

CHAPTER –III

REVIEW RELATING TO STATUTORY CORPORATION

3. ONE TIME SETTLEMENT SCHEME IN ANDHRA PRADESH STATE FINANCIAL CORPORATION

Highlights

With a view to settle sticky loan accounts by extending concessions like waiver of interest, penal interest etc., the Andhra Pradesh State Financial Corporation (Corporation) introduced one time settlement (OTS) scheme in 1992, which was modified from time to time.

(Paragraph 3.3)

The Corporation settled 393 loan accounts for Rs.60.66 crore against availability of securities worth Rs.145.77 crore and collectable amount of Rs.70.46 crore as per guidelines.

(Paragraph 3.26)

OTS scheme did not specify any cut-off date. 185 loan accounts, which were disbursed and became doubtful after reintroduction of the scheme, were settled waiving interest of Rs.14.39 crore.

(Paragraph 3.14)

In 31 cases in 10 branches, the Corporation relieved 59 out of 126 guarantors by collecting Rs.1.42 crore as against the outstanding amount of Rs.39.81 crore without discharging the total liability.

(Paragraph 3.31)

Failure to sell the units for the highest offer led to distress settlement later in two cases resulting in loss of Rs.1.78 crore.

(Paragraphs 3.38 & 3.39)

Loan of Rs.3.01 crore was sanctioned in one branch to the daughter of OTS beneficiary in another branch and OTS amount of Rs.1.56 crore was adjusted from the loan.

(Paragraph 3.30)

OTS was extended to 143 standard and sub-standard assets contrary to guidelines resulting in loss of Rs.6.62 crore.

(Paragraph 3.20)

Introduction

3.1 Andhra Pradesh State Financial Corporation (APSFC) was established in November 1956 under the State Financial Corporations (SFCs) Act, 1951 with the main objective of extending financial assistance to small and medium industries to set up new industrial units in private sector or to expand/modernise existing units and to aid in the overall industrial development of the state.

Organisational set up

3.2 The management of the Corporation is vested in the Board of Directors. As on 31 March 2003 there were 11 directors on the Board including a Chairman and a Managing Director. The Board of Directors included two State Government nominees, one each nominated by IDBI, SIDBI and Life Insurance Corporation of India. The Managing Director (MD) is the chief executive of the Corporation and is appointed by the State Government. The MD is assisted by two Chief General Managers and four General Managers. The Corporation has 25 branches covering all the 23 districts in the State. The branches are headed by Branch Managers.

One time settlement scheme

The scheme was introduced to settle sticky loan accounts.

3.3 With the abnormal increase in incidence of sickness particularly in tiny and small scale industries (SSI) sector, enormous funds of the Corporation representing overdue instalments of principal and interest were locked up in these sick units. With a view to settle sticky loan* accounts by extending concessions like waiver of interest, penal interest etc., where the possibility of recovery of loan was remote, one time settlement (OTS) scheme was originally introduced by the Corporation during June 1992 and was modified from time to time during November 1996 to May 2001. The scheme was suspended for one year in 1996-97. The guidelines were revised in November 1996 and after approval of the guidelines by State Government, the scheme was re-introduced with effect from September 1997.

3.4 The main objectives of OTS scheme are:

- 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

Note: Abbreviations used in the review are explained in the Glossary.

* Continuously defaulted loan

- to reduce non-performing assets.

Scope of Audit

3.5 Audit reviewed the implementation of one time settlement (OTS) scheme during the last five years from 1997-98 to 2001-02 with reference to its objectives. An in-depth analysis of OTS cases was conducted in respect of 12 branches out of 25 and audit findings are brought out in succeeding paragraphs.

3.6 Meeting of Audit Review Committee for State Public Enterprises was held on 08 October 2003 to discuss the draft review on one time settlement scheme. The State Government was represented by the Principal Secretary, Industries and Commerce Department and the Corporation by the Chairman as well as the Managing Director. The review has been finalised after taking into consideration views of the Government and Corporation.

Guidelines for one time settlement scheme

3.7 The major eligibility criterion for being considered for OTS are as under:-

- One time settlement shall strictly be restricted to "Doubtful Assets" (i.e., arrears above two years) and "Loss Assets" (i.e., where primary assets are sold or fully missing), as per IDBI guidelines on asset classification, subject to the condition that (i) the unit has been incurring cash losses for the last two years eroding the net worth by 50 *per cent* or more rendering the unit sick in terms of RBI guidelines, (ii) the default in the loan account is not willful, and (iii) the unit has not been able to generate adequate cash surplus to discharge institutional dues in comparison with similar units.
- The unit has been abandoned during implementation stage or has not been implemented completely.
- Any one who has obtained one time settlement shall be ineligible for sanction of any future loans from the Corporation and other financial institutions. The fact of settlement of any loan account under OTS scheme shall be intimated to Andhra Pradesh Industrial Development Corporation (APIDC) together with the names and addresses of all promoters of those units.

♦ Hyderabad, Ranga Reddy (East), Ranga Reddy (West), Ramchandrapuram, Nalgonda, Guntur, Khammam, Vijayawada, Rajahmundry, Visakhapatnam, Tirupathi and Nellore.

Constitution of committees for approval of OTS

3.8 Based on the approval of State Government, the Corporation constituted (November 1997) a sub-committee of the Board of Directors of the Corporation with five members including a nominee of IDBI, for scrutiny of proposals received for settlement.

The Board of Directors also constituted head office management committee, zonal committee and branch committee based upon financial parameters for approval of OTS at head office, zone and branch levels respectively.

Audit observed that the sub-committee of Board of Directors never met for scrutiny of OTS proposals before submission to Board of Directors for settlement. One time settlement proposals requiring Board approval were submitted direct to the Board of Directors after initial scrutiny by the head office management committee.

Government stated (November 2003) that OTS guidelines were revised by the Board in December 1998 delegating powers for scrutiny and approval at various levels viz., branch, zone, head office and board. The reply is not tenable as this was in violation of directions of the State Government and defeated the purpose of constitution of sub-committee.

Deficiencies in guidelines

3.9 A review of OTS guidelines revealed the following deficiencies:

- The guidelines did not indicate any cut-off date up to which the units were to be classified under doubtful/loss category of assets and considered for OTS.
- The guidelines did not mention the criteria for settlement of dues in respect of units from whom huge amounts were outstanding even after adjustment of proceeds of sale of seized assets.

After being pointed out by Audit, the Company revised the guidelines in September 2003 duly indicating a cut-off date and fixing criteria in respect of cases where the sale proceeds were adjusted towards principal.

Settlement of loan accounts under OTS

Over-all status

3.10 The details of outstanding loan in terms of asset classification as per guidelines of IDBI for the last five years ended 31 March 2002 are given in **Annexure-19**.

Guidelines did not indicate any cut-off date.

During the five years period ended 31 March 2002, the Corporation approved 2,451 loan accounts under OTS by writing-off principal of Rs.0.45 crore and waiving interest of Rs.228.21 crore. The details are as given below:

(Rupees in crore)

Year	Total number of cases approved under OTS	Cases involving writing off principal (out of col. 2)			Interest		
		No. of cases	Principal outstanding	Principal written off	Interest outstanding	Interest waived	Percentage of interest waived
1997-98	192	5	0.02	0.02	1.73	1.64	94
1998-99	216	18	0.04	0.02	20.47	13.92	68
1999-00	385	23	0.99	0.32	52.02	47.88	92
2000-01	891	9	0.25	0.05	129.70	104.27	80
2001-02	767	25	0.12	0.04	77.76	60.50	78
Total	2451	80	1.42	0.45	281.68	228.21	81

Write-off of principal

3.11 The OTS guidelines have no provision for writing-off of principal amounts due. However, the Corporation had written off principal to the extent of Rs.45 lakh in respect of 80 loan accounts, out of which Rs.15.36 lakh related to two loan accounts* of Ramachandrapuram Branch. In all these 80 cases, loans given were not recovered for over 10 to 19 years.

Interest of Rs.61.12 lakh was adjusted towards principal contrary to guidelines.

Further, in respect of five loan accounts, the Corporation adjusted interest of Rs.61.12 lakh paid earlier by the loanees as principal. This was done so as to settle the loan accounts under OTS for principal plus other expenses without fully collecting the principal. This was not envisaged in the OTS guidelines and was also contrary to the accounting policies of the Corporation. This has resulted in giving undue benefit to the loanees by way of indirect writing off of principal without specific approval.

Government stated (November 2003) that the transfer of amounts received towards interest in earlier years to principal was approved by the Board. The reply is not tenable since, as per OTS guidelines, maximum possible amount was to be collected. The above transfer of amounts from interest to principal resulted in indirect writing off of principal, which was against the prudent commercial principles.

* (i). Sofine Packaging Private Limited, (Rs.9.38 lakh) and (ii). Geebee Controls Pvt. Ltd., (Rs.5.98 lakh).

Full waiver of interest

3.12 In respect of 1210 loan accounts, the Corporation waived fully total interest of Rs.69.68 crore outstanding on the date of approval of OTS. The range of interest amount waived in individual cases was as under:

Range of waiver in individual cases	No. of loan accounts	Interest waived (Rs. in crore)
Above Rs.50 lakh	28	45.06
Rs.10 to Rs.50 lakh	54	12.05
Rs.5 to Rs.10 lakh	35	2.42
Less than Rs.5 lakh	1093	10.15
	1210	69.68

Partial waiver of interest

3.13 In respect of 1241 loan accounts the Corporation waived interest of Rs.158.53 crore against interest of Rs.212.01 crore outstanding on the date of approval of OTS. The range of interest amount waived in individual cases was as under:

Range of waiver in individual cases	No. of loan accounts	Interest waived (Rs. in crore)
Above Rs.50 lakh	76	94.67
Rs.10 to Rs.50 lakh	180	38.32
Rs.5 to Rs.10 lakh	160	11.68
Less than Rs.5 lakh	825	13.86
	1241	158.53

In respect of 1,241 cases, interest of Rs.158.53 crore was partially waived.

Thus out of total waiver of interest of Rs.228.21 crore extended to 2,451 loanees, sizeable waiver of interest of Rs.139.73 crore (61.23 *per cent*) was extended to 104 loanees from whom huge amounts were outstanding.

Loss due to non-indication of cut off-date

3.14 Recovery of loan commences with a moratorium of not more than two years from the date of drawal of first instalment. A loan becomes non-performing asset (NPA) after two years from the date of default. Thus, loans can become doubtful asset after a period of four years from the date of drawal of first instalment. As OTS scheme was reintroduced with effect from September 1997, the scheme should not have been made applicable for the loans drawn after September 1993 as the objective of the scheme was to settle only sticky accounts already categorised under doubtful/loss category assets. However, no cut-off date was mentioned in implementation of the scheme, in the absence of cut-off date, loans sanctioned and disbursed after April 1994 were also considered for OTS.

185 loans disbursed after re-introduction of the scheme were settled under OTS waiving interest of Rs.14.39 crore.

Audit observed that 185 loans disbursed between April 1994 and November 1999 became doubtful after re-introduction of the scheme in September 1997. These loan accounts were settled under OTS during the five years ended 31 March 2002 (including those settled under special campaign conducted by MD during September to November 2002) by waiving interest of Rs.14.39 crore. Keeping the scheme open without specifying a cut-off date lacked justification as it encouraged the loanees to become willful defaulters and avail concessions allowed under the scheme. Some of the cases reviewed in audit are discussed below.

3.15 The Corporation disbursed (March 1999 to April 2000) Rs.79.26 lakh to Gangam Agro Farms Private Limited for cultivation of various varieties of capsicum, an activity not covered by the lending policy of the Corporation. The unit failed to achieve its operating capacity and defaulted in loan repayments and interest thereon to the extent of Rs.1.16 crore up to October 2002. The request (October 2002) of the unit to settle the dues under OTS for Rs.79.85 lakh was accepted for Rupees one crore, after waiving interest of Rs.16 lakh. As the amount was not paid as per schedule, the Corporation seized the unit (February 2003). Further action is yet to be taken.

3.16 Ranga Reddy (West) Branch of the Corporation disbursed (February 1996 to March 1997) Rs.56.71 lakh to Pinnacle Fabrics Limited for setting up a unit for manufacture of terry towels. In spite of default in repayment of loan and interest of Rs.91.89 lakh (up to December 2000), no action was taken by the Corporation until January 2001 when it issued seizure notices to the unit. The promoters came forward for closure of account under OTS for principal amount only. The Board of Directors approved (November 2001) OTS for Rs.69.21 lakh as a special case and waived interest of Rs.22.68 lakh by extending OTS benefits.

3.17 In Ramachandrapuram branch, Sunny Textiles Private Limited was disbursed Rs.90.66 lakh during September 1995 to March 1996. As on 31 March 1999 the loanee repaid only Rs.28.81 lakh towards interest. The unit requested (October 1999) for OTS and made down payment of Rs.19.60 lakh from October 1999 to March 2000. In response to the Corporation's OTS advertisement (August 2000), the unit again requested (August 2000) the MD to settle the loan account for Rs.1.18 crore. As against the total outstanding amount of Rs.2.16 crore on the date of OTS, the Board approved (August 2000) the case under OTS for Rs.1.30 crore (principal + other expenses plus NSR*) and waived interest of Rs.86 lakh in spite of availability of securities valued at Rs.2.47 crore which was more than the amount outstanding. However, the unit failed to honour OTS payment. The Corporation seized the unit (August 2001). The Corporation has not taken any action so far (March 2003) either to sell the unit or proceed against the promoters for recovery of dues.

3.18 Hyderabad branch of the Corporation disbursed (August 1996) Rs.85.46 lakh to Sai Krishna Scanners Private Limited for setting up an offset printing press. The loan was secured by collateral security of Rs.90.98 lakh

* Net simple rate of interest.

OTS was extended in spite of high solvency of promoters.

and guarantor's solvency of Rs.3 crore. The loan was repayable in five years starting from August 1997. After drawing the loan, the unit was stated to be not working satisfactorily since inception due to technological obsolescence as superior quality of machinery was available at less than 15 *per cent* of the cost of machinery installed in this unit. Rs.1.33 crore fell due up to August 2002. Despite high solvency of promoters, the loan account was settled for Rupees one crore which resulted in a loss of Rs.33.07 lakh.

Settlement of above cases was outside the purview of the scheme.

The Corporation accepted the audit observations and issued orders (September 2003) indicating the cut-off dates for eligibility and applicability of the scheme, receipt of applications for settlement and processing of cases under OTS.

Deviations from guidelines

3.19 Audit observed that in several cases the Corporation settled the loan accounts by deviating from the declared guidelines, which resulted in huge losses. Some of such deviations noticed in audit are enumerated below and discussed in subsequent paragraphs:

- though only doubtful/loss category of assets were eligible for OTS, standard/sub-standard assets were also settled under OTS (paragraph 3.20).
- OTS requests were kept pending and settled under revised guidelines (1999) to the advantage of the defaulters (paragraphs 3.21 to 3.25).
- loan accounts were settled for lesser amounts in spite of availability of high value of securities (paragraph 3.26).
- according to OTS guidelines, the Corporation should ensure solvencies of the promoters after careful investigation. The verification was however not properly done (paragraphs 3.27 to 3.29).
- loan was sanctioned in one branch to the daughter of OTS beneficiary in another branch against the guidelines and OTS amount was adjusted from the loan (paragraph 3.30).
- according to OTS guidelines, promoters who came forward for OTS could be relieved after collecting their share of principal plus other expenses plus NSR subject to minimum of principal plus other expenses. There were large number of deviations in this regard (paragraphs 3.31 to 3.33).
- the Corporation releases loans after obtaining immovable properties as collateral securities. In the absence of maintaining data bank and periodical verification of defective/non-identified collateral securities, the Corporation had to settle the loan accounts under distress (paragraphs 3.34 to 3.36).

- though OTS amount was to be collected within a maximum period of one year, the Corporation allowed a period up to four years (paragraph 3.37).

Settlement of accounts classified as standard/sub-standard

OTS was extended to 143 standard and sub-standard assets contrary to guidelines resulting in loss of Rs.6.62 crore.

3.20 As per the approved guidelines OTS scheme was to be extended to doubtful and loss assets only. Scrutiny of OTS cases revealed that during the five years ending 31 March 2002, the Corporation settled 143 loan accounts (91 accounts classified as standard i.e., arrears up to 180 to 365 days and 52 accounts classified as sub-standard i.e., arrears above 180/365 days but not exceeding two years) contrary to the approved guidelines. Against these 143 loan accounts, the Corporation waived interest of Rs.6.62 crore (Rs.5.28 crore in 91 standard accounts and Rs.1.34 crore in 52 sub-standard accounts) as against the outstanding of Rs.9.22 crore (Rs.6.08 crore in 91 standard accounts and Rs.3.14 crore in 52 sub-standard accounts) as on date of OTS. As these accounts were not covered by the scheme there was loss of Rs.6.62 crore to the Corporation. Few examples of settlement of standard/sub-standard loan accounts are given below:

(Rs. in lakh)

Sl. No.	Name of the unit	Name of the branch	OTS amount	Amount waived	Classification of asset
1.	Veena Organics	RR West	16.94	9.97	Standard
2.	Tulasi Boiled Industries	Vijayawada	4.99	11.02	Standard
3.	Melves Research Labs	Vijayawada	6.95	11.85	Standard
4.	Matrusri Annapurna	Vijayawada	17.70	9.33	Standard
5.	SG Wires Pvt. Ltd.	RC puram	60.00	13.32	Sub-standard
6.	Sunny Textiles Pvt. Ltd.	RC puram	130.00	30.84	Sub-standard
7.	Lata Hospitals	Vizag	113.00	17.00	Sub-standard
8.	MGK Warehousing	Rajahmundry	50.00	5.70	Sub-standard

Government did not furnish any specific reply in regard to extension of OTS scheme to standard/sub-standard assets.

Abnormal delay in finalisation of OTS cases

3.21 As per pre-revised guidelines the loan accounts were to be settled under OTS for the amounts equal to NSR of interest alongwith principal or valuation of securities (both primary and collateral) whichever was higher.

Major change in guidelines were made in August 1999 according to which calculation of OTS amount was revised to principal plus other expenses plus NSR as a percentage (depending upon the value of the assets and solvency of the promoters subject to a maximum of 103 *per cent*).

Four cases were settled under revised guidelines instead of pre-revised guidelines resulting in loss of Rs.1.53 crore.

Audit observed that this major change in guidelines was advantageous to the defaulters and in no way beneficial to the Corporation as the chances of the recovery of interest amount has been restricted to 103 *per cent* of NSR even though the value of assets and repaying capacity was higher.

In the following four cases though requests for OTS were received prior to revision of guidelines, the Corporation kept the cases pending till revision took place and settled the loan accounts under revised guidelines extending undue favour of Rs.1.53 crore to the defaulting loanees.

3.22 Hotel Sai Mohan, Nadikudi was disbursed a loan of Rs.28.95 lakh during February 1991 to July 1993 duly appraising the project as viable. The project was abandoned during the course of implementation as there was no guarantee for occupation. The unit proposed (March 1999) to settle the loan account under OTS and the Corporation decided (March 1999) to settle for Rs.50.04 lakh as against the outstanding dues of Rs.97.95 lakh. The proposal was not submitted to the Board.

Meanwhile the OTS guidelines were revised in August 1999. As per the revised guidelines, the unit was to pay principal plus other expenses plus 40 *per cent* of NSR of interest which worked out to Rs.41.04 lakh as on 31 July 1999 as against the outstanding amount of Rs.101.76 lakh (principal: Rs.25.30 lakh; interest: Rs.76.45 lakh; other expenses: Rs.0.01 lakh). During the negotiations by the zonal committee, the promoter agreed (October 1999) to pay Rs.42.25 lakh, which was approved (November 1999) by the Board of Directors duly waiving interest arrears of Rs.66.35 lakh. The unit paid Rs.27.20 lakh to the end of March 2003 and the balance amount of Rs.15.05 lakh was yet to be paid (March 2003).

Thus, due to delay in submitting the proposal to the Board, the Corporation extended undue favour of Rs.7.79 lakh to the unit.

Government stated (November 2003) that the delay caused in considering the OTS was only on account of negotiations held with the party. The reply is not tenable as the amount as per OTS guidelines at the time of OTS application was Rs.50.04 lakh but the Corporation (zonal committee) negotiated with the party during October 1999 based on the revised guidelines resulting in loss to the Corporation.

3.23 The Corporation disbursed (March 1991 to October 1993) Rs.43.09 lakh to Meghana Foods Private Limited. Since the loanee failed to adhere to the repayment schedule, the Corporation decided (June 1997) to seize the unit but did not do so as the unit requested (September 1997 and October 1998) for OTS. Though the Managing Director agreed (December 1998) to OTS for Rs.62.13 lakh calculated at NSR payable in three and half years, no action was taken.

Based on the request of the loanee, the Board again reviewed (February 2000) the case and decided to collect only Rs.48 lakh (principal plus other expenses plus 10 *per cent* NSR of interest) on the basis of revised guidelines which came into effect from August 1999 considering the value of assets as Rs.22.58

lakh. The solvency and value of properties held by the promoters were not ascertained. Thus, revision of OTS amount already approved in old guidelines resulted in short recovery of Rs.14.13 lakh.

Government stated (November 2003) that the delay in finalisation of case was due to negotiations held with the unit. The reply is not acceptable as the OTS request was originally received in September 1997 and MD also fixed OTS amount in December 1998 but the case was decided only in February 2000 after a delay of three and half years.

3.24 Ranga Reddy (East) Branch of the Corporation disbursed Rs.59.61 lakh (July 1987 to May 1989) to Indotronix Computers Private Limited. Andhra Pradesh Industrial Development Corporation (APIDC) also sanctioned (January 1987) a term loan of Rs.38.30 lakh but disbursed only Rs.9.58 lakh. In spite of re-scheduling of loan and funded interest* twice in December 1990 and March 1993, the loanee defaulted payment of instalments. The Corporation issued (August 1996) recall-cum-sale (RCS) notice. In August 1997, the unit requested for settlement under OTS, but the Corporation did not take any action.

The unit again requested (March 2000) for OTS. Meanwhile APIDC approved (July 1999) OTS for principal plus net simple rate of interest, in respect of its loans. The total amount payable by the unit to the Corporation was Rs.3.22 crore (principal Rs.59.61 lakh plus interest Rs.2.62 crore) up to July 2000. Though the repaying capacity of promoter was high and the OTS amount as per pre-revised guidelines worked out to Rs.1.21 crore, the settlement was approved (November 2000) for Rs.75 lakh on the basis of principal plus other expenses plus 25 *per cent* of net simple rate of interest as applicable under revised OTS guidelines of August 1999. The unit paid only Rs.42 lakh up to January 2003.

OTS was settled for lesser amount than that under revised guidelines.

Thus due to delay in settlement of loan under OTS the Corporation incurred a loss of Rs.46 lakh. Though guidelines were not applicable to consortium finance cases, the Corporation settled the case under revised OTS guidelines instead of consortium decision.

Government stated (November 2003) that the loanee requested OTS during August 1997 for Rs.25 lakh but it was enhanced to Rs.45 lakh during negotiations and an amount of Rs.15 lakh, which was paid as down payment was adjusted to interest by the Corporation without taking any further action on OTS. The reply is not tenable as the unit was jointly financed by APIDC and the Corporation. APIDC settled the loan account for principal plus NSR whereas the Corporation approved OTS for principal plus 25 *per cent* of NSR only during November 2000 under the revised guidelines i.e. after delay of three years.

3.25 The Visakhapatnam Branch of the Corporation disbursed four term loans/additional loans during March 1990 to February 1991 aggregating Rs.1.73 crore to Dolphin Diagnostic Services Ltd., Visakhapatnam. The unit

* funded interest: interest accumulated up to a certain date treated as principal.

defaulted in its payments to the Corporation and approached (September 1995) to settle the loan account under OTS. According to the pre-revised guidelines the OTS amount payable (30 January 1996) was Rs.1.93 crore as against the total outstanding of Rs.2.26 crore (principal: Rs.1.56 crore and interest: Rs.70.11 lakh).

Though the case was kept in abeyance in 1996-97 for want of Government approval for OTS guidelines, the case was again reviewed in December 1999 by MD. It was finally submitted to Board in July 2000 for settlement for Rs.1.08 crore after negotiating with the promoters. The Board approved OTS for Rs.1.08 crore which was far below the amount, worked out as per pre-revised guidelines. The Corporation by accepting the OTS in September 1995 itself, could have realised an additional amount of Rs.84.84 lakh. The unit did not pay any amount till March 2003 except Rs.10 lakh after sale of certain items. The Corporation neither seized the unit nor initiated any action for recovery of dues.

Government stated (November 2003) that the property owned by promoter was not enforceable because of local problem. In respect of seizure, Government stated that the Corporation could not shift the equipment from the premises due to lack of technical personnel to dismantle the CT Scan equipment. The reply was not tenable because no technical personnel were necessary to shift the obsolete/unserviceable equipment.

Settlement for value lesser than the value of securities

In 393 cases, settlements were made for Rs.60.66 crore in spite of availability of securities valued at Rs.145.77 crore.

3.26 The Corporation settled 393 loan accounts in 12 branches for amounts less than the value of securities available with it as per details given in **Annexure-20**. In these cases, the total outstanding loan amount was Rs.140.57 crore, while the total value of securities was Rs.145.77 crore. The OTS amount as per guidelines worked out to Rs.70.46 crore. However, the Corporation settled these accounts for Rs.60.66 crore only. In respect of 70 OTS cases, the Corporation settled for principal amount only waiving total interest.

Audit observed that in respect of 180 OTS cases out of the above, the Corporation had violated guidelines and settlements were made for lesser amounts though there were chances of recovery of higher amounts.

Government stated (November 2003) that the course of action under section 29 of SFCs Act or APRR* Act was a long drawn process and finally did not result in recovery in majority of cases. The reply was general in nature and not tenable as the Corporation instead of initiating action under the SFCs Act or APRR Act, settled the cases under OTS for amounts lower than that worked out as per guidelines. Government further stated that as per the guidelines revised in September 2003 it was decided not to extend OTS scheme to the units where the value of primary and collateral securities is more than 200 per cent of amount payable at NSR.

* Andhra Pradesh Revenue Recovery Act.

Improper verification of solvencies of the promoters/guarantors

3.27 According to approved guidelines, the Corporation after careful investigation, should ensure the solvencies of promoters/guarantors to the loan for considering OTS. The Corporation has to decide the solvency of promoters/guarantors by visiting one or two places where properties were situated. The basis for selection of the places to be visited was not on record. The Board of Directors of the Corporation approved (November 2001) the appointment of external agencies for undertaking enquiry relating to identification of promoters/guarantors for providing details along-with documentary proof. Audit observed that the decision of the Board was not implemented and the Corporation continued to decide OTS cases based on the limited survey conducted by it. The following cases of such limited survey were noticed in audit:

Rs.2.61 crore was waived without verification of properties of promoters.

3.28 Akruthi Dies and Tools Private Limited, of Nalgonda branch was jointly financed (March 1985) by the Corporation (Rs.36.40 lakh) and APIDC (Rs.63 lakh). During the course of recovery under RR Act, the Special Dy.Tahsildar submitted contradictory property verification reports (March and September 2000) in respect of two out of three promoters and not completed verification in respect of third one. The account was, however, settled (December 2000) under OTS for Rs.7 lakh against outstanding of Rs.2.68 crore (principal Rs.2.95 lakh plus interest Rs.264.91 lakh) resulting in waiver of interest of Rs.2.61 crore. Waiver of such a huge interest outstanding without complete verification of properties of promoters lacked justification.

Government stated (November 2003) that properties of promoters could not be found so the case was settled under OTS.

Interest of Rs.1.43 crore was waived without verifying solvency of promoters.

3.29 The Corporation released Rs.76.34 lakh to Vidhata Plastics India Pvt. Ltd., Hyderabad during the period 1992 to 1995 and the entire amount became overdue by January 1999. The unit approached for OTS in October 1998 but the Board deferred (March 1999) its decision till formulating the new guidelines. Meanwhile OTS guidelines were revised (August 1999). The unit again approached (November 1999) for OTS with an offer to pay Rs.75 lakh. The amount was increased to Rs.84 lakh after negotiations. Though the solvency of promoters was stated to be high, the Board approved the OTS in February 2000 and waived the interest of Rs.1.43 crore without verifying solvency of the promoters.

Government stated (November 2003) that the case was settled as a special package as the valuation of assets was less than 50 *per cent* of principal plus NSR but did not reply as to why the solvency of the promoters was not verified though it was stated to be high.

Sanction of loan in one branch for payment of OTS in another branch

3.30 As per the guidelines, the promoters or any of near relatives of proprietor/partner/director who took the benefit under the OTS scheme were ineligible for further loans.

OTS amount of Rs.1.56 crore was adjusted from the loan of Rs.3.01 crore sanctioned to the daughter of the OTS beneficiary.

The Ranga Reddy (East) branch of the Corporation disbursed (November 1992 to January 1997) Rs.1.98 crore to Gulab Chand Silk Mills Private Limited, to set up a textile dyeing and processing unit. The unit started production in January 1994 and functioned till May 1997. The unit was irregular in repayment of loan. The Corporation seized the unit only in January 2000.

The unit approached (March 1999) for OTS for Rs.1.50 crore. The proposal was approved in February 2001 for Rs.1.70 crore i.e., after a delay of two years. The OTS amount was neither worked out under pre-revised nor under revised guidelines. The unit did not make any payment against OTS. Instead Rs.1.56 crore was adjusted (August 2001) from the disbursements made to Sweety Builders Private Limited against the term loan of Rs.3.01 crore sanctioned (April 2001) by Hyderabad branch. Sweety Builders Private Limited was a construction concern promoted by the daughter of Mr. Gulab Chand, the chief promoter of Gulab Chand Silk Mills. Sanction of one loan to finance another OTS settlement was thus irregular. Sweety Builders was also in default.

Government stated (November 2003) that though the sanction was not meant for repayment of OTS, the amount got adjusted towards OTS because of personal association of the OTS beneficiary and the loanee. The reply is not acceptable, as the diversion of major portion of loan sanctioned for a specific project would ultimately affect the implementation of that project.

Relieving of promoters/guarantors from guarantee

Out of 126, 59 promoters/guarantors were relieved from liability by collecting Rs.1.42 crore against outstanding of Rs.39.81 crore.

3.31 The repayments of term loans sanctioned by the Corporation are guaranteed by the promoters and third party guarantors in their individual capacities apart from equitable mortgage of primary assets and collateral securities. No data bank of promoters/guarantors was maintained by the Corporation. As per the revised OTS guidelines (August 1999), the Corporation can relieve the promoters/guarantors from loan accounts by collecting proportionate share of principal, other expenses and NSR interest subject to a minimum of principal plus other expenses, when one or more guarantors are coming forward to relieve themselves from the liability of loan guaranteed for the repayment.

Audit observed that during the years 1999-2003, in respect of 31 cases in 10 branches, the Corporation relieved 59 out of 126 guarantors by collecting Rs.1.42 crore as against outstanding amount of Rs.39.81 crore as per details in **Annexure-21**. Out of these 31 cases, the Corporation settled 10 cases violating the guidelines i.e. by not collecting even principal plus other expenses and relieved 13 out of 31 guarantors by collecting Rs.57.83 lakh as against the collectable amount of Rs.1.67 crore. Discharge of total loan liability for which they had given guarantees in their individual capacity was not insisted upon. The other promoters were either untraced or had not come forward for settlement. A few examples are given below:

Guarantors were relieved of their liability after accepting meagre amount.

3.32 The assets of SVR Enterprises (P) Ltd., Khammam district were sold (February 1997) for Rs.22 lakh under Section 29 of SFCs Act. After adjustment to loan account, Rs.1.76 crore (principal: Rs.24.05 lakh, interest: Rs.1.51 crore and other expenses: Rs.1.46 lakh) was outstanding to the end of October 2000. Instead of initiating action under RR Act, the Board relieved two out of three directors by collecting Rs.16.81 lakh. According to the guidelines, principal plus other expenses plus NSR of interest was to be collected which worked out to Rs.84.96 lakh. This resulted in non-recovery of OTS amount of Rs.68.15 lakh and relieving of promoters without discharging the crystallised liability.

Government stated (November 2003) that Board had advised the Branch Manager to proceed under APRR Act against the remaining directors to recover the balance outstanding. The results are awaited (August 2003).

3.33 Assets of Hicomfort Coir India Private Limited, Vijayawada were seized (October 1997) and sold for Rs.17.50 lakh in May 2000 as it did not honour repayment schedule. When notices under APRR Act were issued, one of the three promoters came forward (January 2001) for OTS. Board considered (February 2002) his relief on payment of Rs.6 lakh as against the proportionate amount of Rs.10.55 lakh calculated as per guidelines. The total outstanding amount was Rs.99.56 lakh (principal: Rs.10.55 lakh, interest: Rs.89.01 lakh). The other promoters were not so far traced by the Corporation. The relief given to the promoter by accepting a meagre amount lacked justification.

Government stated (November 2003) that the branch office was continuously making efforts for identification of the present addresses of the other two directors for initiating action under APRR Act.

OTS cases settled against defective securities

3.34 The Corporation releases loan by accepting immovable properties as collateral securities wherever necessary. The Corporation has not maintained any register/data bank of these properties so as to conduct inspection periodically. It was decided only in April 2001 to create the data bank and to conduct inspection of all properties invariably by Branch Manager along with valuation team where the valuation of independent property was more than Rs.50 lakh. Particulars of maintenance of data bank and inspection whether conducted or not after April 2001 and findings thereon etc. were not on record. This resulted in non-identification of properties leading to distress settlements under OTS with consequent waiver/loss of Rs.8.49 crore in nine cases mentioned in the **Annexure-22**.

3.35 The Corporation disbursed (February 1990 to March 1993) Rs.66.22 lakh to Preethi Pharmaceuticals Private Limited a bulk drugs manufacturing unit at Nallabandagudem. The unit defaulted repayment of loan and was seized (August 1997) and sold (July 1998) for Rs.61 lakh. Under AP RR Act, the Special Deputy Tehsildar reported that one of the properties shown at the time of sanction was a joint property (14.15 acres at Cherlapalli) and other property (7.32 acres at Erdhanoor) was sold away

Improper verification of solvency of promoter resulted in distress settlement.

during the year 1989 and there were no properties in the name of promoters. The promoters proposed (March 2001) to pay Rs.6 lakh towards final settlement under OTS as against outstanding amount of Rs.2.16 crore (principal: Rs.5.81 lakh, interest: Rs.2.10 crore and other expenses: Rs.0.17 lakh). The Board of Directors resolved (July 2001) to close the loan account on OTS basis by accepting a lump sum amount of Rs.6 lakh as against the amount of Rs.20.39 lakh worked out as per guidelines duly waiving the interest amount of Rs.210.06 lakh.

The OTS amount, which was payable within 16 months from the date of settlement has not been paid so far (September 2003).

3.36 Ultimo Chemical Industries Private Limited, Sanatnagar, was sanctioned (December 1989) a term loan of Rs.38.30 lakh to set up a unit for manufacturing injection and blow moulding plastic items at industrial estate, Sanatnagar, Hyderabad. The loan was guaranteed by the promoter directors of the Company in their individual capacity. As such, the promoter produced a xerox copy of sale deed of land as a proof of solvency based on which the Corporation disbursed the loan amount. As the unit defaulted repayment of loan, the Corporation seized the unit on 24 April 1993 and advertised for sale of the assets under Section 29 of SFCs Act on 13 August 1994. In the meantime, the unit submitted (August 1994) a representation to settle the loan under OTS. The Board of Directors accepted (May 1995) the request of the unit for OTS of loan account by accepting the payment of Rs.57.53 lakh and to waive the balance interest of Rs.9.85 lakh outstanding in the loan account. As the unit did not pay the OTS amount, it was sold (December 1997) for Rs.15.15 lakh as per the orders of the Board. The Corporation proceeded (November 1999) under AP RR Act, when it was noticed (February 2000) that the sale deed produced/shown to Corporation in the name of promoter was a fake document and the properties were not in her name.

The unit represented (November/December 2000) to settle the loan account under OTS and the Board of Directors approved (February 2001) to close the loan account on OTS basis by accepting Rs.24.06 lakh payable by September 2001. Interest of Rs.1.71 crore was waived. Thus acceptance of fake document and lack of periodical verification of properties obtained as securities resulted in distress settlement and loss of Rs.1.71 crore.

Loss due to non-observance of time frame

3.37 As per the approved guidelines, the OTS amount shall be paid within a maximum time frame of one year i.e., 35 *per cent* within 60 days and the balance 65 *per cent* in a maximum of 4 to 10 monthly instalments, together with interest at prevailing rate from the cut off date; which is decided in each case on the basis of OTS settlement date. If the payment was not made as per the scheme, the OTS should be cancelled and recovery action should be initiated under SFCs Act/AP Revenue Recovery Act.

Of 397 cases settled under OTS for crystallised amount of Rs.37.80 crore in the four years ended 31 March 2002, Rs.20.74 crore only was collected to the

Rs.17.06 crore was pending for recovery after expiry of time allowed under OTS.

end of September 2003, leaving a balance of Rs.17.06 crore. The age-wise break up of the cases is given below:

(Rupees in crore)				
Year of approval of OTS	No. of cases	Crystallised OTS amount	Amount collected by 30 September 2003	Balance amount to be collected
1998-1999	12	2.76	1.75	1.01
1999-2000	47	4.82	3.04	1.78
2000-2001	167	19.70	10.63	9.07
2001-2002	171	10.52	5.32	5.20
Total	397	37.80	20.74	17.06

In spite of extending concessions such as waiver of interest, extension of time for payments, the amounts remained outstanding. The Corporation has neither cancelled the concession extended under OTS nor initiated recovery action under SFCs Act/AP Revenue Recovery Act. Delay in realisation of outstanding OTS amounts defeated the very objective of extending OTS.

Government stated (November 2003) that in spite of vigorous recovery follow up there were certain cases where part of OTS amounts remained unpaid. The reply is not tenable as the amount remained uncollected under OTS was more than 45 *per cent* of crystallised OTS amounts in all the years from 1998-99 to 2002-03, though the maximum time allowed for collection of OTS amount was one year as per guidelines.

Failure to sell the unit for the highest offer

3.38 Ranga Reddy (East) Branch of the Corporation released (February 1992 to July 1993) a term loan of Rs.72.35 lakh to Essen Polymers Private Limited. Additional term loan of Rs.10 lakh was sanctioned (December 1993) out of which Rs.5.82 lakh was adjusted (December 1993) against overdue instalments. The unit was seized in December 1994 as a result of default and advertised 12 times for sale. The offer received in February 1995 for Rs.72 lakh was not accepted as it was considered low. The Corporation subsequently sold (August 2002) the assets of the unit for Rs.43.30 lakh. After selling the primary assets, the Corporation initiated action under AP RR Act against promoters/guarantors for the recovery of balance outstanding dues of Rs.1.63 crore and issued notices. In spite of report (September 2002) from Special Deputy Tehasildar that the promoters possessed properties covering 100 *per cent* of dues of Rs.1.63 crore calculated as per guidelines, loan account was settled (October 2002) for Rs.42 lakh resulting in loss of Rs.78.11 lakh (amount as per guidelines: Rs.163.41 lakh minus amount recovered: Rs.85.30 lakh).

Assets were not sold for the highest offer, but the case was settled under OTS resulting in loss of Rs.78.11 lakh.

Government stated (November 2003) that offer received for Rs.72 lakh for sale of assets in February 1995 was covering 80 *per cent* of value of assets which was considered as lowest. It was, further, stated that the assets were sold against an offer received in August 2002 for Rs.43.30 lakh considering the offer was covering 70 *per cent* of the depreciated value of assets. The reply itself indicates the deficiencies in the procedure followed by the Corporation.

Assets were not sold for the highest offer, but the case was settled under OTS resulting in loss of Rupees one crore.

3.39 The Corporation (Vijayawada Branch) disbursed (November 1980 to March 1983) a term loan of Rs.24.51 lakh to Krishna Estates Private Limited for establishment of cold storage unit at Vijayawada. The unit was seized (November 1994) when it was noticed that the loanee constructed many buildings which were given on hire to zonal and branch offices of State Bank of India (SBI). When the Corporation issued vacation notices in December 1994, the SBI refused to vacate. The Corporation advertised the unit for sale in May 1996 and the SBI offered to purchase the properties for Rs.2.40 crore as against the outstanding of Rupees one crore (principal: Rs.22.99 lakh plus interest: Rs.76.84 lakh plus OE: Rs.0.19 lakh). The Corporation rejected the offer stating that it was low. The loanee requested (September 1999) the Corporation to settle the loan account under OTS by charging net simple rate of interest. The Board approved the proposal for Rs.80 lakh in November 1999 by waiving interest of Rupees one crore even though the primary assets were valued at Rs.5.15 crore. Thus the Corporation extended undue favour to a willful defaulter by not selling the unit in 1996 itself though the SBI offered Rs.2.40 crore and the offer covered the entire outstanding amount.

Government stated (November 2003) that though the SBI offered Rs.2.40 crore in May 1996 to purchase the property but put forth certain conditions. The Corporation could not fulfill the conditions stipulated by SBI and sale did not materialise. The reply is not tenable as the conditions put forth by the SBI were general in nature relating to normal sale transactions of immovable properties. The Corporation did not fulfill those conditions and settled the loan account under OTS after a lapse of three years for an amount of Rs.80 lakh waiving interest of Rupees one crore.

Settlement of loan accounts for amount lesser than offered

3.40 The Corporation (Tirupathi Branch) disbursed (June 1990 to August 1996) term loan of Rs.83.06 lakh to Krishna Cold Storage Private Limited, to set up a cold storage unit with 4,000 tonne capacity at Punganur in Chittoor district. The unit started regular production in 1992 and faced stiff competition from the other units. The unit defaulted repayment of loan. In November 1998 the promoters requested the Corporation to settle the loan account under OTS by charging net simple interest (principal plus NSR) and to pay the crystallised amount in four quarterly instalments. An amount of Rs.5 lakh was paid as down payment. The promoters also paid another Rs.13 lakh in the year 1998-99 towards OTS, but the branch failed either to negotiate or to forward to head office the request made by the promoters for OTS. After one and a half years, the branch office and the zonal committee agreed (May 2000) to close the loan account by collecting Rs.96.95 lakh (principal plus 50 *per cent* NSR) and also decided to waive total interest of Rs.61.48 lakh outstanding as on January 2000 which was approved by board in May 2000 without indicating the offer of loanee. As per the decision of the Board the OTS amount was to be paid within six months i.e. before 30 November 2000. Though three years had elapsed from the date of OTS, Rs.19.95 lakh was yet to be realised (October 2003).

It was observed that:

- though the promoters implemented the unit in 1992, they failed to utilise the cold storage plant at its full capacity. In spite of this the Corporation extended financial assistance of Rs.37.22 lakh in August 1996 and this amount was adjusted against arrears by debiting new account. Thus the Corporation released additional loan for the purpose of adjusting arrears.
- though the promoters came forward for OTS in November 1998 and offered settlement at principal plus NSR, the Corporation negotiated in May 2000 for principal plus 50 *per cent* of NSR for closing the loan account under OTS. This resulted in loss of Rs.14.72 lakh.
- failure to take timely action resulted in non payment of OTS.

Government stated (November 2003) that though the unit offered principal plus NSR under OTS, it did not submit the required data/information for taking up of the proposal till the year 2000. The reply is not tenable as the loanee had already offered the principal plus NSR, the proposal should have been taken up for principal plus NSR instead of approving it for principal plus 50 *per cent* of NSR which lacked justification.

3.41 The Corporation (Ranga Reddy East branch) disbursed Rs.29.22 lakh (March to October 93) to Pioneer Silk Mills Private Limited, based on the personal guarantee for Rs.30 lakh given by a promoter director. The primary security was only leasehold land and the Corporation did not get the plant and machinery mortgaged as per terms of sanction. The unit became sick in 1995 due to recession and defaulted payments. The unit was seized in February 1999 and the loanee came forward (June 2000) for OTS with an offer of Rs.45 lakh and paid Rs.3.75 lakh as down payment. Pending approval of OTS the Corporation lifted (July 2000) the seizure. Subsequent to lifting of seizure the promoter revised (November 2000) his offer for OTS to Rs.24 lakh on the plea that the condition of the machinery was very bad. The MD of the Corporation negotiated with the promoter (November 2000) and agreed to propose OTS for Rs.37 lakh. The promoter, however, agreed (January 2001) for Rs.30 lakh only after discussing with the Chief General Manager and Branch Manager.

At this stage the MD directed to put up the proposal to the Board for Rs.34 lakh without considering the original proposal of the promoter or his counter-offer. The Board further reduced the OTS amount and approved (March 2001) for only Rs.32 lakh as against loanee's original offer of Rs.45 lakh (February 1999). As per the OTS guidelines the amount collectable worked out to Rs.43.38 lakh and the value of assets was Rs.56.25 lakh. In spite of the undue favour extended by the Corporation by delaying and reducing the OTS amount payable without any basis by keeping aside all the prudential norms and its own guidelines, the loanee paid only Rs.16 lakh and the Corporation during inspection in December 2002 noticed that the entire machinery, which was not hypothecated to the Corporation, was missing.

Thus, the Corporation has adopted a casual approach in safeguarding its interest and following the guidelines framed by it, which had resulted in extension of undue favour to willful defaulters.

Government did not give any specific reply to various deviations pointed out in the paragraph.

Non-recovery of loans due to alleged intervention of CMO

3.42 The Corporation sanctioned (July 1989) a term loan of Rs.16.35 lakh and an additional term loan of Rs.13.65 lakh (February 1991) and disbursed Rs.16.33 lakh and Rs.13.16 lakh respectively to Krishnaveni Nursing Home, Visakhapatnam after obtaining affidavit of solvency. The unit defaulted repayments since beginning. As the nursing home was running at low occupancy, the unit requested (April 1996) to close the loan account under OTS for Rs.44.03 lakh. The Board of Directors approved (June 1996) the request of the unit and decided to close the loan account by accepting Rs.44.03 lakh duly waiving interest amount of Rs.3 lakh which was arrived at as per guidelines i.e., principal plus other expenses plus 2 *per cent* over NSR of interest. The amount was payable within three months. As the unit did not pay the OTS amount, the Corporation cancelled (September 1996) the OTS facility and issued RCS (recall-cum-sale) notice on 25 September 1996.

Thereafter the Corporation attempted (November 1996) to seize the unit but could not do so due to stiff resistance from the promoters. When the Corporation decided (January 1996) to seize the unit with police help, the Chief Minister's Office stayed further action against the unit till receipt of instructions from CM. Thereafter the Corporation rescheduled (September 1998) the loan period and funded interest* dues after waiver of penal interest of Rs.8.47 lakh. Even then the unit did not adhere to repayment schedule but requested (February 2002) to settle the loan account under OTS. The Board of Directors agreed (February 2002) to close the loan account by accepting Rs.29.42 lakh as against the outstanding amount of Rs.38.62 lakh (principal: Rs.29.41 lakh and interest: Rs.9.21 lakh). An amount of Rs.26.68 lakh was yet to be realised (February 2003).

Government stated (November 2003) that the unit approached for OTS in June 1996 for Rs.44.03 lakh but it was cancelled in September 1996 due to non-payment of OTS amount. Subsequently Board approved OTS in February 2002 for Rs.29.42 lakh. Reply is not tenable since the loanee failed to adhere to the OTS terms and conditions, the Corporation should have seized the unit and initiated recovery action under SFCs Act. Instead the Corporation settled the OTS in February 2002 for lesser amount by extending another OTS after six years, which lacked justification.

* Funded interest: interest accumulated up to a certain date treated as principal.

Waiver of total outstanding interest and adjustment of interest received towards repayment of principal was contrary to guidelines.

3.43 As per the OTS guidelines the Corporation should collect principal plus net simple rate of interest or value of assets whichever was higher. In the case of Computer Vision Labs India (Pvt.) Limited, Hyderabad to whom a loan of Rs.31.06 lakh was given in 1987, the Corporation decided (May 1996/March 1999) to collect principal amount of Rs.31.06 lakh only as a special case and waived entire interest of Rs.89.25 lakh. In spite of such waiver, the unit approached (December 1996) the Corporation through the Ministers and CMO for further reliefs. The Corporation settled (March 1999) the loan account by collecting Rs.22.56 lakh by adjusting Rs.8.50 lakh being interest received as repayment of loan. Waiver of entire interest as well as adjustment of interest received towards principal was irregular and contrary to the OTS guidelines and resulted in loss of Rs.89.25 lakh.

3.44 The Corporation disbursed (February 1991 to December 1992) a term loan of Rs.44.60 lakh to Vijayachandra Reddy Poly Nursing Home Private Limited, Proddutur. The unit was irregular in repayment of loan from beginning though it was running very well. Several recall-cum-sale notices were issued, but the unit was not seized and arrears accumulated (October 1996) to Rs.61.66 lakh (principal: Rs.22.49 lakh and interest: Rs.39.17 lakh). The Corporation without issue of seizure notice advertised (January 1997) for sale of assets of the unit but due to intervention of the CMO the sale was deferred after receiving a meagre payment (January 1997) of Rs.0.50 lakh. The Corporation rescheduled (March 1997) the loan, on the assurance of promoters to pay Rs.4 lakh by 31 March 1997, which was also not honoured by the promoters. The unit was finally seized in May 1999 when it was noticed that machinery worth Rs.13.67 lakh was missing. The available assets were sold (June 1991) for Rs.26.93 lakh leaving a balance of Rs.1.14 crore unrecovered.

Thereafter, the Corporation initiated action against all the promoter directors under AP RR Act and issued notices under section 31(1)(aa) of SFCs Act. Three directors requested (March 2003) to relieve them from their liability under OTS. The Board approved (March 2003) to relieve three promoters by accepting Rs.10 lakh as against the dues of Rs.2.68 crore (principal: Rs.18.68 lakh plus interest: Rs.2.49 crore) though as per guidelines OTS amount for relief of three promoters worked out to Rs.86.40 lakh. No action was taken in respect of remaining promoters.

Government stated (November 2003) that keeping in view the local economic conditions, it extended several opportunities to revive the unit to pay the dues to the Corporation. The reply is not acceptable as the Corporation extended several favours to the promoters and failed to identify the properties of promoters/guarantors as disclosed and opted for a settlement for a meagre amount. The recovery of Rs.2.68 crore thus remains uncertain/doubtful.

Conclusion

One time settlement scheme was introduced during June 1992 with the objective to settle the sticky loan accounts and collect maximum possible

overdue amounts. The scheme was defective inasmuch as it did not specify the cut-off date, and the criteria for settlement of loan accounts where sale proceeds of seized assets were already adjusted. In settlement of loan accounts, the Corporation suffered substantial losses due to extension of scheme to standard and substandard loans; willful defaulters; distress settlements, relieving of guarantors, failure to sell assets at the highest offer, etc. The guidelines were deviated on several occasions.

The Corporation is required:

- to maintain data bank for primary and collateral securities, plant and machinery and promoters/guarantors;
- to conduct verification of promoters/guarantors/assets periodically to avoid their non-identification at a later date;
- to identify sticky loan accounts instead of extending OTS scheme to all;
- not to extend the scheme to standard/sub-standard assets;
- to collect maximum amount where the securities are of high value;
- to collect OTS amount within one year as per guidelines; and
- to intimate list of defaulters/OTS beneficiaries to all other financial institutions.