# Chapter 7: Equity Investments

Subscribing to equity shares of various companies was one of the forms of credit facility extended by IFCI. As per the norms stipulated in GLP, the exit options for these investments were between three to eight years.

IFCI acquired unquoted equity shares of various companies by way of direct subscription or by conversion of loan and interest into equity as part of restructuring, settlement etc. The means of exit from these investments were either through sale on listing or through promoters buying back these shares as per buyback agreements executed.

IFCI was holding unquoted equity shares of 353 companies aggregating ₹ 2082.65 crore at book value as on 31 March 2016. The status wise summary of unquoted equity shares is summarized hereunder:

**Table-7: Details of unquoted equity as on 31 March 2016**

*(₹in crore)*

| Sl. No. | Category of companies | Nos. | Book Value |
|---|---|---|---|
| 1 | Under operation | 52 | 2024.12 |
| 2 | Referred to BIFR/ AAIFR | 13 | 17.25 |
| 3. | Closed / not in operation | 52 | 16.91 |
| 4. | Wound up | 222 | 13.16 |
| 5. | Having assets with Official Liquidator | 14 | 11.21 |
| | **Total** | **353** | **2082.65** |

As seen from the above, out of 353 companies in which the Company had invested, only 52 companies were in operation and the rest were defunct companies in respect of which 100 *per cent* provision or close to 100 *per cent* provision was already made by the Company. Further, in respect of these 52 companies in operation, the investment in 20 companies which were written-down to nil valued ₹ 98.85 crore.

Audit reviewed nine out of 13 cases[102] of investment in unquoted equity where substantial investments (₹ 1644.97 crore) were made. These investments carried risk as they were unsecured. Exiting from the investments was not easy since these were unlisted. Review of these cases revealed that the equity investments had buyback defaults (i.e. when the assisted concern defaults in buying back the equity subscribed by IFCI). These were non-performing investments yet to be recovered valuing ₹ 1136.28 crore and the returns thereon amounting to ₹ 651.69 crore had not been recovered. Audit analyzed the causes for non-recovery of equity investment and observed that the issues leading to defaults were mainly lack of due diligence by the Company in credit appraisal, assessment of indebtedness and the repayment capacity as well as the viability of the investment proposals.

A few illustrative cases of equity investment highlighting management lapses are detailed hereunder:

[102] Out of Companies under operation.

## Audit findings

### 7.1 Global Rural NetCo Limited and Chennai Network Infrastructure Limited

**A.** The Company subscribed (February 2010) to Fully Convertible Debentures (FCDs) of ₹ 250 crore issued by Global Rural NetCo Ltd. (GRNL) which were secured by a negative Lien[103] on residual fixed assets of the borrower and Non-Disposal Undertaking (NDU) from the promoter companies (Global Holding Corporation Pvt Ltd and GTL Limited) to the extent of 26 *per cent*. The tenure of the FCDs was three years and IFCI had a put option on the promoter Companies at the end of 24th month or 36th month from the date of disbursement. It could also convert the FCDs into equity shares at anytime during its tenure.

The borrower started defaulting on servicing of interest dues (November 2011) amounting to ₹ 4.23 crore which led to an event of default in view of which IFCI conveyed (December 2011) its intention to exercise its right of put option in February 2012. Subsequently, the borrowers request for modifications in the terms of repayment was approved by the Executive Committee in March 2012 and the related settlement agreement was executed in August 2012. As per the settlement agreement which was completed in November 2013, FCDs of ₹ 250 crore were split into two parts comprising of an Optionally Convertible Loan (OCL) amounting to ₹ 100 crore and equity shares of Chennai Network India Limited (CNIL), a group Company, amounting to ₹ 150 crore. The OCL was to be repaid by 31 March 2013 (along with yield of 13.50 *per cent* calculated from 1 April 2012) which could be further extended by 2 years i.e. upto 31 March 2015 and in case of non-payment thereafter IFCI could exercise a put option on GTL Limited. GRNL did not repay the OCL by 31 March 2015 and IFCI again approved restructuring of the outstanding OCL according to which the repayment date was extended to 31 March 2017. The OCL has been fully provided for in the books of IFCI as there was no security against the outstanding dues. With respect to second part of FCDs, IFCI received (November 2013) 20.35 crore unlisted equity shares of CNIL against its outstanding dues of ₹ 183.13 crore[104]. IFCI could not sell these shares until merger of CNIL with GTL Infrastructure Limited (GIL) and subsequent listing of GIL shares (another promoter company of GRNL). The merger of CNIL and GIL has not yet taken place.

In this regard, Audit observed that IFCI subscribed to FCDs of a newly incorporated (May 2009) Company without obtaining any tangible security as FCDs were secured only by security in the nature of undertakings given by the borrower/promoter Companies. Even the CRMD observed the repayment risk from GTL Limited as it had significant debt on its books and the cash flows were strained which could lead to inability in servicing of dues. The terms of settlement agreement (August 2012) were not in the best interest of IFCI as FCDs of ₹ 150 crore were converted into unquoted equity shares of CNIL which had already got its debts restructured under the CDR mechanism and sale of shares had restrictive clauses with limited exit options. As the scheme of merger of GIL and CNIL was already known to IFCI

[103] A Negative lien is an undertaking by the owner of assets for not selling certain assets and not creating any charge on these assets without permission from the creditor.
[104] ₹ 151 crore along with interest of ₹ 32.13 crore up to 31 March 2012.

(July 2011), its willingness to accept shares of GIL which had also undergone restructuring of its dues under the CDR mechanism was not in the best interest of the Company.

Management stated (March/July 2014[105]/ November 2016) that the facilities were sufficiently secured by a put option, a negative lien and non disposal undertaking from the Global Group which were enforceable means of credit enhancement. The security risk was duly mitigated at the time of sanction. The proposal was sanctioned on the strength of Flagship Company GTL Limited (GTL) and GTL Infrastructure Limited (a promoter of GRNL). The terms of settlement was the best possible option which were negotiated after intense rounds of discussion and the swap ratio could improve to 1.13:1 The OCL of ₹100 crore has been fully provided for and shall be repaid upon sale of borrower's Fiber Optic business.

The replies are not tenable as a put option, NDU and negative lien were not tangible securities as they were in the nature of undertakings and recovery of dues through them was difficult. Even if the swap ratio improves to 1.13:1, the listing of the CNIL shares on its merger with GIL was unlikely to improve the share value in view of heavy indebtedness of GIL and erosion of net worth due to accumulated losses of ₹ 2893.18 crore (March 2016) and fall[106] in share prices of GIL.

Thus, the Company's exposure of ₹ 435.61 crore (₹ 273.78 crore (equity) and ₹ 161.83 crore (OCL)) including unrealized interest / coupon of ₹ 152.48 crore (₹ 90.65 crore (return on CNIL equity) and ₹ 61.83 crore (OCL)) was doubtful of recovery as on 31 March 2016.

**B.** The second facility of corporate loan of ₹ 250 crore was sanctioned (July 2010) to Chennai Network Infrastructure Limited (CNIL) of the same Global Group, repayable in one bullet instalment on 31 July 2013. The loan was secured by Non Disposable Undertaking (NDU) of shares of GTL Infrastructure Limited (GIL) (@ ₹ 41.16 per share) at twice the loan amount and the subservient charge on the movable assets (created on March 2011) equal to the amount of loan sanctioned along with the right to exercise put/call option at the end of 12 months from the date of disbursement and every six months thereafter.

Due to defaults (June 2011) in interest payment and fall in security cover within a year of sanction, the Company invoked the pledge and sold 10.31 lakh shares between July-September 2011 and realized ₹ 1.43 crore[107]. This action resulted in dispute between IFCI and Global Group leading to legal proceedings. The borrower company had also approached CDR (July 2011) for restructuring its debts. However, due to the deteriorating liquidity position and the inability of the borrower to improve the security cover, the Company entered into a settlement agreement (August 2012) as per which (i) CNIL was to allot unquoted equity for the total outstanding loan of ₹ 250.66 crore and IFCI was to release the pledge on

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[105] Reply relates to the draft para issued to the Ministry earlier which has now been included in the Performance Audit.

[106] From ₹ 41.45 (10 Feb 2010 time of sanction), ₹ 10.95 (19 March 2012 restructuring of FCD) , ₹ 8.05 (3 August 2012 date of Settlement agreement),₹ 1.75 (21 November 2013 completion of settlement agreement) to ₹ 2.10 (31 March 2016).

[107] (₹29.78 lakh+₹113.47 lakh).

balance shares and (ii) these shares were not to be sold until merger[108] and listing of merged entity's shares. Even this was subject to Right of First Refusal (ROFR) of GTL Limited, or its nominees, which meant that IFCI could sell these shares only to GTL Limited (or its nominees) after listing and on their refusal, the shares could be sold to Bank/ Financial Institution but not to a competitor. The above settlement was completed on 21 November 2013.

Audit observed that credit facilities were extended in deviation from the General Lending Policy as GIL (the Pledgor Company) had losses in 2 out of 3 years as against the stipulation of having profits in all the three years and its Debt Equity Ratio (DER) was 2.39 as against the stipulated maximum of 1.5. Further, the loan repayable after three years was sanctioned despite being aware that as per projections, CNIL (borrower) would not be able to achieve breakeven even after four years of operation. Acceptance of settlement agreement was a high risk as the entire loan was swapped with unquoted equity. As the merger of CNIL with GIL did not materialize, the Company could not realize its dues of ₹ 374.74 crore consisting of investment in unquoted equity amounting to ₹ 250.66 crore and unrealized return thereon of ₹ 124.08 crore.

Management while admitting that the borrower's DER at the time of sanction was high, stated (Mar 2014/September 2014/November 2016) that the financials of GIL and CNIL were expected to gradually improve with planned expansion of tower business. It further stated that General Lending Policy was subsequently modified by putting a cap at ₹ 25 crore for lending against shares. It decided to convert the entire debt into CNIL's equity shares outside the CDR mechanism. As the final swap ratio is still being finalized, the expected swap ratio works out to 1.13 share of CNIL for one share GIL and on sale to a strategic investor would fetch the desired return.

The replies are not acceptable as loan was sanctioned in deviation from the General Lending Policy. The decision to convert 100 *per cent* of loan to CNIL's unquoted equity with restrictive exit options was not in the best interest of Company. Even if the expected swap ratio of 1.13:1 materialises, Mark To Market loss could not be ruled out on account of heavy indebtedness of borrowers' group company (GIL[109]), erosion in the net worth due to heavy accumulated losses of ₹ 2893.18 crore (March 2016) and fall in share prices of GIL[110].

Thus, deficient credit appraisal of the borrower and entering into a settlement agreement with CNIL on terms unfavourable to the financial interests of the Company combined with restrictive exit options resulted in doubtful recovery of ₹ 374.74 crore[111](March 2016).

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[108] In the approved merger scheme (July 2011) between CNIL and GIL, the swap ratio decided was four shares of CNIL with one share of GIL.

[109] The company with which CNIL is to be merged.

[110] The share prices of GIL on sanction date 10.02.2010 was ₹ 41.45, on settlement date 03.08.2012 was ₹ 8.05, on settlement completion date 21.11.2013 was ₹ 1.75 and on 31.03.2016 was ₹ 2.10.

[111] Outstanding principal on settlement date ₹ 250.66 crore and unrealized return from August 2012 to March 2016 ₹ 124.08 crore.

## 7.2 Athena Chhattisgarh Power Limited and Athena Infraprojects Private Limited

IFCI sanctioned (September 2010) equity participation (first facility) to the extent of ₹ 250 crore in Athena Chhattisgarh Power Private Limited (ACPPL[112]), a Special Purpose Vehicle promoted by Athena Energy Ventures Pvt. Limited (AEVPL and others[113]) to part finance the project of a thermal power plant in Chhattisgarh costing ₹ 6200 crore. The equity participation was for a tenure of five to seven years, with interim coupon payment, and was to be then bought back by Zeus Inframangement Private Limited (ZIPL) (one of the promoters of ACPPL) or AiP Power Pvt Limited (AIPPPL[114]) in case the former was not able to buyback the same. The buyback was to commence from April 2015 or one year from Commercial Operation Date (COD) (July 2014), whichever was earlier. In addition to the above equity participation, a previous short term loan of ₹ 100 crore sanctioned (June 2010) by IFCI to ACPPL was converted (March 2011) into equity subscription in ACPL to the extent of ₹ 85 crore and the balance ₹ 15 crore was repaid. A total disbursement of ₹ 138.54 crore was made in four tranches[115] from March 2011 to March 2014. The defaults in the coupon payment started from December 2013 and the buyback default took place in April 2015. The total amount defaulted was ₹ 173.17 crore (including coupon of ₹ 80.81 crore) as on 31 March 2016.

A second facility by way of subscription (June 2011) to 10 *per cent* equity in Athena Energy Ventures Pvt Ltd (promoter of ACPPL) was also made by the Company amounting to ₹ 124.99 crore (8.33 crore shares at ₹ 15 per share including a premium of ₹ 5 per share). There was no buyback agreement, no security, no guaranteed returns and the only exit option available was by way of sale of shares to another party. This equity exposure in AEVPL was subsequently swapped (converted in March 2013) by subscribing to Non Convertible Debentures (NCDs) (third facility) of ₹ 177 crore to Viz Infra Consultants Private Limited (VICPL, another investor in the Athena group). This swap was exclusively to repay IFCI's 10 *per cent* equity subscription in AEVPL amounting to ₹ 124.99 crore along with a return of 14 *per cent* and to use the balance for investment in AEVPL which would be used for onward infusion into ACPL. The NCD facility turned into NPA (October 2015) and the total outstanding dues amounted to ₹ 234.44 crore as on 31 March 2016 (Principal ₹ 177.00 crore and interest outstanding ₹ 57.44 crore).

IFCI accepted (August 2013) equity shares of Athena Infraprojects Pvt. Limited (AIPL) (fourth facility) offered by VICPL valuing ₹ 27.11 crore (2.71 crore shares of ₹ 10 each) in lieu of the defaulted return on the buyout of equity of AEVPL along with a commitment by VICPL to buyback these shares by 31 December 2013 together with interest @16 *per cent* from March 2013. Even this buyback was not honoured by March 2016.The total outstanding including coupon was ₹ 42.05 crore (coupon ₹14.94 crore).

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[112] ACPPL was converted into a Public Limited Company in October 2010 and was renamed as Athena Chhattisgarh Power Ltd. (ACPL).
[113] PTC group, Abir Infrastructure Private Limited and Zeus Infra Management Private Limited (ZIPL).
[114] Promoter of Athena Energy Ventures Pvt. Limited (AEVPL).
[115] ₹ 85 crore (March 2011), ₹ 22.23 crore (November 2011), ₹ 14.64 crore (Oct 2013), ₹ 16.67 crore (March 2014).

Audit observed that that there was improper credit appraisal by the Company during sanction to ACPL (First Facility) as it did not take cognizance of the fact that ACPL's principal promoter i.e. AEVPL who was liable to pay coupon interest to IFCI did not have sufficient cash flows as it had incurred operating/net loss for all the three years prior to sanction. Similarly, the repayment capacity of the buyback entities (ZIPL, AIPPPL) was not analyzed as they had meager profits of ₹ 3.15 crore and ₹ 0.46 crore at the time of sanction, and also their investments were at implementation stage not yielding cash flows to service the debt. The Company also failed to analyze the equity generating capacity of the promoters, who were required to contribute ₹ 1550 crore besides repayments of its debts to fund the entire project cost of ₹ 6200 crore. The inability of the promoters in raising the required equity was one of the factors which resulted in time and cost overrun of the project.

Audit noticed several shortcomings during release of second, third and fourth installments towards equity participation in ACPL. The release of the second and third installments (November 2011 and October 2013) amounting to ₹ 22.23 crore and ₹ 14.64 crore respectively was made despite shortfall of 9.22 *per cent* and 5.65 *per cent* respectively of matching equity contributions from the promoters/investors and was in violation of the sanctioned terms. Similarly the third and fourth installments were released (October 2013, March 2014) despite partial receipt of only ₹ 4.59[116] crore on account of coupon payment as against the existing total defaults of ₹ 9.59[117] crore.

Further Disbursement of equity instalment of ₹ 16.67 crore (March 2014) was done despite ZIPL's (buyback entity for ACPL equity) financial health being weak and its failure to infuse its pro rata equity contribution, non infusion of balance equity of ₹ 673.59 crore by the promoters, difficulties in getting coal linkages for the power projects, cost overrun of the project by 34.23 *per cent* from ₹ 6200 crore to ₹ 8322.23 crore. Even VICPL did not clear the default (15 July 2013) of coupon interest amounting to ₹ 10.02 crore (Third Facility) Despite defaults, IFCI did not initiate recovery action to recover its outstanding dues against NCD facility extended to VICPL and defaults in buyout of ACPL and AIPL shares .

Management stated (May/November 2016) that subsequent disbursements were made to maintain the target stake and the terms of sanction stood complied with. Disbursements were made by giving more time for paying interim returns. Viz Infra was not a party for buyout of IFCI's investment in ACPL. Macro-economic factor of the power sector had abnormally affected revenues of promoter group. Hence, the disbursement of ₹ 16.67 crore was made to enable the company to draw further loan.

Replies are not acceptable as tight liquidity position of the borrower, as seen from defaults in the interim returns itself, did not deter the Company from continued subsequent disbursements. Viz Infra was to buyout IFCIs equity investment in AIPL including coupon and not the investment in ACPL as stated in the reply. The defaults in the return thereon still existed when disbursements (3rd and 4th) were released. Release of the further installment of ₹ 16.67 crore was made despite the above mentioned shortcomings. The coupon

116 ₹ 2.16 crore + ₹ 2.43 crore.

117 ₹ 4.55 crore + ₹ 5.04 crore.

servicing/buyback capabilities of promoters were affected as projects of the borrower groups were in implementation stage with no cash flows.

Sanctioning equity/NCD without proper credit appraisal (ACPL, AEVPL) as regards the financial health of the promoters and sanctioning of complicated multiple credit facilities to the same group resulted in non-recovery of ₹ 449.66 crore (equity investments in ACPL and AIPL of ₹ 119.47 crore, and return of ₹ 95.75 crore thereon, besides doubtful recovery of NCD (VICPL) which turned into NPA (October 2015) of ₹ 234.44 crore (principal ₹ 177 crore, interest ₹ 57.44 crore).

## 7.3 Gayatri Hi-Tech Hotels Limited and Gayatri Energy Ventures Private Limited

**A.** IFCI sanctioned (March 2010) equity participation of ₹ 61.10 crore (26 *per cent* equity) in Gayatri Hi-Tech Hotels Limited (GHHL) as a strategic investor for a Five Star hotel project in Hyderabad. The equity participation was for a tenure of 36 months and was to be bought back by Gayatri Hotel Ventures Private Limited (GHVPL), deemed holding Company of Gayatri group) and Gayatri Projects Limited (GPL, the flagship Company of the group) in 2 tranches of ₹ 30 crore and ₹ 31.10 crore at the end of 33rd month and 36th month from the date of first disbursement. The overall rate of return was 18 *per cent* which was to be paid at the rate of 10 *per cent* per annum on half yearly basis and the balance eight *per cent* was to be paid along with buyback of the equity. The amount was disbursed in two installments of ₹ 30 crore (April 2010) and ₹ 31.10 crore (June 2010). The equity participation was secured by the buyback agreement along with personal guarantee of two promoters. The borrower defaulted (October 2012) in payment of interim coupon to IFCI. Out of the total equity buyback amount of ₹ 61.10 crore due on 7 January 2013 (₹ 30 crore) and 7 April 2013 (₹ 31.10 crore), equity amounting to ₹ 5 crore only was bought back on 7 March 2013. On the request of the borrower for deferment of balance buyback amount (₹ 56.10 crore), IFCI approved reschedulement of the same twice[118] (February 2013 and August 2015) and in the process received (January 2013) additional security of 41,45,217 pledged shares of GPL. Even the debts of the borrower (GHHL) and the buyback entity (GPL) were restructured under the aegis of Corporate Debt Restructuring/Joint Lenders Forum mechanism respectively (June 2014).

Audit observed that that the equity subscription facility was extended (March 2010) to a borrower Company that was yet to start commercial operations and did not fulfil the eligibility criteria stipulated in the extant GLP as the net worth of the promoting Company was ₹ 234.34 crore only as against the GLP stipulated criteria of minimum net worth being ₹ 500 crore. At the time of sanction, there was already time and cost overrun of 21 months[119] and ₹ 154 crore[120] respectively in the project which was not given due cognizance. During credit appraisal the DER and FACR of the promoter Company/buyback entity were

[118] From January/April 2013 to January/April 2015 and subsequently to January/April 2018.
[119] Commercial Operation Date- April 2009 to January 2011.
[120] ₹ 366 crore to ₹ 520 crore.

calculated[121]by excluding unsecured loans from the debt portion. The projected profit margin (7 *per cent*) in the fourth year of operation was a meager ₹ 9 crore at an optimistic 75 *per cent* occupancy ratio which itself was insufficient to service this facility along with the other term lenders' debt of ₹ 285 crore in this project. During the first restructuring of buyback schedule (Feb 2013), Company did not enforce the personal guarantee of the two promoters and at the time of subsequent buyback defaults (January 2015/April 2015) did not sell the pledged shares though the same were available as security. Instead the facility was again rescheduled (August 2015).

It is pertinent to mention that the present facility was sanctioned despite the fact that IFCIs past experience with the borrowers group concern (Gayatri Sugars Ltd) was not satisfactory as one facility extended to it had to be foreclosed by way of settlement of IFCIs dues (July 2008).

Management in its reply accepted the facts regarding deviations from norms, OTS settlement with one of the borrower group companies as well as exclusion of unsecured loan while calculating D/E ratio. It also stated that the cash flows of GHHL were immaterial as buyback and interim return was being serviced by the other group company and the facility was also secured by pledged shares of GPL.

However the fact remains that the buyback was not honored as per the stipulated timeline and IFCI rescheduled the buyout on two occasions instead of enforcing the personal guarantee of the promoters or selling the pledged shares offered as security for the equity participation.

**B.** The Company sanctioned (December 2010) subscription to Compulsorily Convertible Debentures (CCDs) of Gayatri Energy Ventures Private Limited (GEVPL) to the extent of ₹ 250 crore to part finance the equity of GEVPL in two power projects (SPVs) proposed to be developed by it. The CCDs were secured by way of pledge of 26 *per cent* equity shares of GEVPL, 10.74 *per cent* equity shares of NCC Infrastructure Holdings Limited, an SPV of GEVPL. The CCDs were to be bought back in four equal installments[122] by Gayatri Projects Ltd. (GPL, the Holding Company) or by two promoters of GEVPL in case of no buy back by the former. IFCI disbursed the first CCD subscription of ₹ 150 crore in May 2011 while the balance undrawn amount of ₹ 100 crore was cancelled (May 2012).The borrower started defaulting (May 2012) on coupon payments to IFCI which subsequently approved (June 2015) a reschedulement of the buyout and coupon payment schedule[123]. As on 31 March 2016 the total outstanding amount was ₹ 153.47 crore.

In this regard, audit observed that credit facilities were sanctioned to GEVPL which had a paid up capital of ₹ 1.05 crore only, no operational income of its own and did not fulfill the eligibility criteria stipulated in the extant GLP as the net worth of the promoter Company

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[121] DER (2008-09) as calculated by the company was 0.2 by excluding unsecured loans and other banks borrowings from debt component of DER. But by including the same the actual DER works out to 1.54 similarly FACR as worked out by the Company was 3.44 by excluding unsecured loans and other banks borrowings. But by including the same the actual FACR works out to 0.44.

[122] At the end of 42nd (15 Nov 2014), 48th (15 May 2015), 54th (15 Nov 2015), and 60th (15 May 2016) month from date of subscription.

[123] Buyout to commence from 15 May 2016 in 8 equal quarterly installments and coupon payment to commence from 15 Feb 2016.

(Gayatri Projects limited) was ₹ 280.41 crore only as against the GLP stipulated criteria of minimum net worth being ₹ 300 crore. Further the capability of GPL to raise required funds on the strength of its low net worth of ₹ 280.41 crore for executing the projects in hand valuing ₹ 8812 crore could not be established. The two power projects proposed to be developed by GEVPL were being financed with a debt component of 75 *percent*[124] and the capacity of the promoters to infuse the balance equity portion of 25 *percent* amounting to ₹ 2469 crore was not evaluated. Even the Flagship Company of the group (Gayatri Projects Ltd.) was facing time and cost overruns in three projects. The Company shifted the critical pre-disbursement conditions of finalization of Fuel Supply Agreement (FSA) and Power Purchase Agreement (PPA) in respect of the proposed power projects to other conditions forming part of the CCD subscription. Despite existing defaults in repayments of credit facilities extended to GEVPL and GHHL, IFCI released a tangible security valuing ₹ 50 crore in respect of the another prepaid loan (2013) of a group concern[125].

Management while accepting the fact that the net worth fell short of criteria stated that the high Debt Equity Ratio was an acceptable norm and financial closure was achievable. It stated that the delay in execution of Fuel Supply Agreement and Power Purchase Agreement was industry trend and hence IFCI provided more time for the same and that cash flows were sufficient for restructuring. Further, it also stated (November 2016) that GEVPL is making coupon payment regularly post reschedulement and had bought out ₹ 18 crore with Internal Rate of Return of 16 *per cent* in May 2016.

The replies are not acceptable as the borrower did not meet the stipulated eligibility criteria and the industry trend had to be compared with the existing financial status of the borrower who was incurring cost overruns in its other BOT project. As regards regular coupon payments, the reply is not acceptable as the borrower defaulted in payment of two instalments of principal and coupon, amounting to ₹ 46.59 crore due in August 2016 and November 2016. Financial viability could not have been established especially since the promoter/buyback entity already had its debt restructured under Joint Lenders' Forum in January 2015, in view of its poor financial health prior to its account being restructured by IFCI (June 2015).

Thus, sanction of the credit facilities to ineligible borrowers, and weak credit appraisal of borrowers, multiple lending within group companies resulted in non-recovery of equity of ₹ 56.10 crore due to non enforcement of available security. In addition, there was doubtful recovery of ₹ 153.47 crore (GEVPL) in the absence of any tangible security and also GPL itself (the buyback entity) being indebted to IFCI to the extent of ₹ 66.16 crore in respect of another loan.

[124] Amounting to ₹ 7403 crore (₹ 5151 crore + ₹ 2252 crore).
[125] Gayatri Property Ventures Limited (2008).

## 7.4 ABG Cement Limited and ABG Energy (Gujarat) Limited

IFCI invested (April 2009) ₹ 63.92 crore and ₹ 36 crore (October 2009) in equities of ABG Cement Limited[126] (ABGCL) and ABG Energy (Gujarat) Limited (ABGEGL) respectively. The exit option available to IFCI was a put option on ABG International Private Limited (ABGIL) for both the facilities or through an IPO with Tag along[127] rights additionally in respect of ABGCL. Due to liquidity issues, the project encountered time and cost overrun. However, on default, the put option was exercised (November 2012 and March 2013) by IFCI for both the Companies but the same was not honoured by ABGIL. The total dues in respect of these investments amounted to ₹ 99.92 crore apart from ₹ 218.47 crore being returns thereon as on 31 March 2016. A winding up petition has been filed (January 2016) by the Company for the same.

Audit observed that the investment in equity was made in deviation from the extant General Lending Policy as the net worth of the promoting company i.e. ABGIL was ₹ 251 crore as against the stipulated minimum net worth of ₹ 500 crore. Despite it being a Greenfield project, IFCI did not obtain any tangible security. It continued the disbursements disregarding the 29 *per cent* increase (by ₹ 537.08 crore) in project cost. In addition, *pro rata* subscription in equity was released by focusing more on maintaining the shareholding proportion and on the plea that the put option would insulate IFCI from the impact of cost and time overrun. A further facility of a term loan of ₹ 100 crore was disbursed (March 2013) to ABG Shipyard Limited, another company of ABG Group despite the fact that the put option exercised by IFCI for both the investments (ABG Cement, ABG Energy) in November 2012 and March 2013 respectively were not honoured by the promoting company. Even ABGIL's undertaking at the time of sanction of this loan to buyback investment in ABGCL and ABGEGL by June 2013 was not honoured.

Management stated (August, November 2016) that the eligibility criteria were relaxed considering future growth in borrower's resources and after estimating the ability of the promoters to infuse the funds. Disbursements were released in proportion to equity infused, the amounts disbursed by other lenders and ABGIL's undertaking to fund the entire equity of ₹ 183.96 crore required for the cost overrun. The loan was sanctioned to ABG Shipyard on the securities offered and its profitability.

The replies are not acceptable as the deviation from net worth requirement was against IFCI's interest. Further, the stressed financial position of the borrower and factors affecting its repayment capability were not given due cognizance at each stage. Instead IFCI relied on the borrower/promoter's undertaking and followed the other lenders' practice. The release of fresh loan to ABG Shipyard (March 2013) despite buyback defaults existing in respect of ABGCL and ABGEGL by its promoter was also not in best interest of IFCI.

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[126] Renamed as Vadraj Cement.
[127] Right to claim the same terms and conditions as being offered to third party in case of IPO / sale of shares.