Chapter 5: Loans written-off

During the period under Audit (2012-13 to 2015-16), a principal amount of ₹ 1637.87 crore was written-off by the Company as the recovery chances were grim due to inadequate / unenforceable security cover. Audit scrutiny of 11 loans written off revealed that the Company had incurred a loss of ₹ 1235.65 crore[26] by writing off these loans during 2012-13 to 2015-16.

A few illustrative cases highlighting various deficiencies in sanction and recovery of the loans leading to the same being written-off are given hereunder:

a. Murli Industries Limited

The Company sanctioned (July 2010 and August 2010) two loans of ₹ 50 crore each and disbursed (July 2010 and September 2010) ₹ 50 crore and ₹ 46.5 crore respectively to Murli Industries Limited (MIL), secured by pledge of 2.08 crore equity shares of MIL. The borrower started defaulting (December 2010) and requested for Corporate Debt Restructuring (December 2010) within four months of sanction of the second loan. The entire principal of ₹ 96.50 crore was written-off and unrealized interest amounted to ₹178.14 crore.

Audit observed that though provisions of the extant General Lending Policy stipulated credit rating of 'A' for the company whose shares were being pledged, the loans were sanctioned on lower credit ratings of 'BBB+' and 'BB-' of the borrower respectively. The General Lending Policy had also stipulated a maximum Debt Equity Ratio (DER) of 1.5:1. It was observed in Audit that the DER of the borrower was computed by considering Foreign Currency Convertible Bonds (FCCBs) and sales tax/central sales tax payable as quasi equity resulting in lower Debt Equity Ratio ranging from 0.93 to 2.06 during 2007-08 to 2009-10 whereas the actual DER ranged from 1.94 to 2.90. Despite highly volatile[27] movement in share prices of MIL no other tangible security was obtained. Audit also observed that out of 2.08 crore pledged shares, 7.89 lakh shares were returned (23 March 2011) to the pledgor, instead of transferring the same to IFCI's investment portfolio thereby extending undue benefit to the extent of ₹ 2.70 crore to the borrower. There was laxity in sale of the remaining pledged shares as only 47.15 lakh shares could be sold till April 2016. The share prices ranged from ₹ 93 to ₹ 95 per share when pledged and have since fallen to a range of ₹ 1.8 to ₹ 2 per share (March 2016).

Management replied (November 2016) that the rating deviation was approved by the Executive Committee. Since the market price was higher than the conversion price there was fair chance of conversion into equity shares, so FCCBs were considered as equity. The share price movement and trading volume was examined as per the prevalent General Lending Policy. The shares were inadvertently transferred to the pledgor instead of transferring the same to IFCI's demat account.

[26] Principal written-off ₹ 561.14 crore + unrealized interest ₹ 674.51 crore.

[27] ₹ 200-250 (January 2006), ₹ 1200 by July 2007, ₹ 250 (September 2008), ₹ 70 (March 2009) and ₹ 368 (17 March 2010 split to Face Value of ₹ 2 from ₹ 10).

Reply is not tenable as deviation from credit rating was imprudent as this deviation compromised the quality of security. Even after considering that the market price was higher than the conversion price, conversion of FCCBs into equity was only a probability. As a conservative measure, FCCBs should not have been considered as equity for calculating DER as conversion was to take place at a later date. The fact remains that despite volatility in the share prices no additional security was obtained.

b. Sree Metaliks Limited

IFCI sanctioned (May 2011) a financial assistance of ₹ 75 crore to Sree Metaliks Limited (SML) by way of Optionally Fully Convertible Debentures. The first tranche of ₹ 56 crore was disbursed in May 2011 and balance ₹ 19 crore in September 2011. The facility was secured by pledge of 49 *per cent* unlisted equity shares of SML and personal guarantee of two promoters. As SML was making delayed payments and was in default from May 2012, the account became NPA (December 2012). Personal Guarantee of the promoters was invoked in January 2013 and SML made reference to BIFR (August 2014) on erosion of net worth. The entire principal of ₹ 75.34 crore was written-off and the unrealized interest was ₹ 87.72 crore.

Audit observed that IFCI accepted unlisted equity shares of SML as security for the loan without ascertaining availability of exit options in case of default by the borrower. Later these shares could not be sold despite repeated attempts (September 2012 and February 2014). IFCI did not take cognizance of the fact that Orissa steel units were facing closure due to raw material crunch. Hence, IFCI failed to mitigate the raw material risk which was also highlighted by CRMD that the volatility in the prices of raw material / non-availability of supply of iron ore etc. could have negative impact on financial performance of SML. Moreover, the profitability parameters of the borrower had also declined in the year prior to sanction.

The Management replied (November 2016) that it was aware of the probable increase in raw material prices due to short supply; however, since SML was allotted iron ore mine singly as well as jointly so it expected that it would overcome these constraints.

The reply is not tenable as the vital factor of non-availability / volatility in the prices of raw material, which would negatively impact the financial performance of SML, was overlooked at the appraisal stage. The Company also ignored the fact that SML could not obtain mining rights pending necessary permissions/clearances before sanction even after the expiry of three to five years from the allocation of iron ore mines in February 2008 (singly held by SML) and in January 2006 (jointly held).

c. Glodyne Ventures and Holding Private Limited

IFCI sanctioned three term loans to Glodyne Ventures and Holding Private Limited (GVHL) of ₹ 50 crore (June 2010 (TL-1)), ₹ 25 crore (September 2010 (TL-2)) and ₹ 25 crore (May 2011 (TL-3)). The loans were disbursed in July 2010, October 2010 and May 2011 respectively on the security of pledge of 2.5 times (for the first two loans)/2.25 times (third loan) equity shares of Glodyne Technoserve Limited (GTSL), a group company, and personal guarantee of the promoters. The borrower defaulted in repayment of all the three loans (January/March/April 2012) and personal Guarantee was invoked in February 2013. GVHL is presently under liquidation. The outstanding principal of ₹71.59 crore was written-off and the unrealized interest was ₹ 67.43 crore.

Audit observed that the pledgor Company (GTSL) had no credit rating as against the stipulated General Lending Policy requirement that the company whose shares were being pledged should have a credit rating of 'A'. Further, all the loans were sanctioned only against pledge of shares without obtaining any other tangible security despite share prices being highly volatile in the year prior to sanctions[28]. IFCI also waived the term of sanction which stipulated that the initial security would not be released/returned under any circumstances until the final settlement of the loan and released 37.81 lakh[29] pledged shares on three occasions. As the borrower failed to clear the principal/interest instalments, Event of Default (EOD) was declared (January/March/April 2012) by IFCI. IFCI sold (May 2012) 2.39 lakh pledged shares and recovered ₹ 9.90 crore. Subsequently, it did not sell any of the remaining pledged shares from June 2012 to October 2012 even though the terms of sanction clearly stated that security would become enforceable on the occurrence of EOD. When IFCI decided (22 October 2012) to resume the sale of shares, the share price had already fallen to ₹ 63.45 (19 October 2012) from ₹ 425.85/share (25 June 2012).

The Management replied (August/November 2016) that the facility was sanctioned and modified keeping in view the General Lending Policy, the extant market practice against the pledge of shares and as a part of the normal business operations. It also stated that the release and pledge of shares was a common practice and keeping in view the satisfactory track record of the company, cancelling the facility and recalling the loan would have been difficult and time consuming.

The replies are to be viewed against the fact that no tangible security was obtained during sanction of the loan and therefore, release of excess shares in violation of the terms of the agreement was not in the best interest of the Company. Despite occurrence of EOD and availability of adequate security cover, IFCI did not sell the remaining pledged shares[30] (from June 2012 to October 2012).

d. Jupiter Biosciences Limited

The Company sanctioned/disbursed (December2009/February 2010) a loan of ₹ 60 crore to Jupiter Biosciences Limited (JBL) which was to be secured by first *pari passu* charge on movable and immovable assets of the borrower (three manufacturing units), hypothecation of stock on second charge basis, mortgage of collateral security having minimum Distress Sale

[28] For the loans sanctioned on 14 June 10 and 27 September 10, the price of GTSL (per share) on 30/7/09 was ₹ 643.75, on 18/9/09 was ₹ 389.1, on 15/4/10 was ₹ 756.8, on 8/6/10 was ₹ 592 and ₹ 1041.95 on 21/9/10.

For the loan sanctioned on 6 May 2011 GTSL's price (per share) was ₹ 592 on 8/6/10 and ₹ 1041.95 on 21/9/10, ₹ 643.75 on 9/12/10, ₹ 744.1 on 3/2/11, ₹ 389 on 18/2/11 and ₹ 413.7 on 29/4/11.

[29] 5 lakh, 17.81 lakh and 15 lakh in March 2011, September 2011 and June 2012 respectively.

[30] Average closing price for the last three months was ₹ 356.20/share and security cover was more than 2.5/2.25 times in June 2012.

Value (DSV) of ₹ 12 crore, pledge of five lakh unlisted shares of JBL held by its promoters with a condition to get listed by 9 June 2010, corporate guarantee of the subsidiary company and personal guarantee of the promoter. The borrower repaid only the first three quarterly principal instalments of ₹ 4.25 crore each (September, December 2010 & March 2011) out of total 14 quarterly instalments commencing from September 2010. Due to subsequent defaults in payment of interest and principal repayment (April/June 2011 onwards) the loan was recalled, personal guarantee was invoked and the account was classified as NPA by IFCI (December 2011).The Company took possession (February 2012) of two collateral properties, three manufacturing units (May/August 2012) as per decision in the joint meeting of lenders (April 2012). In March 2014, the borrower and its directors were declared wilful defaulters by the Company. The principal outstanding of ₹ 45.73 crore was written-off and unrealized interest amounted to ₹ 87.57 crore.

Audit observed that IFCI disbursed the loan amount without creation of primary security (*pari passu* first charge on assets) and allowed three months from the date of disbursement for the same though General Lending Policy stipulated creation of security before disbursement. The *pari passu* charge in favor of the Company could be created on only one manufacturing unit out of three due to non-receipt of NOCs from the other lenders for Unit-II and attachment of Unit-I by the Income Tax Department for recovery of its dues. As the terms of sanction stipulated mortgage of properties (collateral security) with minimum Distress Sale Value of ₹ 12 crore, the Company accepted (February 2010) mortgage of two properties (Hyderabad and Karnataka) with valuation of ₹ 13.37 crore (₹ 8.45 crore and ₹ 4.92 crore). However, these properties were finally sold (October 2012 and November 2013) for ₹ 1.79 crore (Hyderabad- ₹ 1.39 crore and Karnataka- ₹ 0.40 crore) only which was only 14.9 *per cent* of the stipulated minimum DSV of ₹12 crore. Moreover, the pledged shares of JBL held by the promoters could not be listed. Conditional acceptance of unlisted shares without any viable exit mode in case of default resulted in it remaining a security in name only. There was no credit rating of the borrower's debt, despite the fact that it had exposure (31 March 2009) in the form of term loans (₹ 244.12 crore) and working capital loans (₹ 44.26 crore).

Management in its reply (November 2016) accepted the audit observations and mentioned that the lapses were being investigated and staff accountability fixed.

e. KLG Systel Limited

The Company sanctioned and disbursed (August 2009) a loan of ₹ 50 crore to KLG Systel Limited (borrower) which was to be secured by first *pari passu* charge on all the fixed assets of the borrower, escrow account of specified receivables and personal guarantee of the promoters. The borrower paid ₹ 4.17 crore (November 2010) out of ₹ 6.25 crore due against the first instalment while the due dates for repayment of the remaining amount and the next principal instalment (February 2011) were revised to May 2011 and August 2011 respectively. The borrower was referred to Corporate Debt Restructuring (CDR) in April 2011 and the Company sanctioned (January 2012) a restructuring package to the borrower. However, as the CDR scheme failed (March 2013) IFCI recalled the loan and invoked the personal guarantee of the promoters in May 2013. In January 2014, the Hon'ble High Court of Punjab and Haryana passed winding-up order against the borrower due to failure to redeem the FCCBs issued by the borrower to a foreign investment Company[31].The outstanding principal amount of ₹ 45.83 crore had to be written-off and the unrealized interest amounted to ₹ 70.48 crore.

Audit observed that the loan was sanctioned even though the security cover by way of Fixed Assets Coverage Ratio (FACR) was 1.13[32] only as against the General Lending Policy stipulated FACR of 1.5. IFCI disbursed the loan amount without creation of primary security (first *pari passu* charge on all fixed assets) and allowed three months from the date of disbursement for creation of security in deviation from the extant General Lending Policy which stipulated creation of security before disbursement. The terms of agreement provided for payment of additional interest in case the borrower failed to create the security within 3 months. IFCI waived an amount of ₹ 16.26 lakh (approx) of additional interest despite non-creation of security within the stipulated period of three months.

Management (November 2016) stated that the loan was disbursed after creation of security of hypothecation of movable assets and 50 *per cent* of the additional interest amounting to ₹ 16.26 lakh was waived-off due to 'in-principle' approval from SBI (another lender) for extension of charge on the assets.

Reply is not tenable as the disbursement without creation of primary security was imprudent in view of less than stipulated FACR. Further, the value of movable assets at the time of disbursement was not found on record. The waiver of penal interest on the basis of an 'in-principle' approval was not in the best interest of the Company as primary security was not created.

f. TRS Technology Private Limited

IFCI sanctioned (February 2010) a loan of ₹ 100 crore to TRS Technology Private Limited (TTPL) which was secured by pledge of listed equity shares (2.25 times cover[33]) of Shiv-Vani Oil and Gas Exploration Services Limited (SVOGL, Promoter) and personal guarantee of the promoters. The loan was rescheduled twice[34] with provision of additional security whereby TTPL offered to hypothecate certain movable assets (drilling rigs) with an estimated value of ₹ 90 crore which the Company accepted (March 2013) without any independent valuation. Due to defaults in repayment, the Company sold the pledged shares and recovered an amount of ₹ 15.78 crore. However, the recovery action initiated (October 2013) for sale of hypothecated assets under SARFAESI Act was still pending. The outstanding loan amount of ₹ 68.85 crore had been written-off and the unrealized interest was ₹ 38.84 crore (31 March 2016). The Company reported (January 2015) this case to RBI as a fraud in view of inflated valuation of the assets by the borrower.

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31 Bank of New York Mellon, London branch vs. KLG Systel.
32 After excluding intangible assets.
33 Which included 76.24 lakh shares as direct pledge and 28.02 lakh shares held as NDU/POA.
34 April 2012 and March 2013 due to liquidity problems with the promoter company.

Audit observed that due diligence was not conducted at the time of acceptance of movable assets offered as additional security as the Company relied upon the valuations submitted by the borrower instead of carrying out an independent valuation while accepting the security (March 2013) despite the fact that asset was reported to be eight years old and was lying idle at the site. It was later known at the time of independent valuation carried out to initiate action under the SARFAESI Act that this asset had a lower valuation of ₹ 13.50 crore (DSV-February 2014) and ₹ 9.80 crore (June 2014) as against the borrower's valuation of ₹ 90 crore. Due to this, the asset could not be sold at the auction under the SARFAESI Act till date (March 2016) despite lowering the reserve price to ₹ 4.05 crore. Second rescheduling (March 2013) was granted despite weak financial position of the borrower as it was incurring losses for the past two years (2011-12 and 2012-13) with negative cash flows, earlier outstanding dues being recovered by sale of its pledged shares fetching ₹ 8.60 crore in February 2013, net-worth turning negative over the past two years and defaults amounting to ₹ 10.77 crore being reported in the loan given to the borrower's group Company (SVOGL). Even the 28.02 lakh shares held under Non Disposal Undertaking (NDU)/Power of Attorney (POA) were not sold.

The Management accepted the fact that the security of the rig was accepted without conducting independent valuation as it relied on the invoice and insurance cover provided by the borrower. It stated that the shares which were held under Non Disposal Undertaking / Power of Attorney were not sold as no substantial recovery was possible. It further stated that this was to provide additional security cover for which there was no methodology for valuation and the Company accepted the valuation submitted by the borrower in good faith. Being technical equipments these were not valued during site inspection. It further stated that failure to sell the rig at the auction could not be attributed to valuation.

The replies are not tenable as acceptance of security without conducting independent valuation reflected the weakness in the Company's standard operating procedures. Relying on the borrower's valuations was not justified as the borrower (TRS) was not even the owner of the rig but was only the lessee. The insurance policy also did not record the lien of IFCI as required under GLP (2012-13).Negligence on the part of the Company in not having the hypothecated assets valued prior to acceptance of the same resulted in inadequate security cover being created. The fact that the shares under NDU/POA could not be sold reflected the inferior quality of the security accepted as in the case of default these could not be enforced.

g. ESS ESS Exim Private Limited

IFCI sanctioned (January 2011) a loan of ₹ 50 crore to ESS ESS Exim Private Limited (EEEPL) and disbursed the same on 30 March 2011. The security consisted of pledge of 2 times the value of equity shares of Surya Pharmaceuticals Limited (SPL, a group concern) at ₹ 101.93 crore and personal guarantee of the promoter. There was security shortfall (August/September 2011 onwards) and additional shares were pledged for top-up[35] of the security cover as per the agreement. Later, there were principal/interest defaults and the

[35] Top-up of the security at 15 *per cent* fall in share price i.e. 4.87 crore shares till April 2012.

security cover fell to 1.58 times (April 2012). The loan was recalled and personal guarantee was invoked (May 2012). The borrower group had filed reference before BIFR in December 2013. Though Debt Recovery Appellate Tribunal ordered (January 2016) the borrower and the guarantor to pay ₹ 49.20 crore (January 2016) to IFCI, no recovery could be made till date. The Company, despite having sold the majority of shares[36], could not recover all its dues. The principal of ₹ 44.21 crore outstanding was written-off and the unrealized interest was ₹ 44 crore.

Audit observed that as against the extant General Lending Policy's stipulated credit rating of 'A' for the company whose shares were being pledged, SPL was rated 'LBBB-'[37] by ICRA. The eligibility criteria of the borrower were not checked and only the eligibility criteria of the pledgor company, SPL, were verified while sanctioning the loan. Further, the borrower's net worth was ₹ 22 crore only and the repayment capacity was also not properly assessed as it had a total income of ₹ 19 lakh *per annum* (31 March 2009). Moreover, the Company accepted SPL's shares as primary security without obtaining any other tangible security despite the fact that the Credit Risk Management Department, in its risk note, had pointed out the risk of erosion in the value of its equity shares. Out of the total pledged shares, 21.43 *per cent* were locked-in till March 2014 but the same were also considered as primary security despite the fact that these could be sold only after March 2014. Immediately after the sanction, the moratorium period was increased from six months to 12 months and number of monthly instalments was raised from 24 to 48 thereby prolonging the repayment period.

The Management replied (July/November 2016) that though the profitability and liquidity ratios had come down, the proposal for increasing the moratorium as well as the repayment period was accepted due to net cash projections and higher interest rate offered. It also stated that the loan against pledge of shares was sanctioned by the competent authority.

Reply is not acceptable as the financial parameters of the borrower (determinants of repayment capability) were not considered during credit appraisal. Further, the Company sanctioned loan only against shares[38] without obtaining any other tangible security despite security risk of shares being pointed out by the CRMD. The change in the terms of sanction was not justified in view of the risk involved due to existing financial parameters.

h. Sthiti Insurance Services Private Limited

IFCI sanctioned (March 2011 and August 2011) and disbursed loans of ₹ 50 crore and ₹ 30 crore to Sthiti Insurance Services Private Limited (SISPL) against security of shares[39] of Zylog Systems Limited (ZSL), a group company promoted by the borrower, with a stipulated security cover of 2.25 times. Due to liquidity crunch, SISPL was in default in repayment from March 2012 and the loans were declared (September 2013) as NPA. The outstanding

[36] As on May 2016, 54 lakh shares out of 9.60 crore shares could not be sold as trading in SPL's shares was suspended.

[37] Indicating moderate degree of safety regarding timely repayment for long term debts.

[38] In 52 weeks prior to sanction, high/low share price of SPL was ₹ 356.80/₹ 108.55 in NSE.

[39] 39.25 lakh shares at the rate of ₹ 405 per share (September 2011 based on 3 months average) .

principal amount of ₹ 41.89 crore as on March 2016 was fully written-off and unrealized interest was ₹ 24.82 crore.

Audit observed that there was deficient credit appraisal as the Company sanctioned the loan despite being aware that SISPL had no credit rating and its net worth was ₹ 14.06 crore as against the General Lending Policy stipulation of ₹ 100 crore. Further, the loan was sanctioned without obtaining any tangible security. Instead, the Company released the pledged shares twice (March 2012 and September 2012) despite the borrower failing to fulfil its commitment of clearing outstanding overdues. This proved costly to IFCI as there was overdue of ₹ 6.88 crore as on 17 October 2012 and IFCI decided to sell 2.44 lakh pledged shares to recover the same. However, after recovering only ₹ 2.20 crore by selling 0.90 lakh shares, the Company relied upon the borrower's assurance to clear the overdue and put the sale on hold (19 October 2012) despite being aware that it had repeatedly failed to clear the overdue. Since SISPL again failed to clear the overdue, IFCI decided (31 October 2012) to resume the sale of shares but by then the share price had fallen significantly[40]. Resultantly, it could recover only ₹ 22.20 crore by selling all the pledged shares.

The borrower approached the Hon'ble High Court of Madras and obtained (November 2012) a stay order against sale of shares. Afterwards, the Hon'ble court directed (December 2012) the borrower to provide additional security and also restrained IFCI from taking coercive steps except sale of pledged shares. Accordingly, SISPL offered additional security in the form of mortgage of third party land. However, lack of due diligence in conducting title check thereof while accepting (December 2012) it as additional security resulted in it remaining unenforceable under the SARFAESI Act, when the Company realized (December 2014) that the title deed of the land was forged. It was belatedly reported as a fraud case to RBI (July 2015) and to the Central Bureau of Investigation (CBI) (August 2015).

Management replied (November 2016) that as the borrower did not have financial capability to service the loan it was sanctioned based on ZSL's financial strength whose shares were kept as security.

Reply is not tenable as financials of the borrower were weak and should have been given due consideration so as to safeguard IFCI's financial interests.

i. Ramsarup Industries Limited

The Company sanctioned (December 2009, March 2010) two corporate loans of ₹ 20 crore and ₹ 11.6 crore to Ramsarup Industries Limited (RSIL) which were secured primarily by way of pledge of 78.75 lakh equity shares of RSIL, lien over Debt Service Reserve Account[41] (DSRA) of three months interest and personal guarantee of the promoter. Additional security by way of mortgage of agricultural land was taken in May 2011.The loans were restructured twice in November 2010 and June 2011 but the borrower failed to pay the dues and started defaulting from 15 July 2011. All the manufacturing plants of the borrower were closed down and the net worth turned negative. Due to defaults, the account turned into a NPA since January 2012. The borrower made a reference (7 November 2012) to BIFR which was abated

[40] From ₹ 282.85/share on 17 October 2012 to ₹ 134 on 1 November 2012.

[41] It is an account in which an amount equal to the debt service obligations for a specified period is kept.

(19 February 2014). The entire principal outstanding of ₹ 24.79 crore was written-off and unrealized interest amounted to ₹ 37.67 crore.

Audit observed that the loan was sanctioned despite the fact that the borrower had high Debt Equity Ratio (DER) of 3.38 and had incurred loss in the year prior to sanction (2008-09) as against the extant General Lending Policy stipulated requirement of maximum DER of 1.5 and being profit making in the last three years. Even though there was volatility[42] in share prices of RSIL before sanction of the first loan, IFCI did not insist on any other tangible security. There was laxity in selling the pledged equity shares in time to recover outstanding dues as the Company sold only 9.7 lakh shares[43]out of 78.75 lakh pledged shares, despite there being ample trading volume[44] in RSIL shares.

Management replied that the shares were not sold in lieu of additional pledged shares of 21.50 lakh (in lock-in period) by way of Non-Disposal Undertaking/Power of Attorney and because of additional security of mortgage of land and rescheduling of loan (30 November 2010). Keeping in view the Corporate Debt Restructuring a second rescheduling was approved (June 2011).

Reply needs to be viewed against the fact that the easily enforceable primary security of pledged shares was not sold on time to recover its outstanding dues. Rescheduling of loan in November 2010 was done despite the fact that the borrower had been referred to the CDR cell for debt restructuring and the locked-in shares could not be sold while agricultural land had little value and was unenforceable under the SARFAESI Act.

j. Elem Investments Private Limited and Fincity Investments Private Limited

IFCI sanctioned (October 2008) term loan of ₹50 crore each to Elem Investments Private Limited (EIPL) and Fincity Investments Private Limited (FIPL) for repayment of borrower’s existing loans of DSP Merrill Lynch Capital Limited. The security was 3.5 times pledge of shares of Maytas Infra Limited (MIL, a group company), mortgage of commercial property (0.5 times) and personal guarantee of the promoters. However, the security clause was modified (7 November 2008) before disbursement to pledge of 1.03 crore shares of MIL (4.25 times) valuing ₹ 447 crore, 9.7 lakh shares of Satyam Computers Services Limited (SCSL) (0.20 times) valuing ₹ 22.77 crore and mortgage of immovable property (1.25 times) and the Letter of Intent was issued on 10 November 2008. Disbursement of ₹ 42.50 crore each was made (1/ 4 December 2008) to FIPL and EIPL and the remaining undisbursed amount of ₹ 7.5 crore each was cancelled (19 June 2009).

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[42] ₹ 70-80 (March 2006), ₹ 130-145 (March 2007), ₹ 190-280 (December 2007-January 2008), ₹ 28-32 (December 2008), ₹ 80-85 (December 2009).

[43] October 2010, November 2010, September 2014/November 2014.Total amount recovered by sale of shares- ₹ 189.19 lakh.

[44] During October –December 2010 as well as January 2011 to September 2011 there was a total Trading volume of 1.36 crore shares and 1.39 crore shares respectively on NSE and BSE.

As EIPL and FIPL failed to provide top-up for security cover and cash margin as per the agreement[45] (29 December 2008), IFCI cancelled the facility (7 January 2009) and invoked the pledge of shares subsequent to the discovery of fraud in Satyam Computers by falsification of accounts. An amount of ₹ 90.08 crore was realized through sale of all the shares out of which ₹ 5.35 crore was lying in no-lien account as per the directions of the Enforcement Directorate due to investigation against SCSL. IFCI issued (October 2009) the recall notice and invoked (November 2009) the guarantees which were not honoured. The outstanding principal of ₹ 11.11crore was written-off and the unrealized interest was ₹ 37.84 crore in respect of both the loans (31 March 2016).

During review, Audit observed that the eligibility criteria of the borrowers were not checked and only the eligibility criteria of the pledgor company, MIL, was verified while sanctioning the loans. Further, the Company did not obtain credit information reports from other lenders especially DSP Merrill Lynch Capital Limited to analyze the payment history/creditworthiness of the borrower. The loans were disbursed only against the pledge of shares without obtaining any tangible security.

It was also observed that the sanction letter and LOI clearly stated that mortgage of commercial/ immovable property should be created but IFCI accepted the mortgage of agricultural land (30 December 2008) without due diligence as the valuation of ₹ 84.10 crore (17 December 2008) was arrived at by considering the land as residential, instead of an agricultural land. IFCI did not conduct any site visit nor carried out any independent verification of land use before accepting the agricultural land as security. IFCI got the valuation of this agricultural land done in January 2016 as per which, the realizable value was stated as ₹ 4.62 crore.

While the Company delayed by almost seven years in reporting the case of EIPL (9 November 2015) to RBI as a fraud case despite being aware of the inflated valuation of the mortgaged property within a month of disbursement itself (30 December 2008), it has not yet reported FIPL as fraud case to RBI despite the fact that in both cases the mortgaged property was the same and its valuation was inflated.

The Management replied (August, November 2016) that the loan was sanctioned based on the financial strengths of MIL whose shares were pledged as security for the loan. The Satyam scandal resulted in IFCI insisting upon the company to create mortgage immediately and accepted agricultural land as security instead of the original commercial property as stated in the terms of the sanction.

The reply is not tenable as the financial parameters of the borrowers (determinants of repayment capacity) were not considered during credit appraisal. Moreover, IFCI accepted the security of agricultural land instead of commercial/immovable property and even this mortgage was created on 30 December 2008 i.e. prior to emergence of Satyam Scam on 7 January 2009.

[45] Top-up of additional shares required when market value of pledged shares fell by 5% to 20% of initial value and further fall in market value of pledged shares i.e. above 20% would be compensated by the top up of the cash margin.

k. Ind Swift Laboratories Limited and Ind Swift Limited

IFCI sanctioned/disbursed term loans of ₹ 50 crore each to Ind Swift Laboratories Limited (ISLL) in July/August 2009 and Ind Swift Limited (ISL) in October/November 2009. The security was first *pari passu* charge on all the present and future immovable and movable assets of ISLL and ISL and personal guarantees of the promoters. Both the borrowers defaulted in repayment after July 2012 and went into Corporate Debt Restructuring (CDR). IFCI did not participate in CDR and accepted the borrowers' proposals for restructuring of the dues (June 2013). Even after restructuring, the borrowers defaulted and the restructuring package was revoked (September 2014). The account, however, became NPA (31 March 2014), the recall notice was issued (December 2014) and guarantees were invoked (January 2015). The winding-up notices were issued on 19 June 2015 and the case for recovery was filed in July 2015. IFCI assigned (February 2016) its total outstanding (December 2015) of ₹ 62.18 crore to Edelweiss ARC Limited and received Security Receipts and cash valuing ₹ 26.88 crore[46].

In this regard, Audit observed that both the loans were disbursed on the basis of interim security of corporate guarantee only and the charge on all assets was created only after one year [47]from the date of disbursement (December 2010). Further, the Company kept on ceding (February, April and December 2011[48]) its first *pari passu* charge in favour of other lenders amounting to ₹ 158.25 crore without demanding any collateral security which in effect resulted in the same security being shared by many lenders in case of default by the borrower. Further, ICRA had downgraded the ratings of loan outstanding in June 2012 due to deterioration in the financial performance and significant financing risk arising on account of large debt repayment in the near future.

It was further observed that IFCI, instead of taking quick action for recovery, restructured (June 2013) the dues despite being aware of the losses incurred by the borrowers (loss of ₹ 120.94 crore and ₹ 119.91 crore in ISL and ISLL respectively in 2012-13), huge finance cost (₹ 86.41 crore and ₹ 139.61 crore in ISL and ISLL respectively in 2012-13) and negative cash earnings per share. The Company failed (October 2015) in its first attempt to sell/assign its debt as no bids were received. Subsequently, the reserve price was reduced (January 2016) by 10 *per cent* and eventually, only single party submitted the bid and the assignment was approved (February 2016) for ₹ 26.88 crore.

The Management replied (November 2016) that as long as ISL was meeting minimum stipulated security cover through mortgage, the *pari passu* charge was ceded in favour of new lenders.

The reply is not tenable as quick action of recovery by enforcing security on *pari passu* basis is difficult and therefore ceding first *pari passu* charge in other lenders was not in best interest of the Company. This has resulted in a loss of ₹ 35.30 crore.

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[46] ₹4.03 crore as cash and ₹22.85 crore as SR.
[47] As per the Lending Policy security should be created before disbursement of loan.
[48] FACR was 1.69, 1.61 and 1.54 in December 2010,March 2011 and November 2011 respectively.

Ministry's Response to cases of loans written off

Ministry stated (February 2017) that many cases involving write-off of loans are those which were sanctioned when IFCI was understood to be a private company and the first instance of default also occurred before majority shareholding passed to the Government. Since these issues are Board level decisions, it would not be appropriate for the Ministry to comment.

Reply is not justified in view of the fact that two instalments of grant-in-aid amounting to ₹ 520.31 crore[49] were released to IFCI even after the shareholding of the Government Controlled Institutions had fallen below 51 *per cent* by March 2005. Even during 2008-09 to 2011-12 when these cases were sanctioned, Government controlled entities had significant shareholding (approximately 45 to 46 *per cent)* in the Company. Also, the burden of these written-off loans had been borne by IFCI after it became a deemed Government Company in December 2012.

[49] ₹300 crore in 2005-06 and ₹220.31 crore in 2006-07.