EXECUTIVE SUMMARY

Executive Summary

IFCI Limited (formerly known as Industrial Finance Corporation of India) is a Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) regulated by Reserve Bank of India (RBI) and administratively controlled by the Department of Financial Services, Ministry of Finance. It was established in 1948 as a Statutory Corporation but was later incorporated as a Company by virtue of IFCI (transfer of undertaking and Repeal) Act, 1993. IFCI became a deemed Government Company in December 2012 and it became a Government Company w.e.f. 7 April 2015. The primary business of IFCI is to provide financial assistance to the manufacturing, services and infrastructure sectors.

The Performance Audit on Credit Risk Management in IFCI Limited was taken up primarily due to its predominantly higher Non-Performing Assets (NPA) ratio of 13.05 *per cent* as compared to the industry's NPA ratio of 3 *per cent* and also in view of increase in unrealized interest to the tune of ₹ 40638.98 crore from 2012-13 to 2015-16. Audit covered a period of four years i.e. from 2012-13 to 2015-16 in respect of loans sanctioned and disbursed. However, for examination of the NPAs, loans sanctioned from 2008-09 onwards were covered.

The major findings of Performance Audit are summarized hereunder:

Credit Appraisal and Sanction

- Audit reviewed 128 sanctioned loans and observed that in respect of 69 cases (54 *per cent*), the loans were sanctioned in deviation from the eligibility criteria stipulated in the extant General Lending Policy (GLP). The eligibility criteria relaxed pertained to adherence to the stipulated financial ratios/analysis of financial statements, profitability/net worth/credit rating of the borrower company and minimum security cover/ nature of security. Deviations from other stipulated conditions as per terms of sanction/loan agreement as well as in the relevant GLP were also observed in 17 cases.

(Para 3.2)

- In respect of 8 illustrated cases, major relaxation of criteria/deviations from the eligibility criteria in sanction of loans resulted in loss of ₹ 25.57 crore apart from doubtful recovery of ₹ 1094.65 crore.

(*Para 3.3*)

Compliance with Guidelines of RBI

- Audit observed non-compliance with Guidelines of RBI on asset classification. There were instances of incorrect classification of loans resulting in overstatement of profit by ₹ 297.60 crore during the years 2013-14 to 2015-16.

(Para 4.1)

- There were cases of non-provisioning/short-provisioning against long-term investments amounting to ₹ 734.31 crore and ₹ 706.17 crore during 2014-15 and 2015-16 respectively despite erosion of net-worth, continuous cash losses etc.

(Para 4.3)

- The Company had also violated restructuring norms of RBI by sanctioning reschedulement package without analyzing the viability of repayment thereby attempting to evergreen a weak credit facility despite the borrower incurring losses.

(Para 4.4)

Non Performing Assets

Review of 54 NPA cases (including 11 cases of loans written-off) revealed that:

- In 11 cases (20 *per cent*), the Company had to write-off the loans leading to a loss of ₹ 1235.65 crore (including unrealized interest of ₹ 674.51 crore). Audit also observed that there was deficient credit appraisal, acceptance of unenforceable/inadequate security and delay in enforcement of security.

(Chapter 5)

- In respect of 5 cases (9 *per cent*) the Company had to make 100 *per cent* provision for outstanding principal amounting to ₹ 296.20 crore. The unrealized interest from these cases was ₹ 119.09 crore thereby leading to a loss of ₹ 415.29 crore**.** The loss was mainly attributable to deficient credit appraisal, relaxation of stipulations of General Lending Policy as regards eligibility, security etc. and acceptance of unenforceable/inadequate security etc.

(Para 6.3.1)

- In respect of 18 cases (33 *per cent),* Audit observed that recovery of ₹ 3799.33 crore is doubtful due to deficient credit appraisal, absence of tangible/enforceable security and ineffective monitoring.

(Para 6.3.2)

Equity Investments

- Audit examination of 9 cases of investment in unquoted equity, revealed that due to defaults in buyback/returns, investment of ₹ 1136.28 crore was rendered non-performing. The returns from these investments amounting to ₹ 651.69 crore (31 March 2016) remained unrealized.

(Chapter 7)

Recommendations

The following recommendations have been made:

- The Credit appraisal mechanism requires to 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.

(Para 8.2)