

CHAPTER XI: MINISTRY OF HOUSING & URBAN POVERTY ALLEVIATION

Housing and Urban Development Corporation Limited

11.1 Lending Operations in Urban Infrastructure Schemes

Introduction

Housing and Urban Development Corporation Ltd. (HUDCO) was incorporated on 25 April 1970 with the main objective of providing long term finance for Housing and Urban Development programmes in the country. For fulfillment of these objectives HUDCO finances a variety of schemes formulated by the Government/Non-Government Agencies through its 20 Regional offices across the country.

Scope of Audit

Out of total loans of ₹ 67141 crore sanctioned during the period from 2005-06 to 2009-10, an amount of ₹ 56214 crore (84 *per cent*) was sanctioned for Urban Infrastructure (UI) schemes. Lending operations in UI schemes of HUDCO, during the above period of five years ended on 31 March 2010 were examined during the thematic study.

Audit Objectives

The audit assessed whether:

- adequate control mechanism relating to appraisal, sanction, release and recovery of loans existed.
- the funds disbursed were utilized effectively/efficiently for the intended purpose.
- the objectives set by the Company for UI lending were achieved.
- speedy legal action was taken in the cases of default
- the control mechanism was effective enough to safeguard the financial interest of HUDCO and to cover the risk of lending.

Audit Criteria

The performance of HUDCO was assessed against the following criteria:

- Govt. of India directives and HUDCO targets set for UI lending
- Guidelines of National Housing Bank (NHB)
- Codal provisions and guidelines of HUDCO for lending.

Audit Methodology

Out of total 560 schemes, 60 schemes were selected on random basis for examination. Random sampling was based on quantum of financing, sanctions to private agencies, achievement of objectives, defaults in repayment and level of Non-Performing Assets (NPAs). In addition, nine One Time Settlement (OTS) cases were also audited. The

records relating to the above selected schemes/cases were audited at Corporate Office and nine Regional Offices* of HUDCO during May to July 2010.

11.1.1 Targets and Achievements

Audit analysed the target of financing UI schemes and achievements of the Company there against. The target and achievements for sanction and release of loans under UI schemes during the last five years up to 2009-10 were as under: -

(₹ in crore)

Year	No. of Schemes sanctioned	Targets		Achievement		Percentage of actual release to sanction
		Sanction	Release	Sanction	Release	
2005-06	101	8820	4410	8553	2691	31.46
2006-07	135	9900	4950	9284	2622	28.24
2007-08	150	8553	3500	11349	2864	25.24
2008-09	104	9408	4340	13121	3131	23.86
2009-10	70	10349	4774	13907	2296	16.51
Total	560	47030	21974	56214	13604	

The above table indicated consistent decline in release of funds against the amount sanctioned. Targets and achievements for sanction and release for last five years up to 2009-10 (as indicated in the above table) showed that the Company could not meet the targets. Reasons for decline in performance were as under:

- (i) Out of 560 schemes, 162 closed without release of funds where either the agencies failed to fulfill the sanction conditions or did not turn up for loan due to higher rate of interest of HUDCO, resulting in loss of business of ₹ 22418.34 crore to HUDCO as under:-

Year	2005-06	2006-07	2007-08	2008-09	2009-10	Total
No. of Schemes closed	37	39	48	32	6	162
Amount (₹ in crore)	5463.59	3659.24	5208.85	6918.64	1168.02	22418.34

- (ii) Similarly, there were 120 schemes sanctioned for a loan of ₹ 5134.44 crore during the three years up to 2007-08 against which the loan release was ₹ 2991.66 crore up to March 2010. The balance loan could not be released as agencies availed of funds from other sources and some projects were behind schedule.
- (iii) Funds could not be fully released against sanctioned loans as both Central and States Governments were releasing funds for different projects relating to UI schemes at much more attractive rates of interest.
- (iv) As institutional support to HUDCO was not available, it borrowed from market resulting in higher cost of funds.

* Delhi (NCR), Chandigarh, Kolkata, Guwahati, Mumbai, Hyderabad, Chennai, Bengaluru and Thiruvananthapuram

11.1.2 Performance in Financing UI schemes

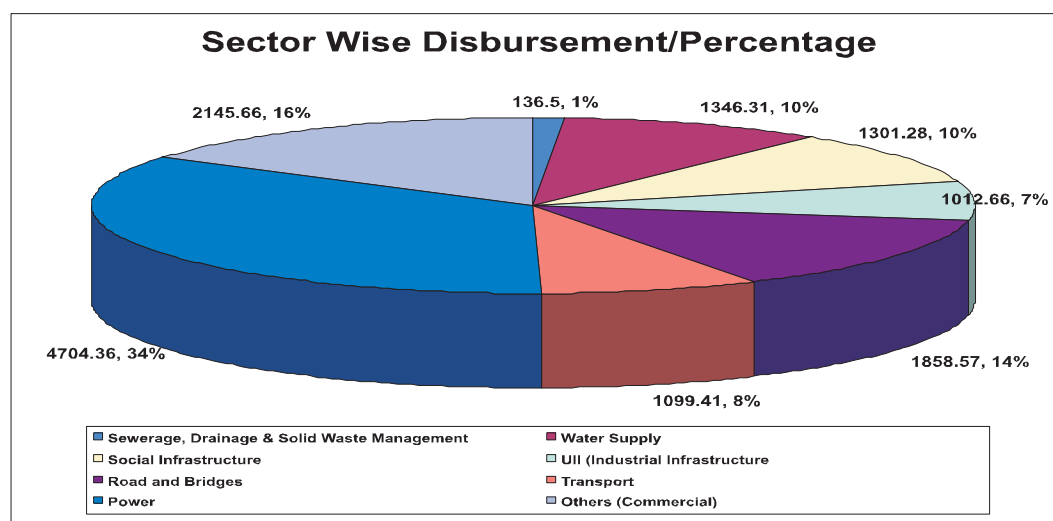
11.1.2.1 Operational Performance

As may be seen from the operational performance of the Company in financing UI Schemes during the last five years (*Annexure-VI*), the loans outstanding against Government agencies decreased from ₹ 12064.04 crore during 2005-06 to ₹ 9725.46 crore during 2009-10, but the defaults increased from ₹ 635.77 crore to ₹ 801.72 crore during these years. In case of Non-Government agencies there was increasing trend in outstanding loans as well as defaults in repayments and the same ranged between 19.62 per cent and 28.29 per cent during the five years up to 2009-10. Thus defaults by Non-Govt. agencies were alarmingly high which increased from ₹ 517.94 crore (in 2005-06) to ₹ 1047.10 crore (in 2009-10).

The Management stated (September 2010) that releases were dependent on various factors and in the event of delay in payment by Government agencies, HUDCO was not having any access / recourse to the funds available for State Governments.

11.1.2.2 Sector wise performance

The position of sector wise release of loans during the last five years up to 2009-10 is shown in the tabular form in *Annexure-VII* and Pie-chart as under:



From the above chart it would be seen that out of eight segments of Urban Infrastructure major financing (34.57 per cent) was made for power sector. Financing to power plants was mainly made on consortium basis where the schemes were appraised and approved by lead lender and the Company released its share as a consortium member.

As against parameters set out in MOU by the Administrative Ministry the Company achieved satisfactory level in sanction of loans, however, in case of release of funds for UI schemes and percentage of releases for priority* infrastructure the performance of HUDCO was rated as “poor” by the Ministry during all the five years up to 2009-10. The Management stated (September 2010) that 34.13 per cent of total UI funding was made towards priority sector in the last five years. However due to entry of banks, cut-throat

* Drainage, Sewerage, Solid Waste Management, Water supply, Roads and Social Infrastructure

competition and absence of Government support for low cost funds and other benefits to HUDCO, it had to widen its area of funding to power and commercial infrastructure.

11.1.3 Audit Findings

HUDCO had laid down guidelines for appraising the loan applications, sanction and release of loans. The shortcomings in the control system on these issues along with the reasons for default in the recovery system noticed in audit are discussed in succeeding paragraphs:

11.1.3.1 Non-adherence to guidelines

Para 28(1) of the Housing Finance Companies (NHB) directions 2001 provided that no housing finance Company shall lend to any single borrower exceeding 15 percent of its Net Owned Funds (NOF) and any single group of borrowers exceeding 25 percent of its NOF. However, HUDCO framed (May 2005) its own credit concentration norms which provided for lending to various State Governments with no limit and Government agencies up to 50 percent of NOF in contravention of NHB norms. This had resulted in over exposure leading to greater risk in lending for which no additional security to cover the same was obtained by HUDCO.

The Management stated (September 2010) that NHB exposure norms were fully complied with respect to private sector borrowers and in case of State Government/State Government agencies, HUDCO has been requesting the Ministry / NHB for relaxation of NHB norms. Audit, however, noticed that Ministry / NHB has not accepted the proposal of HUDCO so far (September 2010).

11.1.3.2 Appraisal of loan proposals

(a) HUDCO sanctioned loan of ₹ 33.05 crore to 14[▼] Cold Storage projects between February 2006 and January 2008 in Bihar classifying these as commercial projects, though the same did not fall under Urban Infrastructure. An amount of ₹ 23.97 crore was released to 11 agencies up to March 2010 and no release was made to three agencies (March 2010). 10 agencies were in default of ₹ 8.56 crore (March 2010) due to delay in completion of projects and uneconomical operation of cold storages. Project reports prepared by two consultants were based on storage of agrarian products without taking into account the inherent risk of wide fluctuation in output thereof. The parameters of cash flow and major cost elements were also kept constant over the period of 10 years. Thus due diligence was not exercised in appraisal of loan proposals as required under HUDCO guidelines. The Management stated (September 2010) that the schemes were sanctioned as a part of UI services after sensitivity analysis and that it had no involvement in preparation of DPRs. The reply was not tenable as the viability of the

▼ (i) Maruti Construction Pvt. Ltd., Hazipur (Scheme No. 18839, 18902),(ii) Ramandi Cold Store, Kusa, Khobi (18912),(iii) Shree Chand Cold Storage P. Ltd., Korha (18951),(iv) Tri Raj Cold Storage P. Ltd., Gaya (19004), (v)Sona Developer and Cold Storage P. Ltd., Madhepura (19026),(vi) Pansalwa Cold Storage P. Ltd., Pansalwa (19074),(vii) Kamath Cold Storage P. Ltd., Charrapati (19255), (viii) Nirbhay Cold Storage P. Ltd., Dumraon (19257),(ix) Champanagar Cold Storage P. Ltd., Champanagar (19258),(x) Aman MP Cold Store, Chaimpur (19303), (xi) Shri Ram Praikshan Cold Storage P. Ltd.Chandsarai(19311), (xii) Bilas Cold Storage P.Ltd., Gwalpada (19341), (xiii)Thakur Nikunj Cold Storage p. Ltd., Madhurapur (19358) and (xiv)Shashi Bhushan Cold Storage P.Ltd, Bhatti (19395)

projects sanctioned on unrealistic parameters was doubtful due to which the agencies remained in default.

(b) The Company sanctioned (May 2005) a loan of ₹ 54.00 crore to M/s Global Education Net (the agency) (Scheme 18675) out of which an amount of ₹ 35.44 crore was released upto August 2008 to the agency to set up a Medical College and Hospital at Agartala in Tripura. Audit analysis revealed that the Management did not verify credit rating of agency and enforceability of corporate guarantee/ mortgaged security, as prescribed in HUDCO guidelines, before sanction and release of the loan to the above agency. The State Government of Tripura terminated (May 2009) its agreement with the agency as the agency failed to create infrastructure as per requirements of Medical Council of India resulting in blockage of funds of HUDCO. The Management stated (September 2010) that State Government of Tripura had formed a committee for assessment of assets and liabilities of the scheme /agency for further running the hospital and that it was expected that the matter would be resolved within the financial year. The reply was not acceptable as the Company had not ensured credit rating of the agency and enforceability of corporate guarantee/mortgaged security before sanction /release of loan of ₹ 35.44 crore which remained blocked (March 2010).

(c) The Company sanctioned loan of ₹ 85.00 crore (Scheme-17333) to M/s Konaseema EPS Ockwell Power Ltd. against which ₹ 80.45 crore were released up to May 2006 and balance ₹ 4.55 crore was released in January 2008. The power plant could not be made operational due to non availability of natural gas and the State Government also did not allow operation of the power plant with alternative fuel. The Management stated (September 2010) that the project was completed in time (August 2006) but the operation was delayed due to delay in commercial exploitation of gas. The reply was not acceptable because while participating in consortium lending, the Company, as a prudent financier, should have ensured that the Project was viable and fuel supply would be available to it.

11.1.3.3 Sanction and Release of loans

(a) HUDCO sanctioned (March 2005 to May 2008) loan of ₹ 49.63 crore for three commercial complex projects with following deficiencies: -

- (i) HUDCO sanctioned a loan of ₹ 25.00 crore to M/s. Today Hotels (Andhra) Pvt. Ltd. (Scheme-19058) and released (March 2008) an amount of ₹ 20.75 crore to Hyderabad Urban Development Authority (HUDA) on behalf of the agency. It was observed that the title of the land was not registered in the name of the agency. As such in absence of prime security the above amount of loan was unsecured. The Management stated (September 2010) that the agency and the Hyderabad Urban Development Authority had undertaken in a tripartite agreement to create equitable mortgage in favour of HUDCO and that agency had also offered equitable mortgage of the land owned by its group company at New Delhi. The reply was not acceptable as the mortgage of the land in favour of HUDCO was awaited (April 2010).
- (ii) Loan of ₹ 12.95 crore was sanctioned (May 2008) to M/s Durga Developer Pvt. Ltd. (Scheme 19513) for construction of a multi storeyed commercial complex at Ranchi, out of which an amount of ₹ 6.16 crore was released. Audit observed that the loan was released without ensuring clear title of the project land which was

disputed and under litigation due to which the project could not be completed and funds were blocked. The Management stated (September 2010) that further release of loan to the borrower was stopped in view of dispute. The reply was not acceptable as the Management had released loan to the extent of ₹ 6.16 crore without ensuring clear title of land.

(iii) Loan of ₹ 11.68 crore was sanctioned (March 2005) to M/s Harsha Associates Private Limited (Scheme 18601) for construction of commercial complex. Audit observed that HUDCO released ₹ 9.57 crore to the agency though it had not brought required contribution and capital in the project and diverted funds of the project for other purposes. The advances received from customers were also not routed through escrow account. The Management stated (September 2010) that legal action had been initiated against the agency. The reply was not tenable as the loan was released without ensuring compliance to pre-disbursement conditions.

(b) HUDCO sanctioned loan of ₹ 76.81 crore for two hotel projects with following deficiencies:

(i) Loan of ₹ 71.07 crore was sanctioned (March 2007) to M/s. Shristi Urban Infrastructure Development Corporation Ltd. (Scheme 19125), a Joint Venture Company (JVC) of HUDCO, for construction of a Hotel-Mall Multiplex project. The loan was sanctioned by relaxing security norms in violation of HUDCO guidelines. Promoter's contribution was reduced to 10 *per cent* against the required level of 25 *per cent*, corporate guarantee and personal guarantee of promoters were not obtained and sub-lease hold land was considered as prime security. Audit observed that the project was not covered under objective clause of JVC and subsequently, the loan was transferred (July 2007) to a special purpose vehicle (SPV) of JVC, M/s. Shristi Udaipur Hotels and Resorts Pvt. Ltd. First two instalments of ₹ 3.75 crore each only could be released up to projected completion period (March 2010) of three years for want of compliance to pre-disbursement conditions. The Management stated (September 2010) that relaxation in norms was made as the borrower was a JVC of HUDCO. The reply was not acceptable as relaxation in norms was not admissible to SPV which was a separate entity and financing of a project to be set up on a sublease land was also not as per guidelines of HUDCO.

(ii) Loan of ₹ 5.74 crore was sanctioned (March 2006) to M/s Birsa Hotel Pvt. Ltd. (Scheme 18863) with a release of ₹ 5.58 crore. Audit observed that loan was sanctioned without taking into account the take out finance and the debt servicing record of the agency resulting in default (May 2009) against HUDCO dues. The Management stated (September 2010) that the agency had promised to clear the dues of State Government agencies and that the loan was sanctioned by HUDCO on merits. The reply was not acceptable as the loan was sanctioned to a party who had been a defaulter in repayment of dues of other lenders.

11.1.3.4 Recovery of dues and Non Performing Assets (NPAs)

Timely recovery of the dues from the borrowers is of utmost importance for regular recycling of funds and to avoid loans turning into NPAs. HUDCO does not have any

system to analyse the actual amount recovered against the amount due for recovery and analysis of old and current dues. In the absence of requisite data on this aspect the Management was not in a position to assess its recovery performance at a particular point of time.

The age wise details of defaults under UI scheme at the end of each year from 2005-06 to 2009-10 are given below.

(₹ in crore)					
Age wise	2005-06	2006-07	2007-08	2008-09	2009-10
0-3 months	50.07	78.29	112.34	59.15	76.59
3-6 months	9.53	9.71	19.42	15.11	2.58
6-30 months	160.91	112.23	62.28	81.70	143.45
Above 30 months	933.20	1096.46	1274.89	1559.91	1626.20
Total	1153.71	1296.69	1468.93	1715.87	1848.82

From the above table it is evident that defaults in repayment had an upwards trend which increased from ₹ 1153.71 crore (Govt. - ₹ 635.77 crore and Non Govt. - ₹ 517.94 crore) during 2005-06 to ₹ 1848.82 crore (Govt.- ₹ 801.72 crore and Non Govt. – ₹ 1047.10 crore) at the end of March 2010. The defaults which were more than 30 months old ranged between ₹ 933.20 crore and ₹ 1626.20 crore and were 80.88 per cent to 87.95 per cent of the total defaults during these years indicating that there was higher risk of non recovery of this amount. An amount of ₹ 419.99 crore related to the cases which were five to ten years old and ₹ 1097.98 crore related to cases in default for a period exceeding 10 years.

A few default cases worth highlighting were as under:

- (i) HUDCO sanctioned (April 2007) a loan of ₹ 12.00 crore to M/s Evergreen Properties Pvt. Ltd. for construction of commercial complex (Scheme 19201). Audit observed that HUDCO released ₹ 10.20 crore for the project from time to time without ensuring the proportionate contribution to be made by the agency. The project remained incomplete and the premises could not be leased out or sold leading to non generation of revenue and default (March 2010) of ₹ 4.96 crore. The Management stated that legal action by HUDCO was under process. However, the tangible legal action to recover the dues was awaited.
- (ii) Against the loan of ₹ 75.07 crore released (September 1998) to Maharaji Education Trust (Scheme 12941) for setting up Institute of Allied Health Science, no repayment was received after January 2001. OTS for ₹ 172.22 crore offered (December 2004) by HUDCO was not honoured by the agency. The recovery suit filed (August 2002) by HUDCO in DRT Delhi was decided (June 2008) for recovery of ₹ 148.08 crore plus interest. HUDCO neither could attach the mortgaged properties nor was able to recover the dues which accumulated (March 2010) to ₹ 692.33 crore. The Management stated (December 2010) that the dues of agency had been re-cast in terms of Debt Recovery Appellate Tribunal order dated 6 October, 2010 and first monthly installment of ₹ 50.00 crore was due in November 2010. However the fact remained that the recovery mechanism of HUDCO was not effective in this chronic default case and even after recast of dues no repayment was received.

- (iii) HUDCO had released loan of ₹ 141.35 crore to Jalgaon Municipal Corporations (JMC) under various schemes. Audit observed that the agency remained a chronic defaulter even after rescheduling (March 2004) the loan and waiver of ₹ 3.41 crore. JMC's overdues accumulated (March 2010) to ₹ 22.68 crore (UI Schemes). The Management while intimating the amount outstanding against Jalgaon Municipal Corporation as ₹ 50.62 crore, stated (September 2010) that the matter had been taken up by the CMD, HUDCO with the Chief Secretary, Government of Maharashtra. The reply was not convincing as lack of effective action by the Management to recover dues resulted in accumulation of outstanding amount.
- (iv) Loan of ₹ 11.70 crore was sanctioned (April 99) to M/s Enbee Infrastructure Ltd. (Scheme 16219) for a waste to energy project. Audit observed that the agency neither provided revolving bank guarantee nor created lien on escrow account and diverted the funds to other purposes. The project was abandoned by the agency after first release (October 2000) of ₹ 3.88 crore. The recovery suit filed (November 2002) by HUDCO in Debt Recovery Tribunal (DRT) Mumbai remained pending for want of jurisdiction clause until High Court remanded (August 2006) the case. The Management stated that recovery proceedings were pending in DRT Mumbai and DRT Delhi. However, the fact remained that release of loan was not justified in view of irregularities. Further, absence of jurisdiction clause in the agreement with the agency delayed the legal proceedings resulting in accumulation of overdues to ₹ 23.15 crore (march 2010).

11.1.3.5 One Time Settlement (OTS) of overdues

The guidelines of HUDCO provided for One Time Settlement to resolve the chronic default cases including NPAs through default resolution package for final settlement of dues. During the period covered in audit, HUDCO settled 27 cases of OTS where the loans were sanctioned prior to the period covered in audit. The OTS packages were approved for ₹ 661.04 crore against the dues of ₹ 944.74 crore thereby forgoing ₹ 283.70 crore during the five years up to 2009-10. Audit observed that failure of managerial control at various stages of sanction, release and recovery of loans led to ultimate loss in OTS cases. Some of the OTS cases are discussed below:

- (i) HUDCO released a loan of ₹ 10.62 crore up to September 1996 to M/s Punjab Wool Combers Ltd. (Scheme 12798) for construction of commercial complex. Audit observed that the agency remained in default from December 1996 and also filed (August 1997) a case before the BIFR for declaring it as a sick Company within one year of release and the case was decided in May 2005. As per HUDCO guidelines the OTS of the case was worked out to ₹ 25.12 crore. However, only principal amount of ₹ 10.62 crore was recovered (May 2007) in OTS against the outstanding dues of ₹ 111.31 crore. Management replied that agency was not a sick Company at the time of release of loan by HUDCO. The reply was not acceptable because moving the case by the agency before the BIFR for declaring it as a sick Company within one year of release of loan indicated serious lapse in the system adopted by the HUDCO for assessment of borrower, which failed to assess that the agency was on the verge of being sick.
- (ii) HUDCO released a loan of ₹ 58.01 crore up to August 2004 to M/s Mysore Sugar Company Ltd. (Scheme 16757 & 16989) for setting up co-generation power plant

which remained un-operational. Audit observed that the agency was in default since September 2004 and reported to BIFR for declaring it as a sick Company and was declared to be so in September 2005. HUDCO neither invoked State Govt. Guarantee nor exercised its mortgage rights of properties to recover the dues. The agency was allowed (February 2010) OTS of ₹ 92.41 crore against dues of ₹ 109.42 crore thereby forgoing ₹ 17.01 crore. The OTS amount was allowed to be paid in seven years instead of two years as per HUDCO guidelines. The Management stated (September 2010) that concessions were extended to agency on the request of State Government of Karnataka and in view of business interest. However the fact remained that the loan was released to a sick Company and relaxation in recovery were allowed against HUDCO guidelines.

- (iii) HUDCO sanctioned a loan of ₹ 14.53 crore to M/s Wise Infrastructure Ltd. (Scheme 13183) for construction of commercial complex against which ₹ 6.75 crore was released up to May 1997. Audit observed that the Project land was under dispute/litigation which resulted in non-completion of project and non-payment of HUDCO dues. Ultimately HUDCO recovered (Sept. 2006) ₹ 15.67 crore in OTS against the dues of ₹ 49.46 crore thereby forgoing ₹ 33.79 crore. The Management stated that default had become NPA for which OTS was approved. The reply being irrelevant was not acceptable as financing of a project on a disputed land had led to non recovery of dues resulting in NPA.

Conclusion

The Company did not apply due diligence while appraising loan proposals. Consequently, financing of unviable projects ended up in blockage of Company's funds. The Company also released loans to borrowers without ensuring that the loan amount was adequately secured. In a few of the cases noticed in audit the Company released loan by relaxing pre-disbursement conditions which proved detrimental to the financial interests of the Company as subsequently these lenders defaulted. The mechanism for recovery of dues was also not effective as was evident from the fact that the amount in default was rising as it increased from ₹ 1154 crore in 2005-06 to ₹ 1849 crore in 2009-10. This included ₹ 1097.98 crore relating to cases in default for more than ten years due to deficiencies at various stages and inadequate pursuance of recoveries. Failure of Management control at various stages of sanction, release and recovery of loans led to ultimate loss in settling the overdue cases through OTS. The Company had to forgo an amount of ₹ 284 crore to settle dues of ₹ 945 crore through OTS packages approved by it over the period of five years reviewed.

The matter was reported to Ministry in September 2010; reply was awaited (February 2011).

Recommendations

- ***Managerial control mechanism at all stages of operations required to be strengthened.***
- ***HUDCO Management should take suitable steps to increase financing in priority sector for urban development.***