

Chapter III

Performance Audit relating to Statutory Corporations

Rajasthan Financial Corporation

3. Performance Audit on 'Recovery of Loans' by Rajasthan Financial Corporation

Executive Summary

Rajasthan Financial Corporation (Corporation), constituted (17 January 1955) under the State Financial Corporation Act, 1951 (SFC Act), provides medium and long-term loan to micro, small and medium scale industries in Rajasthan. During the period from 2008-09 to 2012-13, the Corporation sanctioned loans of ₹ 1778.72 crore, out of which disbursements of ₹ 1364.57 crore were made to various industrial units. The total recoveries during this period stood at ₹ 2091.62 crore including prepayments of ₹ 596.55 crore.

Financial and business performance

The financial position was weak as the accumulated losses increased from ₹ 53.58 crore in 2008-09 to ₹ 130.10 crore in 2012-13. Recovery of principal amount was the major source of financing the business operations during 2008-13 as the borrowings from SIDBI and other banks were not even sufficient to repay the loans raised from them. Shortfall in recovery targets occurred despite the targets having been fixed on lower side (between 65.90 and 81.09 per cent) than the net collectable amount during the year. The business performance sharply declined during 2008-13 as the sanctions decreased (75.90 per cent) from ₹ 473 crore to ₹ 114 crore while the disbursements decreased (59.12 per cent) from ₹ 340 crore to ₹ 139 crore. No amount was sanctioned by five Branch offices during 2012-13.

Recovery performance against major indicators

Non-performing Assets (NPAs)

The Corporation could not confine the NPAs within the agreed limit of 10 per cent

of total outstanding loans as per tri-partite MOU executed in December 2003 (renewed in July 2009) between the Corporation, GoR and SIDBI. The percentage of NPAs to total outstanding loans ranged between 21.06 and 30.47 during 2008-13. Out of total loans of ₹ 966 crore disbursed during 2008-11, 16 loan accounts (₹ 33.24 crore) became NPA within a short span of two years while other three loan accounts (₹ 57.67 lakh) became NPA within three years.

Sector wise performance

Major thrust of the Corporation was on promotion of Commercial Real Estate (CRE) sector as out of total sanctions of ₹ 1778.72 crore during 2008-13, the share of CRE sector was ₹ 599.73 crore (33.71 per cent). The sector received financial assistance of ₹ 527.27 crore (38.64 per cent) out of total disbursements of ₹ 1364.57 crore made during 2008-13. The Corporation neither fixed industry wise exposure limits nor evolved any system to ensure that financial assistance to CRE sector does not exceed the prescribed limits at a point of time.

Appraisal, Sanction and Disbursement

There were instances of deficient appraisal, sanction and disbursement of loans viz. non-adherence to credit appraisal parameters (past history of the promoters, financial soundness, marketability of the proposed project, reports of Credit Information Bureau of India Limited etc.), disbursement without ensuring utilisation of promoter's contribution, in-adequate security etc. which led to grant of loans to in-eligible borrowers and caused difficulties in recovery of loans.

Re-scheduling of loan accounts

Out of 172 loan accounts re-scheduled during 2008-13, 121 loan accounts (70.35 per cent) were re-scheduled beyond last date of repayment ranging between nine and 96 months. Further, 18 borrowers out of 85 re-scheduled accounts in six selected units defaulted in repayment of dues of ₹20.37 crore as on May 2013. Defaulters also include five and two borrowers where re-scheduling was done for second and third time respectively.

Settlement of loan accounts

The State Level Committee and Head Office Level Committee settled 317 cases for ₹45.90 crore against outstanding dues of ₹168.71 crore and thereby sacrificed an amount of ₹122.81 crore (72.79 per cent) during 2008-13. The Corporation settled 39 cases below principal amount (₹4.39 crore) at ₹2.90 crore and 158 other cases were settled for merely ₹29.93 crore against outstanding amount of ₹121.13 crore despite availability of prime and collateral security with MRV of ₹72.06 crore.

Enforcement of Section 29

Out of 109 units sold during 2008-13, 87 units were sold within five years, 13 units were sold between five and 10 years, eight units between 10 and 20 years and one unit after time lag of more than 20 years of taking possession. The Corporation also sold out 52 units without recovering even the principal amount and sacrificed ₹3.69 crore towards principal against these units. Analysis of 50 units taken in possession during 2008-13 at selected Branch Offices disclosed that there was delay upto 100

months in issue of legal notices under Section 29 since inception of default by the borrower. Further, there was time gap upto 109 months between issue of first notice and taking of possession of defaulting unit by the Corporation. Out of 51 units under possession, the latest Market Realisable Value of 21 units (₹7.31 crore) was not sufficient to cover the outstanding dues (₹21.99 crore) and there was shortfall of ₹14.68 crore towards recovery of dues.

Recovery under Rajasthan Land Revenue Act, 1956

The Corporation settled 2076 cases during 2008-13 and 1098 cases involving amount of ₹198.75 crore were pending for recovery as on March 2013. The District Collector returned 173 Requisition of Demands (RODs) during 2008-13 due to non-identification of properties in the name of promoters/guarantors. Out of pending cases, the Corporation either did not have adequate security or other properties of promoters/guarantors were not identified in 323 cases pertaining to nine selected Branch offices.

Recommendations

The performance audit contains five recommendations which include finding of alternate source of finances to improve the disbursements for promotion of MS&ME sector; close monitoring of Standard Assets to ensure prevention of slippages of accounts into NPAs; ensure adherence to the parameters of sanction and disbursements to minimise the risk; take prompt and effective action for recovery of dues as per Rules; and to strengthen the internal control and internal audit systems.

Introduction

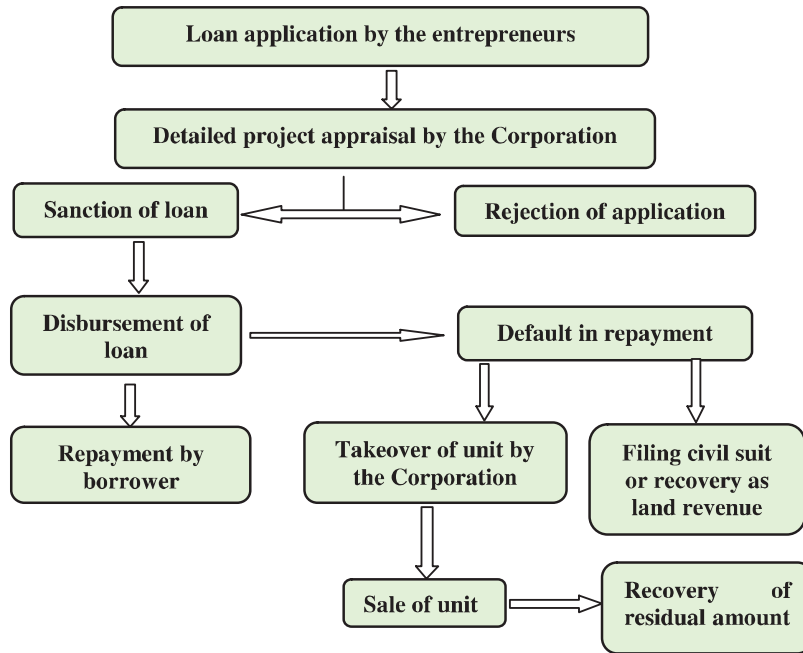
3.1 Rajasthan Financial Corporation (Corporation) was constituted (17 January 1955) under the State Financial Corporation Act, 1951 (SFCs Act) for providing medium and long-term loan to micro, small and medium scale industries¹ in Rajasthan. The financial assistance is provided to industrial units having paid up capital and free reserves not exceeding ₹ 30 crore. As per Section 26 of the State Financial Corporations (Amendment) Act, 2000, the Financial Corporations could provide financial assistance of ₹ 5 crore to corporation, company or a co-operative society and ₹ 2 crore in any other case. The limits could be exceeded upto four times with the prior approval of the Small Industrial Development Bank of India (SIDBI). The SIDBI permitted (March 2010) the Corporation to provide financial assistance upto ₹ 10 crore in case of corporation/company/co-operative society and ₹ 4 crore in other cases at its own level. Financial assistance to the projects beyond ₹ 10 crore and ₹ 4 crore respectively was to be approved by the SIDBI.

The general superintendence, direction and management of affairs of the Corporation vests with the Board of Directors (BoD), consisting representatives from the State Government, SIDBI, other Public Sector Banks, Life Insurance Corporation of India and other Institutions. As on March 2013, the BoD comprised of 11 Directors including a Chairman and Managing Director (CMD). The CMD is the Chief Executive Officer of the Corporation and is assisted by an Executive Director, General Managers, Deputy General Managers (DGM) and Departmental heads at the Head Office and Branch Managers at Branch Offices. As on 31 March 2013, the Corporation carried out the activities relating to sanction, disbursement and recovery of loans through 38 Branch Offices located in various parts of the State. The Branch Offices were controlled at Headquarter by six DGM (Operations).

During the period from 2008-09 to 2012-13, the Corporation sanctioned loans of ₹ 1779 crore, out of which disbursements of ₹ 1365 crore were made to various industrial units. The total recoveries during this period stood at ₹ 2091.62 crore including prepayments of ₹ 596.55 crore.

¹ In case the industry is engaged in production, Manufacturing and Processing or Preservation, Micro, Small and Medium industries means industries where investment in plant and machinery does not exceed ₹ 25 lakh, ₹ 25 lakh to ₹ 5 crore, and ₹ 5 crore to 10 crore respectively. In case they are providing services, Micro, Small and Medium industries means industries where investment in equipment does not exceed ₹ 10 lakh, ₹ 10 lakh to ₹ 2 crore and ₹ 2 crore to ₹ 5 crore respectively.

The process involved in sanction, disbursement and recovery of loans is given below:



Scope of Audit

3.2 The performance of the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2005, Government of Rajasthan. The Performance Audit was discussed by the Committee on Public Undertakings (COPU) during June 2007 to May 2008. The recommendations of COPU were placed before the State Legislature on 26 August 2011. The recommendations *inter-alia* included action against the officials responsible for inordinate delay in initiating timely action for recovery, delay in disposal of units, non-identification of promoters/securities *etc.*

The present Performance Audit covers the performance of the Corporation towards 'Recovery of Loans' during 2008-09 to 2012-13. The Performance Audit was conducted during March 2013 to July 2013. Audit examination involved scrutiny of records at Head Office, four DGM Operations (III, IV, V and VI) out of six and nine² Branch Offices under selected DGM Operations. The four DGM Operations and Branch Offices under them were selected on the basis of Stratified Risk based sampling method.

2 (1) Jaipur City, (2) Sikar, (3) Kota, (4) Jaipur (Sitapura), (5) Bhiwadi, (6) Neemrana, (7) Dausa, (8) Jaipur (Rural) and (9) Sriganaganagar.

Audit Objectives

3.3 The Performance Audit of the Corporation was conducted to ascertain whether:

- sanction and disbursement of financial assistance was in accordance with policies, procedures and system devised by the Corporation;
- the recovery of dues and action taken in case of default was as per provisions of SFCs Act, 1951 and policies framed by the Corporation;
- the Corporation established an adequate, effective and efficient system of internal control with regard to sanction, disbursement and recovery of dues; and
- settlements were made in accordance with approved policies and One Time Settlement (OTS) schemes implemented from time to time.

Audit Criteria

3.4 The audit criteria derived from the following sources were adopted:

- Annual budgets, Annual Accounts of the Corporation, Manuals and Resolutions of the Board;
- Policies and procedures & guidelines of the Corporation relating to sanction, disbursement and loan recovery, provisions of the SFCs Act, guidelines of SIDBI and Reserve Bank of India (RBI);
- Non-performing assets classification norms issued by SIDBI and RBI; and
- Management Information System/internal control and internal audit.

Audit Methodology

3.5 The methodology adopted for attaining audit objectives with reference to audit criteria consisted of explaining audit objectives to the Government/top Management of the Corporation during entry conference (20 May 2013). The records at Head Office and selected units were scrutinized involving analysis of data, raising of audit queries and interaction with Corporation personnel. Draft Performance Audit Report was issued (August 2013) to Government/Management for their comments. The reply of the Government/Management was received (October 2013) and audit findings were discussed with the Government/Management during exit conference (17 October 2013). The Performance Audit has been finalised after considering the replies of the Government/Management.

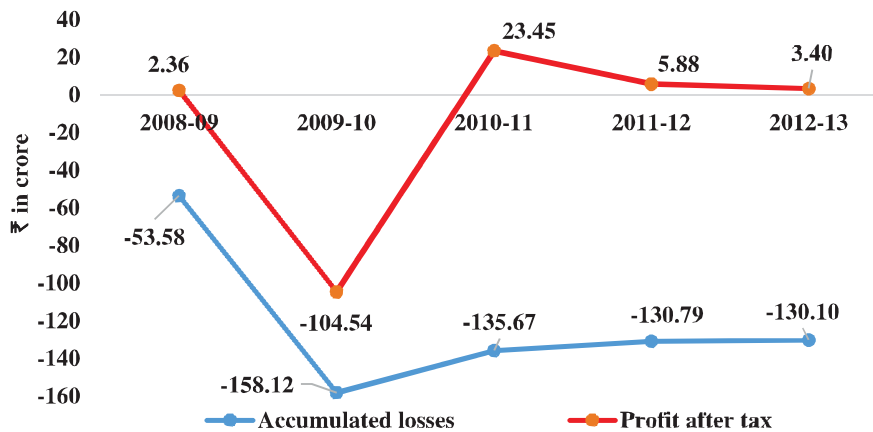
During exit conference, all the audit recommendations except fixation of industry wise exposure limits were accepted. The CMD stated that it would be difficult to fix industry wise exposure limits due to non-availability of requisite data for different sectors of the economy.

Audit findings

Financial position and business performance

Financial position

3.6 Detailed financial position and working results of the Corporation are given in **Annexure-13**. The profitability status during 2008-13 indicating profit after tax and accumulated losses is depicted in line chart below:



The financial position of the Corporation was weak as the accumulated losses increased from ₹ 53.58 crore in 2008-09 to ₹ 158.12 crore in 2009-10. The financial position marginally improved in subsequent years and the accumulated losses stood at ₹ 130.10 crore at the end of 2012-13. During 2008-09, the Corporation changed the accounting system from 'Cash basis' to 'Accrual basis' on the directions of SIDBI but it did not make the provision for non-performing assets (NPAs) as per SIDBI guidelines. The SIDBI guidelines for NPAs were adhered from 2009-10 and as a result the operating profit of ₹ 2.21 crore during 2009-10 turned into loss of ₹ 104.54 crore.

The Government accepted (October 2013) the facts and stated that losses were due to provision made for NPAs as per SIDBI guidelines.

Sources and utilisation of cash

3.7 Apart from recovery of principal and interest, the major sources of cash inflow were borrowings from SIDBI and other scheduled banks. The cash outflow was utilised towards disbursement of loans, repayment of loans and expenditure incurred by the Corporation. The position of cash inflow and outflow during 2008-13 is given below:

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Cash Inflow						
Opening cash and bank balance	74.85	57.33	54.45	72.84	32.40	291.87
Borrowings from SIDBI	150.00	125.72	86.00	75.00	53.65	490.37
Borrowings from other banks	12.00	110.00	50.00	-	-	172.00
Issue of bonds	-	-	-	-	300.00	300.00
Recovery of principal	278.38	275.95	341.16	305.03	291.74	1492.26
Recovery of interest	116.84	113.95	128.35	125.61	114.08	598.83
Other revenue receipts	11.66	10.18	10.62	7.94	13.60	54.00
Other cash inflows	8.05	15.87	11.81	21.23	-	56.96
Total	651.78	709.00	682.39	607.65	805.47	3456.29
Cash Outflow						
Disbursement by way of loans	340.17	296.89	328.96	259.78	138.76	1364.56
Repayment to SIDBI, other banks and bonds	125.55	222.92	149.22	170.63	443.15	1111.47
Revenue expenditure	108.01	122.99	119.82	123.11	122.75	596.68
Closing cash and Bank balance	57.33	54.45	72.84	32.40	97.23	314.25
Other cash outflows	20.72	11.75	11.55	21.73	3.58	69.33
Total	651.78	709.00	682.39	607.65	805.47	3456.29

(Source: Annual accounts and information provided by the Corporation)

It could be seen that recovery of principal amount was the major source of financing the business operations during 2008-13 as the borrowings from SIDBI and other banks were not even sufficient to repay the loans raised from them. The revenue expenditure was met through interest recoveries and other revenue receipts. Against borrowings of ₹ 662.37 crore from SIDBI and other banks during 2008-13, the re-payments were ₹ 1111.47 crore indicating lack of support from SIDBI and other financial institutions. As borrowings from other banks were not forthcoming during 2011-13, the Corporation issued bonds of ₹ 300 crore during 2012-13 to repay the loans of SIDBI.

As seen from above, re-finance support from SIDBI was reduced from ₹ 150 crore to ₹ 53.65 crore during 2008-13. Reduction in re-finance support over a period of time was indicated by SIDBI during recommendations made on inspection reports³ and in the tripartite Memorandum of Understanding (MoU) executed (July 2009) between the Corporation, GoR and SIDBI. The recommendations on inspections report (2008-09, 2009-10 and 2010-11) mentioned that the Corporation needs to identify alternate sources for fund raising and to diversify its resource base. As per the MoU, the GoR agreed to provide resource support to the Corporation for strengthening equity base to facilitate higher levels of borrowings and improving, achieving and maintaining required capital adequacy and positive net worth. The GoR also agreed to provide guarantee to the Corporation for raising market borrowings (including banks) and the Corporation was to ensure timely payments of entire dues to SIDBI on refinance and line of credit assistance as per repayment schedule.

We noticed that the GoR did not provide any resource support to the Corporation except conversion of loan of ₹ 13.95 crore and ₹ 15.65 crore into equity contribution during 2009-10 and 2012-13 respectively and equity

³ SIDBI conducts inspection of the Corporation every year under Section 37-A of the SFCs (Amendment) Act, 2000.

support of ₹ 10 crore and guarantee to issue bonds of ₹ 300 crore during 2012-13. The guarantee for issue of bonds was given only for full and final settlement of the outstanding dues of SIDBI. In Business Plan and Resource Forecasting (BPRF), the Corporation envisaged raising of funds through alternate sources viz. appraisal of projects, management services, marketing of mutual funds products, undertaking recovery work on behalf of banks/other financial institutions, initial public offers etc. but no effective action was undertaken to implement these plans.

The Corporation had to curtail targets of sanction and disbursement during 2011-12 and 2012-13 as discussed in paragraph 3.8 due to lack of support from GoR as per MOU commitments and non-identification of alternate source of finance.

The Government stated that in addition to the support extended by it to the Corporation during 2009-10 and 2012-13, it had facilitated full and final settlement with SIDBI at ₹ 340 crore against dues of ₹ 542.76 crore. It further stated that the Corporation attempted consultancy services for insurance company but the income generated was very meagre and had no substantial impact on the fund raising activity. The fact remained that the resource support of Government was not sufficient and the Corporation had to curtail the targets of sanction and disbursement. Besides, the Corporation also could not raise funds from alternate sources.

Business performance

3.8 The Corporation fixed annual budgetary targets for sanction and disbursements on the basis of previous years' achievements and availability of resources. The targets of recovery were fixed on the basis of past years' experience and loans due for repayment in relevant year. The Corporation also prepared and got approved BPRF from SIDBI during 2008-09 to 2011-12 as per the provisions of MoU to obtain refinance support from SIDBI. The BPRF consisted of estimates regarding sanction, disbursement and recovery during the year along with resources of funds. The targets of sanction, disbursement and recovery were also intimated to State Government for inclusion in eleventh and twelfth five year plans of the State. The performance of the Corporation towards achievement of targets of sanction and disbursement during 2008-13 is given below:

(₹ in crore)

Particulars	Sanction of loans					Disbursement of loans				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
11 th and 12 th five year plan targets	475	520	575	625	500	330	360	400	440	375
Budgetary targets	450	500	525	525	325	300	375	400	400	250
Estimates approved in BPRF by SIDBI	450	525	525	525	-	360	400	400	400	-
Revised budgetary targets	450	425	475	275	125	360 ⁴	300	325	260	125
Achievement ⁵	473	438	470	284	114	340	297	329	260	139

(Source: Budgets and information provided by the Corporation)

4 Figure as per BPRF 2009.

5 Figures have been rounded-off to the nearest rupee in crore.

We noticed that the targets intimated to the State Government for inclusion in 11th and 12th five year State Plans were not based on any rational exercise, long term business plan and available resources. The annual budgetary targets of sanction and disbursement were largely affected by the re-finance support from SIDBI. The estimates in BPRF were more or less based on annual budgetary targets but the annual targets for sanction and disbursement were revised in last quarter of the financial year on the basis of actual recovery and re-finance support extended by the SIDBI.

It could be seen that the Corporation never achieved the budgetary targets of sanction and disbursement except during 2008-09. The variation between targets and achievements in case of sanction increased from 12.40 to 64.92 *per cent* while for disbursement the variation increased from 20.80 *per cent* to 44.40 *per cent* during 2009-10 to 2012-13. The business performance of the Corporation sharply declined during 2008-13 as the sanctions decreased (75.90 *per cent*) from ₹ 473 crore to ₹ 114 crore while the disbursements decreased (59.12 *per cent*) from ₹ 340 crore to ₹ 139 crore. Branch wise performance disclosed that in five and six Branch Offices the sanction and disbursement was below ₹ one crore respectively during 2011-12. The number of Branch Offices transacting business of sanction and disbursement below ₹ one crore increased to 22 and 15 respectively during 2012-13. The 22 Branch Offices included five Branch Offices where no amount was sanctioned during 2012-13.

The performance of the Corporation towards recovery of loans during 2008-13 is given below:

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
11 th and 12 th five year plan targets	385.00	400.00	425.00	450.00	450.00
Budgetary targets	390.00	415.00	430.00	450.00	375.00
Estimates approved in BPRF by SIDBI	390.00	415.00	425.00	450.00	-
Revised budgetary targets	390.00	415.00	425.00	425.00	360.00
Net collectable amount ⁶	545.01	562.51	616.68	554.91	569.02
Actual recovery excluding prepayments	281.59	275.02	330.36	316.05	292.05
Recovery in the form of prepayments	113.63	115.41	139.15	114.59	113.77
Short recovery than budgeted targets	108.41	139.98	99.64	133.95	82.95

(Source: Budgets, Annual accounts and information provided by the Corporation)

The Corporation also could not achieve the targets of recovery and the shortfall in achievement of budgetary targets ranged between ₹ 82.95 crore (22.12 *per cent*) and ₹ 139.98 crore (33.73 *per cent*) during 2008-13. Shortfall in recovery targets occurred despite the targets having been fixed on lower side (between 65.90 and 81.09 *per cent*) than the net collectable amount during the year. The effective recovery against net collectable amount ranged between 48.89 and 56.96 *per cent* during the period 2008-13.

We noticed that the Corporation considered prepayments made by the borrowers as recovery though the same were not part of the targets of recovery.

6 Net collectable amount includes arrears at the beginning of the year and fallen due during the year excluding loans re-scheduled, deferred, adjusted and amount involved in units under possession and closed units.

The Government stated that the targets were fixed presuming that SIDBI would provide adequate refinance support. However, the refinance support was not provided by the SIDBI as per business requirements. This led to revision of targets in each year. As regards pre-payments it was stated that there was no system of reporting the advance recovery. The reply is not convincing as the targets were not based on any rational exercise and long term business plan. Further, there was no effective exercise to raise funds from other sources despite indication of SIDBI to reduce re-finance support over the years.

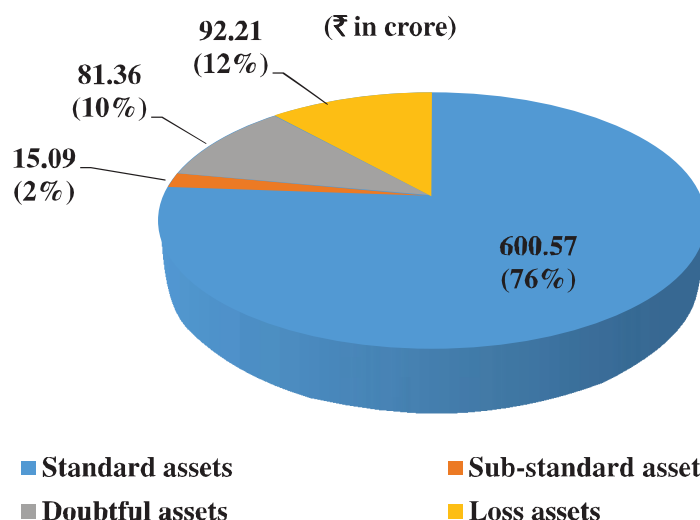
Performance in recovery of loans

3.9 The financial position and business performance of the Corporation during last five years ending March 2013 was not encouraging as the accumulated losses increased by 142.81 *per cent* while sanction and disbursement decreased by 75.90 and 59.12 *per cent* respectively. As the downfall in financial and business performance is directly attributable to the efficiency and effectiveness of recovery performance, recovery performance of the Corporation have been assessed against the following indicators:

1. *Non-Performing Assets (NPAs);*
2. *Sector wise performance;*
3. *Appraisal, sanction and disbursement of loans;*
4. *Compliance to recovery procedures, rules and regulations; and*
5. *Internal control*

Non-Performing Assets

3.10 The position of NPAs in any financial institution is one of the most important indicators of financial soundness as it directly affects the profitability and financial planning. There is an inverse relationship between the level of NPAs and performance of the institution. As per SIDBI guidelines, if interest or instalment of principal remains due for more than 90 days, loans are classified as NPAs. The Sub-Standard Assets include those assets which remained NPA for a period upto 12 months while Doubtful Assets includes assets which remained Sub-Standard for a period of 12 months. Further, Loss Assets are those where loss has been identified but the amount has not been written off wholly. The category wise classification of total outstanding loans of ₹ 789.23 crore as on 31 March 2013 as Standard, Sub-Standard, Doubtful and Loss Assets is given below in pie chart:



As per the tri-partite MOU executed in December 2003 between the Corporation, GoR and SIDBI and renewed in July 2009, the Corporation agreed to bring the level of NPAs to 10 per cent of the total outstanding loans during 2004-13. The year wise status of Standard, Sub-Standard, Doubtful and Loss Assets during the period 2008-13 is given below:

(₹ in crore)					
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Standard Assets	765.46	702.52	766.95	752.31	600.57
Non-Performing Assets					
Sub Standard Assets	19.77	84.69	30.13	13.24	15.09
Doubtful Assets	121.43	99.29	97.52	85.89	81.36
Loss Assets	79.99	123.89	102.00	101.52	92.21
Total NPAs	221.19	307.87	229.65	200.65	188.66
Total loan outstanding	986.65	1010.39	996.60	952.96	789.23
Provision for NPA at the end of year	94.07	198.83	177.19	170.24	160.03
Percentage of NPAs to outstanding	22.42	30.47	23.04	21.06	23.90
Percentage of loss assets to total NPA	36.16	40.24	44.42	50.60	48.88

(Source: MIS and information provided by the Corporation)

It would be seen from the above table that the Corporation could not confine the NPAs within the agreed limit of 10 per cent of total outstanding loans. The percentage of NPAs to total outstanding loans ranged between 21.06 and 30.47 per cent during 2008-13. The quality of loan assets deteriorated as loss assets increased from ₹ 79.99 crore to ₹ 123.89 crore during 2008-10. The position improved in subsequent years and loss assets at the end of March 2013 stood at ₹ 92.21 crore. In comparison to total NPAs, the percentage of Loss Assets increased from 36.16 in 2008-09 to 48.88 in 2012-13. We observed that out of total loans of ₹ 966 crore disbursed during 2008-11, 16 loan accounts (₹ 33.24 crore) became NPA within a short span of two years while other three loan accounts (₹ 57.67 lakh) became NPA within three years.

A higher percentage of NPAs indicated improper evaluation and appraisal of loan applications. In Recovery and Risk Management Division there was no system of annual review of the live accounts of the borrowers to judge financial health through analysis of balance sheets/progress reports to detect the early warning signals of default.

The Government stated that the NPA level had come down from 50.95 per cent to 23.88 per cent during 2003-13 and it expected the NPAs to come down to less than 10 per cent by the end of the MoU. It was also stated that most of the NPA accounts pertained to period prior to 2001 where the chances of recovery were very remote and the only alternative is to write off these accounts to reduce the overall NPAs. The fact remained that the desired level of NPAs could not be achieved during 2003-13 and the write-off exercise only indicates lack of adequate monitoring to prevent slippages of standard assets into NPAs.

The Corporation should closely monitor the Standard Assets to ensure prevention of slippages of new accounts into NPA category by strengthening its project follow-up mechanism and formulate a strategy for reduction of NPAs.

Sector wise performance

3.11 The loan policies framed by the Corporation for each financial year prescribed guidelines for providing financial assistance to various sectors of the economy. The main objectives envisaged in the loan policies framed during 2008-13 were as below:

- To establish a comprehensive credit strategy to fulfil the corporate mandate as per the SFCs Act and to undertake all such activities that are beneficial to Micro Small and Medium Enterprise (MS&ME) sector;
- To encourage expansion and diversification of credit portfolio especially through coverage of thrust areas⁷, industries, newer areas of business etc.
- To explore new channels of credit delivery for the benefit of MSMEs.

The financial assistance provided by the Corporation to various sectors during five years ending March 2013 is given below:

(₹ in crore)

Sector	2008-09		2009-10		2010-11		2011-12		2012-13	
	Sancti oned	Disbu rsed	Sancti oned	Disbu rsed	Sancti oned	Disbu rsed	Sancti oned	Disbu rsed	Sancti oned	Disbu rsed
Industrial	115.12	59.22	121.54	76.75	151.94	112.02	135.81	117.31	38.20	63.97
CRE	229.25	193.93	169.05	136.30	145.58	132.13	34.04	38.53	21.81	26.38
Service	67.64	39.67	85.43	35.13	100.60	34.32	42.86	47.87	22.21	22.79
Others	60.92	47.36	61.99	48.71	71.81	50.49	70.92	56.07	32.00	25.62
Total	472.93	340.18	438.01	296.89	469.93	328.96	283.63	259.78	114.22	138.76

Source: Annual accounts, MIS compiled and information provided by the Corporation)

It would be seen that major thrust of the Corporation was on promotion of Commercial Real Estate (CRE) sector as out of total sanctions of ₹ 1778.72

7 Knowledge sector, tourism, mining and mineral processing, gems and jewellery, agricultural business, textile and apparel, handicrafts/handloom/khadi/village/cottage industry, export business, green industries and backward areas etc.

crore during 2008-13, the share of CRE sector was ₹ 599.73 crore (33.71 per cent). Further, the CRE sector received financial assistance of ₹ 527.27 crore (38.64 per cent) out of total disbursements of ₹ 1364.57 crore made during 2008-13.

The loan policies for the year 2010-11, 2011-12 and 2012-13 mentioned that disbursement section would monitor exposure in various industrial sectors on quarterly basis and would ensure that outstanding amount in CRE sector does not exceed the limit of 30/20⁸ per cent of total outstanding (principal) amount.

We noticed that the Corporation neither fixed industry wise exposure limits nor evolved any system to ensure that financial assistance to CRE sector does not exceed the prescribed limits at a point of time. Further, as desired by SIDBI, bifurcation of assistance to CRE into sub-groups like housing, residential complex, commercial complex, infrastructure projects etc. was not maintained. In view of higher exposure and inherent risk in CRE sector, the SIDBI also rejected the individual proposals of the Corporation to provide enhanced financial assistance beyond the stipulated limits of ₹ 4 crore and ₹ 10 crore to the CRE sector. Some of the cases relating to CRE, highlighting deficiencies in sanction and disbursement are discussed under paragraph 3.13.

The Government accepted the facts and stated that dependence on CRE Sector was more pronounced due to high rate of interest as compared to other sectors. The Corporation had gradually reduced exposure to CRE Sector. The Government/Management, during exit conference, however, stated that sector-wise exposure limits could not be fixed due to lack of data regarding different sectors of the economy.

The Corporation should fix industry-wise exposure limits for various sectors and develop a mechanism to ensure that financial assistance to a particular sector does not exceed the limits for balanced and sustainable industrial growth besides reduction of the risk of fluctuations in the different sectors of the economy.

Appraisal, Sanction and Disbursement

3.12 The loan applications along with project reports for financial assistance upto ₹ 1.50 crore⁹ are processed at Branch Office level while for assistance upto ₹ 20 crore¹⁰ are processed at Head Office level. All the loan applications are discussed by the Internal Processing Committee¹¹ (IPC) at Branch Office and the Project Clearance and Consultative Committee (PC&CC) at Head Office to expedite and to assess the capabilities of entrepreneurs. The preliminary screening is based on eligibility of the industry and activity as per

8 30 per cent in loan policies for the year 2010-11 and 2011-12 while 20 per cent in loan policy for the year 2012-13.

9 Depending upon the category ('A' category and others) of the Branch Office and designation (Manager, Deputy Manager and Assistant Manager) of the Branch Head.

10 Executive Committee (upto ₹ 20 crore), Chairman and Managing Director (upto ₹ 10 crore), Executive Director (upto ₹ 5 crore), Deputy General Manager, Loan (upto ₹ 0.75 crore).

11 Deputy General Manager (Operations) and Manager/Deputy Manager (Branch).

'Procedure and Guidelines (P&G)' of the Corporation, documents submitted by the borrower *viz.* arrangement for land, Partnership Deed/Memorandum and Articles of Association, certificate of registration of industry/letter of intent *etc.* The detailed evaluation of applications is, *inter alia*, based on following important parameters:

- Promoters contribution should be minimum 33 *per cent* of the project cost;
- Debt-Equity ratio should not be more than 2:1,
- Security margin: (i) 30 *per cent* in general case (ii) 50 *per cent* in case of fabricated items, design and models, furnace, furniture and fixtures;
- Debt-service coverage ratio should not be less than 1.70:1;
- Credit appraisal on various parameters *viz.* past history of the promoters, financial soundness, marketability of the proposed project, reports of Credit Information Bureau of India Limited (CIBIL) *etc.*

The process of sanction and disbursement of loans during the period 2008-13 was test checked in audit to ascertain whether the loan applications were properly appraised and evaluated with reference to the laid out criteria. Slackness in appraising and evaluating applications impacts the position of recovery of loans.

Case studies

3.13 Out of 1178 cases of sanction in nine selected Branch Offices during review period, we selected 130 cases on the basis of stratified risk based sampling method. A few of the significant cases highlighting deficiencies in sanction and disbursement, affecting the recovery are discussed below.

Amay Home Services Limited

3.13.1 The Corporation sanctioned (November 2008) loan of ₹ 10 crore and disbursed (upto 5 March 2009) ₹ 7.26 crore for construction of a residential complex. We noticed that the loan was sanctioned despite the fact that project was not covered by the object clause of Memorandum of Association of the borrower company and the promoter was having no prior experience in execution of proposed project. Further, the overall credit rating was 'BBB' (56.52 *per cent* marks) including very high business risk and zero marks for past dealings with the Corporation. Besides, the funds were disbursed without ensuring utilisation of promoter contribution of ₹ 12.32 crore.

The borrower paid only ₹ 0.47 crore towards interest by July 2009 and thereafter defaulted in payments. The Corporation took (March 2010) possession of residential complex (value of land ₹ 1.31 crore) but could not recover dues through auction due to litigation. As on March 2011, outstanding dues mounted to ₹ 9.85 crore.

The Government stated that the promoter was well experienced in marketing of such projects and the Corporation had assessed (September 2011) MRV of ₹ 15.01 crore of the property. The reply is not convincing as the Corporation completely overlooked the advice of SIDBI to defer the sanction to this particular project in view of general slow-down in real estate sector.

Fandan Estate Private Limited

3.13.2 The Corporation sanctioned (January 2011) loan of ₹ 9 crore and made disbursements of ₹ 6.75 crore upto December 2012. Scrutiny of records disclosed that sanction was accorded on prime security (land) having value of merely ₹ 40 lakh and ₹ 4.50 crore was disbursed on the basis of certificate of Chartered Accountant (CA) without ensuring utilisation of promoters' contribution. Further, CIBIL report was also not obtained. We noticed that the Corporation issued (July 2011) charge sheet to the concerned officials for disbursement of loan on the basis of CA certificate. The Corporation also withheld (March 2012) further disbursements and issued (October 2012) notices to the borrower under Section 30 of SFCs Act for non-adherence of lay out plan and default in payment of instalments. However, the possession of the property was not taken on the directions (October 2012) of CMD. Further, the loan was re-scheduled and ₹ 2.25 crore were disbursed (December 2012).

We observed that the loan was to be rescheduled as per provisions of P&G when reasons attributed to default in repayment were beyond the control of entrepreneur. In this case delay was attributable to irregular construction done by the entrepreneur in violation of approved lay out plan. The decision of the Corporation to re-schedule the loan instead of making recovery by taking possession of the unit was not justified as there were overdues of ₹ 2.70 crore towards principal and the entrepreneur violated the terms of sanction by not-adhering to the lay out plan.

The Government stated that the local authority has regularised the un-authorized construction and if possession of the unit was taken at that time, the project could be abandoned. The fact remained that the Corporation did not adhere to the guidelines of P&G at the time of re-scheduling and financial interests of the Corporation were compromised at the time of sanction, disbursement and recovery.

Trimurti Landcon (India) Private Limited, Jaipur

3.13.3 The Corporation sanctioned (September 2008) loan of ₹ 14 crore and made disbursements of ₹ 7 crore upto January 2009. We noticed that the sanction was accorded despite default in repayment of previous loan (September 2006) of ₹ 7 crore which was re-scheduled (September 2011). The utilisation of promoters' contribution was also not ensured at the time of disbursement of any instalment. We noticed that the borrower defaulted in repayment of loans for which the Corporation issued notices several times under Section 29 and 30 of SFCs Act and 138(b) of Negotiable Instruments Act 1881 but no effective action was taken. Both the loans were re-scheduled in March 2012 and February 2013.

We observed that the Corporation extended undue benefit to the borrower by re-scheduling the loans instead of making recovery by taking physical possession of the unit as there was no financial viability plan. Consequently, defaults were made even after re-scheduling of loans.

The Government stated that the directors of the company were well known to the Corporation and loan was re-scheduled as per the norms without considering financial viability. It further stated that the promoter of the company was one of the prominent builder of Jaipur and the philosophy of the

Corporation was to earn money from interest rather than taking possession of the Unit. The reply was not convincing as financial viability plan was mandatory as per the provisions of P&G before taking decision of re-scheduling of loans. Further, the Corporation was to take decisions as per the laid down norms and policies instead of on the basis of reputation of parties.

Royal Modern Builders Private Limited, Kota

3.13.4 The Corporation sanctioned (November 2009) loan of ₹ 3.07 crore and disbursed ₹ 2.45 crore upto February 2010 under 'Scheme for Financing against Assets' (FAAS). We noticed that the borrower was not eligible for loan under FAAS on the grounds that its sister concern defaulted in repayment of loan (non-clearance of old dues of ₹ 1.79 crore as on March 2009). We found that the borrower continuously defaulted in payment of instalments and the Corporation issued notices under Section 29 and 30 of SFCs Act and Section 138(b) of Negotiable Instrument Act, 1881. As on 30 September 2013, there were overdues of ₹ 18 lakh and outstanding dues of ₹ 78 lakh against the borrower. However, the Corporation did not initiate action to take possession of the unit.

The Government accepted the facts and stated that the account is categorised as standard as on March 2013 and the Corporation is keeping close watch on repayment of the loan. However, the fact remains that there were overdues of ₹ 18 lakh against the borrower as on 30 September 2013.

Shree Ganesh Craft, Bhiwadi

3.13.5 The Corporation sanctioned (October 2008) loan of ₹ 70 lakh and made disbursements of ₹ 61.27 lakh upto January 2010. The balance sanction was cancelled (November 2010) on the request of the borrower. Scrutiny of records disclosed that the loan was sanctioned despite dissatisfactory performance of the entrepreneur in repayment of earlier loan of ₹ 26.10 lakh wherein the unit was taken over by the Corporation and dues were realised after auction of the unit. We found that the Corporation rescheduled the loan thrice (January 2010, November 2011 and March 2013) and extended the last date of repayment from October 2016 to October 2021. The Branch office concealed the facts during second and third re-schedule of loan and mentioned that the loan was being re-scheduled for the first and second time respectively.

The entrepreneur never adhered to the terms of re-schedules but the Corporation did not take effective action for recovery of dues except issue of notices under Section 29 and 30 of SFCs Act several times. Further, the Corporation should have reverted back to original schedule of repayment for non-adherence to the terms of re-schedule and to charge default rate of interest.

The Government accepted the facts and stated that the unit was not paying dues even after regular persuasions. The reply was, however, silent on the future course of action.

Reeve Threads Private Limited, Khushkhera

3.13.6 We noticed that the Corporation sanctioned (25 May 2011) loan of ₹ 53.50 lakh and disbursed (upto 7 June 2011) ₹ 53.50 lakh without giving cognizance to the defaults made by the borrower in payment of earlier

(January 2009) loan of ₹ 70 lakh. Besides, the Corporation also overlooked the weak financial position of the company/promoters and did not insist on collateral security. The District Level Appraisal Committee (DLAC) suppressed the facts of default in earlier loan on the grounds that repayment was satisfactory. DLAC also did not mention about the legal notices issued for defaults.

Our scrutiny disclosed that the borrower defaulted in re-payment of both the loans but the Corporation did not take legal action and merely issued notices under Section 29 and 30 of SFCs Act several times. The Corporation decided for taking possession of the unit on 26 August 2010 but postponed the same on the directions of CMD. Thereafter, no action was taken and as on May 2013 ₹ 6.70 lakh was overdue against first loan and ₹ 44.07 lakh against second loan.

The Government stated that second loan was sanctioned under the norms of Saral Scheme. The reply is not convincing as the Scheme did not allow sanction of loans to borrowers which defaulted in ongoing loans. Further, suppression of the fact of defaults by the DLAC was against the interests of the Corporation.

Vartika Chemical Pharmaceuticals Private Limited, Bhiwadi

3.13.7 The Corporation sanctioned (August 2010) loan of ₹ 93 lakh and made disbursement of ₹ 89.63 lakh upto May 2012. Scrutiny of records disclosed that credit rating was not done by the Corporation as per loan policy and loan was sanctioned on the prime security of ₹ 17.25 lakh only. Further, the financial position of the promoters was not sound as their annual income for last three years (2007-10) ranged between ₹ 1.19 lakh and ₹ 2.32 lakh. The net worth details of borrower were also not obtained. We noticed that the borrower continuously defaulted in payment of instalments and the Corporation, instead of making recovery by taking possession of the unit, issued notices under Section 29 and 30 of SFCs Act and Section 138(b) of Negotiable Instrument Act, 1881 several times. As on March 2013, there were over dues of ₹ 11 lakh against the borrower.

The Government stated that appraisal of the project was proper and credit rating system was not applicable at that time. Further, the borrower had paid ₹ 13.82 lakh towards principal upto March 2013. The reply is not based on facts as appraisal was not as per norms and credit rating was mandatory as per loan policy. Further, there were overdues of ₹ 11 lakh against the borrower as on March 2013 even after payment of ₹ 13.82 lakh.

The illustrative cases mentioned above were the culmination of shortcomings noticed in appraisal/sanction and disbursement of loans. Deficient appraisal/sanction and disbursement of loans by not adhering to the laid down parameters led to grant of loans to in-eligible borrowers which caused difficulties in recovery of loans.

The Corporation should adhere to the important parameters prescribed in P&G for sanction and disbursement of loans and should strengthen the mechanism of evaluation of loan applications.

Compliance to recovery procedures, rules and regulations

3.14 The Corporation intimates a schedule of recovery to the borrowers as per agreement to ensure timely recovery of loans by way of equated quarterly instalments along with applicable interest. In the event of default, the Corporation may re-fix, postpone, defer and re-schedule the instalments/loan in case the borrower is genuine *i.e.* the borrower has valid reasons for non-payment of dues. In case of wilful defaulter *i.e.* the borrower is earning profits but not making repayment of dues despite cash accruals, the Corporation may initiate action under various Sections of the SFC Act. The Corporation also affects recovery of dues through OTS schemes implemented from time to time.

The Corporation till 1985 was empowered and endowed with legal remedies only under the provisions of Section 29, 30, 31 and 32 of SFCs Act to recover its dues from the borrower, guarantor or any other surety. Section 29 provides the right to take over the management or possession or both of the industrial concern as well as the right to transfer by way of lease or sale and realise the property pledged, mortgaged, hypothecated or assigned to it. Section 30 allows the Corporation to call for entire repayment before agreed period. Section 31 provides special provisions for enforcement of claims by filing of civil suit while Section 32 states the procedure in respect of applications filed under Section 31. The SFCs Act was amended in August 1985 and a new Section 32-G, was inserted which allows the Corporation to recover its dues as an arrear of land revenue in the manner prescribed by the State Government. The detailed provisions under Section 29, 30, 31 and 32-G are given in **Annexure-14**.

Re-scheduling of loan accounts

3.15 As per the Procedure and Guidelines, 2002 (P&G) of the Corporation, rescheduling of principal or interest or both means rescheduling the entire repayment schedule. The P&G provides that no amount shall normally be rescheduled beyond last date of repayment (LDR) and if, considered necessary and reasonable due to genuine reasons, it should be done by the competent authority considering various factors *viz.* genuineness of the entrepreneur, working results, history of previous re-payments, amount overdue *etc.* The position of dues outstanding¹² at the end of the year and loans rescheduled during 2008-13 is given below:

(₹ in crore)

Year	Dues outstanding at the end of the year	Loans rescheduled during the year		
		Amount	No. of cases	Percentage
2008-09	646.48	38.74	39	5.99
2009-10	713.50	91.55	51	12.83
2010-11	667.64	95.41	27	14.29
2011-12	693.18	73.96	31	10.67
2012-13	651.24	71.81	24	11.03
Total		371.47	172	11.01

(Source: Directors' Reports)

12 Excluding disbursements made during the year.

Our scrutiny of records disclosed that out of 172 loan accounts re-scheduled during 2008-13, 121 loan accounts (70.35 per cent) were re-scheduled beyond LDR ranging between nine and 96 months. Our analysis of 85 loans accounts re-scheduled at six¹³ Branch Offices disclosed that 24 accounts were re-scheduled for second time and three accounts were re-scheduled for the third time. Further, 18 borrowers out of 85 re-scheduled accounts defaulted in repayment of dues of ₹ 20.37 crore as on May 2013. The defaulters also include five¹⁴ borrowers and two¹⁵ borrowers where re-scheduling was done for second and third time respectively. This shows improper assessment as regards genuineness of the borrowers at the time of re-scheduling of loan accounts.

The Government stated that the Corporation facilitated rescheduling of principal amount of genuine borrowers and it was ensured that the entire interest was paid by the borrower before re-scheduling of the loan account. The reply is not convincing as the loans were re-scheduled beyond LDR and the borrowers defaulted even where the loans were re-scheduled twice or thrice indicating improper assessment as regards genuineness of the borrowers.

Settlement of loan accounts

3.16 The Corporation adopted OTS schemes from time to time with the objective of realisation of long overdues and to avoid high recovery cost. The Corporation settled 2330 loan accounts for ₹ 4.83 crore during 2008-09 to 2011-12 involving disbursements upto ₹ 5 lakh. The cases not covered under OTS were settled by the State Level Committee (SLC) and Head Office Level Committee (HOLC) of the Corporation. Besides, the BoD also decided (September 2012) to permanently close 2488 old small amount loans upto ₹ 2 lakh involving dues of ₹ 89.33 crore (principal of ₹ 9.33 crore, interest of ₹ 79.51 crore and other money of ₹ 0.49 crore). The position of loans settled by SLC and HOLC during 2008-13 is given below:

(₹ in crore)

Year	No. of cases settled	Dues outstanding at the time of settlement	Settlement amount	Loss	Percentage of loss to outstanding	MRV ¹⁶ of security at the time of settlement
2008-09	113	44.63	15.91	28.72	64.35	26.45
2009-10	65	33.21	10.01	23.20	69.86	18.36
2010-11	47	14.33	7.15	7.18	50.10	9.19
2011-12	35	6.89	2.00	4.89	70.97	4.31
2012-13	57	69.65	10.83	58.82	84.45	20.51
Total	317	168.71	45.90	122.81	72.79	78.82

(Source: Directors' Reports)

It would be seen that the two committees of the Corporation settled 317 cases for ₹ 45.90 crore against outstanding dues of ₹ 168.71 crore at the time of

13 Jaipur (City), Jaipur (Rural), Sitapura, Bhiwadi, Kota, Dausa.

14 Narayan Kripa Buildestate (Jaipur-City), Indo Crystal Pvt. Ltd. (Jaipur-Rural), Sourabh Industries (Sitapura), Shri Ganesh Craft (Bhiwadi), and Ajay Fintech Pvt. Ltd., Bhiwadi.

15 Jagrit Infrastructure Pvt. Ltd. and Rajasthan Automobiles at Bhiwadi.

16 Market Realisable Value.

settlement and thereby sacrificed an amount of ₹ 122.81 crore (72.79 per cent) during 2008-13. Our scrutiny of records disclosed that 39 cases were settled below principal amount (₹ 4.39 crore) at ₹ 2.90 crore and 158 other cases were settled for merely ₹ 29.93 crore against outstanding amount of ₹ 121.13 crore despite availability of security (prime and collateral) with MRV of ₹ 72.06 crore. The Corporation lost opportunity to recover additional amount of ₹ 42.13 crore in respect of 158 cases reviewed by us through sale of prime and collateral security.

This shows that the settlements were not made in the interest of the Corporation as the accounts were settled below principal amount despite availability of prime and collateral security.

The Government stated that the MRV was only a guiding factor and not for deciding the case on the basis of MRV. The calculation of MRV is a prescribed mechanism but realization of security depends on location, infrastructure and future development around the property. The Corporation settled only those cases below principal amount where recovery was very difficult and time consuming. The reply is not in consonance with the established procedures and guidelines as the Corporation was to consider all such factors viz. location, infrastructure, future development and marketability to calculate the MRV of the property. A deviation from the prescribed procedure of calculation indicates not only improper assessment but also lack of adequate efforts to recover the dues from defaulted borrowers. As regards settlement of cases even below principal amount, the Corporation did not safeguard the financial interests of the Corporation despite availability of prime and collateral security.

Enforcement of Section 29 and status of units handed back to borrowers

3.17 Besides, taking possession and selling of defaulter units under Section 29 of SFC Act, the Corporation, if convinced of the revival of unit in the hands of the original borrower, hands back the possession on payment of at least 25 per cent of the outstanding dues (50 per cent in case of transport loan) along with simple interest for the period for which the unit remained in possession of the Corporation. As on 1 April 2008, 180 units having outstanding amount of ₹ 86.94 crore were in possession of the Corporation for recovery of dues. The status of units taken over, sold, handed back to original borrowers and units lying in possession during 2008-13 is given below:

(₹ in crore)

Year	Units taken over during the year		Units sold during the year			Units handed back to borrowers		Units in possession at the end of the year	
	Nos.	Outstanding	Nos.	Outstanding	Recovery	Nos.	Outstanding	Nos.	Outstanding
2008-09	64	20.27	52	13.58	6.01	58	25.40	134 ¹⁷	68.23
2009-10	31	29.40	32	37.24	7.78	31	4.71	102	54.65
2010-11	15	13.86	16	9.41	5.15	28	4.38	73	52.87
2011-12	27	13.23	6	1.02	11.20	19	4.95	72	58.79
2012-13	13	22.20	3	0.87	0.55	31	10.89	51	75.62
Total	150	98.96	109	62.12	30.69	167	50.33		

(Source: Information provided by the Corporation)

It would be seen that out of 330 units available with the Corporation for recovery of outstanding dues of ₹ 185.90 crore¹⁸ during 2008-13, 109 units having outstanding dues of ₹ 62.12 crore were sold for ₹ 30.69 crore and 167 units having outstanding dues of ₹ 50.33 crore were handed back to original borrowers. The Corporation had possession of 51 units having outstanding dues of ₹ 75.62 crore as on March 2013 (**Annexure-15**).

Our analysis of the 109 units sold during 2008-13 disclosed that 87 units were sold within five years, 13 units were sold between five and 10 years, eight units between 10 and 20 years and one unit after time lag of more than 20 years. The Corporation also sold out 52 units without recovering even the principal amount and sacrificed ₹ 3.69 crore towards principal against these units. Further, analysis of the 50 units taken in possession during 2008-13 at selected Branch Offices disclosed that there was delay upto 100 months in issue of legal notices under Section 29 since inception of default by the borrower. Further, there was time gap upto 109 months between issue of first notice and taking of possession of defaulting unit by the Corporation.

The huge delay in taking legal action against the defaulting borrowers and in disposal of units reflected serious shortcomings in recovery of its dues by the Corporation. The wilful defaulting borrowers also took the benefit of the prevailing system as they got themselves out of legal action either by paying some amount on issue of notices or getting the loans re-scheduled. By the time the next notice/s were issued or physical possessions were taken over, the assets/security were sold or manipulated as discussed under paragraph 3.20.2, 3.20.9 and 3.20.10.

The Government stated that the Corporation supports industrialization in the State and taking over possession of the assets and selling thereof is not its mandate. Time gap in disposal of units was on account of court intervention, location of unit, non-marketability and non-developmental activities in the surrounding of units. As regards time gap between issuance of first notice and taking over of assets, it was stated that the Corporation at first facilitated the borrowers to survive the units and to pay dues of the Corporation by accepting part payments against the total overdues. The arguments as regards mandate are not justified as the SFCs Act, 1951 and the 'Procedure and Guidelines' of

17 Including 180 units lying in possession as on 1 April 2008.

18 Including amount of ₹ 86.94 crore against 180 units lying in possession as on 1 April 2008.

the Corporation specifically stipulates various provisions to safeguard the financial interests of the Corporation including possession of assets and selling thereof. Besides, the Corporation had to support genuine entrepreneurs rather than wilful defaulters. Further, in-ordinate delay in sale of units and issue of legal notices indicates lackadaisical approach of the Corporation towards recovery of dues.

Age-wise analysis

3.18 The details of 51 units lying in possession of the Corporation as on March 2013 are given in **Annexure-15**. A brief age-wise analysis of these units is given below:

(₹ in crore)

Period of possession	No. of units	MRV of assets ¹⁹	Outstanding Amount			
			Principal	Interest	Other Money	Total
Upto 5 years	16	95.05	30.22	35.24	0.63	66.09
From 5 to 10 years	15	5.15	2.41	2.03	0.21	4.65
From 10 to 20 years	14	6.74	2.15	1.58	0.43	4.16
More than 20 years	6	12.22	0.26	0.42	0.04	0.72
Total	51	119.16	35.04	39.27	1.31	75.62

(Source: Information provided by the Corporation)

We noticed that the units were in possession from as early as November 1987 but the Corporation could not recover its dues by disposing-off the units due to long pending legal disputes and non-receipt of suitable offers during auction. It would be seen from the Annexure that out of 51 units under possession, the latest Market Realisable Value (MRV) of 21 units (₹ 7.31 crore) was not sufficient to cover the outstanding dues (₹ 21.99 crore) and there was shortfall of ₹ 14.68 crore towards recovery of dues. Our analysis disclosed that 16 units taken in possession between April 1995 and March 2013 were free from litigation but could not be disposed-off despite putting them to auction upto 56 times by March 2013 due to non-receipt of suitable offers. The latest MRV of these 16 units was ₹ 72.86 crore against Corporation's dues of ₹ 46.24 crore. The Corporation discontinued (between December 1997 and October 2007) auction of three²⁰ out of 16 units with MRV of ₹ 42.80 lakh against outstanding dues of ₹ 65.41 lakh. However, the Corporation did not analyse the reasons for non-disposal of units despite being put for repeated auctions.

The Government accepted the facts and stated that a committee has been constituted to review every case and take a final decision in this respect.

Recovery under Rajasthan Land Revenue Act, 1956 (RLR Act)

3.19 Section 32-G of the SFCs Act empowers the Corporation to recover its dues as an arrear of land revenue. The Corporation is required to send requisition in prescribed format along with copies of loan document and notices issued under Section 30 to the District Collector for enforcing the provisions of Section 32-G. The process of registering the cases with the District Collector under Section 32-G is being done at the Head Office of the

19 As per latest assessment of MRV available with the Corporation.

20 Jain Plastic Industries, Baran, (Dues of ₹ 4.10 lakh and MRV ₹ 8.27 lakh), Upendra Cold Storage & Ice Factory, Dholpur (Dues of ₹ 48.34 lakh and MRV ₹ 31.22 lakh), and Krishna Oil Mill, Makrana (Dues of ₹ 12.97 lakh and MRV ₹ 3.31 lakh).

Corporation on the basis of cases forwarded by the Branch Offices. As on 1 April 2008, 2818 cases having dues of ₹ 266.57 crore were pending for settlement under Section 32-G. The position of cases filed and settled during the period 2008-13 is given below:

(₹ in crore)

Year	Cases filed during the year		Recovered/Settled during the year		Cases pending for recovery at the end of the year ²¹	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2008-09	277	15.35	411	15.53	2647	255.76
2009-10	167	21.64	421	10.82	2309	240.37
2010-11	51	19.37	639	22.00	1709	225.78
2011-12	19	1.51	396	16.41	1292	207.05
2012-13	15	4.21	209	12.51	1098	198.75
Total	529	62.08	2076	77.27		

(Source: Information provided by the Corporation)

It would be seen that the position of cases pending for recovery under Section 32-G has improved as out of 2818 cases pending for recovery as on 1 April 2008, 2076 cases (62.03 per cent) were settled leaving 1098 cases pending for recovery as on March 2013. The number of cases filed by the Corporation for recovery under Section 32-G in a year also reduced from 277 to 15 during the period 2008-09 to 2012-13. However, 173 Requisition of Demands (RODs) were returned by the District Collector during 2008-13 due to non-identification of properties in the name of promoters/guarantors. The BoD also decided (22 March 2013) to write off an amount of ₹ 11.94 crore pertaining to 127 loan accounts in respect of which RODs were either not filed by the Corporation or returned by the revenue authorities due to non-availability of details regarding promoters/guarantors or identified properties in their names. In case of 16 loan accounts, an amount of ₹ 0.62 crore was also written off due to missing assets/promoter/guarantors.

The Corporation could not ensure prompt and timely recovery of deficit dues with the help of revenue authorities under RLR Act mainly due to non-availability of addresses of the promoters/guarantors, non-identification of other properties in the name of promoters/guarantors.

Out of 1098 cases pending under RLR Act, 334 cases pertaining to nine BOs were selected for detailed scrutiny. An age-wise analysis of these cases as on 31 March 2013 was as follows:

(₹ in crore)

Period of pendency	Total cases pending u/s 32 G		Cases having security		
	Nos.	Principal outstanding	Nos.	Asset value	Principal outstanding
Up to five years	136	24.09	1	0.10	0.09
Five to ten years	185	21.20	9	1.55	0.54
More than ten years	13	0.72	1	0.42	0.78
Total	334	46.01	11	2.07	1.41

(Source: Information provided by the Corporation)

21 The equation i.e. cases pending for settlement at the beginning of the year + cases filed during the year – cases settled during the year = cases pending for settlement at the end of the year, will not match as it does not include RODs returned by District Collectors during the year.

Our scrutiny of records disclosed that out of 334 cases, the Corporation either did not have adequate security or other properties of promoters/guarantors were not identified in 323 cases.

The Government accepted the facts and stated that COPU had directed (September 2013) to examine every case pending with revenue authorities and to decide a final line of action. A proposal to constitute a committee in this regard has been forwarded to the Additional Chief Secretary, Industries and final decision in these cases would be taken as per recommendation of the committee.

Case studies

3.20 Some of the case studies highlighting deficiencies in recovery procedures are discussed below and in **Annexure-16**.

Khabros Steels (India) Limited, Bhiwadi (KSIL)

3.20.1 The Corporation sanctioned and disbursed (May 1985) funds of ₹ 30 lakh to the borrower. The borrower was a wilful defaulter and paid only ₹ 3.15 lakh upto March 2007. We noticed that the borrower unit became a sick unit and the winding up orders were issued by the BIFR²² in August 2000. The borrower registered (March 2007) its case with the Corporation under OTS after payment of upfront fee of ₹ 9.22 lakh. The SLC offered (May 2007) to settle the case for ₹ 1.18 crore against outstanding dues of ₹ 4.72 crore (as on 1 March 2007) considering heavy central excise dues of ₹ 3.83 crore against the borrower. The borrower did not turn up on the offer of SLC and again approached (May 2008) to decide the case under OTS and deposited ₹ 80 lakh towards dues. The SLC decided (June 2008) the case for ₹ 43.20 lakh against outstanding dues of ₹ 5.48 crore (as on 1 June 2008) on the grounds of heavy outstanding dues of central excise and settlement made by RIICO. The settled amount was paid (July 2008) by the borrower.

We observed that the Corporation did not apprise the SLC of the correct position of central excise dues against the borrower. The amount of ₹ 3.83 crore was intimated by Central Excise department in May 2004 by way of memorandum notice against which final demand (September 2006) was made for ₹ 15.87 lakh only. Besides, the decision of SLC to give due consideration to central excise dues was not justified as the right of Central Excise department towards recovery of dues was second to the rights of the Corporation. Further, the SLC did not consider the fact that the MRV of the unit was ₹ 6.24 crore (as on 1 June 2008). The Corporation affected short recovery of ₹ 3.40 crore.

The Government stated that the Corporation always prefers to settle the cases of under possession/under sale/32-G/BIFR/Court cases under the umbrella of OTS to get rid of NPAs. The fact remained that the Corporation failed to safeguard its financial interests and settled the case on the basis of incorrect information about Central excise dues.

22 Board for Industrial and Financial Reconstruction.

Man Industries Corporation Limited (MICL)

3.20.2 The Corporation initiated (January 2012) proceedings under Section 32-G for recovery of outstanding dues of ₹ 8.24 crore (as on January 2012). The properties with MRV of ₹ 247 crore were identified but recovery could not be effected (June 2013) due to the orders (July 2007) of the Court to maintain status quo as regards recovery of dues from selling of prime security (50 acre land) by the Corporation. We noticed that the borrower did not adhere to the directions of the Court and sold (June 2008) a part of land by way of tripartite joint venture for ₹ 8 crore (token money) and 38.50 acre land (October 2009) by way of transferring power of attorney. The Corporation, however, did not approach the Court for violation of orders and further also did not initiate action to recover dues by selling property of the promoters having MRV of ₹ 100 crore.

The Government stated that the Corporation initiated action under 32-G but the High Court stayed the proceedings. The fact remained that the borrower company managed to sell the property and the Corporation did not file contempt petition for violation of orders.

Jaipur Spinning & Weaving Mills, Jaipur

3.20.3 We noticed that the Corporation sanctioned (January 1981) loan of ₹ 19.50 lakh and disbursed ₹ 18.87 lakh without taking personal guarantee from directors and adequate information about the company as a petition (December 1980) for winding up of the company was pending. The Corporation came to know about the winding up (order passed on 2 December 1983) process only after defaults made by the company from November 1983 onwards. The official liquidator invited claims (February 1985) but the Corporation filed (March 1991) for claims after delay of six years. The Official liquidator accepted (August 1991) claims for only ₹ 28 lakh against claims of ₹ 1.21 crore submitted by the Corporation. The claims were pending (July 2013) for realisation. As on September 2012 the accumulated outstanding dues against the company were ₹ 66.32 crore.

The Government accepted the facts and stated that the matter was pending with official liquidator.

Ashoka Adhar Casting Private Limited, Sirohi

3.20.4 The Corporation sanctioned (October 1989 and March 1990) and disbursed two loans of ₹ 56.29 lakh and ₹ 30.10 lakh. The borrower was a wilful defaulter and never honoured a single instalment till sale (September 2009) of unit by the Corporation for ₹ 89 lakh against outstanding dues of ₹ 22.69 crore. During the period from sanction to sale of unit, the borrower misled the Corporation by submitting post-dated cheques, the majority of which were not honoured. Despite dishonour of cheques, the Corporation kept on accepting the cheques every time when the instalment was due and extended the repayment period. In between, the Corporation also took possession of the unit twice (July 2000 and March 2008) but handed back the unit on commitments made by the borrower and submission of post-dated cheques. Finally, the unit was sold (September 2009) for ₹ 89 lakh at a deficit of ₹ 21.80 crore. The Corporation belatedly (February 2013) initiated action

for recovery of deficit under Section 32-G, the outcome of which was pending (June 2013).

The reply of the Government was silent on the issue of acceptance of post-dated cheques despite continuous defaults and delay in recovery through sale of unit. It, however, stated that action under Section 32-G has been initiated for recovery of the deficit amount but legal heirs have filed case against the Corporation which is pending.

Nakoda Gases Limited, Balotra

3.20.5 The Corporation disbursed (upto January 1999) funds of ₹ 52.52 lakh against sanction (August 1996) of ₹ 57 lakh. On defaults, the Corporation belatedly took (March 2008) possession of the unit by which the borrower had paid only ₹ 6.33 lakh towards interest. After possession, the borrower registered (March 2008) the case with SLC on payment of ₹ 10.58 lakh and the SLC proposed (March 2008) to settle the case for ₹ one crore against outstanding of ₹ 3.71 crore. However, the borrower did not give its consent and resultantly, the Corporation sold (July 2009) the prime assets for ₹ 33.60 lakh. The case was again registered with SLC without payment of registration fee on the recommendation of Minister, Industries and the SLC offered (January 2010) to settle the case at ₹ 66.40 lakh plus simple interest from April 2008 but the same was also not acceptable to the borrower. The Corporation once again decided to settle the matter (October 2010) for ₹ 52.60 lakh in a meeting with Minister, Industries but the borrower did not give its consent. We observed that the borrower had no intention to pay its dues despite favourable consideration by the Corporation on the recommendation of Minister, Industries yet no action was initiated (June 2013) to recover the dues from collateral securities of ₹ 45 lakh (as per assessment during March 2008) and initiation of proceedings under Section 32-G.

The reply of the Government was silent on the issue of delay in taking proper action for recovery of dues. It, however, stated that collateral security could not be sold due to court orders. The Corporation has lodged claim under Section 32-G and revenue authorities have been requested to sell the assets.

Shri Ganpati PVC Pipe India Limited, Jaipur

3.20.6 The borrower was a wilful defaulter as it did not honour the terms of re-schedule (2003-04 and 2007-08) and settlement opportunity provided to it in May 2010. The Corporation, however, settled (January 2011) case at ₹ 1.10 crore against outstanding dues of ₹ 4.70 crore and also waived ₹ 33.49 lakh towards interest for delayed period due to frequent involvement of Minister, Industries. Further, on default, even in repayment of the settlement amount, the Court ordered (June 2011) the borrower to deposit amount of ₹ 3.69 crore by September 2011. The orders were not obeyed. However, the Corporation instead of affecting recovery through sale of prime and collateral security, accepted payments of the settlement amount of ₹ 1.10 crore in parts upto March 2013 by granting extension time and again. Thus, in-judicious settlement led to short recovery of ₹ 3.93 crore despite availability of prime and collateral security valuing ₹ 1.48 crore (as on September 2011).

The Government stated that the Corporation favourably considered the request of the borrower looking to waiver of interest in other cases of similar nature by

SLC. The fact remained that the Corporation failed to safeguard its financial interests despite availability of prime and collateral security.

Khaderia Chemical & Metal Industry (KCMI) and Madraiya Chemical & Metal Industry (MCMI)

3.20.7 There were series of lapses in appraisal, sanction, disbursement and monitoring of loans disbursed to KCMI and MCMI which led to sale of units at deficit of ₹ 23.70 lakh. The deficiencies in appraisal, sanction, disbursement and monitoring are as under:

- The guarantor of loan to MCMI expired 10 years well before sanction. As such, the guarantee was fake. Further, the promoters of both KCMI and MCMI were same persons and KCMI defaulted in repayment since December 2003 yet the Corporation disbursed loan of ₹ 26.75 lakh to MCMI during May 2003 to April 2004. The fact of defaults was concealed by the Branch Office.
- MCMI also defaulted in repayment since beginning and legal notices were issued under Section 29 and 30 to both the units. Further, during inspection (September 2004) by the Corporation, it was found that both the units were locked since August 2004.
- Corporation decided to take possession of both units in December 2005 and January 2006 but the decision was deferred on acceptance of post-dated cheques which also got dishonored.
- Assets valuing ₹ 17.98 lakh (₹ 12.29 lakh of MCMI and ₹ 5.69 lakh of KCMI) were reported (March 2008) missing by the Corporation but FIR was not lodged indicating lack of monitoring and vigilance of acquired units.
- The promoters applied (March 2007) for loan at Madhya Pradesh Financial Corporation (MPFC) but the Corporation did not enquire from MPFC about the collateral assets of the promoters to recover its dues.
- The units were sold (January 2010 and March 2010) at consideration of ₹ 14.75 lakh and ₹ 18.51 lakh against outstanding dues of ₹ 18.50 lakh and ₹ 36.86 lakh from KCMI and MCMI respectively.

The reply of the Government was silent on lapses occurred in appraisal, sanction, disbursement and monitoring. It, however, stated that the Corporation had initiated (September 2010) action under Section 32-G for recovery of dues and the unit office would shortly send ROD to the Head Office. The fact remained that the Corporation was not serious about recovery as even ROD has not been sent (October 2013) to the Head Office of the Corporation since initiation of action in September 2010.

Ayush Hospitality and Health Service Private Limited, Jaipur

3.20.8 The Corporation disbursed two loans of ₹ 77.24 lakh (January 2005 to November 2006) and ₹ 37 lakh (March 2007 to May 2008) to the borrower for same project (Hotel industry). On default (September 2008) by the borrower in repayment of both loans, the DGM (FR) recommended (December 2008) for taking possession of the unit in view of doubtful credibility of the borrower.

The CMD, however, did not consider the recommendation and re-scheduled (February 2009) the loans on the request of the borrower. The borrower did not honour the terms of re-schedule and continuously (March 2009 to December 2012) defaulted in repayment of instalments. The Corporation issued notices under Section 29, 30 of SFCs Act and Section 138(b) of Negotiable Instruments Act, 1881 several times during this period. Further, decisions for taking possession of the unit at each default were also taken but the same were not materialised either on the instructions of Minister, Industries or on the commitments made by the borrower. In between, the loan was also rescheduled in July 2009. As on June 2013, a fresh proposal for re-scheduling the loan with extension of LDR by five years *i.e.* upto January 2019 on the recommendation of Minister, Industries was pending for decision with the Corporation.

The Corporation by not taking effective action as per rules against a wilful defaulter led to mounting of dues from ₹ 5.66 lakh in September 2008 to ₹ 86.29 lakh in June 2013.

The Government stated that the borrower has cleared interest overdues and loan has been re-scheduled (September 2013) by extending LDR for three years. The fact remained that the Corporation again re-scheduled the loan of a wilful defaulter on the recommendations of Minister, Industries.

Soma Industrial Packs Private Limited

3.20.9 The Corporation did not initiate action to take physical possession of the unit despite continuous defaults. The Corporation also allowed rehabilitation package to the borrower twice (March 2004 and January 2008) on the directions of the Court but the borrower did not deposit the requisite amount to avail the packages. Besides, the borrower sold (May 2004) the collateral security (valued at ₹ 20 lakh at the time of sanction in September 1996) without permission of the Corporation.

We noticed that the HOLC also offered (July 2008) to settle the case for ₹ 55.25 lakh against outstanding dues of ₹ 1.13 crore (as on 1 June 2008) but the same was not accepted by the borrower. The Corporation took (February 2009) possession of the unit on the directions of High Court and auctioned (February 2010) the unit for ₹ 55 lakh against outstanding dues of ₹ 1.28 crore. Thereafter, no action was taken to recover the deficit of ₹ 72.85 lakh (October 2013) under Section 32-G.

Thus, lack of vigilance and efforts for recovery led to non-recovery of dues as neither property was taken into physical possession during 2001-09 nor collateral security could be utilised.

The Government accepted the facts and stated that the Corporation initiated action under Section 32-G but the party obtained stay from High Court. It further stated that efforts were being made to vacate the stay.

Chetak Tubes Private Limited, Hanumangarh

3.20.10 The Corporation took (February 2000) possession of the unit for recovery of outstanding dues of ₹ 82.83 lakh. After initial efforts (September 2000 to March 2001) to auction the unit, no efforts were made till November 2008 considering stay on sale by the Court though stay was only on

sale of plant and machinery. The unit was sold (December 2009) at ₹ 34.51 lakh. After registering (September 2010) the case under Section 32-G, the Corporation came to know that the collateral security (agriculture land in State of Haryana) which was valued at ₹ 40 lakh at the time of sanction (1997), had already been sold by the promoters without seeking permission of the Corporation. As on March 2013, deficit of ₹ 63.52 lakh excluding interest were pending for recovery due to non-identification of properties of the promoters/guarantors.

The Government accepted the facts and stated that recovery of deficit amount was under pursuance with revenue authorities.

Sujata Marbles & Granite Processing Private Limited, Jaipur

3.20.11 The Corporation took (May 2005) over the possession of the unit and sold (November 2005) it at ₹ 57.21 lakh. The case was registered (February 2009) under Section 32-G for recovery of deficit of ₹ 4.91 crore and the properties of the promoters at Delhi were also identified by the sub-office (Delhi). However, recovery could not be made (June 2013) due to non-pursuance of case by the management with revenue authorities.

The Government accepted the facts and stated that the sub-office (Delhi) is making efforts at its own level for clearance of dues and the matter is also being constantly pursued by the Branch Office Jaipur (Rural). The reply of the Government clearly indicates lacklustre approach of the Corporation towards recovery of dues despite identification of the properties of the promoters.

It could be seen from the above discussed cases that the Corporation could not recover its dues owing to deficient appraisal of loan applications, delay in taking timely legal action as per rules and regulations, lack of proper monitoring and inadequate prime and collateral security.

The Corporation should adhere to the defined framework for evaluation of loan applications and determine the genuineness of the defaulter borrowers before re-scheduling of loans. The Corporation must take measures for initiation of timely legal action for prompt realisation of dues.

Internal Control and Risk Management

3.21 The Corporation is primarily exposed to various risks viz. credit risk, market risk and operational risk which occurs due to default in repayment, fluctuation in interest rates and management limitations. An effective risk management system and sound internal control procedures not only minimise the risks but are also essential for achieving financial soundness and profitability. The Procedure and Guidelines, 2002, recovery strategy framed by the Corporation every year, loan policies and various provisions of the SFCs Act provides frame work for effective internal control and minimisation of risks. The internal control system, however, disclosed following shortcomings:

3.21.1 As per Section 26 of the SFCs Act, the Corporation could provide (revised March 2010) maximum financial assistance of ₹ 10 crore in case of company/corporation/co-operative society and ₹ 4 crore in other cases. Financial assistance beyond these limits, upto twice, could be provided after

approval from SIDBI. The Corporation, however, did not adhere to this statutory provision and provided²³ assistance beyond the stipulated limits despite rejection of request by the SIDBI.

The Government stated that the Corporation was authorised (April 2011) to sanction maximum financial assistance of ₹ 20 crore in case of company/corporation/co-operative society and ₹ 8 crore in other cases. The reply was not correct as SIDBI had not authorised (April 2011) the Corporation to sanction assistance beyond ₹ 10 crore and ₹ 4 crore without its permission.

3.21.2 The Corporation lacked an integrated system for compilation of data relating to sanction, disbursement of loans, payroll, MIS reporting, inter-branch data transfers, website management *etc.* and generation of periodical reports for monitoring at the level of apex management. The Corporation though awarded (November 2004) work order for development of an online integrated system and incurred an expenditure of ₹ 3.91 crore (November 2004 to November 2012) but the work was still under process (November 2013).

The Government accepted the facts and stated that online computerisation work was awarded (November 2004) to Kensoft Infotech but the project could not be completed due to various reasons. A fresh study has been conducted and RajCOMP Info Services Limited has been assigned to develop software for the Corporation.

3.21.3 As discussed above, the major lapses relate to sanction of loans to ineligible borrowers, disbursements without matching contribution by promoters, sanction of loan based on wrong credit rating, inadequate security *etc.* None of the above lapses were reported in the internal audit reports.

The Government stated that internal audit of different units was conducted periodically and the lapses were brought to the notice of management through audit reports. The reply is not convincing as the internal audit failed to highlight deficiencies in sanction, disbursement and recovery of dues which is the integral part of business operations.

3.21.4 The Corporation uses a Credit Rating System for appraisal of loans. The model contains marking on a scale of 1 to 100 for Management Risk, Industry Risk and Business Risk. Grades are awarded from 'AAA' (85 *per cent* and above) to 'B' (less than 45 *per cent*). We noticed that the Corporation provided loans to borrowers at a common interest rate irrespective of the marks obtained by them instead of linking the interest rate with the degree of associated risk.

The Government stated that uniform rate was charged as per the provisions of particular scheme as the system being followed also covered subjective aspects in assignment of ratings. The reply was not convincing as the borrowers who lacked marks in areas involving higher business risks were also granted loans at the rate of good borrowers.

23 Nimai Developers Private Limited (₹ 10.50 crore in 2011) and Siddhi Homes, Jaipur (₹ 5.24 crore in 2011).

Conclusion

The Corporation lacked sources of finance and as a result the business performance sharply declined during 2008-13. The sanctions decreased (75.90 per cent) from ₹ 473 crore to ₹ 114 crore while the disbursements decreased (59.12 per cent) from ₹ 340 crore to ₹ 139 crore during this period. The NPAs could not be confined within the agreed limit of 10 per cent of total outstanding loans as per tri-partite MOU. The percentage of NPAs to total outstanding loans ranged between 21.06 and 30.47 during 2008-13. Deficient appraisal, sanction and disbursement of loans by not adhering to the laid down parameters led to grant of loans to in-eligible borrowers which caused difficulties in recovery of loans. Non-compliance/delay in taking timely legal action as per rules and regulations, lack of proper monitoring and inadequate prime and collateral security led to non-recovery of dues. The internal control system was not sound enough to address the inherent business risks.

Recommendations

We recommend that the Corporation should:

- Find out alternate source of finances to improve the disbursements for promotion of MS&ME sector;
- Closely monitor the Standard Assets to ensure prevention of slippages of accounts into NPAs;
- Ensure adherence to the parameters of sanction and disbursements to minimise the risk;
- Take prompt and effective action for recovery of dues as per Rules; and
- Strengthen the internal control and internal audit systems.