

## Chapter 8: Conclusion and recommendations

### 8.1 Conclusion

As IFCI is a Systemically Important Non-Banking Financial Company (NBFC-ND-SI), it is essential that rigorous standards of appraisal and diligence are followed and due consideration is given to its own financial/commercial interest during the process of appraisal and extension of credit facilities.


The review of sanctioning, disbursement and monitoring of loans/investments extended by IFCI to several borrowers revealed that IFCI did not observe the highest standards of due diligence in credit appraisal while sanctioning, disbursing and monitoring some of the loan accounts. It did not adhere to its own General Lending Policy in several instances and relaxed various stipulated eligibility criteria pertaining to minimum security cover, financial ratios, stipulated credit rating etc. The valuation of securities accepted during sanction was not in consonance with the methodology laid down in the General Lending Policy. Audit observed lack of due diligence in verification of titles of immovable properties taken as security resulted in failure in enforcement of these securities and safeguarding the mortgaged assets. It was also observed that in cases where primary security as per terms of sanction was not created before disbursement, there was high incidence of these turning into NPAs. Even after occurrence of defaults and the loans turning into NPA, there was delay in enforcement of security and there were instances of non-enforcement of security especially in sale of pledged equity shares to recover outstanding dues. Audit also observed violation of Guidelines of RBI on provisioning, restructuring and sanction of loan to borrowers in RBI/CIBIL wilful defaulter's list. Audit observed inappropriate credit appraisal / analysis of financials of the company and buyback entity and unsatisfactory loan history or indebtedness of the borrower in some instances of equity investment in other companies. In most of the cases there was default in buyback, exit options were restricted and multiple lending within the group companies was done with weak post sanction monitoring.

The Ministry stated (February 2017) that in addition to providing a framework for lending institutions, General Lending Policy also provided for a mode of approvals wherever any deviations were required from ideal conditions set out in the policy. Ministry also stated that based on the observations highlighted in this report, the Company had been advised to review the General Lending Policy, tighten process in areas identified in the review of individual cases and examine staff accountability in all cases of negligence / fraud as well as lending to wilful defaulters. It further stated that a due and proper scrutiny into certain cases involving allegations against IFCI was already underway by RBI, SEBI and Serious Fraud Investigation Office as per the directions of Hon'ble Supreme Court of India. The findings of these reports along with this Performance Audit Report would be used to advise the Company and also for periodic reviews of IFCI's performance conducted by this Ministry and drive further improvements.

## 8.2 Recommendations


- The credit appraisal mechanism should be strengthened;
- The Company should strictly comply with the RBI guidelines applicable to Systemically Important Non-Deposit taking Non-Banking Financial Companies;
- The Company should strictly adhere to its General Lending Policy and should not take recourse to deviations as a matter of routine;
- The Company should assess the financial position of the borrower company along with that of the pledgor Company/buyback entity while sanctioning financial assistance;
- The action for recovery needs to be initiated immediately on default by enforcing the available security.

New Delhi  
Dated: 05 April 2017

  
(H. PRADEEP RAO)  
Deputy Comptroller and Auditor  
General and Chairman, Audit Board

Countersigned

New Delhi  
Dated: 05 April 2017

  
(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India

