amount of Rs.54,00,037 (1st installment of claim). The remaining 123 claim applications involving amount of Rs.167,47,982 are pending for settlement for various reasons, like initiation of legal proceedings etc.
2. Previous year figures have been regrouped or rearranged wherever necessary.
3. The Trust has provided Guarantee cover during the year to the tune of Rs.251,83,00,000 (previous year Rs. 162,62,54,000) for the credit facility extended by the MILs to various Small Scale Industries/SSSBE(IR) units.
4. As per the Memorandum of Understanding entered into between SIDBI and the Trust on October 04, 2001, the Trust makes the payment of service charge @20% on the expenses incurred by SIDBI on behalf of the Trust towards administrative expenses directly attributable to the functioning of the trust.
5. Guarantee commission fee received during FY 2004-05 is Rs.6,57,74,611. Accordingly, Guarantee cover should have been issued to the MLIs equivalent to Rs.263.09 crores against the loan/credit extended by the MLIs. As against this the actual Guarantee cover issued as on March 31, 2005 is Rs.251.83 crore. The issue of guarantee cover against the remaining accounts had been delayed due to implementation of new organization-wide IT software by the Trust.

SCHEDULES FORMING PART OF THE BALANCE SHEET  
AND INCOME AND EXPENDITURE ACCOUNT

6. The Sundry Liabilities Account is having a balance of Rs.25,00,480 for the year ended March 31, 2005. This account consists of those entries that remain unidentified due to direct credits by the MLI offices/branches in the collecting banks of the Trust without providing any information relating to purpose of remittance i.e. guarantee commission or Annual Service Fee.
  7. 1227 guarantee covers are to be cancelled on account of various reasons for e.g. as per advice of MLIs, non-receipt of Annual Service Fee, etc. They are considered live for the purpose of Annual Service Fee and Claim provisions for the year FY 2004-05. However, no provision for Annual Service Fee receivable has been made for FY 2003-04 in respect of these accounts on account of non-availability of information/data from MLIs regarding outstanding position as on March 31, 2004, which is required for calculation of Annual Service Fee as per the earlier method of accounting.
  8. Prior period Items
    - a) Annual Service Fee pertaining to FY 2004-05 includes receipts of Rs.36,986 which pertains to prior period.
    - b) Annual Service Fee receivables includes Rs.17,584 pertaining to FY 2002-03 and Rs.1,27,193 for FY 2003-04.
    - c) Annual Service Fee refundable includes Rs.2,03,282 pertaining to FY 2002-03 and Rs.10,86,580 pertains to FY 2003-04.
    - d) Out of the additional accrued income of Rs.3.59 crore on FDs as indicated at A.2, Rs.2.52 crore pertains to prior period i.e. FY 2000-01 to FY 2003-04, and to such extent the income is overstated.
-

**SCHEDULES FORMING PART OF THE BALANCE SHEET  
AND INCOME AND EXPENDITURE ACCOUNT**

	As on 31.03.2005 (Rs.)	As on 31.03.2004 (Rs.)
<b>Schedule : 1</b>		
<b>Corpus Fund</b>		
Received from :		
Government of India	7,452,450,000	5,336,150,000
SIDBI	1,863,112,500	1,372,387,500
	<u>9,315,562,500</u>	<u>6,708,537,500</u>
<b>Schedule : 2</b>		
<b>Reserves &amp; Surplus</b>		
<b>Income &amp; Expenditure Account</b>		
Opening Balance	632,538,423	336,934,402
Add: Excess of Income over Expenditure for the current year	269,461,453	295,604,021
	<u>901,999,876</u>	<u>632,538,423</u>
<b>Schedule : 3</b>		
<b>Current Liabilities and Provisions</b>		
Provisions for Guarantee claims made in the previous year	440,000,000	240,000,000
Provision for Guarantee Claims	477,100,000	200,000,000
Provision for Outstanding Liabilities	261,815	1,894,972
Annual Services Fee Received in Excess Refundable	1,289,862	102,033
Claim outstanding	21,500	0
Amount Reimbursable To SIDBI	464,298	0
Sundry Liabilities	2,500,480	0
	<u>921,637,955</u>	<u>441,997,005</u>
<b>Schedule : 4</b>		
<b>Investments</b>		
Investment in Bonds	300,000,000	300,000,000
Investment in Fixed Deposits	9,877,321,057	6,754,098,908
Investment in Short Term Fixed Deposits	0	20,061,092
	<u>10,177,321,057</u>	<u>7,074,160,000</u>
<b>Schedule : 5</b>		
<b>Bank Balance</b>		
Current Account with:		
State Bank of India	342,255	117,000
HDFC Bank Ltd.	49,126	2,001
IDBI Bank Ltd.	738,089	90,625
Punjab National Bank	112,754	3,391
	<u>1,242,224</u>	<u>213,017</u>
<b>Schedule : 6</b>		
<b>Accrued Income</b>		
Guarantee Fee	0	0
Service Fee	20,534,893	8,100,000
Interest on Investments	937,822,283	699,848,119
	<u>958,357,176</u>	<u>707,948,119</u>

**SCHEDULES FORMING PART OF THE BALANCE SHEET  
AND INCOME AND EXPENDITURE ACCOUNT**

	As on 31.03.2005 (Rs.)	As on 31.03.2004 (Rs.)
<b>Schedule : 7</b>		
<b>Receivables</b>		
Amount recoverable from other organisation	26,450	0
Amount recoverable from SIDBI	2,098,961	700,000
ASF Receivable	144,777	47,008
	<b>2,270,188</b>	<b>747,008</b>
<b>Schedule : 8</b>		
<b>Operating and Other Administrative Expenses</b>		
Advertisement & Publicity Expenses	254,325	7,169,398
Audit Fee	23,690	21,600
Bank Charges	1,059	1,450
Board Meeting Expenses	120,944	241,799
Car Hire Charges	326,079	332,020
Claims Paid	5,118,673	262,239
Computer Software Charges	0	18,100
Courier/Postage Charges	92,591	135,490
Fee Paid to Consultant	0	1,250
Internal Auditors Fee	44,080	128,000
IT service	766,946	549,176
Miscellaneous Expenses	6,497	65,631
National Advisory Committee	118,686	269,635
Office Expenses	773,329	1,043,721
Port Rentals	0	101,250
Printing & Stationery	298,367	270,100
Reimb of Expenditure to Employee	1,118,940	621,768
Rent	3,234,876	3,925,092
Salaries & Allowances to employees	3,424,897	2,660,234
Seminar & Meeting Expenses	89,639	0
Service Charges paid to SIDBI	1,587,961	2,114,215
Stationery Expenses and Computer Consumables	74,151	60,389
Survey Charges	240,000	0
TDS Penalty	1,209	0
Telephone Expenses	13,984	42,055
Training Expenses	0	18,525
Travelling Expenses	881,095	1,176,574
Web Hosting / ISDN / LSD Line Charges	103,950	624,206
	<b>18,715,968</b>	<b>21,853,917</b>

As per our Report of even date attached

**For H.C. Gupta & Co.**  
Chartered Accountants

On behalf of the Board of Trustees

(T. H. Gupta)  
Partner

(N. Balasubramanian)  
Chairman

Place : New Delhi  
Date : November 25, 2005

(Satyananda Mishra)  
Vice Chairman

(S.L. Choudhury)  
Member Secretary