HIGHLIGHTS

Industrial Development Bank of India (IDBI) was an apex institution to provide long term finance to industrial enterprises, both in public and private sectors. IDBI ceased to exist with effect from 1 October 2004 and in its place IDBI Bank came into being as an entity registered under the Companies Act 1956. As of March 2004, IDBI accumulated non-performing assets (NPA) which stood approximately at ₹ 9,000 crore.

(Paragraph 1.1)

In order to acquire by transfer the Stressed Assets of IDBI and for managing these assets with a view to recovering the amounts due, the Government, as settlor[1], decided to set up a special purpose vehicle in the form of a Trust. It created a ''Stressed Assets Stabilisation Fund'' (SASF) for the Stressed Assets of IDBI and SASF Trust Deed was executed in September 2004.

(Paragraph 1.1)

The Government provided ₹ 9,000 crore in the budget for the financial year 2004-05 for extending loan to the Trust. The transaction effected by the Government of India in acquiring these assets did not involve any immediate cash outgo. GOI provided a loan of ₹ 9000 crore to the Trust who in turn invested the amount in zero-interest Government Special Securities floated by Government of India and redeemable in 20 years. The Trust assigned these special securities amounting to ₹ 9,000 crore to IDBI (or its successor IDBI Bank) and in return, acquired 636 NPA/ stressed loan assets with a net loan outstanding (NLO)[2] of ₹ 9,004 crore.

(Paragraphs 1.1)

This arrangement of transferring NPAs to the Trust was akin to underwriting the non-performing assets of IDBI. As per the present scheme of things, Government of India will have to redeem the Special Securities in 2024 to the extent of the value of the assets remaining unrecovered. Even though the arrangement did not involve any immediate cash outgo, it has created a liability for the same as and when these securities would be redeemed. Thus effectively, Government of India has taken the burden of NPAs of IDBI by creating a future liability.

(Paragraph 2.1)

1 The person who creates a Trust is the settlor.

2 Gross loan outstanding (GLO) is loan before provision and net loan outstanding (NLO) is GLO less provision.

Clause 17(a) of the Trust Deed states that "the accounts of the fund shall be maintained and audited by the CAG of India". The Ministry finally entrusted audit of SASF to CAG in May 2013 almost eight years since the inception of the Trust.

(Paragraph 1.2)

The Trust has so far recovered ₹ 4,071 crore and remitted ₹ 4,059 crore to GOI as of March 2013. Major recovery of ₹ 2407.79 crore (59 *per cent*) was effected in the initial period of the Trust, i.e. between 2005-06 and 2007-08. Thereafter, the amount recovered has declined sharply indicating that the cases left now are more complex and difficult.

(Paragraph 1.3)

Between September 2004 and May 2005, IDBI, by executing six transfer/assignment/transfer of mortgage deeds, assigned 636 stressed assets with net loan outstanding of ₹ 9,004 crore to SASF. IDBI Bank submitted (February 2006 / April 2006) proposals to GOI for exchange of turnaround cases for other stressed assets. Exchange of cases was not permissible as the objective of formation of SASF was to take over the NPAs / potential NPAs existing as on 31 March 2004 only. Thus, no subsequent exchange was permissible. The GOI intimated (May 2006) IDBI Bank that the Stressed Assets Stabilisation Fund was created for a specific purpose, i.e., for stressed assets for that point of time and it would not be proper to extend the scope and life of SASF. Despite this, the Board of IDBI Bank decided (June 2006) and Board of Trustees approved (24 June 2006) exchange of eight turnaround cases with NLO of ₹ 1,522.29 crore for three fresh cases with NLO of ₹ 1,335.29 crore (SJK Steels Plant Limited (NLO: ₹ 603.42 crore); SPIC Petrochemicals Ltd (NLO: ₹ 528.46 crore and Shri Vishnupriya Industries Ltd (NLO: ₹ 203.41 crore). The transfer deed was executed (28 June 2006) between IDBI Bank and SASF for exchange of cases.

(Paragraph 3.1)

Audit noticed that in eight cases, which were transferred to IDBI in 2006, against a total NLO of ₹ 1,522.29 crore, the recovery made was ₹ 1,659 crore. On the other hand, only ₹ 360.32 crore could be recovered from the three exchanged cases. This inadmissible exchange which was not approved by the Government of India, benefitted IDBI. On the assets transferred to IDBI, the recovery was even more than the NLO. On the assets received by the Trust in exchange, the recovery was minimal.

(Paragraph 3.1)

Out of the total 319 settled cases having a total NLO of ₹ 2933.12 crore, 150 were settled for amount lower than NLO. The short recovery was to the tune of ₹ 915.17 crore. Similarly, out of the 101 resolved cases having a total NLO of ₹ 2,878.29 crore, in 60 cases the recovery was ₹ 828.94 crore against NLO of ₹ 2,650.30 crore, resulting in a short recovery of ₹ 1,821.36 crore as of March 2013.

(Paragraph 4.1)

In the unresolved category, in 79 cases with NLO of ₹ 625.32 crore, the Trust could not recover any amount and from the balance 132 cases it could recover only ₹ 396.75 crore against NLO of ₹ 2,380.37 crore.

(Paragraph 4.1)

Audit analysis indicated that out of 52 cases with NLO of more than ₹ 25 crore, 19 cases were settled, nine cases were resolved and 24 cases remained unresolved. Further, out of the 319 settled cases, 300 cases were with NLO less than ₹ 25 crore indicating that the Trust was able to settle small cases and a large number of big cases remained unsettled.

(Paragraph 4.1)

During audit it was noticed that obtaining of personal guarantees at the time of giving the loan became a meaningless exercise in the absence of the property and income details of the guarantors. Only ₹ 4.99 crore could be recovered by invoking PG. Thus, an important instrument of PG for safeguarding the financial interests was rendered ineffective.

(Paragraph 4.3)

In respect of settled cases, audit observed substantial short recovery (below NLO) occurred on large NLO accounts such as Mideast Integrated, Krishna Filaments, Pasupati Spinning and Weaving Mills, I.G. Petrochemicals and Shree Rama Multitech Ltd. The personal guarantees of some of the promoters of these firms were available with the Trust. However, the Trust did not make efforts to ascertain the net worth / income of the promoters before arriving at the settlement amount. Such settlements below NLO, without due regard to the financial capacity of the promoters, can be said to have actually benefitted the promoters.

(Paragraph 5.3)

Out of 15 resolved cases selected by audit for examination, in 10 cases the settlement amount / amount recovered was below the NLO amount, aggregating to short recovery of ₹ 1,590.49 crore.

(Paragraph 6.2)

The steel sector companies are the major defaulters and the Trust has taken substantial hit. For instance, in respect of Malavika Steel Limited and Usha Ispat Ltd. promoted by Shri Vinay Rai and Shri Anil Rai of Usha Group, the settlement amount is only ₹ 41.78 crore (7.03 *per cent*) and ₹ 48.07 crore (14.94 percent) as against the NLO of ₹ 594.54 crore and ₹ 321.80 crore respectively. The Trust, in spite of having personal guarantees from the promoters of various borrowing companies did not try to ascertain the net worth of the promoters so as to realise optimum sum.

(Paragraph 6.2)

Out of 39 unresolved cases selected by audit for examination, in three cases (Triveni Glass Limited, Ag Foods Limited and Dynamic Logistics Limited), the Trust recovered ₹ 58.21 crore against NLO of ₹ 47.28 crore. In the remaining 36 cases the Trust could recover only ₹ 150.54 crore against NLO of ₹ 1,888.69 crore.

(Paragraph 7.2)

Considering the difficult nature of the cases (some have been referred to BIFR), the final recovery may not be sufficient to repay the GOI loan. However, the GOI will have to redeem the special securities completely by paying to IDBI by 2024. The possibility of Government of India having to redeem considerable portion of these special securities entailing financial outgo is therefore real. This will, in the ultimate analysis, benefit the private corporates and their promoters who took huge loans, at the cost of the taxpayers.

(Paragraph 9.6)