

Credit Guarantee Fund Trust for Micro & Small Enterprises

Registered Office :

SME Development Centre,
7th Floor, C-11/G-Block,
Bandra Kurla Complex, Bandra (East),
Mumbai 400 051.

**7th Annual Report
2006 - 07**

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Credit Guarantee Fund Trust for Micro and Small Enterprises
SME Development Centre, 7th Floor,
C-11/G-Block, Bandra Kurla Complex,
Bandra (East), Mumbai 400 051.

September 17, 2007

The Additional Secy. & Development Commissioner (MSME)
Ministry of Micro, Small & Medium Enterprises, Govt. of India,
Office of the Development Commissioner (MSME),
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 financial year ended March 31, 2007, together with Auditors' Report, and
- 2) A copy of the report on the working of Credit Guarantee Fund Trust for Micro & Small Enterprises for the period ended March 31, 2007.

Yours faithfully,

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

BOARD OF TRUSTEES

Board of Trustees
(as on August 16, 2007)

Shri R. M. Malla Chairman & Managing Director Small Industries Development Bank of India	Chairman (ex-officio)
Shri Jawhar Sircar Additional Secretary and Development Commissioner (MSME) Ministry of MSME, Government of India	Vice Chairman (ex-officio)
Shri M. B. N. Rao Chairman Indian Banks' Association	Member (ex-officio)
Dr. K. C. Chakrabarty Chairman & Managing Director Punjab National Bank	Member
Dr. Dharmendra Bhandari	Member
Shri S. L. Choudhury Chief Executive Officer Credit Guarantee Fund Trust for Micro & Small Enterprises	Member Secretary

(as on March 31, 2007)

(A) SCHEDULED COMMERCIAL BANKS**(i) PUBLIC SECTOR BANKS**

- | | |
|--------------------------|-------------------------------|
| 1) Allahabad Bank | 11) Indian Bank |
| 2) Andhra Bank | 12) Indian Overseas Bank |
| 3) Bank of Baroda | 13) Oriental Bank of Commerce |
| 4) Bank of India | 14) Punjab & Sind Bank |
| 5) Bank of Maharashtra | 15) Punjab National Bank |
| 6) Canara Bank | 16) Syndicate Bank |
| 7) Central Bank of India | 17) UCO Bank |
| 8) Corporation Bank | 18) Union Bank of India |
| 9) Dena Bank | 19) United Bank of India |
| 10) IDBI Limited | 20) Vijaya 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 Saurashtra |

(iii) PRIVATE SECTOR BANKS

- | | |
|----------------------------------|-----------------------------------|
| 1) HDFC Bank Ltd. | 7) The South Indian Bank Ltd. |
| 2) ICICI Bank Ltd. | 8) The Federal Bank Ltd. |
| 3) ING Vysya Bank Ltd. | 9) The Bank of Rajasthan Ltd. |
| 4) IndusInd Bank Ltd. | 10) UTI Bank Ltd. |
| 5) The Jammu & Kashmir Bank Ltd. | 11) Kotak Mahindra Bank Ltd. |
| 6) The Nainital Bank Ltd. | 12) Tamilnad Mercantile Bank Ltd. |

(B) REGIONAL RURAL BANKS

- | | |
|--|--|
| 1) Godavari Grameena Bank, A.P. | 10) Chikmangalur - Kodagu Gramin Bank, Karnataka |
| 2) Howrah Grameen Bank, W.B. | 11) Giridih Kshetriya Gramin Bank, Jharkhand |
| 3) Prathama Bank, U.P. | 12) Chitradurga Gramin Bank, Karnataka |
| 4) Sabarkantha-Gandhinagar Gramin Bank, Gujarat | 13) South Malabar Gramin Bank, Kerala |
| 5) Shivalik Kshetriya Gramin Bank, Punjab | 14) Sree Anantha Grameena Bank, A. P. |
| 6) Sri Saraswathi Grameena Bank, A.P. | 15) Marwar Gramin Bank, Rajasthan |
| 7) Jamuna Gramin Bank, U.P. | 16) Karnataka Vikas Grameena Bank, Karnataka |
| 8) Kapurthala-Ferozpur Kshetriya Gramin Bank, Punjab | 17) Baroda Eastern Uttar Pradesh Gramin Bank, UP |
| 9) Bareilly Kshetriya Gramin Bank, U.P. | |

(C) LENDING 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 MICRO AND SMALL ENTERPRISES
FOR THE YEAR ENDED MARCH 31, 2007**

Introduction

1. Corpus Fund of CGTMSE

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. 1338 crore as at March 31, 2007. During FY 2006-07, CGTMSE received corpus contribution of Rs. 157 crore from its settlors.

2. Member Lending Institutions

As of March 31, 2007, 60 eligible lending institutions comprising 28 Public Sector Banks, 12 Private Sector Banks, 17 Regional Rural Banks (RRBs), National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation Ltd (NEDFi), and Small Industries Development Bank of India (SIDBI) have been registered as Member Lending Institutions (MLIs) of the Trust for extending the collateral free credit facility to the viable Micro and Small Enterprises (Industry related) and participating in the guarantee scheme. During the period under review, The United Western Bank Ltd merged into IDBI Ltd. and The Federal Bank Ltd. and the Tamilnad Mercantile Bank Ltd. became our new MLIs. Five new Regional Rural Banks joined the Trust namely, South Malabar Gramin Bank, Malappuram, Sree Anantha Grameena Bank, Anantapur, Marwar Gramin Bank, Pali, Karnataka Vikas Grameena Bank, Dharwad and the Baroda Eastern Uttar Pradesh Gramin Bank, Raebareli, UP. During the year the IndusInd Bank, The Federal Bank Ltd., The Bank of Rajasthan Ltd., Chikmaglur-Kodagu Grameen Bank, and the South Malabar Gramin Bank started operations under the Scheme.

3. Technology Based Transactions

The Enterprise wide B2B software which seamlessly integrate all the operational modules of CGTMSE, enhancing the capability of the system to perform additional

functions like on-line submission of periodic information, online updation of payment information, settlement of claims, operations under Mutual Credit Guarantee Scheme, has been implemented from April 1, 2005. The system has found greater acceptance as the operating MLI officials gained familiarity with the software and were apprised of the capabilities of the software through intensive workshops conducted by CGTMSE.

4. Modifications to the Credit Guarantee Scheme

Based on feedback and suggestions received from the MLIs as well as other stakeholders and based on Budget announcements for FY 2006-07, the following modifications / relaxations in the scheme were introduced during the year:

4.1. Pursuant to the announcement made by the Hon'ble Finance Minister, Govt. of India, in Parliament on February 28, 2006 while presenting Union Budget for FY 2006-07, it was decided to provide life insurance cover of Rs. 2,00,000/- (Rs. Two Lakh only) for Chief Promoters of the units provided guarantee cover is taken under the Credit Guarantee Scheme (CGS) of the Trust. Further, Guarantee fee has been reduced from 2.5% to 1.5% off sanction amount w.e.f. April 01, 2006.

4.2. Based on representations received from various quarters, it has been decided to give the MLIs a greater extent of freedom in determining the extent of coverage actually required by them. A schedule of differential pricing mechanism has been drawn to allow the MLIs the freedom to go in for lower guarantee coverage as per their risk perception.

5. Awareness Programmes

5.1. During the year CGTMSE continued to follow the strategy of creating awareness about the

scheme amongst MSE entrepreneurs and member banks/ institutions. With a view to create awareness amongst the banks and other stakeholders during FY 2006-07, 136 interactive seminars/ workshops-cum-training programmes as well as interface with industry associations were conducted successfully by CGTMSE 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, CGTMSE has requested them to publicise CGS through the channels available with them.

5.2. Website and direct interface.

5.2.1. Updated information on the functioning of CGTMSE has been posted on the Trust's website and mails received from existing / prospective MSE entrepreneurs are being attended to promptly. CGTMSE would continue to give importance to such awareness programmes.

5.2.2. A Link Officer in every MSME office, identified by the Ministry of MSME, with a view to using MSME network for scheme promotion and greater awareness creation through all possible channels, were trained by the Trust 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 are conducted from time to time in different parts of the country. Besides, CGTMSE has been disseminating information on the Scheme through the network of SIDBI offices in various State / District level meetings.

6. Performance of Scheme

6.1. As on March 31, 2007, there were 60 MLIs of the Trust, comprising 28 Public Sector Banks, 12 Private Sector Banks, 17 Regional Rural Banks and 3 other Institutions viz. NSIC, NEDFI and SIDBI.

6.2. During FY 2006-07, 41 Member Lending Institutions availed of the guarantee facility in respect of their collateral-free/third party guarantee-free credits to Micro and Small Enterprises. Particulars of MLI-wise guarantees approved by CGTMSE as on March 31, 2007 are given in **Annexure-I**.

6.3. As on March 31, 2007, 68062 proposals were approved for guarantee cover as against 40605 proposals approved as on March 31, 2006 registering a growth of 68%. The aggregate loan amount for which approval for guarantee cover were granted stood at Rs. 1705.07 crore, 70% higher than the corresponding figure for March 31, 2006. The units assisted under the Credit Guarantee Scheme are expected to generate employment for 3,67,821 persons, turnover and exports of Rs. 16,429 crore and Rs. 443 crore, respectively.

6.4. As on March 31, 2007 the top five MLIs which provided credit under Credit Guarantee Scheme were State Bank of India (Rs.310.42 crore), Canara Bank (Rs. 278.13 crore), Bank of India (Rs.117.76 crore), Punjab National Bank (Rs. 97 crore) and United Bank of India (Rs.95.06 crore).

6.5. 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, 2007 is given in **Annexure-II**. Among the states Kerala lodged the maximum number of applications (11476 accounts). It was followed by Uttar Pradesh (8908 accounts), Tamil Nadu (6883 accounts), Andhra Pradesh (5698 accounts) and Karnataka (5071 accounts).

6.6. Amount-wise, Tamil Nadu (Rs. 240.73 crore) topped the list, followed by Karnataka (Rs. 237.84 crore), West Bengal (Rs.156.18 crore), Kerala (Rs.155.89 crore) and Uttar Pradesh (Rs.111.46 crore).

6.7. The sector-wise assistance made available by MLIs under the guarantee scheme, as on

March 31, 2007, is given in **Annexure-III**. Metal Products units received maximum coverage in terms of amount of assistance covered under the Credit Guarantee Scheme (Guarantee approved for Rs.131.20 crore) followed by Food products (Guarantee approved for Rs.124.22 crore), Textile products (Guarantee approved for Rs.100.93 crore), Services (Industry related) (Guarantee approved for Rs. 67.87 crore) and Paper and Printing (Guarantee approved for Rs. 58.68 crore).

- 6.8. Of the 68062 proposals covered under the scheme for Rs.1705.07 crore, 45225 proposals (67 per cent) pertained to the category having credit component of up to Rs.1 lakh; 13871 units (20 per cent) having credit component in the range of Rs. 1 – 5 lakh, 4724 units (7 per cent) having credit component in the range of Rs. 5 –10 lakh, 4242 units (6 per cent) having credit component in the range of Rs. 10–25 lakh. Amount-wise, 34 per cent of guarantee cover was for loans below Rs.5 lakh, 22 per cent of the guarantee cover was extended to loans between Rs.5 lakh and 10 lakh, 44 per cent of the guarantee cover was extended to loans between Rs.10 lakh and Rs.25 lakh. Slab-wise analysis of guarantees approved is given in **Annexure-IV**.

7. Auditors

- 7.1. M/s. Bansilal Shah & Co., Mumbai, a firm of Chartered Accountants, has been appointed as internal auditors of CGTMSE, for the FY 2006-07. The Auditors have undertaken a comprehensive review of the entire computer systems as also financial audit covering revenue expenses, investment and revenue income.
- 7.2. 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 CGTMSE for the FY 2006-07.

8. Tax Exemption to CGTMSE

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 CGTMSE was exempted from tax payment for a period of 5 years commencing from the Financial Year 2001-02 (Assessment Year 2002-03). The tax exemption came to an end in FY 2005-06 and has not been extended for the future period.

9. Accounts

Income and Expenditure Account for the year ended March 31, 2007 and Balance Sheet as at March 31, 2007, together with the Auditors' Report are attached. During the FY 2006-07, the Trust earned income of Rs. 11561 lakh, comprising mainly guarantee fee (Rs. 953.96 lakh), interest earned on investments (Rs.10606.80 lakh). Trust had incurred Rs. 866.08 lakh towards various operational and administrative expenditures mainly comprising claims paid (Rs.139.44 lakh), Insurance Charges (Rs.142.95 lakh), staff salaries and allowances (Rs.32.44 lakh), advertising and publicity expenses (Rs.1.06 lakh), rent for office premises (Rs.71.84 lakh), web-hosting and other related charges for computer and software expenditure (Rs.4.93 lakh), service charge paid to SIDBI (Rs.19.49 lakh), prior period adjustments (Rs. 330.91 lakhs) and other office expenses. The provision for claims has been made at Rs.10517.71 lakh. The excess of income over expenditure was Rs.177.80 lakh prior to taxes. Post taxes the Trust has incurred a loss of Rs. 3437.20 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. Further, during FY 2006-07 it has been decided by the Trust to reckon the income

of Annual service Fee also on cash basis. During the year, the Trust received corpus contribution from its settlors to the extent of Rs.157.00 crore. This, together with the corpus contributions already received, and the net income earned by the Trust so far, had been invested in FDs / Bonds of PSUs / Financial Institution and FDs of various Banks (which are members of CGTMSE for participating under the guarantee scheme). The size of the corpus of the fund as on March 31, 2007 stood at Rs.1338.55 crore. The total investment at March 31, 2007 stood at Rs.1599.71 crore as against Rs.1333.47 crore as at the end of the previous year. During the year ended March 31, 2007, guarantee cover issued by the Trust was for Rs.598.52 crore taking the cumulative guarantees issued to Rs.1377.84 crore as on March 31, 2007.

10. Management & Organisation

10.1 The Board of Trustees during FY 2006-07 comprised of Chairman & Managing Director

of SIDBI as ex-officio Chairman, Additional Secretary & Development Commissioner (MSME) of GOI as ex-officio Vice-Chairman, Chairman IBA as ex-officio member, Dr. K.C.Chakrabarty, presently CMD, Punjab National Bank, Dr. Dharmendra Bhandari as members and Chief Executive Officer of CGTMSE as Member Secretary. During FY 2006-07, three meetings of the Board were held.

10.2 The Board of Trustee appreciates the support and cooperation received from Ministry of MSME, Office of DC (MSME), GoI, SIDBI, RBI, IBA, MLIs of CGTMSE, and SSI Industry Associations.

10.3 As on March 31, 2007, seven officers including the CEO were on deputation with CGTMSE from SIDBI. The Board appreciates the contribution made by them in operationalising the guarantee scheme effectively.

**Credit Guarantee Fund Trust for
Micro and Small Enterprises**

For and on behalf of the Board of Trustees

Place : New Delhi
Date : August 16, 2007

(R.M.Malla)
Chairman

ANNEXURE - I

**MLI-wise Guarantees approved
as on March 31, 2007 (Cumulative)**

Sr. No.	MLI	No. of Proposals	Approved Amount (Rs. in Lakh)
1	Allahabad Bank	712	2018.00
2	Andhra Bank	526	1446.08
3	Bank of Baroda	888	6860.95
4	Bank of India	3911	11776.88
5	Bank of Maharashtra	136	335.64
6	Canara Bank	15542	27813.53
7	Central Bank of India	1727	7359.44
8	Chikmagalur-Kodagu Grameena Bank	19	18.02
9	Corporation Bank	939	5011.08
10	Dena Bank	974	2839.73
11	Godavari Grameena Bank	3	17.40
12	IDBI Ltd.	279	1645.20
13	Indian Bank	997	3444.02
14	Indian Overseas Bank	996	2724.09
15	Indusind Bank	3	29.62
16	Ing Vysya Bank Ltd	28	350.78
17	Jamuna Gramin Bank	27	8.64
18	NSIC Ltd.	181	1503.36
19	Oriental Bank of Commerce	484	3636.73
20	Punjab & Sind Bank	312	608.39
21	Punjab National Bank	9372	9699.90
22	Small Industries Development Bank of India	402	7562.94
23	South Malabar Gramin Bank	25	41.08
24	State Bank of Bikaner & Jaipur	786	902.79
25	State Bank of Hyderabad	96	655.34
26	State Bank of India	16098	31042.01
27	State Bank of Indore	123	287.75
28	State Bank of Mysore	252	1782.08
29	State Bank of Patiala	218	319.22
30	State Bank of Saurashtra	27	74.03
31	State Bank of Travancore	2803	3950.03
32	Syndicate Bank	760	5140.35
33	The Bank of Rajasthan Ltd.	51	11.11
34	The Federal Bank Ltd	7	63.43
35	The Jammu & Kashmir Bank Ltd.	450	207.21
36	The Nainital Bank Ltd.	20	89.36
37	UCO Bank	2352	8321.85
38	Union Bank of India	3217	9071.90
39	United Bank of India	2015	9505.73
40	UTI Bank Limited	53	905.05
41	Vijaya Bank	251	1425.81
	Total	68062	170506.55

ANNEXURE - II

State/UT - wise Guarantees approved
as on March 31, 2007 (Cumulative)

Sr. No.	State /UT Name	No. of Proposals	Approved Amount (Rs. in lakh)
1	Andaman & Nicobar	23	39.34
2	Andhra Pradesh	5698	6448.43
3	Arunachal Pradesh	129	129.71
4	Assam	1870	3706.35
5	Bihar	2813	3553.75
6	Chandigarh	133	909.26
7	Chhattisgarh	880	4891.50
8	Dadra & Nagar Haveli	12	79.28
9	Daman & Diu	20	219.75
10	Delhi	287	2564.39
11	Goa	159	646.02
12	Gujarat	1469	9747.58
13	Haryana	1915	4090.05
14	Himachal Pradesh	1185	1934.52
15	Jammu & Kashmir	807	718.85
16	Jharkhand	1409	6397.86
17	Karnataka	5071	23784.00
18	Kerala	11476	15588.63
19	Madhya Pradesh	2993	7941.24
20	Maharashtra	1564	10667.44
21	Manipur	101	149.65
22	Meghalaya	247	694.75
23	Mizoram	231	341.59
24	Nagaland	61	167.04
25	Orissa	3831	6120.71
26	Pondicherry	177	398.37
27	Punjab	1210	3419.11
28	Rajasthan	2138	2989.54
29	Sikkim	59	172.00
30	Tamilnadu	6883	24072.59
31	Tripura	126	196.68
32	Uttar Pradesh	8908	11145.80
33	Uttaranchal	184	962.41
34	West Bengal	3993	15618.37
	Total	68062	170506.55

ANNEXURE - III

Sector-wise guarantees approved
as on March 31, 2007 (cumulative)

Sr. No.	Sector Name	No. of Proposals	Approved Amount (Rs. in lakh)
1	Basic Metal Industries	1115	5294.27
2	Beverages, Tobacco Etc.	104	298.57
3	Chemicals Etc.	562	3601.32
4	Cotton Textiles	1145	2907.16
5	Electrical Machinery	771	3366.9
6	Food Products	5890	12421.71
7	Information Technology	670	2504.57
8	Jute Textiles	135	272.45
9	Leather And Fur Products	677	1559.24
10	Metal Products	3168	13119.79
11	Non-electrical Machinery, Tools And Parts	231	1677.53
12	Non-metallic Products	998	4621.88
13	Paper And Printing	1258	5867.96
14	Repairing Services	922	608.91
15	Repairing Services Except Capital Goods	137	257.61
16	Repairing Services For Capital Goods	208	242.48
17	Rubber, Petroleum Etc.	151	870.54
18	Services(industry Related)	4316	6786.76
19	Software	177	1072.93
20	Textile Products	4522	10092.86
21	Transport Equipment	81	538.48
22	Wood Furniture	3025	3565.59
23	Wool, Silk Etc.	929	678.56
24	Other Manufacturing	36870	88278.48
	Total	68062	170506.55

ANNEXURE - IV

Slab-wise guarantees approved
as on March 31, 2007 (Cumulative)

e (Rs.)	Cumulative	
	No. of Proposals	Approved Amount (Rs. in lakh)
,00,000/-	45225	17653.72
01 to 200,000/-	6138	10459.51
01 to 500,000/-	7733	29289.18
01 to 10,00,000/-	4724	37485.07
001 to 25,00,000/-	4242	75619.07
	68062	170506.55

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 31st March 2007 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 statement presentation. We believe that our audit provides a reasonable basis.

We report that :

- 1) The Trust has changed its method of accounting in respect of Annual Service fees from Mercantile to Cash Basis. Accordingly Annual Service fees receivable for the year ending 31-3-2007 of Rs 7,77,17,065 which would have been accounted if the method of accounting had not changed, has not been accounted for. This has resulted in the profit being understated by Rs 7,77,17,065.
- 2) The Sundry Liabilities Account of Rs.1,01,60,693.00/-relating to unknown credits of which Rs. 41,00,567 pertains to the year ended on 31/03/2007 has been shown as a Current Liability. We are of the opinion that the Trust 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 and 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. 41,00,567.
- 3) The internal control of the Trust needs to be strengthened keeping in view the growing operations of the Trust.
- 4) The reconciliation of total number of guaranteed accounts as on 31st March 2007 vis-à-vis the number of accounts as on March 31, 2006 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. In absence of details it is not possible for us to verify the same.
- 5) Cash Flow statements are not prepared by the Trust.

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 31st March 2007 and
 - ii) In the case of the Income and Expenditure Account, of the deficit of the Trust for the year ended on that date.

For H.C Gupta & Co.
Chartered Accountants
H.C. Gupta
(Partner)

Place : New Delhi
Date : August 16, 2007

**BALANCE SHEET
AS ON MARCH 31, 2007**

Particulars	Schedules	As on 31.03.2007 (Rs.)	As on 31.03.2006 (Rs.)
Sources of Funds			
Corpus Fund	1	13,385,541,250.00	11,815,562,500.00
Reserves & Surplus	2	856,300,454.00	1,199,979,289.00
Current Liabilities & Provisions	3	2,997,651,203.00	1,574,027,870.00
Total		<u>17,239,492,907.00</u>	<u>14,589,569,659.00</u>
Application of Funds			
Fixed Assets			
Computer	293,607		
Less Depreciation	293,600	7.00	7.00
Furniture & Fixture	38,000		
Less Depreciation	37,999	1.00	1.00
Electrical Items	15,950		
Less Depreciation	11,963	3,987.00	7,975.00
		3,995.00	7,983.00
Investments	4	15,997,099,622.00	13,334,688,757.00
Current Assets, Loans & Advances			
Cash in hand		314.00	2,340.00
Bank Balance	5	20,742,838.00	1,621,540.00
Accrued Income	6	691,446,100.00	1,252,936,352.00
Receivables	7	6,584,360.00	144,387.00
Advance FBT		355,502.00	168,300.00
Deferred Tax Assets		41,255.00	
Advance Income tax paid (including TDS)		523,218,921.00	0.00
Total		<u>17,239,492,907.00</u>	<u>14,589,569,659.00</u>
Notes forming part of Accounts	9		
Significant accounting Policies	10		

As per our Report of even date attached

For H. C. Gupta & Co.
Chartered Accountants

On behalf of the Board of Trustees

(H. C. Gupta)
Partner

(R.M. Malla)
Chairman

Place : New Delhi
Date : August 16, 2007

(Jawhar Sircar)
Vice Chairman

(S. L. Choudhury)
Member Secretary

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED MARCH 31, 2007**

Particulars	Schedules	Amount (Rs.) 2006-07	Amount (Rs.) 2005-06
INCOME			
Interest on Investments		1,060,679,593.00	840,148,947.00
Guarantee Commission		95,396,224.00	90,021,414.00
Annual Service Fee		0.00	40,303,617.00
Miscellaneous Receipts		8,372.00	25,491.00
Penal Interest Income		10,337.00	0.00
		<u>1,156,094,526.00</u>	<u>970,499,469.00</u>
EXPENDITURE			
Operating and other Administrative Expenses	8	86,607,616.00	28,853,056.00
EXCESS OF INCOME OVER EXPENDITURE		1,069,486,910.00	941,646,413.00
Provisions for Guarantee claims		1,051,707,000.00	643,667,000.00
Excess of Income over expenditure before tax		17,779,910.00	297,979,413.00
Provisions for Income tax		361,500,000.00	0.00
Excess \Deficit of Income over Expenditure		<u>-343,720,090.00</u>	<u>297,979,413.00</u>
Carried to the Balance Sheet			

As per our Report of even date attached

For H. C. Gupta & Co.
Chartered Accountants

On behalf of the Board of Trustees

(H. C. Gupta)
Partner

(R.M. Malla)
Chairman

Place : New Delhi
Date : August 16, 2007

(Jawhar Sircar)
Vice Chairman

(S. L. Choudhury)
Member Secretary

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

	As on 31.03.2007 (Rs.)	As on 31.03.2006 (Rs.)
Schedule : 1		
Corpus Fund		
Received from :		
Government of India	10,692,433,000.00	9,452,450,000.00
SIDBI	2,693,108,250.00	2,363,112,500.00
	13,385,541,250.00	11,815,562,500.00
Schedule : 2		
Reserves & Surplus		
Income & Expenditure Account		
Opening Balance	1,199,979,289.00	901,999,876.00
Add\Deduct : Profit\Loss for the current year	-343,720,090.00	297,979,413.00
Add: Deferred Tax Assets	41,255.00	0.00
	856,300,454.00	1,199,979,289.00
Schedule : 3		
Current Liabilities and Provisions		
Provisions for Guarantee claims made in the previous year	1,560,767,000.00	917,100,000.00
Provision for Guarantee Claims	1,051,707,000.00	643,667,000.00
Guarantee Fee Refundable	290,676.00	212,195.00
Provision for Outstanding Liabilities	537,500.00	266,804.00
Annual Services Fee Received in Excess Refundable	7,476,441.00	1,789,380.00
Claim outstanding	21,500.00	21,500.00
Amount Reimbursable To SIDBI	4,378,679.00	4,455,410.00
Sundry Liabilities	10,160,693.00	6,060,126.00
Unclaimed Liability on A/c of Stale Cheque	486,791.00	235,455.00
Advance ASF	104,923.00	0.00
Provision for FBT	220,000.00	220,000.00
Provision for Income Tax	361,500,000.00	0.00
	2,997,651,203.00	1,574,027,870.00
Schedule : 4		
Investments		
Investment in Bonds	0.00	0.00
Investment in Fixed Deposits	15,997,099,622.00	13,334,688,757.00
	15,997,099,622.00	13,334,688,757.00
Schedule : 5		
Bank Balance		
Current Accounts with:		
State Bank of India	137,063.00	21,552.00
HDFC Bank Ltd.,	556.00	66,514.00
IDBI Bank Ltd.,	20,590,410.00	1,482,345.00
Punjab National Bank	14,809.00	51,129.00
	20,742,838.00	1,621,540.00

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

	As on 31.03.2007 (Rs.)	As on 31.03.2006 (Rs.)
Schedule : 6		
Accrued Income		
Guarantee Fee	0.00	0.00
Service Fee	0.00	40,303,617.00
Interest on Investments less TDS	691,446,100.00	1,212,632,735.00
	691,446,100.00	1,252,936,352.00
Schedule : 7		
Receivables		
Amount recoverable from other organisation	6,584,360.00	0.00
Amount recoverable from SIDBI	0.00	0.00
ASF Receivable	0.00	55,588.00
Prepaid Expenses	0.00	88,799.00
	6,584,360.00	144,387.00
Schedule : 8		
Operating and Other Administrative Expenses		
Advertisement & Publicity Expenses	106,002.00	102,000.00
Audit Fee	74,620.00	61,460.00
Bank Charges	18,610.00	19,641.00
Board Meeting Expenses	9,800.00	0.00
Car Hire Charges	48,872.00	170,116.00
Claims Paid	13,943,984.00	11,034,935.00
Courier/Postage Charges	90,058.00	63,535.00
Depreciation	9,407.00	334,155.00
FBT	0.00	220,000.00
Fee Paid to Consultants	0.00	5,000.00
Insurance Charges	14,294,663.00	6,314.00
Internal Auditors Fee	127,807.00	88,160.00
IT service	382,316.00	278,515.00
Miscellaneous Expenses	20,454.00	32,183.00
National Advisory Committee	0.00	0.00
Office Expenses	1,068,262.00	1,144,844.00
Printing & Stationery	53,787.00	115,879.00
Reimb of Expenditure to Employee	1,005,223.00	1,122,752.00
Rent	7,184,068.00	3,708,265.00
Salaries & Allowances to employees	3,244,694.00	2,988,889.00
Seminar & Meeting Expenses	252,359.00	102,613.00
Service Charges paid to SIDBI	1,949,023.00	1,052,296.00
Stationery Expenses and Computer Consumables	40,356.00	53,472.00
Survey Charges	0.00	0.00
TDS Penalty	0.00	0.00
Telephone Expenses	81,173.00	99,913.00
Training Expenditure	194,072.00	0.00
Travelling Expenses	830,091.00	1,007,146.00
ASF Receivable Written Off	7,993,611.00	0.00
Web Hosting / ISDN/ LSD Line Charges	493,311.00	603,345.00
Prior period adjustment account	33,090,993.00	4,437,628.00
	86,607,616.00	28,853,056.00

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

Schedule : 9**NOTES forming part of ACCOUNTS:**

1. The total claims received by the Trust from MLIs upto March 31, 2007 are 416 for the aggregate claim amount of Rs. 9,24,78,262.40 against which the Trust had settled claims against 273 units for the amount of Rs. 3,01,13,419.00. Claims for Rs.18,57,341.00 rejected for various reasons, like recovery made after NPA was more than outstanding as on date of NPA, guarantee not in force, guarantee covered for bad debts etc. The remaining claim applications involving amount of Rs.6,05,07,502.40 are pending for settlement for various reasons, like initiation of legal proceedings etc.
2. The Trust has provided Guarantee cover during the year to the tune of Rs.598,52,42,396 (previous year Rs. 360,40,91,428) for the credit facility extended by the MLIs to various Small Scale Industries/SSSBE(IR) units.
3. 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.
4. The Sundry Liabilities Account was having a balance of Rs. 101,60,693 as on March 31, 2007. This amount consist of those entries that remain unidentified due to direct credits by the MLIs offices/branches in the collecting banks of the Trust without providing any information relating to purpose of remittance i.e. Guarantee Fee or Annual Service Fee.
5. Short fall in the amount of ASF-2006 amounting to Rs.79,93,610.72 (booked as income for FY 2005-2006) which was not received during the year has been transferred to a new account code ASF/ *Guarantee Fee Receivable Written Off account*.
6. Annual Service Fee Refundable
Annual Service Fee refundable includes Rs. 3,31,965 pertaining to FY 2003-04 and Rs.4,58,422 for FY 2004-2005 and Rs.66,86,054 for FY 2005-2006.
7. Prior period Items
 - a) Due to premature break of Fixed Deposits made earlier and its reinvestment at a higher rate of interest, the accrued interest booked as on March 31, 2006 on these deposits has reduced due to application of card rate by banks prevalent on the original date of investment till the date of premature withdrawal. The amount of accrued interest on these deposits as on March 31, 2006 was reduced by an amount of Rs.3,41,43,373.25. The same has been treated as prior period adjustment.
 - b) Additional provision amounting Rs.9,38,192 for ASF-2006 was made due to appropriation of Guarantee Fee received for FY 2005-2006.
 - c) ASF refundable amounting Rs.16,394 pertaining to FY 2003-2004 was made for which no provision was made.
 - d) ASF receivable amounting Rs.95.25 pertaining to FY 2002-2003 and Rs.55,493 pertaining to FY 2003-2004 now reversed since these were found not receivable.

Schedule : 10

Significant Accounting Policies

1. Accounting Conventions

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

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

2. Recognition of Income and Expenditure

The Trust follows the cash basis of accounting in respect of Guarantee Fee and Annual Service Fee and accrual/mercantile basis for Investment Income. Interest accrued on FD is calculated on compounding on a quarterly/yearly basis as applicable.

3. Investments

Investments have been stated at cost.

4. Taxations

The income of the Trust was 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 payment of advance income tax has been made during the year ended March 31, 2007.

5. Contingent Liabilities

The trust is contingently liable for 75% of the amount of guarantee issued as on March 31, 2007.

6. Fixed Assets

Fixed assets have been stated at cost less depreciation. Rate of depreciation is taken at 100% on Computer, Furniture and fixture and 50% on Electrical appliances.

7. Retirement Benefits

Retirements benefits are provided by SIDBI for its employees on deputation to the Trust.

8. Provision for Claims

Provision for claims is not based on ascertained liabilities as prescribed in AS-29. However, the same has been provided as per the accounting policies consistently followed by the trust in previous years. The details of the provisions made during the year is indicated below:

	(In Rs.)
Opening balance as on April 01, 2006	156,07,67,000
Less: Claims during FY 2006-07	1,39,43,984
Add: Provisions for Claims during FY 2006-07	106,56,50,984
Closing Balance as on March 31, 2007	261,24,74,000

9. Change in Method of Accounting

Previously the Trust was accounting Annual Service Fee(ASF) on Mercantile basis. After due approval from its Board it has accounted ASF on cash basis. Accordingly Annual Service fees receivable for the year ending 31-3-2007 of Rs 7,77,17,065, which would have been accounted if the method of accounting had not changed, has not been accounted for. This has resulted in the profit being understated by Rs.7,77,17,065.

As per our Report of even date attached

For H. C. Gupta & Co.
Chartered Accountants

(H. C. Gupta)
Partner

Place: New Delhi
Date: August 16, 2007

On behalf of the Board of Trustees

(R.M. Malla)
Chairman

(Jawhar Sircar)
Vice Chairman

(S.L.Choudhury)
Member Secretary