Chapter 5

Loan Management by West Bengal Financial Corporation

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FINANCE DEPARTMENT

(West Bengal Financial Corporation)

5.1 Introduction

West Bengal Financial Corporation (WBFC) was established in March 1954, under section 3 (1) of the State Financial Corporation (SFC) Act, 1951, with the main objective of promoting and developing industrial growth in the State of West Bengal by providing financial assistance to micro, small and medium enterprises and extending term loans for setting up industrial units/ projects & their expansion/ diversification/ modernisation.

WBFC, under the administrative control of the Finance Department, Government of West Bengal (GoWB), has its Head Office in Kolkata, an extension office at Barasat, North 24 Parganas and three Branch offices at Durgapur, Malda and Siliguri.

General superintendence, direction and management of affairs of the WBFC vests with the Board of Directors (BoD)[76]. The BoD consists of representatives from the State Government, Life Insurance Corporation of India (LICI), Small Industries Development Bank of India (SIDBI), Public Sector banks, *etc*[77]. The Managing Director functions as the Chief Executive of the WBFC and is assisted by General Managers, Deputy General Managers and Departmental Heads at the Head office and Branch Managers at Branch offices.

WBFC operates as a prime lending institution of the State Government for financing micro, small and medium scale industries and services.

Financial assistance is provided to industrial units based on project reports, socio economic viability, promoter's background - their technical ability and experience, products and its marketability, financial capabilities of the promoter, *etc*. Disbursement of loan is made after execution of agreement including creation of security in favour of the WBFC.

5.1.1 Financial Profile of WBFC

WBFC had a paid-up capital of ₹ 227.35 crore (22,735 lakh shares of ₹ 100 each), as on 31 March, 2021, contributed mainly by State Government (99.85 *per cent*) and the balance amount (0.15 *per cent*) by LICI, Public Sector Banks, Co-operative banks and others.

WBFC had earned consistent operating profit (*i.e.*, before provision for tax and other appropriations) during 2016-17 to 2020-21 except in 2018-19. However, it suffered loss, after charging provisions and appropriations during the above referred period except in 2016-17. As a result, the accumulated loss as on 31 March 2021 stood at ₹ 190.05 crore.

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[76] The board of directors was constituted in terms of the SFC Act. It consists of the Chairman, the Managing Director and other members. As on 31 March 2021, it consisted of the Chairman, Managing Director and seven members

[77] Other members include representatives of other financial Institutions and other dignitaries with industrial and financial experience and exposure

5.1.2 Audit objective, criteria, coverage and methodology

The Compliance Audit (CA), covering a period from 2016-17 to 2020-21, aimed to assess the level of compliance by the Corporation in

- Appraisal, sanction, disbursement and recovery of loans, including management of Non-performing Assets by the WBFC;
- Management of financial resources; and
- Internal control to monitor and supervise the loan management process.

Audit comments were framed with reference to SFC Act 1951 and RBI/ SIDBI guidelines applicable to the functioning of the WBFC; State Government's Industrial Policy; Memorandum of Understanding (MoU) signed with the State Government and SIDBI; Loan policies and Recovery policies of the WBFC; *etc.*

The methodology adopted by Audit *inter alia* included Scrutiny of loan files, cases of compromise settlement and sale of assets, analysis of WBFC Annual Reports, minutes and agenda papers of the Board meetings, issue of audit memos and replies thereto, interaction with the officials of the audited entity, *etc.*

Audit Findings

5.2 Operational performance

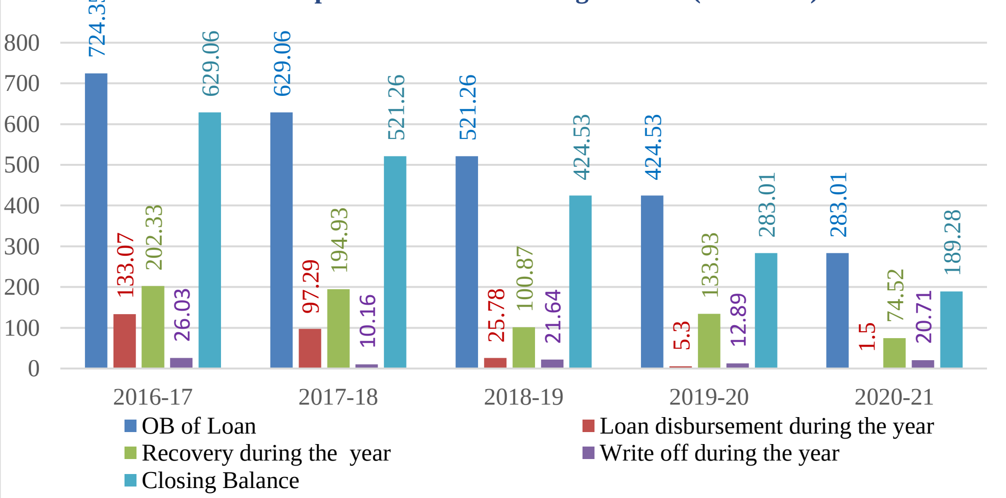
The overall loan profile of WBFC during last five years was as below:

Table 5.1: Loan profile of WBFC during 2016-21 *(₹in crore)*

Particulars	2016-17		2017-18		2018-19		2019-20		2020-21	
	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.
OB of Loan	724.35	--	629.06	--	521.26	--	424.53	--	283.01	--
Add loan disbursement during the year	133.07	93	97.29	53	25.78	8	5.30	0	1.50	1
Less recovery during the year	202.33	--	194.93	--	100.87	--	133.93	--	74.52	--
Less Write off during the year	26.03	41	10.16	28	21.64	20	12.89	10	20.71	25
Closing Balance	**629.06**	--	**521.26**	--	**424.53**	--	**283.01**	--	**189.28**	--

Source: Annual Accounts of Corporation and information provided by the Management

Chart 5.1: Loan profile of WBFC during 2016-21 (₹ in crore)



Source: Annual Accounts of Corporation and information provided by the Management

It is observed that total outstanding loan came down steeply from ₹ 724.35 crore as of April 2016 to ₹ 189.28 crore as of March 2021, which was a result of steady fall in loan disbursement in one hand coupled with write-off of substantial quantum (₹ 91.43 crore) of loan on the other. The situation was attributable to the restructuring plan of WBFC taken up (June 2018) by the Finance Department, as a result of which the BOD of WBFC decided (July 2018) not to take up any future loan proposal for sanction.

As such the core purpose of the Corporation had been diluted.

Moreover, the WBFC did not develop and put in place a mechanism whereby the rates of interest offered by the Commercial Banks and other Financial Institutions on the term loans and Working Capital Loans are compared periodically so as to make the WBFC's rate of interest competitive enough to attract entrepreneurs under MSME sector.

This resulted in the Corporation increasingly losing its relevance in providing financial assistance to micro, small and medium enterprises as would be evident from the following comparison with commercial banks.

Table 5.2: Ground level Credit flow to MSME Sector in West-Bengal

(₹ in crore)

Years	Loan disbursed by Commercial Banks in West Bengal	Loans disbursed by WBFC	Growth of WBFC loan (*percentage*)
2015-16	21,272.00	199.16	--
2016-17	27,598.00	133.07	-33.18
2017-18	40,095.00	97.28	-26.90
2018-19	51,251.00	25.78	-73.50
2019-20	67,795.00	5.30	-79.44
2020-21	33,091.00	1.50	-71.70

Source: Banking Focus Paper 2021-22 on West Bengal published by NABARD

It has been observed that there was a steady growth in terms of credit given to MSME Sector by commercial banks except in 2020-21 whereas there was a decline in growth rate in respect of WBFC.

5.2.1 Trend in disbursement of loan

WBFC operates as a prime lending institution of the State Government for financing Micro, Small and Medium industries and service. **Table 5.3** below shows year-wise loan proposal, sanction and disbursement of loans.

Table 5.3: Year-wise proposal, sanction and disbursement of loans

(₹in crore)

Particular	2016-17		2017-18		2018-19		2019-20		2020-21	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Proposal	80	131.82	57	103.97	3	3.13	0	0	1	3.00
Sanction	77	122.03	53	102.95	4	4.08	0	0	1	3.00
Disbursement	93	133.07	53	97.29	8	25.78	0*	5.30	1	1.50

*Source: Annual report of the Corporation and data furnished by the management; * since spill over cases of disbursement of previous year*

Note: *The variations between actual sanction and disbursement of loans for the years were due to release of disbursements in subsequent years and cancellation/ withdrawal of loans.*

From the above table it is seen that number of loans drastically reduced in 2018-19 and during last two years only one loan was proposed and disbursed (in 2020-21). This was due to decision (July 2018) of the Corporation not to process any further loan proposal in view of restructuring plan of WBFC taken up (June 2018) by the Finance Department. However, during 2020-21, Finance department has given permission for fresh sanction and consequently disbursement has been made.

5.2.2 Financial indicators

The summarized financial position and working results of the WBFC for the years 2016-17 to 2020-21 are given below:

Table 5.4.1: Financial overview

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
	(₹ in Crore)				
Total Income	**111.14**	**86.60**	**68.29**	**78.31**	**78.27**
Which inter alia include:					
Interest on loans	78.88	57.13	43.59	32.54	34.38
Other Income including dividend	20.16	25.60	16.07	37.34	22.88
Total expenditure	**96.60**	**77.39**	**81.86**	**68.67**	**66.60**
Which inter alia include:					
Interest on long term loan (excluding expenses on issue of bonds)	56.00	51.46	44.03	41.42	33.98
Employee expenses	12.50	12.29	13.85	12.79	10.32
Bad Debts written off	26.03	10.16	21.64	12.89	20.71
Profit/ (Loss) before provision, tax and dividend	**14.54**	**9.21**	**(13.57)**	**9.64**	**11.67**
Profit/ (Loss) after tax and provisions	**3.50**	**(5.59)**	**(42.69)**	**(8.82)**	**(10.53)**
Adjustment for prior period (net)	0.17	--	--	--	--
Surplus (+)/ (Deficit) (-)	**3.67**	**(5.59)**	**(42.69)**	**(8.82)**	**(11.96)**

Source: Annual Reports and data furnished by WBFC

Table 5.4.2: Financial indicators

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
	(₹ in crore)				
Debt equity ratio	2.97:1	3.23:1	3.24:1	3:1	2.33:1
Non Performing Assets (NPA) to total loan assets	25.90%	36.81%	62.71%	70.89%	81.53%
Employee cost to total cost	0.13	0.16	0.17	0.19	0.16
Administrative and General expenses to total cost	0.01	0.03	0.02	0.01	0.01
Interest and Finance charges to total cost	0.58	0.66	0.54	0.60	0.51

Source: Annual Reports and data furnished by WBFC

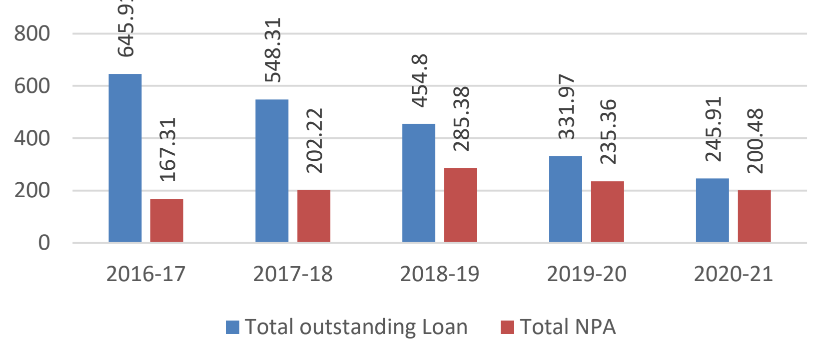
Table 5.4.3: Working Result

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
	(₹ in crore)				
Capital Employed	186.65	153.06	138.36	129.54	119.02
Return of capital employed	1.53	(3.65)	(30.86)	(6.81)	(8.85)
NPA in absolute terms	167.31	202.22	285.38	235.36	200.48
Equity	275.35	275.35	275.35	275.35	275.35
Reserve and Surplus	33.72	33.72	33.72	33.72	33.72
Net worth	186.65	153.06	138.36	129.54	119.02
Accumulated losses	122.2	128.01	170.70	179.53	190.05
Profit/ (Loss) after tax and provision and available for appropriation after considering adjustment for prior period	3.67	(5.59)	(42.69)	(8.82)	(10.53)
Dividend Paid	-	-	-	-	-

Source: Annual Reports and data furnished by WBFC

Table 5.4.2 on financial performance of the WBFC showed that debt equity ratio of the WBFC increased from 2.97:1 in 2016-17 to 3.24:1 in 2018-19 and thereafter reduced to 2.33:1 in 2020-21. The debt-to-equity ratio compares WBFC's total liabilities to its shareholder equity and can be used to evaluate how much leverage a company is using. Higher leverage ratios tend to indicate a WBFC with higher risk to shareholders. Hence, from the above table it was revealed that the WBFC is in higher risk to its shareholders.

Chart 5.2: Outstanding loan assets and NPA of WBFC during 2016-21 (₹ in crore)



Source: Annual Accounts of WBFC

Further, the NPA increased from ₹ 167.31 crore in 2016-17 to ₹ 285.38 crore in 2018-19 and again came down to ₹ 200.48 crore in 2020-21. However, as a percentage to total loan assets, NPA increased from 26 *per cent* in 2016-17 to 82 *per cent* in 2020-21, which was far above the desired level of 10 *per cent* as dictated by the terms of MoU with the SIDBI. Such steep increase in NPA as a percentage to total Loan assets was mainly attributable to contraction of total loan assets as analyzed in **Table 5.5** below.

Table 5.5: Details of loan assets and their classification ***(₹in crore)***

Years	Standard	Sub-Standard	Doubtful	Loss assets	Total NPA	Total outstanding Loan
A	B	C	D	E	F=C+D+E	G=B+C+D+E
2016-17	478.60	105.72	61.59	--	167.31	645.91
2017-18	346.09	59.14	143.08	--	202.22	548.31
2018-19	169.42	123.38	162.00	--	285.38	454.80
2019-20	96.61	32.68	202.68	--	235.36	331.97
2020-21	45.43	6.71	193.77	--	200.48	245.91

Source: Annual Report of WBFC

Standard assets *are assets held by non-defaulting accounts. The* ***non-performing assets*** *included assets classified as sub-standard, doubtful and loss assets.*

5.3 Planning and mobilization of resources

5.3.1 Short-term and Long term Plan not prepared

Short term plan is prepared in the form of Annual budget. The budgets prepared are compared with the actuals and deviations are analyzed. Short Term planning evaluates Corporations' present progress. On the other hand, Long term planning is a comprehensive framework that comprises of goals to be met within a period of four to five years. It comprises financial forecasting with strategizing and helps the Corporation to accurately prioritise works.

However, such structured planning was absent in WBFC. Budget was prepared for the years 2016-17 and 2017-18 only. The Corporation neither prepared budget (short term plan) since 2018-19, nor did it chalk out any long term plan during the period covered by Audit (2016-21). In the absence of budget documents, Audit could not verify the rationale for fixing targets for sanction, disbursements of loan. Moreover, the Corporation was unable to review the actual performance and the reasons for variations to guide the Corporation for improving its performance. The Corporation was unable to communicate the targets to the branch level as well.

5.3.2 Discontinuation of SIDBI loans

WBFC used to prepare annual Business plan and Resource Forecast (BPRF) at the behest of SIDBI for submission to SIDBI stating extent of loan sought from SIDBI. SIDBI, however, had advised (June 2012) the State Financial Corporations to gradually phase out their reliance on SIDBI's refinance as the major source of financing, as it would not be possible for SIDBI to provide refinance to defaulting SFCs and SFCs availing refinance would need to comply with the major observations/ recommendations of SIDBI made during annual inspection.

Though WBFC sent their BPRF to SIDBI till 2017-18, no assistance was received from SIDBI during 2016-21. BODs of WBFC felt to gradually mobilize resources from the market without relying on SIDBI. WBFCs' mobilization of funds for the period 2016-21 (shown in ***Appendix 5.1***) showed that it depended solely on its own internal resources, namely, recovery of past loans, interest receipts and other revenue receipts[78], *etc*. Thus, there was absence of any new support from SIDBI and other financial Institutions during last five years. SIDBI had made recommendations in inspection report (2013-14) for further infusion of fresh capital, bringing down the level of Gross and Net NPA below five *per cent* of total loan assets, introducing the concept of credit audit for cases above ₹ 3.00 crore prior to first disbursement, wiping off accumulated losses in a time bound manner, adoption of floating rates of interest and monthly repayment from the borrowers, *etc.* It was observed that all these recommendations remained unfulfilled as of date.

5.3.3 Non-receipt of Capital Contribution

Since 2017-18, Normal Refinance Schemes loans (NRS) from SIDBI has stopped, the GoWB agreed to provide resource support to the WBFC for strengthening the equity base and improving, achieving and maintaining required capital adequacy and positive net worth. It was observed that GoWB made an equity contribution of ₹ 48.00 crore during 2016-17. However, after that the Corporation did not prepare any Long-term/ Short-term planning. In the absence of these plans, the aspect of financial forecasting remained undermined and Corporation could not mobilise sufficient resources in spite of having equity contribution from State Government. Consequently, WBFC was forced to issue bonds resulting in interest burden of ₹ 9.82 crore which was discussed below.

5.3.3.1 Avoidable Interest of ₹ 9.82 crore in absence of proper planning: On the ground of meeting immediate commitment towards redemption of bonds of ₹ 18.80 crore falling due in April 2016, WBFC issued 9.80 *per cent* Non SLR Bonds (Sr- XV 3rd Issue) of ₹ 29.17 crore in March 2016, which fetched ₹ 25.06 crore.

However, analysis of fund requirement *vis-à-vis* fund availability of the WBFC, during 2016-17 showed that there was no need for fresh issue of bond, as there was sufficient fund available with WBFC which could have been utilized for meeting its requirement.

[78] *Processing fee, sale of hypothecated assets, etc.*

Table 5.6: Requirement of fund *vis-à-vis* availability during 2016-17

Fund requirement	Fund Availability
• For disbursement of Loan: ₹ 133.07 crore. • For repayment of bond: ₹ 65.02 crore *(includes repayment of ₹18.80 crore on April 2016)* • For repayment of SIDBI loan: ₹ 22.21 crore • For repayment of overdraft with HDFC bank: ₹ 8.16 crore. Hence, the total requirement of fund was ₹ 228.46 crore.	• Recovery of Principal: ₹ 202.33 crore • Recovery of other dues: ₹ 0.9 crore • Share application money received from Govt. of W.B.: ₹ 48.00 crore Hence, the total availability of fund was ₹ 251.23 crore.

Source: Data furnished by WBFC

Further, WBFC has short term deposit in the form of fixed deposit of ₹ 77.88 crore at the beginning of 2016-17 which was increased to ₹ 84.63 crore at the end of 2016-17 and the WBFC has earned an operating profit of ₹ 14.54 crore during 2016-17 after meeting of their operating expenditure.

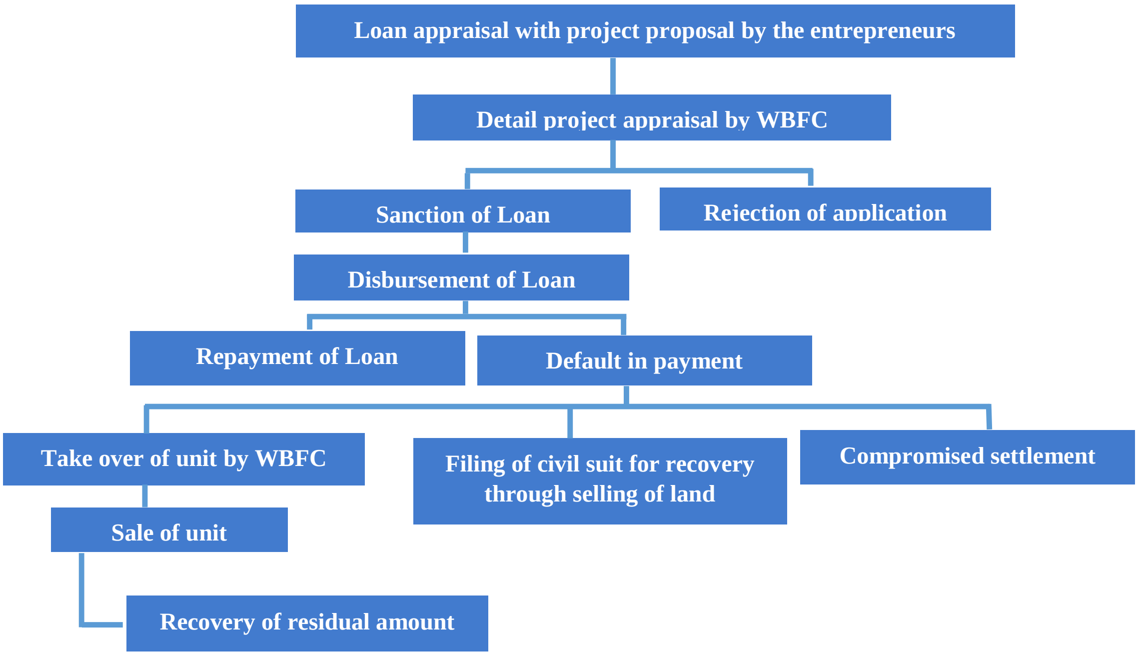
Thus, issue of new bond lacked justification, as there was alternative source of fund with WBFC. This resulted in avoidable payment of interest of ₹ 9.82 crore[79] (till March 2021), which would increase further till the period of maturity of the bonds (May 2026).

5.4 Appraisal, sanction and disbursement of loans

WBFC extends financial assistance up to ₹ 20 crore to a single borrower at fixed interest rates ranging from 10.25 to 14 *per cent per annum* depending upon the type of scheme, tenure and size of finance.

A **flow chart** indicating the process of sanction, disbursement and recovery of loans is indicated below:

Chart 5.3: Flow chart indicating the process of sanction, disbursement and recovery of loans



Source: Inputs provided by the management of WBFC

[79] ₹ 25.06 crore X 9.80% X 4 years

5.4.1 Loan policy and process

The annual loan policies framed by the WBFC during 2016-21 prescribed guidelines for providing financial assistance to various sectors of the economy. The main objectives envisaged in the loan policies framed were to associate itself with the growth process of the state economy by providing medium to long term credit support to various industrial and service sector enterprises in the state of West-Bengal. The policies aimed at providing a framework to the WBFC for carrying on its lending operations in a sustainable manner so as to achieve the twin objectives of supporting the industrial and/ or service sector enterprises in the State with transparency.

5.4.1.1 Lending process: The lending policies of the WBFC stipulate that it has to insist on furnishing of documents such as project report, audited financial statements, market tie-up letter, arrangement letters for working capital from the commercial banks, IT and wealth tax returns by the promoter, *etc*., before and after sanction of loans. Upon receipt of loan enquiry and application along with DPR and sources of finance, proposals in the form of enquiries/ applications are screened by the Project Screening Committee (PSC) to decide in principle whether to finance the project. Apart from the viability of the project, the repayment track record of the applying body would also be considered. WBFC's lending policy stipulates that its term loans as well as working capital loans shall invariably be secured by primary security/ collateral security[80].

Audit observed that WBFC's appraisal, sanction and disbursement mechanism seldom had independent inputs and were prepared solely based on project reports provided by borrower. There was no prescribed methodology to be applied in respect of such proposal. Absence of independent assessments and sole dependence on project reports submitted by borrowers are contributing factors behind significant loan assets becoming NPAs as discussed in the subsequent paragraphs (*under paragraph 5.4.2.2)*.

5.4.1.2 Impediment in promoting first time entrepreneur: WBFC had put in place a lending policy for fresh borrowers whereby it assigns grade points to criteria in respect of each of the attributes like prior business experience, net worth of promoters, *etc*. Under this system, it was difficult for an entrepreneur desiring to undertake a business venture for the first time to obtain a minimum qualifying weighted grade point, as his grade point under prior business experience and exposure to institutional finance would be 'nil'. Thus, WBFC's entrepreneur evaluation process was not favourable for first time entrepreneurs.

5.4.1.3 Credit Guarantee Fund Scheme for Micro & Small Enterprise (MiSE): WBFC had not subscribed to Credit Guarantee Fund Scheme[81] for Micro and Small enterprises operated by Central Government jointly with

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*[80] **Primary security** is mainly fixed assets like Land & Building, Plant & Machinery, etc., which are mortgaged as security. **Collateral security** refers to NSC, Fixed deposits being hypothecated to the Corporation. This is in the nature of additional security.*

*[81] Formally launched in August, 2000 and operational with effect from January 2000, the **Credit Guarantee Fund Scheme** for Micro and Small Enterprises (CGMSE) was launched by the Ministry of Micro, Small and Medium Enterprises, Government of India to make available collateral-free credit to the existing as well as new micro and small enterprises. A Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was created to implement the scheme. The credits were in the form of both term loans and working capital facility up to ₹50 lakh per borrowing unit without any collateral security or third party guarantee. In case the units become sick owing to factors beyond the control of management, rehabilitation assistance extended by the lender could also be covered under the guarantee scheme.*

SIDBI. With subscription to this scheme, WBFC could have provided credit facility up to ₹ 50 lakh without collaterals and third-party-guarantees to MiSE purely on the primary security of the assets financed, based on viability of a project. Absence of subscription to Credit Guarantee Fund Scheme is another obstacle to assist first time entrepreneurs and MiSEs who may not have adequate collaterals or obtain third party guarantee to secure a loan from WBFC.

Moreover, in the case units covered under the scheme become sick owing to factors beyond the control of management, rehabilitation assistance extended by the lender would also be covered under the guarantee scheme. Given the fact that substantial number of borrowing units became sick under WBFC, subscription to the scheme could have reduced the risk of loan becoming NPA.

5.4.2 Sanction and disbursement of Loans

WBFC sanctions loans to new entrepreneurs as well as existing entrepreneurs in the form of term loan and working capital term loan on the basis of loan proposals. During 2016-21 WBFC received 141 loan applications amounting to ₹ 241.92 crore of which it had sanctioned 135 loan applications having financial assistance of ₹ 232.06 crore**.** Out of these 135 loans disbursed, 61 (45 *per cent*) were disbursed for new projects, while 68 (50 *per cent*) were for expansion of existing projects. Among the remaining loans, four pertained to modernization/ replacement of projects, while diversification and rehabilitation accounted for one loan each.

Good Practices in peer organisation

Debt Equity Ratio (DER): Lending policy (2020) of Karnataka State Financial Corporation, a peer organization of WBFC, envisaged the following benchmark ratios for DER for various types of loans under MSME Sector.-

Debt-Equity Ratio to be followed for various loans under

Scheme	**Ratio**
Rehabilitation Scheme	Flexible
Modernization Scheme	Projects- 4:1
Others—Depending upon loan size	Between 3:1 and 2:1
Additional loan	Projects- 2:1; Overall :- 2:1
Credit Projects	1:1

However, it was noticed that WBFC had been following uniform DER (1.5:1) for all category of scheme. As risk exposure depends upon the category of loans, uniform DER even for high risk projects may be detrimental to financial health of the Corporation.

Policy on Group-Wise Exposure: WBFC had not prepared Group-wise exposure limit, *i.e.*, for companies and co-operative societies, for Proprietary, Partnership units, *etc.*, (which was being adopted by Financial Institution like Karnataka State Financial Corporation).

The Industry-wise break-up of sanction and disbursement is given in ***Appendix 5.2***. It was observed that, WBFC had sanctioned 32 *per cent* of loan to the manufacturing units and 68 *per cent* to trading units during 2016-17. The corresponding figures were 46 *per cent* and 54 *per cent* during 2017-18. Since then sanction of loan almost stopped. One of the core objectives of the Corporation was extending term loans for setting up industrial units/ projects and their expansion/ diversification/ modernization. It was, however, seen that in both years Corporation was more inclined towards service units while sanctioning loan. Hence, the Corporation was deviating from its core objective of promoting new industrial units/ projects.

5.4.2.1 Timeliness in processing of loan applications: In order to improve/ streamline the credit delivery efficiency, all offices of the Corporation should scrutinize the loan proposal in detail preferably within ten working days from the date of receipt of such proposal. Efforts should also be made to place the loan appraisal memo before the sanctioning authority within 21 days from the date of receipt of all information/ document without compromising due diligence and appraisal norms. Quick disposal of loan proposals was crucial to avoid time and cost overrun of the project. For manufacturing units, it also brings the products in the market in time to generate its customer base and demand.

- While analysing the time gap between the receipt of application and sanction of loan proposals, out of 135 cases sanctioned during 2016-21 and details of which were available, in 62 cases (46 *per cent*) loan was sanctioned within a period of two months. Loans were sanctioned in five cases (four *per cent*) between two and four months. Evidently, the management has not fixed any timeline for ultimate sanctioning of loans after receiving all documents from the Loan appraisal authority
- As regards the time taken for first disbursement after sanction of loan proposals, it was observed that out of 79 cases disbursed since April 2016, the following position of delay emerged
  - In 35 cases (44 *per cent*) loan was disbursed within a period of two months,
  - In 26 cases (33 *per cent*) between two to five months and
  - In 18 cases (23 *per cent*) after five months or more.

5.4.2.2 Deficient appraisal and deviations from policy leading to loans becoming NPA: As stipulated in the Lending policy, WBFC has to independently verify the viability of the project proposed to be financed and adjudge the capability of the promoter as well as past credentials of the borrowers. However, there were multiple instances of loans being sanctioned in deviation from policy, overlooking non-adherence to terms and conditions, ignoring inherent performance weaknesses and doubtful loan repayment credentials. Two such cases are illustrated below.

(i) Release of loan to a business having no statutory clearance: M/s S.S. Group had applied a Term Loan (TL) of ₹ 94.00 lakh and Working Capital Term Loan (WCTL) of ₹ 5.58 lakh for setting up a packaged drinking water unit.

As per project appraisal, the installed capacity of the unit was 36 lakh litres (ltrs) of packaged drinking water per year with capacity utilization of 60 *per cent* in 1st year, 70 *per cent* in 2nd year and 80 *per cent* in 3rd year from the implementation of the project. Scrutiny of records revealed:

- The production of the unit had stopped (June 2017) due to not obtaining of licence from Consumer Affairs Department, GoWB. This reflected the perfunctory screening by WBFC at the time of appraisal of loan.
- At the time of appraisal, WBFC has estimated security margin of ₹ 149.19 lakh which had diminished to ₹ 58.50 lakh due to delay in recovery action initiated by the WBFC.

The loan became NPA since June 2017; WBFC has served demand notice only in December 2019 and combined notice in February 2020 after a lapse of two and half years from the loan becoming NPA. The WBFC had made valuation of the mortgaged property which came to ₹ 58.50 lakh as realizable value and put the property on e-auction sale (January 2021) with a reserve price of ₹ 59 lakh with no buyer till date (November 2021).

Hence, release of loan to a production unit not having statutory clearance indicated poor appraisal on the part of the management and led to possibility of loss of ₹ 103.42 lakh (including Principal, interest and other dues).

(ii) Sanctioning of loan without commensurate securitisation: Maa Jasoda Rice Mills Private Limited (JRMPL) applied for total loan of ₹ 9.69 crore (TL: ₹ 3.19 crore and WCTL: ₹ 6.50 crore) for taking over of its entire loan with Paschim Banga Gramin Bank (PBGB) and for additional WCTL for future business expansion.

The Board of Directors of WBFC sanctioned (December 2015) the same with usual terms and conditions. As per the pre-sanctioning norms of WBFC, the assets proposed to be pledged were valued by WBFC and as per the valuer's report (January 2016) the present value of primary security was ₹ 6.47 crore. Meanwhile, JRMPL disagreed with the valuation report of the empanelled valuer and requested (January 2016) appointment of a new valuer from the list of empanelled valuers of WBFC for valuation of the properties.

However, prior to conducting the second valuation, WBFC decided (January 2016) to approve the proposal for disbursement. WBFC released ₹ 9.19 crore. It was stipulated (January 2016) that before release of ₹ 50.00 lakh JRMPL should comply with the pending issues of collateral securities, *i.e.*, Liquidation of Term Loan and WCTL of PBGB (₹ 8.01 crore) and acquisition of Current and Fixed Assets (₹ 1.18 crore).

The second valuation report (March 2016) had depicted even weaker securitization as the value of the primary security was valued at only ₹ 2.17 crore with many legal issues of the property pledged.

However, subsequent inspection (July 2016) by WBFC revealed:

- Factory was closed for about three months and power connection was disconnected with existing machinery remaining non-operational
- Machinery for expansion, installation was incomplete without pressure valves and connecting pipe. Little progress was noticed in drier plants.
- No manpower was there except one office staff.
- Raw material stock (paddy) could not be verified since the godown was locked.

Due to non-payment of dues, the WBFC invoked Section 29 of the SFC Act and took possession (December 2016) of fixed assets. In the meantime, the borrowers filed a case against WBFC for recovery action and got stay order. In October 2018, the court directed for valuation of primary security, *i.e.*, the rice mill. As per the court direction valuation was done and the value of the rice mill came to ₹ 6.02 crore.

Thus from the above it was evident that despite knowing the fact that the borrower was irregular in payments of its dues (availed from PBGB), WBFC had sanctioned a loan of ₹ 9.19 crore without commensurate securitization. As a result of such under-securitization, WBFC had blocked its fund of ₹ 9.19 crore and also incurred capital loss of at least ₹ 1.01 crore (₹ 9.19 crore *minus* ₹ 6.02 crore *minus* ₹ 2.16 crore).

More such instances have been discussed in the ***Appendix 5.3***.

It would be evident from above instances read with ***Appendix 5.3*** that substantial quantum of loan assistance turned into Non Performing Assets (NPA) for reasons attributable to inherent weaknesses of the scheme, functional weaknesses of borrowers, lackadaisical monitoring by the Corporation, undue lenience shown towards extension of repayment tenures, *etc*., or even wilful default.

5.5 Monitoring and Follow-up

WBFC adopted (January 2008) SIDBI operational guidelines on follow up and monitoring as approved by Board. Objectives of guidelines were to ensure utilization of loans for intended purposes, timely completion of projects without major deviations and compliance to terms and conditions of sanctions while ensuring adequate security, inspection of assisted units besides effective management of credit risks.

Instructions issued (January 2018) by the Corporation required obtaining of regular progress reports in respect of project implementation, prescribed inspection of units, analysis of annual accounts of loanee units including inter-firm comparisons in case of larger units, discussion with unit's bankers, *etc.* These instructions provided that a follow-up visit was one of the effective tools and considerable emphasis was to be laid on close monitoring of units with a view to ensuring proper end use of funds, progress of the projects, repayments, from the viewpoint of checking of the overall working of assisted units.

Instances of non-adherence to these guidelines and deviations therefrom as noticed by Audit are discussed in the following paragraphs:

5.5.1 Ineffective system of monitoring of defaulting units

In terms of instructions issued by the Corporation, monitoring of defaulting units required that visits to these units should be conducted regularly and the gap between two visits should preferably not be more than three months. Details of inspection carried out of defaulting units during 2016-17 to 2020-21 are tabulated below:

Table 5.7: Details of inspections carried out on defaulting units during 2016-17 to 2020-21

Sl. No.	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
1	Total no. of defaulting units	318	229	108	83	88
2	Total no. of visit to be made	1272	916	432	332	352
3	Total no. of inspection of defaulting units conducted during the year	300	447	170	85	115
4	Shortfall in number of inspections (*per cent*)	972 (76)	469 (51)	262 (61)	247 (74)	237 (67)
5	No of units visited against which visit report prepared	276	202	50	23	53
6	Shortfall in submitting visit reports	24	245	120	62	62

Source: Records of WBFC

Fall in number of defaulting units was attributed to write off of Loanee Accounts from the books of accounts (124 number of accounts) and units physically taken over (38) and sold (33) by WBFC . However, in spite of fall in number of defaulting units, there were huge shortfall in inspection (51 to 76 *per cent* annually) indicating insufficient prioritisation of the aspect of inspection.

WBFC, in its order dated January 2018, had emphasized *inter alia* on inspection of units to monitor on progress in project implementation as well as on follow-up visit for close monitoring of units in respect of proper end use of funds. Not only the same objective was unfulfilled by inadequate inspections, but also meaningfulness of such inspection was compromised by shortfall in submission of visit reports. Audit analysis in this regard disclosed the following:

- In cases where visit reports were submitted, the impact such reports had on functioning of the concerned defaulting units, if any, were not imminent.
- Audit observed that out of 3,304 mandatory visits during 2016-17 to 2020-21, the branch offices visited only 1,117 units (33 *per cent*). It was further noticed that no target with reference to extant norms was fixed in respect of Durgapur and Malda branch offices and the Headquarters office, which resulted in violation of its own norms. Further, the Durgapur branch office did not prepare any visit reports. Further, during this period, these branch offices prepared visit reports relating to 604 visits which worked out to only 54 *per cent* of the total units visited by these branch offices. This indicated that the branch offices did not monitor the defaulting units as per the norms laid down by the WBFC. Further, the monitoring mechanism was not sound enough to ensure strict compliance of the directions issued as no action against non-compliance of these norms was found on record. Further, in absence of effective monitoring, cases of default were not being properly analysed.
- The Corporation did not categorise frequency of visits on the amount of outstanding following good practices followed in other peer organization like Rajasthan Financial Corporation.

As defaulting units were adversely impacting repayments, following prescribed measures were essential, to keep proper monitoring over their functioning and reverse their downward movement.

- For Standard Asset[82] Accounts, the concerned official(s) were to ensure that follow-up inspection were conducted from time to time in order to have a regular feedback and stock taking of the working and performance status of the unit concerned.
- Standard Assets which exhibited early warning signals and overdues did not exceed a period of 90 days, were to be categorized as Special Mention Accounts (SMA). These Accounts required special attention to reverse their downward movement, *i.e.* slippage to NPA. The SMA category of Standard Asset Accounts were to be attended to by Monitoring Department at Headquarters of the WBFC & the Branch Managers of the

[82] ***Standard assets*** *are those assets i.r.o which no default in repayment of principal and interest is perceived and did not disclose any signs of impairment nor carry more than normal risk attached to the business.*

branch offices. All out efforts which *inter alia* included frequent site visits and verification of Assets were to be made to set right irregularities.

Audit scrutiny in this context disclosed the following

- No Action Plan was formulated to oversee as to how this critical aspect of asset quality was to be monitored. Though, the branch offices were required to submit a report on SMAs under their control within tenth of next month to Headquarters of WBFC, no such report on SMAs, was however, available on record.
- As field visits were of paramount importance, it was essential that suitable modalities were evolved in this regard in the Loan Recovery and NPA Management Policy also, however, no such modalities were evolved.

To sum up, it was observed that, despite such non-compliances *viz.*, shortfall in field visits/ submission of field visit reports and non-formulation of Action Plan/ absence of monitoring over the SMAs, being noticed, no action in respect of such non-compliances were initiated.

5.5.2 Progress report

As per follow up and monitoring guideline, WBFC was required to obtain Progress Report from borrowers, quarterly in case of projects under implementation and half-yearly for projects under operation. Progress Reports were to be compared with original project proposals on the basis of which loans were sanctioned.

Audit scrutiny did not find any progress report either during implementation of the projects or after the projects were put into operation. Thus, Corporation remained unaware of proper implementation or progress of projects financed by it. A case study is given below, to elucidate the non-compliance.

Case Study

M/s Mangla Gouri Ispat Udyog (Pvt.) Limited (MGIUL) was incorporated in July 2014 with the objective of production of Billets/ Ingots. MGIUL approached WBFC for term loan of ₹5.00 crore under 'Loan against mortgage of property' for i) renovation of Business property/ Assets and ii) as additional margin for working capital at its unit in Bamunara Industrial Estate, Durgapur. Total loan of ₹5.00 crore was disbursed to MGIUL in March 2016 and May 2016. The loan was to be repaid in 19 installments within five years including moratorium of six months.

The unit was inspected before sanction of the term loan, on 11 January 2016 and based on such inspection, the term loan was sanctioned (February 2016), subject to fulfillment of pre-disbursement terms & conditions which inter alia included the following:

a) The borrower was to provide a Chartered Accountant (CA) certified statement on the end use of loan funds within two months from each disbursement.

b) The existing loan account of the company with WBFC was default free.

Accordingly, MGIUL submitted a CA certificate before second disbursement, indicating that the first disbursement (meant for renovation of business properties) was utilised for procurement of raw materials and to clear the outstanding dues against supplies of raw materials. This was not in keeping with the sanction, as funds were to be used for renovation of business properties. Moreover, it was seen that no documentary evidence in support of the fund utilisation certificate was on record. It was also noticed that before second disbursement, no fund utilization certificate as per the format prescribed by WBFC was furnished, rather, only an undertaking was *furnished by mail that the same would be furnished within one month. The Corporation, however, on the basis of the undertaking, disbursed (23.05.16) ₹2.50 crore.*

Despite such scenario, the WBFC did not make any attempt to obtain progress reports or even undertake field visits to ascertain the progress of works. As there was no monitoring by the WBFC, it was unaware about the progress of work, i.e., whether the work was in progress or had been stalled/ abandoned.

An inspection was undertaken by WBFC in August 2017 only, wherein it was found that the operation was going on at a low volume and default amount stood at ₹ 67.43 lakh (Principal ₹52.43 lakh, Interest ₹15.00 lakh).

Faced with such default in repayments, the WBFC, however, issued demand notices (April 2018, May 2018, October 2018 and February 2020), though, possession of mortgaged property had not been taken till September 2021. Repayment of ₹4.00 crore, including principal amount of ₹3.16 crore, was made in February, 2021. However, the prospect of recovery of the residual principal amount (₹1.84 crore) and interest of ₹ 6.34 lakh, appeared doubtful.

5.5.3 Poor monitoring of project implementation

Monitoring of project implementation by the WBFC was reviewed in audit, through test-check of cases relating to sanction of loans by WBFC and follow up thereon. Case studies thereon, are illustrated below, to highlight non-compliances relating to monitoring.

5.5.3.1 Maa Sherawali Ispat Private Limited (MSIPL): The organisation was sanctioned (November 2013) two additional term loans (ATL) aggregating ₹ 18.50 crore by WBFC for setting up its second ferro alloy plant of 13,500 Million Tonnes Per Annum (MTPA) capacity at its existing factory premises in Burdwan. The loan was to be disbursed directly to the suppliers as far as practicable, as per terms and conditions of sanction. Audit scrutiny in this regard disclosed that

i) WBFC did not seek audited year-wise financial statements from MSIPL to assess its financial position. There was lack of inspection before disbursement by the WBFC. Modalities following which the feasibility of the project was assessed by WBFC remained unclear from available documents. So, modalities followed by WBFC, for sanction of the loan, were also not forthcoming from records, nor were the same explained to Audit, though called for. This indicated that monitoring over the pre-sanction process, was far from effective.

ii) WBFC had disbursed (2014-15) ₹ 13.45 crore to the unit and only ₹ 50 lakh to the supplier's account. The residual amount (*i.e.* ₹ 4.55 crore) was not disbursed. By disbursing such amount directly to MSIPL, WBFC deviated from its terms and conditions of disbursing loan directly to the suppliers as far as practicable.

iii) After taking up the expansion work, the MSIPL in January 2015, conveyed its inability regarding continuing with the expansion work as the market was not conducive to do business. Considering its financial interest, the WBFC, was to assess the correctness of this aspect. However, there was no monitoring evident on this issue, before accepting the submission of MSIPL and even there was no monitoring over the progress of the work, excepting for an inspection in April 2015, which showed that there was no visible progress under the project and the existing plant itself was being operated in a staggered manner.

iv) In this way, the MSIPL did not complete its expansion project and was shut down in November 2015. MSIPL neither paid any interest nor repaid principal amount on the loan.

v) WBFC had been trying (since September 2017) to recover its dues, through selling of assets of MSIPL, efforts in this regard, were yet to fructify (September 2021).

Thus, inadequacies in the manner of sanction of loans indicating lack of monitoring over the pre-sanction process & absence of proper monitoring over implementation of the expansion work, allowed the unit the scope to stop the work and finally shut down. This resulted in non-recovery of ₹ 21.96 crore (Principal[83]- ₹ 11.27 crore and Interest- ₹ 10.69 crore) remaining outstanding (as of September 2021) and also rendered the scope of recovery doubtful.

5.5.3.2 Mr. Eliyas Shaikh: Term loan of ₹ 1.75 crore and additional Term loan of ₹ 50 lakh were sanctioned during July 2015 to November 2016 to Mr. Eliyas Shaikh for construction of a warehouse at Debra in Paschim Medinipur. These loans were disbursed between December 2015 and April 2017.

As per practice followed in civil construction projects, loan was to be disbursed on progressive basis. However, in the instant case, WBFC had disbursed the term loan as well as additional term loan in full without making progress based disbursements.

After availing the full amount of loan, the borrower did not make any repayment to the WBFC. No monitoring of project implementation was undertaken by WBFC. The project remained incomplete as of November 2021. Mortgaged assets were put on auction (June 2020), for recovery of dues, but assets were lying unsold (November 2021).

As a consequence, the entire disbursement effectively remained blocked, without its intended utilisation. As of March 2021, the recoverable amount stood at ₹ 3.26 crore (₹ 1.77 crore plus ₹ 1.49 crore).

5.5.3.3 Dedico Transport Private Limited: Dedico Transport Pvt. Ltd. (DTPL) applied (June 2016) for a term loan of ₹ 8.15 crore to develop building/ infrastructure for IT/ ITeS Companies on 1.60 acre of land within non-airport land area of Aerotropolis project being developed by Bengal Aerotropolis Project Ltd. (BAPL) at Andal in Paschim Bardhaman district of West Bengal. WBFC sanctioned ₹ 8.15 crore of which ₹ 6.00 crore was disbursed in June 2016.

An inspection (March 2018) was carried out and the report pointed out the following adverse observations:

- The project land was found underdeveloped and totally vacant.
- There was no boundary wall or any other demarcation on the said land.
- No structure or any other civil work was found at the project site.
- No civil construction materials were found at that site.

[83] *After adjustment of Letter of Credits of ₹1.50 crore*

The directors of DTPL expressed their inability to repay the loan to WBFC and also informed (February 2020) the WBFC that they would be coming up with the proposal for liquidation of the loan of DTPL with WBFC.

In this connection Audit observed the following:

- Though the work was to be executed and paid for stage-wise, WBFC disbursed the total amount of loan without analyzing the stage-wise requirement of funds in the said project.
- After disbursement of ₹ 6 crore, WBFC had not made any inspection regarding utilization of disbursed fund for more than 18 months and had made inspection only after getting observation from its internal audit section.
- WBFC had received no objection from West Bengal Industrial Development Corporation Limited regarding reassignment of mortgaged land of 1.60 acre with several terms and conditions which made it difficult to reassign said land.

Had the WBFC disbursed loan on actual requirement basis and kept proper monitoring towards utilization of such fund it could have saved itself from blocking of ₹ 2.84 crore (outstanding principal amount after repayment of ₹ 3.14 crore) towards principal and loss of ₹ 86.98 lakh towards interest thereon upto July 2021.

5.5.3.4 M/s Saha Archade: M/s Saha Archade (SA) applied (December, 2011) for a term Loan of ₹ 30.00 Lakh for setting up of a Lodge cum Commercial complex at Debinagar (Millpara), Mynaguri, Jalpaiguri. After availing of full amount of loan the loanee failed to complete its project in time and requested WBFC for rephasement which was obliged by the WBFC. Even after rephasement, loanee failed to complete the project after lapse of almost three years from the 1st disbursement. As a recovery measure WBFC issued (November 2016) demand notice under section 30. In this connection Audit observed the following:

- The loanee had defaulted since inception. However, the WBFC neither took physical possession of the mortgaged assets nor took any strong recovery action (e.g. physical possession of the unit) against defaulter.
- The loan was finally disbursed in October, 2013. Since then eight years has already been passed without any recovery. This resulted in blocking of ₹ 23.61 lakh as principal (after recovery of ₹ 6.39 lakh made by encashment of Liquid collateral security) and interest of ₹ 11.13 lakh as of February 2021.

Hence, negligence on the part of management in monitoring resulted in blocking of ₹ 23.61 lakh as Principal and loss of ₹ 11.13 lakh towards interest as of February 2021.

5.5.4 Inspection of assisted units

WBFC's policy stipulates quarterly inspection of units during project implementation stage and half yearly inspection at project operation stage. In absence of regular inspection, WBFC could not assess the successful completion of the project and its operational performance. Thus, it could not take timely action to prevent default of the loan accounts as would be evident from the following:

5.5.4.1 M/s Vega Inn: A term loan of ₹ 230.00 lakh was sanctioned (January 2016) to M/s Vega Inn under 'Loan Against Mortgage of Property (LAMP) scheme' for capital expenditure on existing hotel including swapping of the existing term loan of the unit with OBC Andal Branch, Burdwan.

Since inception the loanee was irregular in payment of its dues which resulted in accounts becoming NPA. As a recovery measure demand and possession notice were served. Thereafter notional possession was taken in December 2017. The unit was last inspected in March, 2018 and found that the unit was running at a low scale and the 'Bar' was closed. By finding no other way to recover the dues the WBFC made a revaluation of the assets of M/s Vega Inn through its empanelled valuer who, in its report, reported that the realizable value of the said assets was ₹ 316.35 lakh and forced sale value was ₹ 279.00 lakh. On getting of valuation report the WBFC went for e-auction sale of the said assets on 07.01.2021with a reserve price of ₹ 285.00 lakh but no offers were received till date (October, 2021). In the meantime proprietor of M/s Vegs Inn requested for one-time settlement which was rejected by the WBFC on the ground that the loanee had not submitted any concrete One Time Settlement (OTS) proposal in their request.

In this connection Audit observed the following:

- WBFC had made huge delay in recovery action. Since inception the loanee defaulted in payment of its dues whereas the WBFC took physical possession in February, 2020 and put the property on sale. Hence, there was a time gap of 3 (three) years in taking strong recovery action against defaulting loanee.
- It was strictly mentioned in sanction letter that the loan would be utilized for capital expenditure only whereas the WBFC disbursed ₹ 115.00 lakh merely on the basis of production of vouchers provided by the borrower without verifying the assets acquired thereagainst.
- The loanee neither submitted utilization certificate of the loan disbursed nor the WBFC sought for the same. However, the WBFC levied one *per cent* penal interest for the same which served no meaningful purpose and only raised the outstanding in the book of the WBFC.
- At the time of sanction of loan, the WBFC has collected ₹ 25.00 lakh as Liquid Collateral Security from M/s Vega Inn which was subsequently replaced with land which has resulted in reduction in liquidity for recovery.

5.5.4.2 M/s KEM Creation and AVM Designers Private Limited: M/s KEM Creation and AVM Designers Pvt. Ltd. were sanctioned and released term loans of ₹ 62 lakh (between January and March 2012) and ₹ 280 lakh (between March and April 2012) respectively for acquiring high speed with single sequence embroidery machines.

However, both loanees failed to make full payments in time and WBFC sent several reminders for payment. Finally, notional possession of the Plant and Machinery valuing ₹ 29.20 lakh and ₹ 110.23 lakh (Distressed value) of KEM Creation and AVM Designers Pvt Ltd respectively were taken over (October 2015) by the WBFC. The machines were found missing on a routine inspection (July 2016). The WBFC lodged (September 2016) an FIR that the directors of the loanees with the help of caretaker had misappropriated the funds, breached the trust of the WBFC, removed the machines and cheated the WBFC.

Finally, by finding no way to recover the dues from said loanee, WBFC had charged a sum of ₹ 370.59 lakh (*i.e.*, ₹ 299.38 lakh against AVM Designer and ₹ 71.21 lakh against KEM Creation) as bad debt in its annual account during 2018-19. Hence, disbursements of loan without complying pre-disbursements conditions and lack of monitoring resulted in loss of ₹ 370.59 lakh.

5.5.5 Insurance of primary security

As per the Lending policy, the borrower, at its own expenses, insure and keep insured the entire assets of its unit financed by and hypothecated or mortgaged to the WBFC under a policy of insurance for their full values.

WBFC requires insurance of all primary securities at replacement value of those assets. However, Audit observed that WBFC only enforced insurance of primary security against loan accounts which are not in default. Once an account runs into default, the insurance of its assets was not renewed. WBFC could not provide consistent data in respect of the value of its assets kept as security for the past five years. Absence of insurance exposed WBFC to financial risks because in case of loss of these assets *{instances of loss of assets due to theft/ pilferage discussed later in the report vide 5.6.2.8}*, WBFC would not be able to realise any claim from insurance company. Borrower was required to insure mortgaged assets and submit financial statements to WBFC.

During scrutiny of Insurance registers maintained at HQ office of WBFC it was noticed that in respect of 42 units monitored from HQ office of WBFC, Insurance against assets pledged were not renewed in time resulting in probable loss to the Corporation in case of loss of property due to fire/ flood/ theft, *etc*.

5.5.6 Non-maintenance of records in respect of properties of promoters/ guarantors

Under Section 3.4.2 of Lending Policy, WBFC management is required to maintain current and conclusive credentials on resourcefulness of the promoters/ guarantors including net worth, details of immovable properties, movable assets, liabilities, *etc*. This will enable the WBFC to keep track of the properties of the guarantors for the purpose of invocation of SFC Act for realization of outstanding dues.

While reviewing the records of selected branch offices, Audit observed that none of the three branches as well as Barasat extension office of Headquarters maintained the requisite register for other properties which belonged to promoters/ guarantors. Thus, the Branch offices did not adhere to the directions issued by the higher management which might hamper recovery of dues in case of defaults in repayment.

5.6 Compliance to recovery procedures, rules and regulations

The WBFC intimates a schedule of recovery to the borrowers as per the agreement to ensure timely recovery of loans by way of equated quarterly instalments along with applicable interest. In the event of default, the WBFC may refix, postpone, defer and reschedule the instalments/ loan in case the borrower has valid reasons for non-payment of dues. In case of wilful defaulter, the WBFC may initiate action under various sections of the SFC Act. The WBFC also affects recovery of dues through default recovery meetings and OTS schemes implemented from time to time.

5.6.1 Recovery manual

WBFC had adopted (in July 2014 and modified in March 2017) a new Loan Recovery and NPA management policy to implement uniform recovery procedure. The Manual specified norms for asset classification and recovery procedure for each class of asset. It also laid down norms for revision of repayment terms for borrowers, creation of second charge on primary security, prepayment of loans by borrowers, compromise settlement with borrowers including one-time settlements, enforcement of recovery provisions of the Act enabling takeover of assets of the defaulters, invoking personal guarantees, issue of 'no due certificate' and release of security documents, *etc*.

It was observed in audit that the Recovery Manual of WBFC does not include detailed procedures and responsibility centres for maintaining/ updating recovery files and status reports for various loans disbursed by it. This led to lack of co-ordinated institutionalized initiatives for recovery pursuance.

5.6.2 Management of NPAs

A loan is considered as a Non performing asset (NPA) once the principal or interest payment remains overdue for a period of 90 days. The position of NPAs in any financial institution is one of the most important indicator of financial soundness as it directly affects the profitability and financial planning. As already indicated earlier in the report, the percentage of NPAs to total loan assets rose steadily and alarmingly from 26 *per cent* in 2016-17 to 82 *per cent* in 2020-21. Apart from instances of lack of due diligence in appraisal of loans and non-adherence to terms and conditions, the loan recovery performance was compounded by lack of proper follow-up, delayed recovery action, *etc*.

5.6.2.1 Classification of Assets: Loan accounts are classified according to the asset classification guidelines of SIDBI depending upon the payments made by the loanees. In accordance with the extant guidelines of SIDBI on asset classification the WBFC has classified loans as Standard, Sub-standard, Doubtful and loss category depending upon the period of default.

Table 5.8: Classification of Assets as per SIDBI guidelines

Standard assets	Where repayments are regular
Sub-standard assets	Where loans and interests remain overdue for a period exceeding six months but not exceeding one year
Doubtful assets	Where loans and interests remain overdue for a period exceeding one year but not exceeding three years
Loss assets	Where loans and interests remain overdue for a period exceeding three years

Source: SIDBI norms

Doubtful Assets (DA) are further classified into DA1, DA2 and DA3 (with increasing default period) on the basis of periodicity of default. WBFC's norms provided that slippage of account into NPA should be watched through close follow up and regular monitoring of non-defaulting units. The position of asset category and their percentage against total assets for the years 2016-21 are given in the ***Appendix 5.4***, which is summarized below.

Table 5.9: Asset Category and their percentage against Total Asset

(₹in crore)

Class of Assets	2016-17		2017-18		2018-19		2019-20		2020-21	
	No. of Accounts	Gross Assets	No. of Accounts	Gross Assets	No. of Accounts	Gross Assets	No. of Accounts	Gross Assets	No. of Accounts	Gross Assets
Standard Assets	567	478.60 (74.10)	393	346.09 (63.12)	205	169.42 (37.25)	125	96.60 (29.10)	52	45.43 (18.47)
Sub Standard Assets	60	105.72 (16.37)	67	59.14 (10.78)	111	123.38 (27.13)	36	32.68 (9.84)	21	6.71 (2.73)
Doubtful Assets	81	61.59 (9.53)	109	143.08 (26.09)	128	162.01 (35.62)	190	202.68 (61.06)	159	193.76 (78.79)
Loss Assets	9	0.00	0	0.00	0	0.00	0	0.00	0	0
Grand Total :	**717**	**645.91**	**569**	**548.31**	**444**	**454.81**	**351**	**331.96**	**232**	**245.91**

Source: Annual report of WBFC; Gross Assets means Principal and other dues only; figures in bracket reflected percentage of Assets to Total Assets

From the ***Appendix 5.4*** read with table above as well as **Table 5.4.3** under *paragraph 5.2.2* earlier, it was observed that the percentage of Standard assets to total assets diminished from 74.10 *per cent* in 2016-17 to 18.47 *per cent* in 2020-21, whereas the sub-standard assets to total assets diminished from 16.37 *per cent* to 2.73 *per cent* during the same period. Further, it was observed that, the doubtful assets alarmingly increased from 9.53 *per cent* in 2016-17 to 78.79 *per cent* in 2020-21. It was also observed that currently (*i.e.*, in 2020-21) more than fifty *per cent* of the loanees were under doubtful category.

Although, the WBFC has formulated guidelines for monitoring and follow-ups, no monitoring was done after final disbursement, so long the assets are classified as standard assets.

A high percentage (82 *per cent* in 2020-21) of NPAs was mainly attributable to steep fall in total loan assets of WBFC coupled with factors like high interest rates, improper evaluation and appraisal of projects, deficient inspection and follow up, *etc*., as discussed at various places of the report. Moreover, in Recovery Division, there was no system of annual review of the current accounts of the borrowers to detect the early warning signals of default.

5.6.2.2 Overdue analysis: The **Table 5.10** below provides details of recovery.

Table 5.10: Details of recovery made during 2016-17 to 2020-21

	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
		(₹ in lakh)				
1	2	3	4	5	6	7
A	*Receivable*					
1	Amount due at the beginning of the Year	53,454	53,371	62,238	69,494	77,253
2	Add - Current Demand	30,529	34,619	25,036	21,969	12,615
3	Less- Re-scheduled, waived, *etc.*, during the Year	1,690	526	3,308	2,250	2,020
4	Total Net Demand/ Recoverable	82,293	87,464	83,966	89,213	87,848
B	*Recovered*					
5	Out of arrear Demand	2,771	2,251	2,011	4,426	3,693
6	Out of current Demand	25,430	22,975	12,461	12,175	7,151
7	Total Recovered	28,201	25,226	14,472	16,598	10,844
	Amount Due at the end of the Year (4-7)	54,092	62,238	69,494	72,615	77,004
C	*Overdue*					
8	For earlier years	50,600	59,987	67,438	60,443	74,753
9	For current years	2,771	2,251	2,011	12,172	2,251

	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
		(₹ in lakh)				
1	2	3	4	5	6	7
10	*Percentage* of Recovery of old dues to amount due at the beginning of the Year (Col. 5/ Col. 1)	5.18	4.22	3.23	17.52	4.78
11	*Percentage* of Recovery of current demand to current dues recoverable (Col. 6/ Col. 2)	83.30	66.37	49.77	20.15	56.69
12	*Percentage* of Total Recovery to Total Demand recoverable (Col. 7/ Col. 4)	34.27	28.84	17.24	18.60	12.34

Source: Data provided by the management; ***Note:*** *Difference between closing balance and opening balance is due to Bad-debts written-off during the year; Amount due at the beginning of the year and current demand includes Principal +Interest+ other dues (legal fees, write-off dues, etc.).*

Analysis of amount of overdue principal, overdue interest, amount due for recovery and amount recovered during the period from 2016-17 to 2020-21 as depicted in the above **Table** revealed the following facts:-

- The total recovery of the WBFC has declined from 34 *per cent* in 2016-17 to 12 *per cent* in 2020-21. The main reason for decline in recovery was that the WBFC has failed to realize/ recover their current due which has fallen from 83.30 *per cent* in 2016-17 to 20.15 *per cent* in 2019-20, again rising to 56.69 *per cent* during 2020-21.
- It was noticed that in all the years covered by Audit, out of total amount recoverable at the end of respective years, actual recovery was made mainly from current demand (excepting for 2019-20), indicating lack of effort in recovering the old dues. This may be viewed with deficient efforts of WBFC in recovery of dues through disposal of assets of defaulting units.

5.6.2.3 Reschedule and Rephasement of Loans: During the course of recovery, the recovery officers are supposed to ascertain the performance of the unit and the various problems faced by the unit through frequent visits to the unit. There may be cases where the loanee completed the implementation of the project and even functioned for few years but were still facing problems in running the unit in spite of earnest efforts. In such cases, if the recovery officer *prima facie* finds that the units needed rephasement, then he should take up rescheduling of the repayment of loans after collecting/ ascertaining certain details, *e.g.* audited accounts for preceding three years, reasons for default; projected profitability and cash flow statements *vis-à-vis* detailed assumptions for satisfactorily functioning in future years; details of working capital requirements, *etc*. As per the recovery manual of WBFC, revision of repayment terms under standard or sub-standard accounts are allowed in deserving cases which are sustainable and viable to enable the borrower overcome bottlenecks, temporary and unforeseen setbacks.

Audit observed that the rescheduling of loan accounts was done by WBFC without reassessing the viability of the project, its projected cash flow or an analysis of the causes that led to rescheduling of loans. Out of 74 loan accounts rescheduled during 2016-21, 12 loans (16 *per cent*) were rescheduled for the second time. Of these 74 loan accounts, 41 accounts turned NPA as of March 2021. This indicated that there were lacunae in assessment of genuineness of the factors which had been considered for re-scheduling of loan accounts. The frequent rescheduling of loan accounts was a matter of concern as it might dilute the deterrence against habitual defaulting.

5.6.2.4 Recovery through Default Review Committee: Recovery camps are conducted from time to time in the branch offices and Default Review Committee meetings are held to analyse the reasons for default. Eligible cases are granted Re-schedulement of Principal amount of loan or interest as a measure of relief to prevent further default. Accounts with little or no security back up are allowed compromised settlements of loans. The DRC at Head office are to meet once in every two months (six meetings per year) while the Branch offices are required to meet monthly, *i.e.*, twelve times a year. The table below shows performance of DRCs.

Table 5.11: Performance of DRCs

Years	No. of DRC meetings*	No. of units discussed		Spot collection (₹ in lakh)
		Called	Absent	
2016-17	21	141	122	175.04
2017-18	10	125	70	132.39
2018-19	2	20	17	53.43
2019-20	0	--	--	--
2020-21	0	--	--	--

*Source: WBFC's Register of DRC meetings decision; *42 DRC meetings were to be held (Head Office: six and three Branch offices @ 12 each)*

No DRC meeting was held during 2019-20 and 2020-21. Even during, 2018-19 only two meetings were held. Even the attendance of defaulting borrowers in these meetings was not encouraging as 73 *per cent*[84] of the borrowers did not attend these meetings though invited. This indicated complete dilution of the mechanism of DRC during last few years indicating lax functioning of the Branch Offices. Audit observed that competent authority did not take any action against the defaulting Branch offices for not conducting the meeting of DRCs in violation of laid down directions. It indicates that the mechanism prescribed for monitoring of the cases of defaults by the borrowers was defunct.

Though most of the NPA cases occurred prior to April 2016, the WBFC could not effect much recovery in these during 2016-21. The recovery towards spot collection has decreased from ₹ 175.04 lakh in 2016-17 to nil during 2020-21.

5.6.2.5 Recovery through Compromise settlements: Section 24 of SFC Act, 1951, envisages that the boards of State Financial Corporations (WBFC in case of WB), would discharge their functions under the Act, act on business principles giving due regard to the interests of industry, commerce and the general public. Based on this idea, WBFC devised One Time Settlement Schemes for settling difficult and hard cases where early recovery was not possible. The aim was to have a lenient view on defaulting borrowers, who, in spite of good intention, could not run the project successfully due to factors beyond their control. Apart from these, WBFC may offer compromise settlements in those cases where the assets of the borrowing unit deteriorated due to certain unforeseeable conditions. The main objectives of OTS scheme are:

[84] *Out of total 286 units called during last five years, 209 were absent*

- to settle the sticky loan accounts and collect maximum possible amounts as early as possible so that these funds can be recycled to earn interest income;
- to improve the overall quality of asset portfolio of the Corporation;
- to improve the recovery rate *vis-à-vis* demand and to reduce NPAs.

The progress made so far has been reviewed and it has been observed that, despite such one-time settlement schemes in previous years, there still exist on the WBFC's books of accounts substantial NPAs which could be categorized as difficult cases from the point of view of recovery.

Table 5.12: Details of approvals and amount sacrificed due to compromise settlement cases during 2016-17 to 2020-21 ***(₹in lakh)***

Sl. No.	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21	Total
1	No. of accounts settled	73	69	06	10	14	**172**
2	Amount of outstanding (A)	450.64	688.47	414.91	208.65	593.29	**2,355.96**
3	Amount approved/ settled (B)	260.63	364.58	92.18	113.67	285.48	**1,116.54**
4.	Amount received (C)	79.88	149.60	11.00	113.32	259.32	**613.12**
5	Short receipt (D=B-C)	180.75	214.98	81.18	0.35	26.16	**503.42**
6	Amount sacrificed/ waived (E=A-C)	370.76	538.87	403.91	95.33	333.97	**1,742.84**
7	Sacrifice ratio	82.27	78.27	97.35	45.69	56.29	**73.98**

Source: Data provided by management of WBFC

- As per the loan policy of the WBFC, the amount recovered through Compromise settlement should include principal and simple interest. In 172 number of cases mentioned above, the amount waived was ₹ 1,742.84 lakh, which worked out to 73.98 *per cent* of total dues. It is pertinent to mention that the WBFC had neither valued the collateral security in the form of mortgaged freehold immovable properties nor invoked the same before extending the OTS scheme to the defaulters. Thus, this action of WBFC compromised its own financial interest which might result in undue benefit to wilful defaulters.
- As per the Corporation's NPA management and Loan recovery policy, sacrifice of principal amount would never be done unless there is approval of the Board in exceptional cases[85]. Audit, however, observed that the WBFC waived principal of ₹ 17.43 crore during 2016-21 without exhausting all legal provisions. Moreover, as discussed earlier in the Report, efforts of the Corporation in recovery of dues were often not adequate.

The above deficiencies indicated that the recovery action was not timely and OTS was extended even to wilful defaulters which led to increase in NPA as is evident from the instances illustrated at *paragraph 5.6.2.8*.

5.6.2.6 Recovery Framework in NPA cases under State Finance Corporations Act: The WBFC has been empowered and endowed with legal remedies under the following provisions of SFCs Act 1951:

[85] *As per para 9 of the Policy, a loan account may be determined as uncollectible only under certain exceptional situations e.g. recovery procedures executed through existing provisions of law but account still remaining in default; debtor cannot be located and there is no tangible asset back up, debtor has no asset, debt is disputed, debt is discharged in bankruptcy, etc.*

Table 5.13: Legal framework for recovery

Legal standing	Provisions
Section 29 of SFCs Act	Provides the right to take over the management or possession or both of the industrial concern as well as the right to transfer by way of lease or sale and realise the property pledged, mortgaged, hypothecated or assigned to the WBFC
Section 30 of SFCs Act	Allows the WBFC to call for entire repayment before agreed period
Section 31 of SFCs Act	Provides special provisions for enforcement of claims by filing of civil suit
Section 32 of SFCs Act	States the procedure in respect of application to be filed under Section 31. It also allows the WBFC to recover its dues as an arrear of land revenue in the manner prescribed by the State Government
Others	WBFC may opt to take recovery action under provisions of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, Insolvency and Bankruptcy Code (IBC) 2016, *etc*.

Source: SFC Act

The status of unit sold and recovery made by invoking section 29 showed that out of 241 units available with the WBFC for recovery of outstanding dues of ₹ 259.36 crore during 2016-21, Corporation could invoke section 29 for 33 units with outstanding dues of ₹ 63.60 crore and sold assets for ₹ 16.73 crore. Delay in the process of disposal led to such low level of recovery. As of March 2021, the WBFC had possession of 11 units (by invocation of section 29) having outstanding dues of ₹ 29.99 crore.

The huge delay in taking legal action against the defaulting borrowers and in disposal of units reflected serious shortcomings in recovery of its dues by the WBFC. Some defaulting borrowers also took the benefit of the prevailing system as they got themselves out of legal action either by paying some amount on issue of notices or getting the loans rescheduled. By the time the next notice(s) were issued or physical possession were taken over, the assets/ security were sold or manipulated.

During review of selected cases, some cases were observed where the WBFC ignored continuous defaults of borrowers and kept on providing opportunities to them for repaying the loans/ overdues instead of taking recovery action under section(s) 29/30 of the SFCs Act, The deficiencies noticed in these cases are discussed in case studies *vide* *paragraph 5.6.2.8*.

5.6.2.7 Delay in disposal of assets in possession: As per the Loan Recovery and NPA Management Policy of WBFC, assets in possession of the WBFC should be disposed of in a timely manner and proactive efforts are required to be made for locating suitable buyers for units in possession so as to ensure quick disposal of assets at the competitive prices. No asset should remain undisposed after six months from taking into possession until and unless there are specific reasons.

Table 5.14: Age profile of indisposed assets

Period of possession	No. of units	Total outstanding as on 31st March 2021 (*₹ in Lakh*)			
		Principal	Interest	Others	Total
Less than six months	3	63.34	27.28	0.00	90.62
From more than six months to one year	8	1,737.00	773.00	0.00	2,510.00

Period of possession	No. of units	Total outstanding as on 31st March 2021 (₹ *in Lakh*)			
		Principal	Interest	Others	Total
From more than one year to two year	18	4,750.27	1,414.10	0.68	6,165.05
More than two years	55	12,689.02	1,899.97	37.02	14,626.01
Total	**84**	**19,239.63**	**4,114.35**	**37.70**	**23,391.68**

Source: Data provided by the management of WBFC

The Corporation did not fix any annual targets to dispose of assets. Out of 84 units in possession and awaiting disposal, 55 units (65 *per cent*) were pending for more than two years, whereas 96 *per cent* have been remaining undisposed beyond the stipulated period of six months as of March 2021. It would be seen that

- The Marketable realizable value (MRV) as per the latest valuation done in respect of 17 units (₹ 408.65 lakh) was not sufficient to cover the outstanding dues (₹ 1,316.97 lakh) and there was shortfall of ₹ 908.32 lakh towards recovery of dues.
- Further analysis disclosed that in 66 cases, though possession was taken, no latest valuation was carried out as per the Corporation's norms (at every three years interval) to ascertain the latest MRV of assets so that the assets can be put to auction.
- There were also five cases where the Market value of assets (₹ 186.03lakh) were more than the outstanding dues (₹ 94.79 lakh) but the WBFC did not dispose them off by putting them in auction.

Thus, due to delay in initiating action for disposal of units in possession, non-disposal of no of units despite several auctions, outstanding dues worth ₹ 233.92 crore remained unrecovered despite the WBFC having possession of these units. Moreover, WBFC had to shoulder expenditure to the tune of ₹ 114.09 lakh towards security of these undisposed assets for the period 2016-21.

Audit observed that the WBFC did not analyse reasons for poor response in auctions held for sale of assets. Further, inordinate delay in disposal of these units resulted in substantial decrease in MRV of the assets in cases where depreciable assets *viz.*, Plant and Machinery are involved.

5.6.2.8 Some case studies on undue lenience in recovery of dues

(i) Allowing frequent opportunities to a defaulter borrower: Millenium Mercantile Private Limited (MMPL) had applied (September 2011) for a term loan of ₹ 200.00 lakh for setting up a 6200 square feet restaurant at Kolkata. The total project cost was ₹ 320.00 lakh with promoter's contribution of ₹ 120.00 lakh. The term loan of ₹ 200.00 lakh was sanctioned (September 2011) and disbursed in October 2011 on usual term and conditions (repayment period being October 2012 to October 2016), which were accepted (October 2011) unconditionally by MMPL.

The MMPL maintained the term loan account default free till March 2013 and subsequently slipped into NPA on default in repayment of ₹ 31.16 lakh in September 2013. MMPL requested (December 2013) the WBFC for rephasement of term loan and defer the repayment schedule by 12 months and also to increase the total repayment period. Again in May 2014, MMPL prayed that the rephasement schedule be further deferred with a repayment period of five years from the date of rephasement with a moratorium period of nine months. MMPL further requested (March 2015) to restructure the loan account payable in 48 monthly instalments commencing from April 2016. WBFC restructured (March 2015) the repayment schedule with 48 monthly instalments, (46 monthly instalment of ₹ 3.00 lakh each and last two instalments of ₹ 3.50 lakh each) with first instalment due on November 2015.

However, the repayment was again defaulted and WBFC took the physical possession of the assets in July 2017. The Sale notice was, however, issued after a lapse of eight months from the date of possession.

Repeated rephasement of defaulted loan followed by delay in taking physical possession and pursuing sale of assets led to possibility of loss of assets and resultant loss of ₹ 95.60 lakh (principal and other dues).

However, management had not yet been able to liquidate the assets (November 2021).

(ii) Delay in disposal of Assets under possession: M/s Maha Gauri Strips Pvt. Ltd. (MGSPL) submitted (January 2015) a proposal for setting up of a Rolling Mills with an installed capacity of 24000 MTPA (M S Angles, Channels, Flats, Bars, round and square based on two shift operation for 300 days in a year) at Bamunara Industrial area, Durgapur, Paschim Bardhaman.

- The loan of ₹ 5.00 crore was disbursed in four phases between October 2015 and May 2016. Repayment was to be made in 25 instalments starting from October 2016. MGSPL repaid part of principal (₹ 2.40 crore) and full interest.
- An inspection team visited (November 2017) MGSPL factory site and found that the unit was in inoperative condition and Manager informed that due to non-supply of gas the unit was inoperative for the last two months. Scrutiny of records revealed that the Inspecting official of the WBFC has recommended (July 2017) for recovery of loan through usual measure under SFC Act. However, even after the concern being raised by the inspecting official, the WBFC did not take any steps towards recovery of loan.

Hence, due to negligence on the part of management an amount of ₹ 2.60 crore (*i.e.,* ₹ 5.00 crore *minus* ₹ 2.40 crore) has been blocked.

(iii) Blockage of funds in a real estate project due to lackadaisical monitoring: With a view to setting up a real estate project at Raghunathpur, Jhargram by constructing commercial/ residential complex at a project cost of ₹ 345 lakh, "Green Construction", a proprietorship firm approached (August 2015) WBFC for a term loan of ₹ 180.00 lakh, which was sanctioned (March 2016) and disbursed (September 2016 to August 2017) by WBFC.

The unit started defaulting in payment of dues of the WBFC and the loan become NPA from September 2017. As even after one year from last disbursement, the borrower was yet to complete the complex; the WBFC issued demand (September 2018) u/s 30 of the SFCs Act 1951. Ultimately, the possession of the unit was taken over in September 2019 by WBFC without management and liability u/s 29(i) read with sec 30 of the SFCs Act, 1951 by making the loanee as custodian. On a complaint received (January 2019) from one of the partners of "New Green Construction" regarding illegal selling of flats and shops of "Tulip Towers" (Building Name), the WBFC inspected the construction work in March 2020 and found that 12 flats and four shops had been sold out by receiving full amount from the owner without any consent/ approval of the WBFC and without remitting the sale proceeds to the Corporation. It also transpired during visit that all the flat owners have occupied their residential flats. Audit observed that:

- During the project evaluation (October 2015), G.M (O) opined that the Real Estate Sector is passing through "Dull situation", Moreover; WBFC do not have prior exposure in financing real estate sector. In spite of that, WBFC had taken a risk ₹ 345.00 lakh JV project.
- As per the recommendation for sanction of proposal, opening up of an "ESCROW" account at any bank with the consent of the WBFC is a pre-condition. But opening of such account with the consent of the WBFC was not found on record due to which the WBFC was not in a position to have a track of all sale proceeds of the flats in that complex.
- Though the WBFC was aware of the fraudulent transfer of space forming commercial and residential complex in January 2019, it took the possession of the property in September 2019, *i.e* after a gap of eight months, that too after making the borrower a custodian of the property.
- Moreover; the WBFC inspected the property (March 2020) after lapse of six months from the date of notional possession (September 2019) which indicated a lackadaisical approach on the part of the WBFC. Intervals between inspections were also long (November 2017, March 2018 and March 2020).
- WBFC did not initiate any criminal action against the partners.

At present, the sale of assets is hardly possible since the 12 flats and four shops were sold and the flats were occupied by the flat owners.

The unit proposed a settlement amount of ₹ 50.00 lakh to the Corporation. This, if accepted, would lead to sacrifice of an amount of ₹ 76.39 lakh (₹ 126.39 *minus* ₹ 50.00 lakh) towards principal and an amount of ₹ 79.06 lakh towards interest.

(iv) Delayed possession resulted in diminution of security value: WBFC sanctioned a term loan of ₹ 450 lakh to Karma Metal Private Limited (KMPL) for setting up a unit for manufacturing of chilled rolls and nuts and bolts. The entire sanctioned amount was released during March 2012 to January 2013.

Due to delay in supplying machinery for not getting sanction for working capital loan, the Company approached the WBFC for partial deferment of repayment schedule on two occasions and the same was granted. It may also be worth mentioning that M/s KMPL, without the knowledge of WBFC, acquired some fixed assets with the loan disbursed, though those fixed assets had not been allocated by WBFC in their project appraisal.

During the first inspection in September 2013 WBFC found that, all the machines were in idle condition.

During second inspection in March 2014, WBFC found that the plant had been shut down. Consequently, in April 2014 the KMPL expressed that they had lost interest in the project.

WBFC served notice (August 2014) under section 29 of State Financial Corporation Act, 1951 and took over notional possession of the unit only in September 2014. However, the assets of the unit were kept in custody of the promoter. As per assessments made in February 2015, value of the assets was ₹ 5.85 crore.

WBFC published sale notice of KMPL in July 2015. As no potential buyer came forward to take over the assets of KMPL, WBFC re-assessed (October 2016) the value of the assets and land as ₹ 4.32 crore. On this occasion, the valuer pointed out that the decrease in the value of plant and machinery by ₹ 1.53 crore were due to damaged and missing [86] components of the machineries. Consequent to this report, WBFC lodged (May 2017) FIR for such missing items and finally took over (May 2017) physical possession of land and assets of KMPL, *i.e.,* after a delay of three years.

Ultimately, the WBFC received an offer from M/s Beecamb Packaging (Pvt.) Ltd at a price of ₹ 3.25 crore and the new purchaser had paid the amount during June 2019 to November 2019. As against outstanding of ₹ 5.85 crore (Principal ₹ 3.30 crore and Interest ₹ 2.55 crore), WBFC had received ₹ 3.25 crore only.

Due to delay in taking over the physical possession of the taken over assets, these assets remained unguarded and prone to damages. These lacunae on part of WBFC had resulted in diminution of the value of asset due to theft and damage by ₹ 1.53 crore. Therefore, as against the principal outstanding of ₹ 3.30 crore, an amount of ₹ 3.25 crore could only be received resulting in capital loss of ₹ 0.05 crore and loss of interest income of ₹ 2.55 crore.

5.7 Internal Control and Internal Audit

The WBFC is primarily exposed to various risks, *viz.,* credit risks, market risks and operational risks which occurs due to default in repayment, fluctuation in interest rates and management limitations. The loan policies, recovery strategy framed by the WBFC, SFCs Act provide framework for internal control and minimize such risks. The following deficiencies were however noticed in the Internal Control System of the WBFC:

- The Corporation conducted 22 board meetings during 2016-21. It was also observed out of total strength of nine to 11 members, only four to six members actually participated in those meetings (overall participation stood at 52 *per cent*) (detailed in ***Appendix 5.5***). It was observed that there were no representative from MSME Department. The Directors representing Finance Department were absent in 10 out of 22 meetings. The absence of these Directors deprived the guidance of two vital departments on various issues on policy of disinvestment, mobilisation of resources including capital bonds, *etc.*

[86] *The motor of' the machines were missing, air compressor with air receiver, rotary furnace were in dismantled condition, pickling and phosphating tanks were broken and the 1000mm dia single deck bull block wire drawing was removed from the foundation and was missing.*

- The Corporation had not prepared the internal audit manual till date, which would have outlined the standards of performance of the internal audit wing. The internal audit did not cover the planning, finance and resources management sections of the corporate office. Similarly, they did not cover the OTS scheme of the branch offices. The Internal Audit Report did not report any of the sanction failures, monitoring lapses, *etc.*, during the entire period of 2016-21 to the BOD. Thus, the internal control system in the Corporation was inadequate to ensure any meaningful value addition in the loan management system.
- The WBFC uses a credit rating Mechanism for appraisal of loans. The model contains marking on a scale of 1 to 8 for Management Risk, Industry Risk and Business Risk. Grades are awarded on Promoter's experience, Track records, Promoter's contribution and other financial parameters (Maximum score = 80) and risk assessment parameters (Financial risk/ Borrower risk/ sales risk) (Maximum score = 20). WBFC, however, provided loans to borrowers at a common interest rate without linking the interest rate with the degree of associated risk.
- The DRC at Head office are required to meet bi-monthly, *i.e.*, six times a year whereas DRC meetings at Branch Office level were to be held monthly. Recovery camps at branch level are to be held every quarter. But the same is not being done as per the extant guidelines. Against an annual requirement of 42 meetings in head office & branch offices, only 21, 10 and two meetings were held during 2016-17, 2017-18 and 2018-19 respectively. No meetings were held during 2019-20 and 2020-21.
- The WBFC has introduced the policy of having the assets charged to them revalued every three years by an empanelled valuer but the same is not being done at regular intervals. Consequently, the value of the security as per the records is old and does not give the correct value. This may result in wrong provisioning. The WBFC should get the securities revalued as per approved policy.
- Assets constituting the security for standard assets are being insured. Before the policy expires, the borrowers are reminded and in case the policy is not renewed, the Corporation renews the policy through its tie-up with National Insurance Company. NPA Accounts are not insured. There is no system of alerts for insurance policies that are due to expire in the next 15-30 days. This calls for improvement in the internal MIS so that, alerts for near expiry policies are flagged for timely renewal.

5.8 Conclusions and Recommendations

Conclusions:

The Corporation established to provide financial assistance to MSME Sector had been rendering such assistance marginally, while the coverage by Commercial banks was significant. This was attributable to non-drawing up of a long term strategic plan addressing its weaknesses such as non-competitive interest rate and not carrying out wide spread coverage throughout the state. The impact of the activities of WBFC has also become minimal as it has stopped sanctioning new loans during last two years consequent upon taking up of restructuring plan by the State Government.

Deficiencies in sanction of loans by not adhering to the laid down parameters led to instances of grant of loans to ineligible borrowers, loan sanctioned in deviations from its own loan policy, assistances disbursed ignoring identifiable functional weaknesses or doubtful past loan repayment credentials.

The WBFC did not take adequate and timely legal actions for recovery of dues. There were deviations from the guidelines prescribed in its own recovery manual.

Laxities were noticed on the part of WBFC in disposing of the properties taken into possession which resulted in accumulation of dues. Such delays also led to accumulated dues surpassing the MRVs of the properties.

Monitoring and inspection at Branch level was deficient as unit visits were not conducted as per the prescribed norms.

The WBFC did not develop and put in place a mechanism whereby the rates of interest offered by the Commercial Banks and other Financial Institutions on the term loans and WC Loans are compared periodically so as to make the WBFC's rate of interest competitive.

The loans were rescheduled frequently without any limit on the number of rescheduling which indicated that there were lacunae in the assessment process considered for rescheduling of loan accounts.

Recommendations:

- ***The restructuring plan of WBFC, inclusive of the long term strategic plan, needs to be finalised on an urgent basis duly factoring in weaknesses noticed in course of implementation of activities of the Corporation.***
- ***A mechanism needs to be in place whereby the rates of interest offered by the Commercial Banks and other Financial Institutions on loans are compared periodically to make the WBFC's rate of interest competitive.***
- ***The WBFC management should do independent analysis of loan proposals to assess viability of the proposed projects, past loan repayment credentials of the applicant, etc.***
- ***The WBFC should ensure adequate and timely legal actions for recovery of dues including disposing of the properties taken into possession in due adherence to its own recovery manual; accountability of responsible officials should also be clearly indicated.***

The matter has been referred to the Government in February 2022; reply was awaited (April 2022).