Chapter 6: Non-performing Assets

The position of Non-performing Assets (NPAs) in any financial institution is an important indicator of its financial position and has a direct effect on profitability. As per RBI Guidelines, if interest or instalment of principal remained due for more than five months, loans were to be classified as NPAs. NPAs were further classified into Sub-Standard, Doubtful and Loss Assets. The Sub-Standard Assets included those assets which remained NPA for a period not exceeding 16 months[50] while Doubtful Assets included those which remained Sub-Standard Assets for a period exceeding 16 months. Loss Assets were those assets where loss had been identified by the Company or by the internal or external auditor or by the RBI but the amount had not been written-off wholly and an asset which had been adversely affected by a potential threat of non-recoverability due to erosion in the value of security or non-availability of security due to any fraudulent act or omission on the part of the borrower.

6.1 Status of NPAs in IFCI

The category wise classification of NPAs (413 cases) of ₹ 3544.54 crore as on 31 March 2016 for the last four years is detailed hereunder:

Table-5: Status of NPAs

(₹in crore)

Sl. No.	Particulars as on 31 March *(cumulative)*				
1.	**Classification of loans**	**2013**	**2014**	**2015**	**2016**
	Standard Assets	12852.42	16538.85	22849.06	23610.60
	Non-performing Assets:				
(i)	Sub-standard Assets	1624.40	1735.96	1306.37	2319.61
(ii)	Doubtful Assets	288.37	1033.71	1083.51	1114.82
(iii)	Loss Assets	1150.13	681.68	227.32	110.11
	Gross NPAs [51](i+ii+iii)	3062.90	3451.35	2617.20	3544.54
2.	Total loan outstanding	15915.32	19990.2	25466.26	27155.14
3.	Gross NPA Ratio (%)	19.24	17.27	10.28	13.05
4.	Unrealized interest	66113.80	72036.53	87676.77	106752.78
5.	Principal written-off	597.93	1167.91	1832.05	2235.80

As seen from the above, the gross NPA ratio as on 31 March 2016 was 13.05 *per cent* of the total loan outstanding which is significantly high as compared to that of the industry i.e. 3 *per cent* given at Chart 3 earlier. It was also observed that out of total Gross NPAs as on 31 March 2016, NPAs amounting to ₹ 2794.58 crore (78 *per cent*) originated during the last three years.

[50] Revised to 16 months w.e.f. 2015-16 from earlier norm of 18 months.

[51] Break-up of NPAs as per Asset Classification provided by Management. However, there were minor variations in these figures from the Gross NPA figures as reported in the Financial Statements of respective years.

A higher percentage of NPAs indicated improper evaluation and credit appraisal of loan applications. During the period under Audit (2012-13 to 2015-16), the amount of Sub-Standard and Doubtful Assets increased by ₹1521.66 crore. A decline in the Loss Assets by ₹ 1040.02 crore was primarily due to increase in the loans being written-off by ₹ 1637.87 crore during this period. It was observed that due to NPAs, the unrealized interest[52] increased by ₹ 40638.98 crore during the review period. This unrealized interest includes accrued interest that was reversed on the date these assets turned into NPA as well as the interest that would have been earned on these assets till 31 March 2016 had these cases not turned into NPA.

The Ministry stated (February 2017) that RBI prohibits the recognition of interest once the account becomes NPA.

Though it is a fact that RBI prohibits recognition of interest once the account becomes NPA, Ministry's reply needs to be viewed against the fact that this amount represents the interest income which would have been earned by the Company had these cases not turned into NPA. Accordingly, observation of audit needs to be viewed from propriety angle rather than merely the accounting angle.

6.2 Status of Restructured Loans

The Company resorted to restructuring of loans as requested by the borrower due to stretched liquidity and cash flows, operational losses, stalled and incomplete projects, borrower's incapability to service interest / interim returns, and repayment of principal instalments. Such restructuring has to be approved based on RBI prudential norms for restructured advances. The details of loans restructured by the Company for the last four years are enumerated below:

Table-6: Details of restructured loans during the period 2012-13 to 2015-16

(₹ in crore)

Particulars	2012-13[53]		2013-14		2014-15		2015-16	
	Cases	Amount outstanding	Cases	Amount outstanding	Cases	Amount outstanding	Cases	Amount outstanding
Opening balance	-	-	3	954.29	12	2031.14	30	4419.64
Restructured during the year	13	1488.39	9	1076.85	21	2469.71	4	1022.39
Accounts Written off during the year	NA*	NA*	0	0	03	81.21	3	679.34
Closing balance	3	954.29	12	2031.14	30	4419.64	31	4762.69

** Figures not available*

52 It is the interest which would have have been earned had these cases not turned NPA as RBI stipulates interest on NPAs shall be recognized only when it is actually realized.

53 Data not available due to restructured assets movement as per RBI stipulated format being compiled from 13-14 onwards.

As seen from the above table, 31 restructured loan cases exist as on 31 March 2016 amounting to ₹ 4762.69 crore. Restructuring resulted in extending the repayment periods beyond the original repayment dates during which the Company's risk of exposure continued. Audit observed that repeated restructuring was granted to the borrowers in some credit facilities[54].

6.3 Audit findings

The policy for loans, termed as General Lending Policy, framed by IFCI for each financial year prescribed guidelines for providing financial assistance for various purposes and sectors of the economy. With a view to safeguarding the interest of the Company, a system of credit appraisal, sanctions, disbursements and monitoring of loans was put in place by the Company. Compliance with these policies were test checked in audit by examining sample NPA cases to ascertain whether the loans were properly appraised and evaluated as per the stipulated criteria in the General Lending Policy and RBI Guidelines to maintain the asset quality. Examination of the cases in audit revealed the following:

6.3.1 Loans fully provided for

It was observed that in respect of the following five cases, the Company had made 100 *per cent* provision and classified the same as doubtful assets. The entire principal outstanding of ₹ 296.20 crore was fully provided for and unrealized interest was ₹ 119.09 crore leading to a loss of ₹ 415.29 crore as discussed below:

a. Era Housing & Developer Limited and Hi Point Investment & Finance Limited

IFCI sanctioned (October 2009/September 2010) two loans of ₹ 180 crore to Era Housing & Developer Limited (EHDL) and a loan of ₹ 100 crore (September 2010) to Hi Point Investment & Finance Limited (HPIFL) which were group companies and disbursed ₹ 233 crore[55]. The security was pledge of 2.82 crore equity shares of Era Infra Engineering Limited (EIEL), a group company, with security cover of 2 to 2.5 times for all the three loans. Mortgage of land and buildings at Palwal was accepted later (2011)[56] as additional security. The borrower group defaulted (October 2012) in repayments of the loans which were rescheduled (April 2013) on receipt of further security (22.91 acre land at Bahadurgarh and escrow receivables from Palwal property). However, the account became NPA (30 September 2013). The principal outstanding of ₹ 129.96 crore was fully provided for and unrealized interest was ₹ 54.95 crore (31 March 2016).

Audit observed that while sanctioning the loans, the eligibility criteria for the pledgor company (EIEL) were only considered and financial position of the borrowers was not

54 Gayatri Energy Ventures Private Limited, IVRCL (IIGTL) Indore and IVRCL Chengapalli (ICTL), Pipavav Defence & Offshore Company Limited and Pipavav Marine Offshore Limited etc.

55 EHDL: Disbursed ₹ 40 crore (October 2009) and ₹ 100 crore (September 2010);
HPIFL: sanctioned ₹ 100 crore, disbursed ₹ 93 crore in September 2010.

56 Valuing Rs 146 crore in September 2012.

considered as the loans were against the shares of EIEL. Further, IFCI did not calculate the Debt Service Coverage Ratio for both the borrowers to analyze their repayment capacity.

Prior to creation of mortgage of the land and property (August 2011) IFCI failed to verify the fact that most of the units were already sold to third parties which could have hampered IFCI's recovery action under the SARFAESI Act. Subsequently it came to the knowledge of the company (January 2013), that EHDL and HPIFL had sold flats without seeking prior permission /No Objection Certificate from IFCI. After creation of mortgage, the borrower again created third party interests in the property by selling more units without seeking NOC from IFCI reflecting weak monitoring of its secured assets. It was also observed that IFCI released 9.63 acre of land at Bahadurgarh valuing ₹ 42.56 crore (August 2013) and security of 30 flats of Palwal property (July 2014) despite the borrower failing to meet the commitments under the rescheduling package (April 2013) which was later revoked (June 2013). Despite revocation of rescheduling, IFCI did not enforce the securities to recover all its dues and instead entered into a settlement (March 2014) despite the borrower having failed to honour the earlier one. This was also revoked later (August 2014). Even after taking physical possession (November 2014) of the mortgaged properties, IFCI could not sell the same as no bids were received. Subsequently High Court of Punjab and Haryana had ordered (September 2015) to maintain *status quo* on the sale of Palwal property when few buyers who had purchased the flats in Palwal project challenged IFCI's action for sale under the SARFAESI Act. Finally, IFCI could recover ₹ 18.25 crore only by selling all the pledged shares.

Management replied (May, November 2016) that the loans were sanctioned on financial strength and standing of EIEL. It also stated that no intimation as regards bookings and sale was ever provided by EHDL and HPIFL and the securities were released on the basis of commitment of promoters.

The reply is not tenable as the repayment capacity of the borrowers should have been considered while sanctioning the loans. Moreover, the fact that IFCI had no knowledge of sale of flats prior to creation of mortgage reflects weakness in verification of property details. Release of securities despite existing defaults and failure to honour terms of rescheduling was also imprudent. There was laxity in recovery efforts as IFCI did not enforce the securities and was contemplating settlement despite the revocation (June 2013) of re-schedulement package.

b. Coastal Projects Limited

IFCI subscribed to Compulsory Convertible Debentures (CCDs) of Coastal Projects Limited (CPL) (March 2011) amounting to ₹100 crore which was secured against pledge of unlisted shares of CPL. The exit mechanism was by way of the promoters having call option[57] and IFCI having the right to exercise put option[58].CPL started defaulting (June 2012 onwards) and the put option exercised (October 2012) by IFCI was also not honoured by the borrower/promoters. A settlement agreement vide Delhi High Court order (January 2013)

[57] The promoter can exercise call option at face value between 12 months and 18 months from subscription.
[58] To be exercised at face value on expiry of 18 months if call option is not exercised by the promoter.

was recorded for repayment by June 2013 but CPL again defaulted in repayment of the dues. The account became NPA (April 2014) and the principal outstanding of ₹ 73.41 crore was fully provided for. The unrealized interest was ₹ 42.39 crore (31 March 2016).

Audit observed that only 15 *per cent* of the shareholding was obtained as security though the General Lending Policy stipulated minimum 26 *per cent* of the shareholding to be pledged. During credit appraisal, the Company failed to take note of the fact that the major portion of the net-worth of the promoters was in equity shares of CPL and several properties were already either attached by the Income Tax Department or mortgaged to other lenders. The Company also failed to protect its financial interest as the put option clause had a restrictive condition of not selling the pledged shares to any competitor of the issuer which in essence closed the exit option available to the Company. The extant General Lending Policy stipulated that the charged securities are to be valued at periodic intervals on conservative basis and stipulated margins maintained at all times. However, it was observed that IFCI valued the security of unlisted shares at ₹ 797.42 on the basis of average Price Earnings Ratio of the listed shares of other comparable companies instead of on the break-up value of CPL's share at ₹ 307.80 per share. This resulted in overvaluation of security by ₹ 138.15 crore.

Management replied (May, November 2016) that only 15 *per cent* of the shareholding was obtained as there was no specific mention about eligibility criteria for investment in CCDs. It accepted that considerable portion of the net-worth of promoters were equity of the borrower. It further stated that as per General Lending Policy unlisted shares may be accepted after internal valuation of unlisted shares.

The reply is not tenable as clause 3.2.1 (iv) of the General Lending Policy (2010-11) specifying the eligibility criteria for funding to holding / investment company stipulated that minimum 26 *per cent* of the shareholding was to be obtained as pledge. Further, the reply of the Company on valuation of the unlisted shares as stated above also mentioned the same clause. The valuation method adopted by the Company was in deviation from the extant General Lending Policy.

c. Mandakini Coal Company Limited

The Company sanctioned a short-term loan of ₹ 200 crore (April 2014) to Mandakini Coal Company Limited (MCCL) and disbursed (May 2014) ₹ 140 crore. The loan was secured against exclusive first charge on all the movable assets, pledge of 51 *per cent* of its shareholding, leasehold mining rights and corporate guarantees of three companies[59]. As MCCL defaulted in interest/principal payments (February/May 2015), the corporate guarantees were invoked (May 2015) and IFCI recovered ₹ 99.12 crore[60].The recall notice (February 2016) and winding-up notice was issued (February 2016). The loan had a principal outstanding of ₹ 46.69 crore (fully provided) and unrealized interest of ₹ 10.04 crore (31 March 2016).

[59] Tata Power Company Limited (TPCL), Jindal Photo Limited (JPL) & Monnet Ispat & Energy Limited (MIEL) each to the extent of $1/3^{rd}$ of the loan amount.

[60] TPCL paid ₹ 47.80 crore (August 2015) and JPL paid ₹ 51.32 crore (November 2015).

Audit observed that though the General Lending Policy stipulated security cover of 1.75 of which security cover by way of fixed assets and tangible collaterals should be at least equal to amount of loan, the loan was sanctioned with no fixed asset security cover and instead, movable assets valuing ₹ 191 crore was accepted as security. These primarily comprised of the amounts paid towards administration charges and payment against the demands raised by Divisional Forest Officer, Industrial Infrastructure Development Corporation etc. These could not be termed as security being in the nature of project expenses. The comprehensive evaluation of the borrower was also not done before sanction despite borrower's rating being on a watch by CRISIL with negative implication due to issues relating to allotment of coal blocks and due to huge outstanding debts, with commercial operations yet to commence. Post-sanction modifications like waiver of its right to call back the facility if the borrower failed to obtain Mining License/Lease Rights by 31 December 2014 were also made (May 2014) thereby weakening IFCI's recovery rights. The clause regarding mandatory prepayment[61] was also modified (May 2014) by extending the prepayment period from thirty days to sixty days without any justification. Further, immediately after the order of Supreme Court (September 2014) to cancel the coal block allocation, instead of recalling the loan in the event of de-allocation of the mine within 60 days' notice period which was expiring on 9 January 2015, the Company granted a further extension of 120 days on the borrower's request (January 2015). Meanwhile, the Mandakini coal block was allotted to a new allottee together with all the rights and titles. Moreover, the borrower was offered only (March 2015) ₹ 5.57 crore by the Government against a claim of ₹ 243.99 crore (including IFCI's loan of ₹ 140 crore) as the cost invested in the land and mine infrastructure as per Coal Mines Ordinance, 2014.

The Company also had an exposure of ₹ 250 crore (11 February 2014) in MIEL by way of NCDs due to multiple lending within the group. However, the Company decided not to initiate any legal action against it despite it being a corporate guarantor so as not to jeopardize the Company's existing exposure with them to the tune of ₹ 272.76 crore as on 31 March 2016.

The Management replied (June, November 2016) that FACR of 1 (equal to amount of loan) from movable assets was considered reasonable and IFCI would have the first charge over any reimbursement of expenditure by the Ministry to MCCL.

The reply is not acceptable as movable assets primarily constituted the amounts paid towards administration charges and payments made against the demands raised by Divisional Forest Officer, Industrial Infrastructure Development Corporation and these could not be termed as security. Moreover, in view of the Coal Mines Ordinance 2014, IFCI would not be entitled to any compensation as it does not have any security interest in the land or mines as required under the scheme and so the recovery chances of dues of ₹ 56.73 crore are bleak.

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[61] On the exercise of put option by IFCI on refusal/de-allocation of mine by Ministry, MCCL would be given 30 days to prepay the loan.

d. REI Agro Limited

The Company sanctioned a corporate loan of ₹ 100 crore (June 2012) to REI Agro Limited (REIAL) against the security of pledge of shares of REIAL equal to amount of loan and first *pari passu* charge on all the fixed assets (1.25 times). Disbursement of ₹ 35 crore was made (July 2012) on the security of shares only and an extension of three months was given to create the first *pari passu* charge. After creation of the mortgage (December 2012), the balance amount of ₹ 65 crore was disbursed (January 2013).As the borrower defaulted in repayment of the dues (January 2014), Joint Lenders Forum (JLF) was constituted and a restructuring agreement under the corrective action plan was executed (June 2014). REIAL paid only two instalments with substantial delay and the third instalment was recovered from sale of shares. The account became NPA on 10 January 2015 and SARFAESI notice was issued on 18 February 2015. IFCI realized an amount of ₹ 40.50 crore by selling all the pledged shares. The principal outstanding was ₹ 31.89 crore (fully provided for) and the unrealized interest was ₹ 8.52 crore (31 March 2016).

Audit observed that the loan was sanctioned despite deteriorating financial position of REIAL[62]. The average Debt Service Coverage Ratio was 1.38 as against the stipulation of minimum 1.5 in the extant General Lending Policy. The CRMD in its risk note had stated that in a volatile market there exists the risk of erosion in the value of pledged equity shares of REIAL. Serious observations on diversion/ siphoning of funds and incorrect portraying of financial statements were made against the borrower in the Forensic Audit Report (December 2014)[63] and the Factory Visit Inspection Report (November 2014)[64]. Thus, the recovery of ₹ 40.41 crore remains doubtful due to substantial erosion in the value of security[65].

The Management replied (June, November 2016) that IFCI sanctioned a fresh facility of ₹ 100 crore to REIAL as it had a rating of 'CARE A+' and had demonstrated the ability to meet the short-term repayment obligations out of its internal accruals in the past.
The reply is to be viewed against the fact that the effect of financial parameters which declined considerably in 2011-12, should have been noted while sanctioning the loan.

e. SEW Green Energy Limited / Sew Infrastructure Limited

The Company subscribed (July 2010) to Fully Convertible Debentures (FCDs) of ₹ 150 crore of Sew Green Energy Limited (SEL) with an interim return of 9.5 *per cent per annum* payable quarterly by SEL's holding Company i.e. Sew Infrastructure Limited (SIL). The final return was 13.5 *per cent* compounded annually and payable at the time of buyback by SIL. Disbursement of ₹ 50 crore was made on 30 August 2010. The Company modified (August 2010) the terms of sanction by making SEL liable to honour the interim return as

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[62] Mounting debts (up by 129.14 *per cent*), interest cost (up by 57.19 *per cent*) and deteriorating PAT (by 19.50 *per cent)*, current ratio (by 8.08 *per cent)* and FACR (by 38.22 *per cent)* in 2011-12 from 2010-11.

[63] Auditors have observed irregularities with regard to utilization of funds like investment in related companies, sales to doubtful / related parties, non-confirmation of debtors etc.

[64] The lenders in their visit to units/godowns found no documentary evidence to support the stock in store, units closed due to unavailability of raw materials.

[65] The security of fixed assets was valued at ₹ 1778 crore on 8 November 2014 and ₹ 945 crore on 31 March 2015.

well as the buyback obligation instead of SIL[66] and waived the corporate guarantee of SIL. The undisbursed amount of ₹ 100 crore was cancelled (May 2012) as SEL did not avail the same. The FCDs were repayable in a bullet instalment on 30 August 2013. On the basis of SEL's request, the repayment schedule was modified to split the repayment into three parts[67](11 September 2013).The borrower failed to clear the third instalment due on 30 August 2014 and the account became NPA on 31 March 2015.

Another loan of ₹ 40 crore was sanctioned to SIL (18 July 2014) against the security of mortgage of a land situated at Nagpur valuing ₹ 60.06 crore (August 2014) and pledge of 88.66 lakh shares of SEL. SIL defaulted in repayment from 15 April 2015 and the account became NPA (31 December 2015). To secure the repayment under the buyback agreement, SIL created another mortgage (9 May 2016) of land at Tamil Nadu valuing ₹ 13.43 crore. The total principal outstanding was ₹ 54.25 crore and the unrealized interest was ₹ 9.20 crore.

Audit observed that IFCI subscribed to FCDs of SEL only on the basis of security of corporate guarantee of SIL, personal guarantee of director and did not obtain any tangible security. While subscribing to FCDs the eligibility criteria of SIL was checked and the financials of the borrower (SEL) were not considered as SIL was to buyback the FCDs. The financials of the borrower (SEL) were also not given due consideration even at the time when the Company modified (August 2010) the terms of sanction by making SEL liable to honour the interim return as well as the buyback obligation. It was also mentioned in the sanction note that SEL would not earn any profits till 2015[68] whereas its repayment obligation to IFCI would arise by August 2013.

The loan to SIL was sanctioned despite SIL not fulfilling the eligibility criteria as stipulated in the General Lending Policy as its current ratio was 1.02 (March 2014) as against 1.20; the consolidated Debt Equity ratio at group level was stipulated at 3.5 but the consolidated financials were not reviewed. The total security cover was 2.25 times as against a stipulation of minimum 2.50 times in the General Lending Policy and SIL's DSCR had also declined continuously in the past two years and was at 0.86 (2013-14). Its nominee and independent directors were in RBI's list of defaulters and this deviation had been approved by the Executive committee.

The Management stated (July, November 2016) that the deviations were approved by the competent authority and the loan to SEL was given on the basis of SIL's financials.

Reply is not tenable as the critical risk factors and the borrowers' repayment capacity was not properly assessed at the time of sanction/ modification. Out of the total outstanding loan of ₹ 63.45 crore[69], the principal of ₹ 14.25 crore with respect to SEL has been fully provided for.

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[66] In case SEL defaults then SIL was to honour the buyback obligation.

[67] Buyback was modified into three equal instalments (August 2013, February 2014 and August 2014) instead of a bullet repayment on 30 August 2013.

[68] For 2007-08 and 2008-09, the P&L Account was not prepared as SEL had not carried out any commercial operations and for 2009-10 there was a loss of ₹5 lakh.

[69] Principal: SEL-₹14.25 crore and SIL- ₹40 crore. Interest: SEL-₹3.19 crore and SIL-₹6.01 crore.

6.3.2 Doubtful and Sub-Standard Assets

In addition to the cases where outstanding amount was fully provided for as discussed in para 6.3.1 above, audit examination revealed deficiencies in 18 NPA cases where the recovery of the outstanding amount of ₹ 3799.33 crore including unrealized interest of ₹ 908.13 crore was doubtful.

The deficiencies noticed included deficiencies in credit appraisal of the borrowers, violation of the provisions of the General Lending Policy / terms of sanction, inadequate monitoring of the loans, deficiencies in creating enforceable securities to protect recovery rights, loans being disbursed without creation of primary securities and also release of securities despite existing defaults etc. Further, inadequate monitoring of loans was also evidenced from delays in enforcing the security.

The observations on 10 cases with common deficiencies are presented in **Annexure-2** and detailed observations on eight NPA cases are detailed hereunder:

a. Sravanthi Energy Private Limited

The Company sanctioned underwriting facilities of ₹ 1081.34 crore and equity subscriptions of ₹ 113.30 crore between July 2010 and May 2011 to Sravanthi Energy Private Limited (SEPL) promoted by Sravanthi Infratech Private Limited (SIPL) for a gas based thermal power plant in Uttarakhand (in two phases of 225 MW each).Out of the sanctioned amount, ₹ 722.60 crore[70] towards underwriting facility and ₹ 94.46 crore towards equity subscriptions were released. The facilities were secured by a first mortgage (including first *pari passu* charge on common facilities of Phase-I and Phase-II) of all the immovable properties (present and future) of the project as well as 51 *per cent* pledge of SEPL shares, personal guarantee of the promoters and corporate guarantee. Credit facilities were repayable in 10.5/12.9 years from Commercial Operation Date (COD) while the equity investments only had a put option at the end of two periods[71]. Phase-1 and II of the Project were envisaged to be constructed at a total cost of ₹ 845 crore and ₹ 898 crore and were scheduled to achieve COD in December 2011 and in March 2012 respectively. IFCI and Axis Bank jointly underwrote the entire debt requirement of Phase-I. IFCI underwrote ₹ 333.75 crore but limited its sanction to ₹ 148.75 crore after successfully down selling[72] part of the loan underwritten. In Phase-II, IFCI underwrote the entire debt requirement of ₹ 673.50 crore and downsold ₹ 300 crore to three banks[73].

Physical construction of Phase I was fully completed but the commercial operation could not be achieved resulting in cost overruns by ₹ 420.87 crore[74], due to non-availability of gas from Government at subsidized rates which was the basic input for power generation. Phase II construction was completed upto 85 to 90 *per cent*, and had stalled due to paucity of funds

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[70] Phase-I disbursements were made from 31.8.2010 to 3.2.2011. Phase –II disbursements were made from March 2011 to September 2014.

[71] Between 1st and 2nd year and again between 3rd and 5th year from subscription date.

[72] It is a portion of the underwritten debt offered to other banks.

[73] State Bank of Patiala, Central Bank of India and Canara Bank of ₹ 100 crore each.

[74] ₹ 1265.87 crore –₹ 845 crore being the projected cost.

and no gas allocation. The lenders restructured the debt extending the CODs, two to three times from December 2011 to December 2014 for Phase-I and from March 2012 to March 2015 for Phase-II.

In Phase-II, when all the lender banks to whom IFCI had down sold underwriting commitments, decided not to extend any credit facilities due to non-availability of Gas, the Company continued the disbursements as per borrower's requirements and had disbursed ₹ 537.33 crore against a take and hold[75] commitment of ₹100 crore.

As SEPL defaulted in payment of principal and interest, the outstanding dues accumulated to ₹ 722.60 crore towards principal and ₹ 307.99 crore towards interest for both phases with equity exposure of ₹ 94.46 crore. These assets were classified as NPA in the books of the Company since 31 March 2014.

As COD was not achieved (Phase-II) due to non-allocation of gas and in view of the Promoters not having the financial strength to bring in Gap funding of the term loan for completion of Phase II, JLF decided (September 2015) to undertake Strategic Debt Restructuring (SDR) as per RBI guidelines. The SDR package included conversion of outstanding loan and interest of the lenders into equity on the basis of their *pro-rata* exposure so as to collectively hold 51 *per cent* of the equity shares of the company. The SDR package was approved by JLF on 15 December 2015 and implemented in April 2016.

Audit observed the following:

(i) While sanctioning underwriting and Equity facility in both phases, the eligibility criteria in terms of General Lending Policy were deviated from as discussed below:

- In terms of the lending policy of the Company the borrower /promoter company should have earned profit in previous three years for availing credit facility. Though both the borrower (SEPL) as well as its promoter (SIPL) were newly formed (2009) and did not fulfill this criteria, the Company extended credit facility of ₹ 333.75 crore (Phase-I) and ₹ 673.50 crore (Phase-II).
- The borrower (SEPL) had no rating as against the required CRISIL equivalent investment credit rating of minimum BBB (Phase-II).
- In Phase-I, as against a stipulated minimum net worth of the promoter company being ₹ 200 crore, SIPL had a net worth of only ₹ 0.82 crore with a paid up capital of ₹ 1 lakh only. This criterion was not only relaxed but was also wrongly portrayed at ₹ 52.88 crore by including unsecured loans in equity. Similarly in Phase-II, as against the combined net-worth criteria of ₹ 300 crore, the actual net worth of SIPL and individual promoter was only ₹ 61.20 crore[76] which was also relaxed.

(ii) Modifications to the Letter of Intents (LOI) were requested by the borrower (on 2 August 2010, 23 May 2011), within two days of LOI issued for Phase-I and on the very same day for Phase-II (30 July 2010, 23 May 2011). On the modification requested by the borrower the

[75] It is that portion of the underwritten loan retained by the lender as his share.

[76] SIPL's net worth ₹ 26.34 crore (February 2011)and the individual Promoter's net worth of ₹ 34.86 crore (March 2011).

conditions prescribed in LOIs of both phases for pre-disbursement, such as entering into firm gas allotment agreement with GAIL, entering into a firm Power Purchase Agreement (PPA) agreement for 100 MW on long-term basis and 125 MW on short-term basis were modified (August 2010, June 2011) by giving an option to obtain a comfort letter from the Ministry of Petroleum and Natural Gas (MoPNG) assuring allocation of gas from KG basin and deleting the requirement for short term firm PPA agreement, which favored the borrowers towards easy disbursements.

(iii) The equity investment was made with no firm buyback agreement and no assured yield or security, except a put option which was not a reliable security.

(iv) The first disbursement (Phase-I) of ₹ 75.33 crore (30 August 2010) was made in violation of pre-disbursement condition of registration of the charge on assets. Similarly, in respect of Phase-II disbursements of ₹ 90.38 crore (Disb. No. 3, 4 and 7)[77] were released (November 2011 and June 2012) without creating first *pari passu* charge on project assets by granting extensions. Further, pre-disbursement condition of receipt of upfront fees of ₹ 41.80 lakh[78] was also violated as disbursements (Nos. 15, 16 & 17) made during September 2013 and March 2014 amounting to ₹ 51.68 crore[79] were released without receiving upfront fee. These upfront fees were subsequently debited to the loan account as a book adjustment.

(v) In Phase-I, IFCI had disbursed ₹ 153.86 crore (March 2011) to the borrower as against a total debt exposure limit of ₹ 148.75 crore post syndication (March 2011) resulting in disbursement being made over and above the underwriting commitments. Against the underwriting commitment of ₹ 373.50 crore (Phase-II) excess disbursements of ₹ 115.05 crore[80] were released by IFCI which was subsequent to the signing (February 2012) of the last down selling agreement by the three banks of ₹ 100 crore each. Despite the legal department's opinion and the CEO&MD's assertion (November 2012) that IFCI was under no obligation to release more than its reduced commitment, excess amount ₹ 115.05 crore over and above the underwriting commitment was released.

(vi) While working out the project financials, IFCI did not consider the problem of shortage of supply of gas being faced by a number of existing projects. This risk was however downplayed as audit noted that neither a firm commitment from MoPNG nor Fuel Supply Agreement (FSA) with domestic supplier existed to support that SEPL would be able to arrange for 70 *per cent* of gas domestically. No sensitivity analysis as to the input cost was also made.

(vii) In-principle approval (9 November 2010) for underwriting entire debt of ₹ 673.50 crore was accorded to Phase II regardless of the fact that the gas allocation to the existing Phase-I project itself was not finalized. Despite the Nominee Director's apprehensions (5 May 2011) of delay in completion of GAIL pipeline and Executive Director's concern of gas allocation (Phase-I) being the critical factor affecting the project, Phase II was approved (23 May 2011)

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77 ₹ 44.21 crore + ₹ 34.40 crore + ₹ 11.77 crore.
78 ₹ 13.20 lakh + ₹ 14.04 lakh + ₹ 14.56 lakh.
79 ₹ 16.32 crore + ₹ 17.36 crore + ₹ 18 crore.
80 June 2013 to July 2014.

(viii) Default in interest /principal payments ranging from a minimum of ₹1.60 crore to maximum of ₹ 14.15 crore were adjusted from seven disbursements released amounting to ₹ 94.72 crore including payments against Letter of Comforts issued by the Company[81].The adjustments were made to avoid the debt falling into NPA category in violation of RBI criteria of not resorting to evergreening of accounts.

An investigation report on the matter of complaint against the then CEO&MD, IFCI Limited, in respect of loan account of Sravanthi Energy Private Limited was put up (2 July 2015) to the Board of Directors, which accorded its consent to file an FIR with the Banking Security Fraud Cell of the Central Bureau of Investigation.

The Management while accepting audit observations as regards relaxation of eligibility criteria (in respect of credit rating and borrower/ promoter's net worth), non-compliance of pre-disbursement conditions as to security creation as well as adjustment of upfront fees from disbursements stated that the matter is being examined in Vigilance Department. It further stated that other banks also extended loans to SEPL despite it being newly formed, modifications in pre-disbursement terms were made as the project was brought under the ambit of MoPNG as per the defined priority. In-principle approval for Phase-II was granted in November 2010 while the Nominee Director's feedback report was received subsequently in May 2011. Underwriting of the loan for Phase-II was taken as the project was designed to achieve COD within XIth plan and gas allocation was expected. Disbursement over and above underwriting commitment of ₹ 443.37 crore was already made by the time legal opinion was taken. The disbursements in respect of Phase II were released despite interest defaults, to meet Letter of Comfort (LOC) commitments made. Put/Call options signed for Company's equity subscription became invalid as SDR was invoked.

The replies are not tenable because commercial prudence demanded that the Company take decisions based on credit quality rather than how other organizations function. Modifications to critical terms of the sanction were not justified especially since gas allocation which was already in short supply at the time of sanction and the fact that the project was located in Uttarakhand, a power surplus state, was brought out in the risk appraisal note of CRMD. The project was already under the ambit of MoPNG at the time of sanction (September 2010).The project thus didn't meet the criteria of gas allocation as priority was to be given to existing projects located in power deficit states. Hence, obtaining a letter of comfort was not a guarantee for firm allotment. Approval of credit facility for Phase-II was accorded on 23 May 2011 despite the Executive Director's apprehensions (9 May 2011) of no gas availability even in Phase-I and the fact that the project could not have been viable without supply of domestic gas. The fact that at the time of taking this exposure a number of existing projects were already facing supply shortages, even after priority allocation of gas from MoPNG in view of low gas production from the RIL's KG-D6 block from 2010-11 onwards was overlooked. The other banks' stance of not releasing their own commitments in the face of uncertainty of availability of gas did not compel IFCI to take on this commitment as it had already down sold the same.

[81] For the LOC opened by other lenders between April 2012 to August 2012 (Disb. No. 5, 6, 8, 9, 10 & 11).

Thus, absence of due diligence in sanction/disbursement of credit facility resulted in unrealized interest and unrealized return on equity amounting to ₹ 399.74 crore (₹ 307.99 crore *plus* ₹ 91.75 crore) besides non-recovery of outstanding loan of ₹ 722.60 crore and equity investments of ₹ 94.46 crore.

b. MVL Limited

MVL Limited (MVL) was sanctioned and disbursed a corporate loan of ₹ 50 crore (May 2010) with security of 2.5 times pledge of equity shares[82] of MVL, personal guarantee of the promoter and Corporate Guarantee of MVL Industries Limited, a group company. As MVL defaulted (December 2011) in repayment, its shares were sold[83] to recover the dues. However, the loan turned into NPA (30 September 2012) as the default continued. IFCI recalled the loan and invoked the guarantees in November 2012. The loan was restructured (August 2013) with an additional security of mortgage of 76 flats in MVL's real estate project. The restructuring package was however revoked (July 2014) as the borrower did not fulfil the terms and conditions of the restructuring package. As on 31 March 2016, the loan had a principal outstanding of ₹ 43.80 crore and the unrealized interest was ₹ 34.39 crore.

Audit observed that IFCI accepted MVL's shares as primary security despite CRMD pointing out in its risk note that as most of the shares were held by the promoters it could lead to substantial volatility and IFCI would face difficulty in liquidation of the shares. CRMD had further cautioned that the share price seemed to be overvalued and hence the possibility of obtaining additional collateral security could be explored. IFCI also failed to take cognizance of the fact that the projected financials for 2009-10 were showing increase in profits by 376.65 *per cent* and cash by 636.33 *per cent* which was not commensurate with the existing financial status of the borrower. Further, the projected cash flows for repaying borrower's upcoming debts and for financing the balance cost for upcoming projects valuing ₹ 291.22 crore were also not analyzed adequately as all the projects were under implementation.

Instead of selling the shares at the point of default (December 2011) when the trading volume was about 6.58 lakh shares per day and the security cover was 2.19 times (January 2012), IFCI delayed the recovery actions. MVL failed to make payments and augment the security of additional shares/mortgage of property at that point of time. Further, at the time of restructuring (August 2013), IFCI failed to protect its interest and accepted additional security of flats most of which were in semi finished condition. IFCI's attempts (October 2015/April 2016/July 2016) to sell/assign the above loan failed due to lack of bidders.

The Management replied (July/November 2016) that all the projections were based on borrower's inputs and the said loan was considered as per the then prevailing policy under loan against shares. In order to recover higher amounts as offered by the borrower, the rescheduling proposal was approved by the Competent Authority.

[82] 2.25 crore shares valuing ₹152.49 crore as on 11 June 2010.
[83] 1.48 lakh January 2012, 0.68 lakh in May 2012, 1.45 lakh in June 2012.

The reply is not tenable as tangible security assumes significance in the light of CRMD's observation on difficulty in liquidation of the shares. The viability of reschedulement proposal was not established from the borrower's performance and the security of pledged shares should have been enforced when the borrower failed to pay the dues in December 2011.

c. *ARSS Developers Limited*

The Company sanctioned two corporate loans of ₹ 100 crore (CL-I) (10 March 2011) and ₹ 60 crore (CL-II) (20 January 2012) to ARSS Developers Limited (ADL). The disbursements of ₹ 82 crore (March/April 2011) and ₹ 44.39 crore (6 March 2012) against both the loans respectively were made while the balance was cancelled (June 2012). CL-I was secured by way of pledge of 47.6 lakh shares of ARSS Infra Projects Limited (AIPL) (holding Company of ADL & flagship Company of the ARSS group) giving security cover of 3 times, while CL-II was secured by exclusive mortgage over a mall located at Paschim Vihar (New Delhi), exclusive charge over receivables and personal guarantee of the promoters (both loans).

The security cover for CL-I fell (May / June 2011) below the stipulated three times as per the terms of sanction which the borrower was unable to restore. Due to subsequent interest defaults (May 2012) on both the loans, IFCI sold 43.15 lakh pledged shares in June 2012. In view of defaults, both loans were recalled, personal guarantees of the promoters invoked and action under SARFAESI Act was initiated (June 2012). The borrower challenged the SARFAESI action before the Hon'ble High Court of Cuttack which directed both the parties to resolve the matter amicably. Due to this, IFCI rescheduled (October 2012) CL-II and reversed other legal actions, but the borrower continued to default on rescheduled loan as well. The loan accounts were classified as NPA on 31 December 2012. The Company again granted rescheduling of both the loans (February 2013) but the same was revoked (August 2013) due to non-adherence to the terms and conditions by the borrower. The Board of Directors of IFCI approved (November 2013) negotiated settlement of outstanding dues with the borrower in which IFCI waived ₹ 19.49 crore (90 *per cent*) out of a total interest outstanding (₹ 21.66 crore) as on 30 September 2013 apart from other clauses[84]. However the settlement was revoked (27 August 2014) due to further defaults committed by the borrower but was again restored (December 2014) and finally revoked (18 May 2015). The Company declared the borrower and its promoters as wilful defaulters in April 2016.

Audit observed that as against the General Lending Policy stipulated credit rating of 'A' for the company whose shares were being pledged, the Company sanctioned first loan on 'BB' credit rating (AIPL) which was actually downgraded to D (default category) in June 2011 i.e. within three months from sanction and finally suspended in April 2012. Due diligence was not exercised in considering critical factors of group Company's (AIPL) previous defaults to banks and known share price volatility[85] of AIPL while sanctioning first loan only against shares for a long tenure of four years which was even observed by the CRMD. There was

[84] Out of ₹ 103.04 crore principal and ₹ 21.66 crore interest o/s against both loans as on 30.9.13-Upfront. payment of ₹ 25.30 crore, balance amount ₹ 77.74 crore to be paid from December 2013 to September 2016, and ₹ 2.17 crore interest converted to Funded Interest Term Loan.

[85] High of ₹ 1376 (27 April 2010) and low of ₹580 per share (9 March 2011).

delay in sale of pledged shares despite sanctioned terms clearly stipulating sale of shares on fall in prices by 25 *per cent* in case the borrower fails to top up the shares or provide required cash margin. The share prices fell by more than 25 *per cent* in October 2011. Instead of selling the pledged shares, IFCI accepted mortgage of additional property (including agricultural land) which could not restore the original security cover. Subsequent sale of 43.15 lakh pledged shares (June 2012) was done at an average price of ₹ 46.34 per share recovering ₹ 20 crore (approx.) only though the average price in October 2011 was ₹ 333.48 per share. The Company returned (28 October 2011) 9.24 lakh locked-in equity shares (upto April 2013) offered as collateral security by the borrower which could have been sold later to recover outstanding dues.

There was lack of due diligence while accepting mortgage of the mall and IFCI was unaware that the borrower had already sold some shops before sanction of CL-II. Thus the already sold shops were also included in the valuation of the mall property considered during credit appraisal. Even after availing CL-II more properties in the mall were sold without the knowledge of IFCI. Despite initiating action (14 June 2012) under SARFAESI Act, IFCI has not been able to take physical possession of the mall and put the same for sale even once to recover its outstanding dues. The internal investigation report (3 June 2015) of IFCIs vigilance Department in the matter of complaint against the then CEO & MD of IFCI Limited, also covered similar issues and concluded that *"it can be safely said that there are lapses/irregularities/carelessness in dealing with the above account"*. This investigation report was placed (2 July 2015) before the Board of Directors which accorded its consent to file an FIR to the Banking Securities Fraud Cell of Central Bureau of Investigation against the then CEO &MD in respect of allegations levelled against him in respect of this loan account.

Management in its reply has stated that CBI was informed (July 2015) that pursuant to completion of Investigation, the Investigator has concluded that loan sanctioned to ADL indicated violations of IFCI's rules and policies to benefit the borrower.

Reply of Management corroborates the audit observation that there was lack of due diligence as well as violation of General Lending Policy. As a result, recovery of total outstanding amount of ₹ 160.50 crore in respect of both the loan accounts (inclusive of interest of ₹ 57.39 crore) as on 31 March 2016, was doubtful.

d. Binani Cement Limited

The Company sanctioned and disbursed (September/November 2013) a long-term loan of ₹ 380 crore to Binani Cement Limited (BCL) against security of two times of the amount of loan by way of first *pari passu* charge on BCL's fixed assets, pledge of shares of BCL and Corporate Guarantee of Binani Industries Limited (BIL) a group holding company. BCL defaulted in its payments in February 2014 and requested (April 2014) for restructuring of its dues. IFCI approved (9 December 2014) the restructuring package of ₹ 485.01 crore viz. existing loan of ₹ 380 core, unpaid interest of ₹ 8.79 crore, funded interest of ₹ 36.79 crore and an additional exposure of ₹ 59.43 crore. However, BCL defaulted in repayment despite restructuring and also failed to perfect the security stipulated for restructuring. Accordingly, the Company assigned (February 2016) its debts of ₹ 496.10 crore for ₹ 74.41 crore as cash receipt and ₹ 421.69 crore as Security Receipts to Edelweiss Assets Reconstruction Company Limited.

Audit observed that BCL did not fulfil certain eligibility criteria of the extant General Lending Policy as its Debt Equity Ratio was 1.92 as against stipulated maximum of 1.5, Current Ratio was 0.62 as against stipulated minimum of 1.33 and Fixed Asset Coverage Ratio was 1.37 as against stipulated minimum of 1.5. The Company also failed to act on the observations of the CRMD to re-examine the projections of Debt Service Coverage Ratio and adequacy of cash flows in view of its future obligations vis-à-vis low cash accruals[86] for timely servicing of debts. Further, audit observed that the BCL's consolidated Debt Equity Ratio was 18.02, consolidated loss was ₹ 208 crore and its net-worth was eroded by 48 *per cent* during 2012-13. The Company, unwillingly, had to convert unpaid interest into term loan in line with other lenders as the primary security was not yet created and No Objection Certificates of the other lenders were required for ceding *pari passu* charge in IFCI's favour.

The Company while accepting that it had no other option but to align with the consortium lenders, also stated (August, November 2016) that the deviations were sanctioned as BCL was a well-established brand and the situation was expected to improve.

Reply is not acceptable as BCL had large outstanding debt service obligations and had liquidity constraints due to meagre gross cash accruals in earlier years and it defaulted (February 2014) in repayments within three months from the date of disbursement.

e. Alok Industries Limited

The Company sanctioned (August 2013) a loan of ₹ 300 crore to Alok Industries Limited (AIL) which was to be secured by first *pari passu* charge on all fixed assets (primary security) and exclusive charge on 30 acres of land at Silvassa. A period of six months (upto 31 March 2014) and 30 days (upto 30 October 2013) respectively from the date of disbursement was given for creation of security. The entire loan amount was disbursed (30 September 2013) against interim security of subservient charge over movable assets of the borrower. The required primary security as per the terms of sanction could not be created within the stipulated time period and an extension of six months (upto 30 September 2014) was given to the borrower for the same. Due to defaults by the borrower, Joint Lenders Forum (JLF) was constituted (April 2014) and a Corrective Action Plan was formulated in pursuance of which IFCI disbursed (31 March 2015) an additional corporate loan of ₹ 75 crore to the borrower. SBI (the lead bank) classified the borrower's account as NPA on 31 March 2015.The borrower was in default on account of interest payment (June 2015) and repayment of three quarterly principal instalments (September, December 2015 and March 2016) of ₹ 25 crore each. The account had been classified as NPA and the total outstanding dues (March 2016) amounted to ₹ 337.44 crore (including unrealized interest of ₹37.44 crore).

Audit observed that IFCI disregarded the borrower's weak financial parameters as seen from the high debt equity ratio[87] of more than 3 and a low DSCR[88] which indicated a highly

[86] Debt Service Obligations of ₹ 4,054 crore up to 2020-21, ₹ 625 crore in 2013-14 and ₹ 550 crore in 2014-15. Gross cash accruals of ₹ 152 crore in 2010-11 and Rs 225 crore in 2011-12.

[87] From 2010-11 to 2012-13.

leveraged financial position and poor debt servicing capability. The borrower did not fulfil the General Lending Policy stipulated eligibility criteria pertaining to maximum Debt Equity Ratio and minimum FACR and current ratio.[89]. IFCI overlooked the fact that the borrower's actual financial performance on various parameters[90] were far below the projections considered by IFCI during sanction of a previous facility of redeemable NCDs (February 2011) of ₹ 110 crore by the Company. The Company did not insist on adequate securities with exclusive charge despite being aware that NOC to create *pari passu* charge in its favour was required from a large number of other lenders (32) which was time consuming and difficult to obtain in view of the borrower's weak financial health. Even after three years from the date of sanction NOC for sharing of *pari passu* charge from three lenders was awaited (April 2016).

As per information furnished by management the corporate guarantee of the borrower has been invoked by HSBC Limited[91] and winding up petition has been filed against the borrower in Bombay High Court. Though SDR was invoked (November 2015) by the lenders, the same could not be achieved as per the stipulated timeline.

In view of the above, the outstanding dues in respect of the above mentioned loan amounting to ₹ 337.44 crore are doubtful of recovery. Further, the total outstanding dues of IFCI towards various credit facilities[92] extended to the borrower amounted to ₹ 514.87 crore (including unrealized interest of ₹ 66.87 crore).

Management replied that AIL's debts increased as capital expenditure was largely debt funded and finance costs increased. However, considering its future planning, improvement in profit ability was presumed. The FACR for first *pari passu* loans stood at 1.58 times as on 31 March 2013.

Reply is not tenable as the Company should have exercised caution in view of borrower's high DER and low DSCR and non-fulfillment of GLP stipulated eligibility criteria pertaining to DER, FACR and current ratio. The projections considered during subscription to NCDs vis-à-vis actual performance on parameters mentioned above should have been taken into account before sanctioning the loan of ₹300 crore.

f. Surana Industries Limited

The Company sanctioned loans of ₹ 100 crore (CL-I), ₹ 60 crore (CL-II) and ₹ 25 crore (CL-III) to Surana Industries Limited in July 2010, January 2011 and November 2011 respectively. The loans were disbursed against the security of pledge of 71.50 lakh listed equity shares of the borrower and six crore unquoted equity shares of Surana Power Limited (SPL).

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88 1.08 and 1.16 in 2011-12 and 2012-13 respectively.

89 General Lending Policy stipulated DER, FACR, CR was 1.5, 1.5, 1.33. Borrowers' actual ratios were 3.3, 0.98, 1.12.

90 Projected vs actual for the year ended 31 March 2013– DER (1.6 vs 3.3), FACR (2.84 vs 0.98), DSCR (1.25 vs 1.17) and Current Ratio (2.57 vs 1.12).

91 In case of loan given to the borrower's subsidiary (Alok Singapore Pte Limited).

92 Rupee Term loan, Corporate loan and Non-convertible debentures.

The borrower started defaulting (October 2011) in repayment right from the first instalment on account of liquidity problems and requested IFCI for reschedulement. Accordingly, IFCI granted (May 2012) deferment of six months but the borrower again failed (August 2012) to repay and went for Corporate Debt Restructuring (CDR). IFCI agreed to the terms of CDR package (February 2014) with a cut-off date (COD) of 1 June 2013. As the borrower failed to honour the terms of CDR, IFCI decided to withdraw (January / July 2015) from CDR. The total principal outstanding was ₹ 157.28 crore and unrealized interest was ₹ 154.38 crore (March 2016).

Audit observed that the loans were sanctioned without obtaining any tangible security despite increase in interest burden[93] and fall in profitability[94]. Further, the time required for realizing the security was 5.83 months as against the General Lending Policy stipulation of maximum 45 days (CL-II). Moreover, it had posted an operating loss of ₹ 41 crore (2010) and the minimum average DSCR was 1.41 as against 1.5 stipulated in the General Lending Policy.

CL-III was sanctioned to meet the cash-flow mismatch despite non-payment of the first instalment of ₹ 12.50 crore for CL-I and mounting interest burden. Further, it did not meet certain eligibility criteria[95]. As such, the Company failed to assess the repayment capacity of the borrower despite the caution expressed by CRMD regarding liquidity crunch. Moreover, despite being the major lender, IFCI failed to safeguard its own interests as even its critical dues (interest outstanding prior to Cut off Date) were not cleared whereas the same were cleared in respect of other lenders. Decision on other recovery measures like recalling the loan, sale of pledged shares etc. were taken belatedly (February 2016) despite continuous default and dishonor of the commitments.

Management replied (November 2016) that it participated in CDR to strengthen the security cover and recover interest default.

However, the fact remains that even after joining the CDR as a majority lender, IFCI could not recover its critical dues which the other lenders had recovered.

g. Lavasa Corporation Limited

The Company sanctioned/disbursed (May 2011) a short term loan of ₹ 100 crore to Lavasa Corporation Limited (LCL) for development of a township project at Lavasa, Pune. It was primarily secured only by a Corporate Guarantee of Hindustan Construction Company Limited (HCC)[96] The loan was repayable fully in one instalment on 26 May 2012 but was rescheduled (April 2012) to a long term loan (repayable from April 2014 to January 2018) on the request of the borrower. Due to continuous defaults, the borrower was referred to the JLF which formulated a Corrective Action Plan in pursuance of which IFCI sanctioned (October 2014) an additional loan of ₹ 30 crore[97] against security of mortgage over land at Lavasa site

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[93] From ₹ 35 crore in 2009 to ₹ 58 crore in 2010.

[94] From 11 *per cent* in 2009 to 4 *per cent* in 2010.

[95] Credit rating (BBB as against stipulated rating of 'A'), current ratio (0.91 as against stipulated 1.33) and trading days to recover the loan (117 as against stipulated 45 days).

[96] Flagship promoter group Company.

[97] Disbursed ₹ 20.45 crore in 4 tranches from October 2014 to April 2015.

valuing ₹ 46 crore, Corporate Guarantee of HCC Real Estate Limited (HREL)[98] and second *pari passu* charge on a land held as security by the consortium at Lavasa. The account has been classified as NPA since 31 March 2015. IFCI issued winding up notice to the borrower (July 2015) and the corporate guarantors (August 2015) and invoked the corporate guarantee of HCC and HREL (July 2015).

Audit observed that the loan was sanctioned/disbursed despite IFCI being fully aware of the fact that the Ministry of Environment & Forests (MoEF), GOI, had directed (November 2010) the borrower to maintain status quo on construction and development work at Lavasa. Moreover, the MOEF also observed (January 2011) that the borrower was in violation of Environment Impact Assessment (EIA) notifications and the construction activity undertaken thereon was unauthorized, in violation of EIA notification and was environmentally damaging. Thus, as on date of sanction of the loan, the borrower did not have the final environmental clearance for the township project from the MOEF, GOI. The loan was sanctioned/disbursed merely on the basis of corporate guarantee of the borrowers group Company (HCC Limited) without obtaining any tangible security which could be easily enforced in case of default by the borrower. Even while granting rescheduling of the loan from short-term to long-term (21 April 2012) no tangible security was obtained. In case of additional loan, the security (second *pari passu* charge on consortium land) which was to be created within six months from disbursement (April 2015) had not been created.

Management in its reply stated that the current facility extended to LCL (2011) was similar to the one extended in May 2009 which was fully repaid in May 2010. The credit rating of the borrower was 'CARE BBB-' and that of the guarantor was 'CARE AA-' which was assigned taking into account the status of regulatory approvals including environmental clearance. Management further stated (November 2016) that IFCI was hopeful of recovery of dues from the Corporate Guarantee of HCC.

However, the satisfactory servicing of a past loan was not a constructive guarantee for likewise servicing of future loans. At the time of sanction, the borrower did not have the requisite regulatory environmental clearance for the project. The first short term loan was converted to a long term loan whose repayment also could not be honoured as per schedule. There was inadequate security available with IFCI to recover its dues.

Total outstanding dues of ₹ 130.55 crore as on 31 March 2016 (principal of ₹ 110.21 crore and unrealized interest of ₹ 20.34 crore) was doubtful of recovery.

h. Wisdom Global Enterprises Limited

IFCI sanctioned (September 2010) a corporate loan of ₹100 crore to Wisdom Global Enterprises Limited (WGEL) secured against 1.50 times by the pledge of shares of Core Projects & Technologies Limited (CPTL) (name subsequently changed to Core Education & Technologies Ltd – CETL), a group company, and 0.75 times Non Disposal Undertaking /Power of Attorney besides personal guarantee of the promoter. However, as WGEL defaulted in servicing interest/loan (January 2013), IFCI sold the shares of CETL (February

[98] Holding company of LCL.

to June 2013 and January to September 2014) and recovered ₹ 47.90 crore[99]. Additional security of 144 acres of agricultural land at Hyderabad was created (May 2013) in favour of IFCI and two other lenders[100]. CETL was also referred to CDR (October 2013). The tangible security could not be enforced due to a pending litigation on the title of the mortgaged property. Finally, IFCI recalled (15 May 2014) the loan given to WGEL and issued NOC to SICOM India Limited (Joint Lender) for taking over the land mortgaged at Hyderabad on behalf of IFCI and selling it to recover the dues. A case was filed in DRT (20 February 2015) by IFCI which is still pending. It was declared as NPA on 30 June 2014.

Audit observed that IFCI sanctioned the loan against pledge of shares as the only primary security despite the fact that the share prices of CETL were volatile in respect of earlier loans extended (in 2008 and 2010)[101] to the same borrower which were also restructured. IFCI accepted the additional security of agricultural land at Hyderabad against which action under SARFAESI Act could not be taken. Even this was accepted without title search and physical inspection. Subsequently it was found during a site visit in February 2015 that based on the order of Hon'ble High Court of Andhra Pradesh, the land was not in the physical possession of the borrower and was occupied by a third party. Thus, there was absence of due diligence by the Company in creation of mortgage on land not in physical possession of the borrower. A subservient charge on the mortgaged property (Hyderabad) of the borrower was created in favour of a private bank without obtaining IFCI's permission.

Management (November 2016) stated that policy of lending against shares of listed entities were formulated keeping in view the business environment prevailing at the time. The adequate credit quality rating was assigned to the Company whose shares were pledged. Security of agricultural land was accepted as additional security jointly with two other lenders as the security cover kept reducing. The Company accepted that title investigation could not be carried out as the requisite documents were not submitted by the borrower.

The replies are not tenable as commercial prudence demanded some form of tangible security especially since the volatility of the shares was already a known factor. The said rating was as on September 2009 while loan was sanctioned in September 2010. As action cannot be taken against agricultural land under the SARFAESI Act, the additional security did not improve the existing security cover. Acceptance of the security without receipt of security documents itself proved the weak security monitoring policy in this case. This resulted in non-recovery of ₹ 52.36 crore (Principal ₹ 38.02 crore and Interest ₹ 14.34 crore as on 31 March 2016).

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99 ₹ 44.39 crore +₹ 2.88 crore +₹ 0.63 crore.

100 SICOM India Limited and IFCI Factors Limited.

101 ₹ 250 to ₹ 40 per share between July 2008 to October 2008 and yet again at ₹ 262 in August 2010.